



REPUBLIC OF ZIMBABWE

BUDGET STATEMENT, 1989

Presented to the House of Assembly
on Thursday, July 27, 1989

by

**The Senior Minister of Finance, Economic Planning
and Development,**

The Hon. Dr. B. T. G. Chidzero, MP.

EMBARGOED TILL END OF DELIVERY

BUDGET STATEMENT 1989

MOTION

1. Mr Speaker, I move that leave be granted to bring in a Bill to make further provision in connection with the revenues and public funds of the Republic of Zimbabwe and to make provision for matters that are ancillary and incidental to this purpose.

INTRODUCTION

2. This year's Budget is set against a background of the many policy initiatives which Government has embarked upon in order to put the economy on a course to achieve sustainable medium and long term growth adequate to improve the standards of living of the country's population. I will start by outlining the performance of the economy so far, in the context of Government's socio-economic objectives, and highlighting those factors which have influenced the performance of the economy. I shall then, before presenting the Budget for 1989/90, spend sometime explaining present economic policy initiatives being pursued by Government, and their impact in a medium and long-term growth perspective.

ECONOMIC PERFORMANCE, POLICIES AND PROSPECTS FOR GROWTH

3. Since independence in 1980, the performance of the economy has been influenced by various factors, including:
 - adverse climatic conditions resulting in consecutive years of drought
 - World Economic recession
 - deteriorating terms of trade for our traditional exports
 - shortage of foreign currency and skills in some essential areas
 - internal and regional security situations in particularly the latter
 - ageing capital stock

- certain internal policy shortcomings, and
 - inadequate response by the business community to the Government's policy mix leading to lack of investment and unemployment
4. As a result of an interplay of these factors, the economy has over the years experienced erratic rates of growth. The annual average rate of economic growth for the 9 year period since 1980 has been about 3,8 per cent; thus performance has been below both the targets of the Transitional National Development Plan and the First Five Year National Development Plan, which were set at 8 per cent and 5 per cent respectively. This indicates that in order to achieve a growth rate which will improve the standards of living of the population in the medium and long-term, it will be necessary to undertake major policy changes which will counter traditional influences on growth.
 5. Most of the growth, particularly during the early 1980s, came from service sectors, i.e. education, public administration, and health. Whilst growth in the major productive sectors - mining, manufacturing and agriculture has been erratic, along with overall gross domestic product, growth in the service sectors has remained positive for most of the period. As an illustration, whilst the annual average growth rate of education has been about 13 per cent since 1980, well above the overall average of 3,8 per cent, average growth in the manufacturing sector has been only 4 per cent, whilst that for the mining sector has in fact been negative.
 6. The growth pattern of the economy reflects the fact that, soon after independence, Government's policy mix was directed at redressing the economic, social and racial imbalances existing at the time and at laying the socio economic infrastructural basis necessary for achieving the objective of Growth with Equity. In time, as a result of that policy, significant strides have indeed been achieved by way of development of the rural areas, provision of health and education facilities.
 7. I must emphasize here, Mr Speaker, that in order for a process of growth to be sustainable growth in the service sectors should be backed by correspondingly high growth in the productive sectors. This is because the financing of social services is dependent mostly on revenues accruing to the Exchequer and these cannot grow sufficiently in an economy that is experiencing little or no real growth, and there is a tendency to direct resources away from productive areas.

