



REPUBLIC OF ZIMBABWE

ECONOMIC POLICY STATEMENT

**Macro-economic Adjustment and
Trade Liberalisation
including**

the

BUDGET STATEMENT, 1990

**Presented to the Parliament of Zimbabwe
on Thursday, July 26, 1990**

by

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

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



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Economic Policy Statement

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Government of Zimbabwe

ECONOMIC POLICY STATEMENT : MACRO-ECONOMIC ADJUSTMENT AND TRADE LIBERALISATION: JULY 1990

A. Introduction

1. In order to achieve a sustainable annual rate of growth of 5 per cent in the medium-term the Government of Zimbabwe has embarked upon a programme of economic policy reforms, aimed at stimulating investment activity and removing existing constraints on growth. This statement is intended to give a broad outline of the economic policy approach being instituted by Government. It forms the basis upon which concrete implementable measures will be instituted during the immediate period after its publication. The statement first outlines economic performance during the past decade, and discusses the problems and constraints facing the economy. It then discusses the economic targets for the medium-term and outlines the policy measures needed to achieve these targets.

B. Economic Background

B.1 Economic Performance and Problems

2. Since 1980, the Zimbabwean economy has been experiencing uneven rates of growth. After growing at impressive growth rates of 10,7 per cent in 1980 and 9,7 per cent in 1981 in real terms, there was a sharp fall to 1,5 per cent growth in 1982. In 1983 the economy experienced a negative growth rate of 3,6 per cent. Recovery started in 1984 with a positive growth rate of 2,3 per cent rising to 7,3 per cent in 1985. Growth then slowed down to 2 per cent in 1986, and to a mere 0,7 per cent in 1987. In 1988 the economy experienced a recovery recording a real growth rate of 6,3 per cent which declined to 4,9 per cent in 1989. These growth rates imply an average annual growth rate of 3,2 per cent over the period since 1980. This growth rate is barely above the population growth rate of 2,9 per cent and is well below the targets of both the Transitional National Development Plan (8 per cent) and the First Five Year National Development Plan (5 per cent).
3. Accompanying the erratic economic growth is the very low rate of employment creation which has seen less than 10 000 jobs being created in the formal sector annually in the last ten years. Given the population growth rate of 2,9 per cent and the number of school leavers joining the labour market estimated at 200 000 per

year, the question of unemployment has become one of the most critical problems facing the economy. Whilst positive employment growth has been recorded in the service sectors of the economy, productive sector employment has either remained stagnant or has been declining.

4. The poor economic growth rate of 3,2 per cent has resulted in stagnant or declining per capita incomes indicating falling standards of living. For instance although per capita income expressed in 1980 prices, rose from \$438 in 1980 to \$472 in 1982 it had declined to \$470 by 1989. On the average, this means that Zimbabweans in 1989 were worse off than they were in 1982.
5. Investment levels have been falling: from 15,5 per cent of gross domestic product in 1980 to 10,7 per cent of gross domestic product in 1989 in real terms. In fact gross investment is estimated to have fallen even below depreciation levels leading to many industries operating far below capacity.
6. The external sector and the foreign exchange situation have remained critical since 1980. Between 1980 and 1989, exports grew by an annual average in real terms of 6,2 per cent, whilst the average growth was only 3,9 per cent between 1982 and 1989. This is far from being adequate to sustain the required level of imports. The balance of payments current account has been kept in a satisfactory position through drastic cuts in import allocations. This has had adverse effects on the economy through the shortage of raw materials and other inputs into industry leading to shortages of essential commodities on the domestic market.
7. In an effort to redress the past imbalances in the provision of vital social services such as health, education, and other infrastructure, government has been obliged to operate with a high budget deficit. The latter has been exacerbated by the high level of defence expenditures necessitated by the regional and internal security situation. The deficit which has been on average 10 per cent of gross domestic product per year has been financed through internal as well as external borrowings, giving rise to a large public debt. With investment demand expected to pick up substantially, the continued financing of a high budget deficit will impose a constraint on growth by limiting financial resources available for new productive investment.
8. Besides the problems of low investment, foreign exchange shortages, shortages of commodities, unemployment, high expenditure and the large budget deficit, there are exogenous problems which affected the performance of the economy since 1980 such as the unpredictable weather changes and the unstable world market commodity prices. Zimbabwe's economic growth is highly dependant on agriculture whose performance is largely determined by the weather conditions.