8. The policies which Government has pursued to redress past imbalances, and to provide social and economic infrastructure, whilst having gone a long way towards building the infrastructural basis for healthy growth, have not been without their consequences on the National Budget, and this has been exacerbated by the present geo-political position in Southern Africa.
9. Mr Speaker, I wish to restate here a known fact, that the Budget consists of revenue, expenditure and borrowing. Budgetary expenditures are financed from revenue and borrowing. Thus high budgetary expenditures necessitate high levels of taxation in order to raise revenue, and/or increased borrowing. Whilst both high levels of taxation and borrowing by Government act to redirect resources away from areas which could stimulate growth, it should be understood that it is not possible to maintain a high level of expenditure whilst at the same time reducing, for instance, levels of taxation to a point where there will be a loss in revenue. I should also mention here that there is a vicious circle associated with borrowing, in that, large borrowings imply a burden on expenditure brought about by the necessity to repay both capital and interest. The high expenditure also implies further need to borrow, if revenues are insufficient to cover expenditure. This is so particularly in a situation where borrowed finance is directed into non-revenue generating areas.
10. A significant item which I would like to mention here in relation to budgetary expenditures is that of subsidies to parastatals. At independence, Government adopted a policy to reduce subsidies because of their impact on the Budget, and because of the fact that subsidies benefit people indiscriminately; it is not only those who need the subsidies who benefit, but also the rich who have not such need. During the early 1980's, a large proportion of subsidies on foodstuffs was removed. At the same time, in order to provide incentive to both commercial and peasant farmers to produce so as to maintain food self-sufficiency and to boost agricultural production, producer prices for agricultural products were increased. In keeping with the policy to reduce subsidies in order to keep budgetary expenditures down and to counter possible inequitable distribution, consumer prices had to rise in line with increases in producer prices.
11. Although much progress was made up to the mid-1980's in reducing the levels of subsidies, Government is concerned about the ever increasing losses of parastatals. The reduction of parastatal losses remains therefore a major component of efforts to reduce overall budgetary expenditures. In order to get parastatals to operate more

efficiently so as to reduce their losses, it is necessary that they be allowed to charge prices which are cost effective, for their goods and services. It is in this context, and the need to continue to provide incentives to the agricultural sector, that price increases for goods and services offered by parastatals have been effected over the years. But no less important is the necessity for the parastatals themselves to be operationally and financially efficient.

12. Mr Speaker, I have taken sometime to explain the interplay between Government's objectives and the policies pursued, particularly in relation to the Budget because I believe it is necessary background for the public, and indeed members in this House, to understand the rationale of the economic policy framework which we are pursuing.
13. I have already indicated the factors which have so far influenced economic growth. These factors will continue to come into play unless there are structural changes to cushion the economy against external shocks, and unless the economic climate produces sufficient inducements to investment, which include the cutting back on the Budget deficit in order to release the resources needed for investment to take place.
14. During 1988, real economic growth was estimated to be over 5 per cent. However, present projections indicate that, in the absence of deliberate effort to promote growth, there will be a slowdown in 1989 to a growth rate of about 3 per cent. In order to achieve a higher rate of growth, it will be necessary to take policy action to counter the present erratic pattern of growth. Given a population growth rate of almost 3 per cent per year, it is necessary that the economy grows at an annual average rate of at least 5 per cent as set in the First Five Year National Development Plan. To achieve the target growth rate of 5 per cent, Government has embarked on a number of policy reforms intended to revitalise the economy and achieve an improvement in the standards of living of the population. The policy initiatives in question focus primarily on the Budget, on investment, on trade and balance of payments, and on the creation of employment opportunities.
15. It is in this context that the new investment policy document, 'The Promotion of Investment: Policy and Regulations', and the 'Investment Register' were published earlier this year. Government firmly believes that the prospects for sustainable growth are largely dependent on a healthy economic climate for investors. The new investment policy, therefore, is intended to give the confidence required for local investors to take a leading role in the development of the economy, whilst also addressing the

concerns of foreign investors, so that they are sufficiently motivated to team up with local partners in areas where their capital, expertise, and experience are needed. The new investment initiatives are expected to provide the impetus for new and fruitful investment partnerships between the public, local private and foreign private investors.

In this context, a reduction in the Budget deficit will be carefully linked to investment responses, and in the public sector capital resources will be directed more to new investment areas as opposed to existing ones, which do not result in the creation of new productive capacity and employment.

16. An important element of the present investment drive concerns the economic regulatory mechanisms, some of which were inherited from the past, but others have been introduced by Government during the years after independence. In line with the objective to achieve equity, it was necessary for Government to introduce controls in the area of prices, incomes and employment of labour. These regulatory mechanisms have also been intended to control the rate of inflation generally, which, if high, acts to constrain growth.
17. The positive effects of any regulatory system have got to be weighed against its costs, and its effectiveness by way of implementation. Government is concerned about the increasing demands of a highly regulatory system on the bureaucracy, as well as the fact that the amount of information required for monitoring purposes is too large and at any one moment in time that information may not be available or sufficient. There is therefore a danger that a highly controlled system could act to discourage investors, and retard employment creation without necessarily being adequately effective.

It is in this context that the recent moves on wage and salary negotiations, and on the price control system have been initiated. Government, of course, recognises that it is necessary to retain some form of control in these areas, and this has been taken into account in designing policy changes.

18. In the area of trade and balance of payments, the controls which exist are being looked at with a view to achieving efficient allocation of the most scarce resource in the country - foreign exchange - and with a view to getting local industry to operate more efficiently. Last year I indicated that Government had embarked upon the Trade Liberalisation Study. This study has been completed and its findings are now under study by Government. Everything is being done to expedite policy formulation and decision but the exercise is inevitably complex. This is the more so as

the policy stance to be adopted by Government needs to take into account the problems to be experienced from moving from the present system, and has to be linked to the other policies being examined as part of an overall macro-economic growth framework, including the reduction of the size of the Budget deficit, investment promotion, and creation of employment. But I can say to this House, however, that a selective and phased programme of liberalisation is necessary and will be launched as soon as the current exercise is completed. It is also planned to strengthen that process by an industrial stimulation and adjustment programme with financial assistance from the African Development Bank. A study by consultants to this end will commence next week.

19. Mr Speaker, I now wish to come back to the question of the Budget. In order to release resources for productive purposes so as to achieve an economic growth of 5 per cent per annum as envisaged in the current National Development Plan it will be necessary to progressively reduce the Budget deficit during the next few years down to, say, less than 5 per cent of Gross Domestic Product. Although in the recent past, we have made all effort to keep down expenditures, the size of the deficit, which is still about 10 per cent of Gross Domestic Product, continues to be far too large.

BUDGET OUTTURN 1988/89

20. Because of the tight control on expenditures, the Budget deficit outturn in 1988/89, at \$1 111m, is lower than the original estimate of \$1 150m despite the introduction of supplementary expenditures in the course of the year. Taken as a proportion of Gross Domestic Product, however, the deficit is too large, indicating that the present levels of public expenditures are unsustainable, given revenue receipts.
21. Last year I estimated a total expenditure and net lending figure of \$5 360,7 million. Of this, recurrent expenditure amounted to \$4 494,5 million or 83,8 per cent of total expenditure. With revenue and international aid grants amounting to \$4 211m, I estimated the Budget deficit to be \$1 150m. The supplementary and additional estimates approved later in the year increased the total estimated or revised expenditure and net lending to \$5 657,3 million. With no new measures to raise additional revenue, the estimate for the Budget deficit went up to \$1 446,3 million.
22. In the event, revenues, excluding international aid grants, amounted to \$4 266,7 million, compared with the original estimate of \$4 051 million. The grant aid inflows, however, though still considerably high at \$90 million, were below

the Budget estimate of \$160m due to given lead times between expenditure on projects and claims for reimbursement from donors. There is need to enhance capacity by implementing agencies in order to provide timely and accurate returns of expenditure on donor funded projects.

23. Actual expenditure and net lending amounted to \$5 467,4 million, compared with an original estimate of \$5 360,7 million and the revised estimate of \$5 657,3 million I have already referred to. Of this, recurrent expenditure amounted to \$4 437,1 million, giving a small saving of \$57 million on the original Budget estimate of \$4 494,5m. Thus, this small saving notwithstanding, Government continues to be a dissaver, with recurrent expenditure exceeding revenue by almost \$100 million.
24. Capital expenditure continues to experience an improved rate of implementation. Of the total capital and net lending outturn figure of \$1 030 million, \$523 million constitutes the capital expenditure attributable to Central Government financing, excluding financing from own resources of parastatals. This is compared to an original Budget estimate of \$521 million, and a revised estimate of \$594 million.
25. The budget deficit of \$1 111 million was financed by net foreign borrowings of \$129,1 million and net domestic borrowing of \$981,9 million. The net foreign borrowing is compared with an original estimate of \$133,3 million. The composition of the borrowing instruments is different from original projections, as more 4 per cent, 12 and 20 year bonds came in than was forecast and this compensated for the lower than expected external loan inflows. Although implementation capacity has improved considerably, the accounting capacity to meet donor reporting requirements is creating bottlenecks in the speed of processing claims for reimbursement. My Ministry will address this issue even more seriously in the coming year.
26. The net domestic financing is very close to the original forecast of \$1 016 million but much lower than the revised forecast of \$1 313 million, due to the higher revenue inflows reported earlier and the resultant lower deficit. New stock issues of \$1 175 million were raised, which are considerably higher than the \$950 million raised in the previous year. I had stated this time last year that I was expecting new financing from stock issues amounting to \$663million and overdraft financing of \$354 million. It was possible, however, to reduce the overdraft requirement to only \$65,4 million in view of the high level of financing from stock issues and the lower deficit. This, however, is still unsatisfactory if compared with a reduction of \$75 million in overdraft during the previous year.

27. The reduced overdraft assisted greatly in reducing the inflationary pressures from money supply, but the situation cannot be sustained as I am expecting considerably less financing to be available from the non-bank sector, when the demand for financing picks up in response to new investment incentives. The high level of new stock issues, at a considerably higher interest rate, has also increased the cost of debt service, which I expect to rise by more than \$173 million a year to \$937 million a year.

THE 1989/90 BUDGET PROPOSALS

28. For the reasons which I have already outlined, the 1989/90 Budget is aimed at continued strict expenditure controls, in order to release resources into growth areas in line with current policy initiatives. Like last year, an effort has been made to allow only those expenditures which are non-postponable, especially in cases of expenditure tied to new projects.

RECURRENT EXPENDITURE PROPOSALS

29. The total recurrent expenditure figure inclusive of the Constitutional and Statutory Appropriations and subsidies, amounts to \$5 105 million. In nominal terms, this figure represents an increase of 15 per cent over the outturn for 1988/89. Given the rate of inflation which is expected to be anywhere between 10 and 15 per cent in 1989/90, it can be seen that in real terms, the increase in recurrent expenditure has been kept to a bare minimum. This is so despite the general salary review taking place this year. The major items on recurrent expenditure, however, combine to give cause for concern and these need to be scrutinised closely with a view to our target of reaching a Budget deficit amounting to less than 5 per cent of Gross Domestic Product within the next few years.
30. Of the total recurrent expenditure figure of \$5 105,2 million, Constitutional and Statutory Appropriations amount to \$1 142 million. A large proportion of this figure, about 80 per cent, is attributable to debt-related expenditure. This is a reflection of our past expenditure levels, which had necessitated large borrowings by Government from both the local and external markets to finance the Budget deficit, given the limited growth in revenues. With tighter controls on recurrent expenditure, the objective to borrow only to finance revenue generating projects will continue to be actively pursued by Government.
31. During the current year, an amount of \$350 million, excluding the ZISCO provision, has been allocated for subsidies. I am still unhappy about the fact that the subsidy allocation, as in the past, leaves an overhang to be

carried into the following year. If parastatal losses up to the end of June 1989 are taken into account, the overhang to be carried into the 1990/91 Budget amounts to some \$300 million. I am actively examining ways and means of wiping out the subsidy overhang so as to allow allocation on a current year and targetted basis, which will facilitate more efficient monitoring of parastatal operations. This has become absolutely essential.

Further, in order to move towards the target size of the Budget deficit, it is necessary to introduce efficiency measures which would substantially reduce or eliminate parastatal losses. In order to achieve this, I am also actively examining possible measures which should result in cost effectiveness amongst parastatals and render them more viable. I anticipate taking action to this end in the current year.

32. The largest requirements for subsidies come from the Agricultural Marketing Boards, the National Railways of Zimbabwe, Air Zimbabwe, and recently also the Agricultural Finance Corporation. Up to the end of June 1989, the accumulated loss requirement for the Boards amounted to over \$350 million, whilst that for the AFC amounted to \$18 million. The National Railways of Zimbabwe alone indicated an accumulated loss of over \$200 million. This underlines the need for our parastatals to charge cost-effective prices for their goods and services as I have already alluded to earlier. This is particularly so if Budgetary expenditures are to be kept down at manageable levels, to allow resources to be released to growth areas and to facilitate the easing of the tax burden.
33. I am also concerned about other items, which, though small, are becoming significant within the subsidy allocation, and indicate an undesirable pattern in the direction of the economy. I refer in particular to mining projects, which should be expected to generate revenue over time.
34. Apart from the increase attributable to the general salary review, the rest of recurrent expenditure has been designed to maintain existing services. This includes the maintenance of economic infrastructure, such as equipment, buildings, roads and bridges, in order to avoid deterioration of these assets.
35. Amongst the Ministry Votes, the Ministries of Primary and Secondary Education, Defence, Health, Home Affairs, Higher Education, Transport, and Lands, Agriculture and Rural Resettlement continue to dominate recurrent expenditures. The combined expenditure of these Ministries constitute over 60 per cent of total recurrent expenditure.

36. With an allocation of \$1 015,2 million, the Ministry of Primary and Secondary Education tops the expenditure list. The combined allocation for the two Education Ministries amount to \$1 179,7 million, or 23 per cent of total recurrent expenditure. Doubtless, consistent with Government's policy on education, significant achievements have already been made in this area, representing investment in human resources to spearhead development in the future. However, in order for the future benefit of education to be realised, it is necessary that the provision of education and its financing should be planned in line with overall growth and available resources at any point in time. In view of the yet unsatisfactory rate of growth, and the need to redirect limited Budgetary resources to build the base for sustainable growth, efforts are being made to slow down the rate of growth of education expenditures in the Budget. We are, therefore, closely looking at possible ways of relieving the state burden on education expenditure.
37. The Defence vote remains as the second largest one with an allocation of \$840,4 million. This vote continues to take a large proportion of budget expenditures because of the need to protect the country's transport links to the seaports and to ensure the country's general security which is essential for stability and development. The geo-political situation in the Southern African region as a whole continues to be the major factor in determining Defence expenditures.
38. I have provided \$352,9 million for the Ministry of Health, which represents a nominal increase of 8 percent on actual expenditures in 1988/89. I am satisfied that with some financial discipline the allocation is adequate to sustain our health services at acceptable standards.
39. The Home Affairs Vote has been allocated \$267,8 million, which is 6 per cent up from the 1988/89 actual expenditure of \$ 253,3 million. Again here, I am confident that the Ministry will apply financial discipline in order to reasonably maintain the vital services funded under this vote.
40. I have allocated \$164,5 million to the Ministry of Higher Education, which represents a 25 percent increase over the outturn figure for 1988/89. The allocation includes grants, mainly for scholarships and the University of Zimbabwe, totalling \$86 million.
41. I have allocated \$223,9 million to the Ministry of Transport. This includes an amount of \$115m for subsidies of which \$100m is for the National Railways of Zimbabwe, and \$15 million for Air Zimbabwe. It is vital that the country's road network is well maintained in order to ensure the free flow of goods and services from sources of supply

to areas of demand within stipulated times. In spite of the heavy budgetary pressures, therefore, I have allocated \$57 million for the maintenance of roads and bridges to ensure that our transport needs are met.

42. Cognizant of the need to promote a healthy agricultural industry, I have allocated to the Ministry of Lands, Agriculture and Rural Resettlement \$132,8 million, excluding subsidies. This figure is 9 percent higher than the 1988/89 actual expenditure. The allocation for subsidies to the agricultural sector amounts to \$190 million.

PUBLIC SECTOR INVESTMENT PROGRAMME PROPOSALS

43. In view of the effort to reduce the budget deficit the capital programme has again been streamlined in order to allow for on-going projects to be completed.
44. The total provision for the Public Sector Investment Programme for 1989/90, including programmes financed from Parastatals own resources, is \$1 655 million. This amount represents an increase of \$118 from the 1988/89 revised allocation of \$1 537 after taking into account supplementary estimates. The total Public Sector Investment Programme represents about 24 per cent of total Budget expenditures, including financing from the own resources of parastatals. These figures include \$10 million for new investment by the Industrial Development Corporation and exclude about \$20 million already allocated to the Zimbabwe Development Corporation for new investment.

While the main objective of the Public Sector Investment Programme is to provide the basic social and economic infrastructure, I must emphasize the importance for the Public Sector to invest in revenue generating areas.

45. Of the total capital budget of \$1 655 million, an amount of \$ 569 million will be financed from Parastatals own resources. Central Government financing will constitute \$1 087 million, of which \$439 million will be from external sources in the form of grants and loans.
46. The Parastatals contribution of \$569 million represents an increase of 27 per cent over the 1988/89 figure of \$449 million. This contribution, which constitutes 34 per cent of the total capital Budget, still falls far short of the plan target of 46 per cent. Parastatals must strive to devote more resources to productive investment and to be more efficient in order to contribute effectively to the planned economic growth target.
47. Turning to the Vote allocations of the Public Sector Investment Programme, I have allocated an amount of \$332

million to the Ministry of Transport. Of this amount, \$135 million has been provided for the acquisition of a new Boeing 767-200 E R aircraft which should improve the airline's efficiency on the long range routes. An amount of \$115 million has also been provided for works in progress in the construction of roads and bridges. Members will recall that last year I pointed out the Gokwe-Sengwa road as one of the major roads being constructed. I am glad to inform you that this road is likely to be completed in 1989/90 at a total cost of \$89 million and having been totally financed by the Government of Zimbabwe. This year also sees the beginning of the rehabilitation of our major roads with the assistance of the International Bank for Reconstruction and Development (World Bank). Numerous other projects to improve on our transport system are in progress, and a list of the roads and bridges being constructed is shown in the Blue Book (the Estimates of Expenditure). In addition, funds have been provided to the Ministry of Public Construction and National Housing for work to start on the new terminal buildings for the Harare Airport. Renovations to the existing buildings will also start this year.

48. I have allocated, in the PSIP, an amount of \$ 297 million to the Ministry of Lands, Agriculture and Rural Resettlement. Efforts are being made through the Agricultural Parastatals to improve on the quantity and quality of our exports.

The Cold Storage Commission is continuing with the Abattoir Rehabilitation programme in order to ensure that our beef exports are up to EEC standards. The Cotton Marketing Board will replace the old ginnery at Kadoma with a new one which will improve the quality of cotton for export.

49. I have included an amount of \$10 million under the Ministry of Lands, Agriculture and Rural Resettlement for land acquisition. Since the purchased land is developed by the Department of Rural Development, I have allocated an amount of \$26 million to the Ministry of Local Government, Rural and Urban Development for the development of Resettlement areas.

50. A total amount of \$136 million has been allocated to the Ministry of Local Government, Rural and Urban Development for the provision of general infrastructure in Rural and Urban areas. Funds for the Public Works programme will be made available in tranches through the Vote of Credit to the District Development Fund.

Because of the increasing demand on urban facilities, efforts have been made to divert development to the rural areas through the provision of infrastructure at growth points.

The upgrading of Epworth Township, for example, is still in progress and for that purpose I have provided an amount of \$10 million.

51. The Ministry of Energy and Water Resources and Development has been allocated an amount of \$300 million. The Water Department plays an important role in supplying water for irrigation and a substantial amount has been provided for construction of dams, such as Osborne in Manicaland and Shashani in Matabeleland South. The allocation for the energy sector includes an amount of \$218 million for the Zimbabwe Electricity Supply Authority for implementation of the Power Plan II programme.
52. The existing security situation, as I have already indicated, imposes an increasing expenditure burden in respect of defence and I have therefore allocated an amount of \$122 million for the Defence PSIP.
53. The Ministry of Public Construction and National Housing has been allocated an amount of \$ 102million. The provision will cater for construction of houses in urban areas, the Rural Housing Programme, Civil Service housing and office accomodation. The provision of residential and office accomodation in provincial capitals is essential for the decentralisation programme to be effective. The decentralisation programme is not being implemented at the rate that we had anticipated because of shortages of building materials and transport.
54. In view of the objective to achieve health for all by the year 2000, I have allocated an amount of \$ 36 million to the Ministry of Health. Last year we embarked on a Family Health Programme which involves the upgrading of eight District hospitals and the statellite clinics. The project is still in progress and will hopefully be completed this financial year.
55. Education has been allocated an amount of \$ 41million. This allocation is for both Primary and Secondary and Higher education. The provision is lower than last year because the main thrust now is to improve the facilities in the schools which were rapidly built to meet the urgent educational needs of the country.
56. The total capital programme, excluding financing from the own resources of parastatals plus net lending and including a provision of \$100 million for ZISCO, amounts to \$1 187 million. Together with recurrent expenditure amounting to \$5 105 million, the estimated total budgetary expenditures for 1989/90 amount to \$6 292 million.
57. Mr Speaker, I now lay the Estimates of Expenditure for 1989/90 upon the Table.

FINANCING THE BUDGET DEFICIT

58. Taking into account economic growth projections, as well as the impact of policy action in other areas, I estimate that revenues, excluding international aid grants, will amount to \$5 153 million in 1989/90. With international aid grants estimated to be \$150 million, total revenue will amount to \$5 303 million.
59. The total expenditure and revenue figures give a Budget deficit of \$989 million. This deficit, which is about 9 per cent of estimated Gross Domestic Product for 1989/90, represents a reduction of almost 11 per cent, in nominal terms, from last year's outturn. This is in line with the objective to reduce the deficit to less than 5 per cent of Gross Domestic Product by the mid - 1990's.
60. To finance the deficit, it is estimated that net foreign financial inflows will be \$155 million, leaving net domestic borrowings of \$834 million. I expect to raise almost the total amount of domestic borrowings from new stock issues, leaving a marginal overdraft requirement of \$28 million. This is in line with Government's policy to reduce reliance on inflationary overdraft financing.

TAXATION PROPOSALS

61. It has not been an easy task to design revenue measures for the current Budget, given the public's desire to see some alleviation of the tax burden, whilst the level of expenditures is still high and there is need to raise enough revenue to finance expenditure up to a level where the borrowing requirement can be a sustainable one. I shall continue to review the tax system as a whole, with a view to structuring it in such a way that it is responsive to the growth needs of the economy and is promotive of the new investment drive. The overall policy initiative exercise we are embarked upon calls for streamlining and rationalization of measures which will be announced or implemented as and when they are ready.
62. Under these difficult circumstances, I am, however, proposing a number of changes which should go a long way in relieving the tax burden on the public as a whole.
63. When separate individual taxation was introduced during the last tax year, a single simplified rate structure was introduced which runs on the P.A.Y.E. system from a tax free band of income from \$1 to \$1 800, to the band of income above \$33 000, where the maximum marginal rate of tax of 60 per cent applies. Varying marginal rates of tax apply to the income between \$1 800 and \$33 000 in a progressive manner. These rates will continue to apply until 31st March 1990.

64. However, with effect from 1st April, 1990, I am proposing to introduce new tax rate bands. The first band of income, which is tax free, will be increased to \$2 000, whilst the top marginal rate of 60 per cent will apply to income above \$40 000, instead of the present \$33 000. The rates of tax applying to bands of income between \$2 000 and \$40 000 will be restructured in such a way as to broaden the relevant income bands, in order to give tax relief to those whose incomes fall within this range. Everyone will, of course, benefit from these changes by way of a reduction in total income tax payable.
65. As an immediate measure to take effect during the current tax year, I am proposing to exempt from income tax, annual bonus up to the extent of ten per cent of an employee's annual income or up to a total of \$1 100, whichever is the lesser. This measure is without prejudice to actual amounts of bonuses which might be awarded in the private sector and which beyond the levels exempt from income tax would obviously be taxable. I had, however, to place a limit on the amount which qualifies for tax exemption, in order to avoid possible abuse, and also in order to avoid large revenue losses.
66. These measures, giving tax relief to individuals, will result in considerable additional spending power in the economy. It will therefore be necessary to continue pursuing the investment drive now underway in order to meet growing demand for goods and services and contain inflationary pressures in this way as well as by monetary measures as may be necessary.
67. I have not, for purposes of the present Budget, considered it necessary nor timeous to tamper with the rates of company taxation. This is partly because of the interlinkages between taxation and the as yet incomplete exercises on structural adjustment, including trade liberalization and partly because we have not yet had enough time during which the impact of the new policy measures on investment can be ascertained or assessed. I believe that given the new investment policy which has just been announced by Government, which gives provision for further incentives to be examined, a sufficiently attractive package exists for companies to undertake investment. I am also aware of the link between personal and corporate tax and the reduction in personal tax should act as a boost to new investment. Indeed, some international observers have noted that given the various tax deductions existing in our system of company taxation, the effective rate is much lower than the basic 50 per cent, and compares well with practice elsewhere in the world. I am, of course, aware of the existence of competition in attracting investment, and consider the

policy review on the investment environment as an ongoing exercise.

68. I am proposing a couple of further concessions on income tax, intended to benefit those in the low income brackets. With respect to the Lower Level Employees Income Tax, I propose to raise the present minimum level of income liable for tax from \$120 per month (or \$1 440 per year) to \$150 per month (\$1 800 per year). This measure will take effect from the tax year beginning 1st April 1990.
69. In order to provide relief to the elderly with a small income, I propose to exempt from income tax, pensions up to a limit of \$2 400 per year, for those who are 60 year and above.
70. Still in the area of income tax, at present contributions made by taxpayers to the National Bursary Fund are deductible for purposes of determining income liable for tax. I propose to extent this provision to the recently established National Scholarship Fund.
71. A further change concerns the limits which apply in cases of duty for deceased estates. At present deceased estates are liable for estate duty if their value exceeds \$30 000, where the deceased did not leave a surviving spouse, and \$60 000, where the deceased is survived by his spouse.

I am proposing to raise these thresholds to \$50 000 and \$100 000 respectively. I am also proposing that, where the deceased left a surviving spouse or minor children, his family home will not form part of his estate for the purposes of estate duty.

72. Mr Speaker, it cannot, of course be a Budget with only concessions and no revenue-raising measures. With effect from 28th July 1989, I therefore propose to introduce new rates of duty applying to beer, spirits and cigarettes. The increase will be as follows:
- Excise duty on a litre of clear beer will go up from 104,4 cents to 109,7 cents, translating into an increase of 2 cents per 375 millilitre bottle
 - Excise duty on spirits will rise by an average of 3,8 per cent per litre.
 - Excise duty on cigarette tobacco and pipe tobacco will rise by an average of 4 per cent.
73. In line with the increased excise duty on spirits, I am proposing that customs duty on imported spirits also increase by 3,8 per cent.

74. The Minister of Trade and Commerce will incorporate these duty increases into the prices of the products concerned.
75. The revenue raised from the duty increases will be offset by losses from the reductions in personal tax, and the exemptions which I announced earlier. But I am confident that these measures, together with Government's total policy package, should act to stimulate economic activity.
76. It will, however, be necessary to continue examining the tax system in order to restructure it in line with our objectives to achieve growth with equity. The Tax Commission Report, which was published in 1986, and considered by Government in 1987, proposed a number of ways in which the tax system can be changed. We have already adopted some of the proposals, for instance, the introduction of separate taxation, and the reduction in company tax. Other proposals, although accepted in principle by Government, have been deferred pending further studies to throw light on possible or effective ways of implementation.
77. During the course of the year, I intend to examine these proposals fully in consultation with the relevant Ministries. One such proposal concerns the issue of the imposition of a land tax. Cognisant of the important role which the agricultural sector plays in the economy, and the socio-economic implications of land distribution, Government is concerned about the possible existence of land underutilization and inefficiency associated with land size. It is therefore Government's intention to examine the use of the land tax with a view to increasing agricultural production and to encouraging people to release unutilised land for use by others who need it or can use it productively.
78. Mr Speaker, I now lay the Financial Statements for 1989 upon the Table.

CONCLUDING REMARKS

79. Mr Speaker, with the various initiatives that Government has now taken in respect of investment and prices and incomes, and those yet to come in respect of the trade regime and foreign currency allocations, we have set in motion a process of change towards sustained growth which cannot but gather momentum with time. We are determined to put in place and implement a structural adjustment programme, which takes into account the generally accepted macro-economic requirements with regard to such matters as the budget, money supply, inflation, external balance and so on, but a programme which is dictated by the Zimbabwean situation and is crafted by our own economists and policymakers. The socio-economic objectives of growth, full employment, equity and social justice are clear. Yet the Zimbabwean