Rainfall distribution has been uneven and sporadic in nature leaving some parts of the country dry for years. This reduces economic activity across all sectors because agricultural outputs are required as inputs in other sectors of the economy.

9. The unstable and generally declining world market commodity prices mean that exports, especially of primary products, have been yielding unsatisfactory amounts of foreign exchange gains. This has contributed to the current shortage of foreign exchange, shortage of imported inputs and shortage of some basic commodities on the domestic market.

B.2 Government's Policy Thrust since 1980

- 10: The major policy thrust since 1980 was aimed at bringing about transformation which would positively redress the socio-economic imbalances which existed prior to independence in 1980. This meant the redirection of resources towards those areas which were neglected or given low priority in respect of the majority of the population before independence, and these include :-

- provision of both primary and secondary health facilities throughout the country. This was done through increased training capacities for health personnel as well as the construction of hospitals and clinics. To ensure that the lower paid get access to health services, Government offered free medical services to those earning less than \$150,00 per month;

- the provision of education facilities, and to ensure that every Zimbabwean child had access to education, Government made primary education free in terms of tuition fees and heavily subsidised the education system generally;

- expansion of rural and agricultural infrastructure;

11. The direction of resources to social and other services and borrowing to finance a high budget deficit meant that only limited resources could be directed towards the material production sectors of the economy thus leading to poor growth performance by these sectors in relation to social services.
12. As part of the policy to redress previous imbalances and the principle of Growth With Equity, Government introduced or re-enforced, wage and price controls, and employment protection regulations. The regulations were designed to improve the status of the worker at the work place and his standard of living whilst wage controls were intended to reduce income differentials. One of the implications

of price controls has been that Government has had to continue to subsidise the marketing boards, despite policy to reduce subsidies, or eliminate them. One major problem is that the subsidies as currently managed, do not necessarily assist the people they are intended to assist, as they are not targeted to particular people or groups of people. The price and wage control systems have also tended to discourage potential investors. Whilst the price control system has been partly responsible for some shortages on the domestic market, wage and labour market regulations have tended to discourage the taking on of new employees.

13. The administrative allocation of foreign exchange, which was inherited from the past and has been necessitated by foreign exchange shortages, is fraught with serious bureaucratic delays and other problems which have cost the country even more foreign exchange at times. The system has not solved the problem of inadequacy of foreign exchange which has tended to reduce the importation of raw materials, machinery and equipment and spare parts, leading to low quality and quantity of export commodities. Export promotion response has been inadequate due to such problems as use of obsolete equipment which gives rise to high costs of production.
14. Because of the inadequacy of official capital inflows, Government had to go into large commercial borrowings to finance reconstruction and development programmes especially in the provision of infrastructure such as roads, bridges, dams, schools, clinics, hospitals etc. Thus due to the heavy borrowings incurred during the first few years of independence, combined with unsatisfactory export performance, the external debt service ratio reached a peak of 33,3 per cent in 1987 and is expected to decline to about 25,6 per cent in 1990.
15. Investors have been somewhat unsatisfied by the general investment climate existing during the 1980s. This has included issues such as the price and wage controls and investment regulations, particularly those relating to profit remittances, as well as the procedures for screening investment applications.

C. Prospects for the Future with no Policy Changes

16. The Zimbabwean economy is highly vulnerable to weather conditions since any major decline in agricultural output automatically leads to very low economic growth. For instance in 1987 when the agricultural sector experienced a negative growth rate of 18.1 per cent, the economy also suffered and recorded a growth rate of 0,7 per cent and in 1988 agriculture grew by 25,5 per cent and the economy also grew by 6.3 per cent. The weather conditions therefore have a major influence on the growth of the economy. Beside weather problems, agriculture has also

been affected by the transport crisis as well as declining terms of trade. This points to the need for major structural change to reduce the vulnerability of the economy on factors that cannot be controlled.

17. Over the last few years unemployment has been increasing at an alarming rate, given school leavers of about 200 000 every year plus those retrenched due to industrial closures necessitated by economic hardships experienced by companies. The problem is compounded by the fact that the economy itself has not been expanding sufficiently, and hence there has been only limited employment generation. The unemployment situation in the country is such that if not harnessed, it will deteriorate to a point where increasing social problems will become the order of the day.
18. Despite the control regulations, prices have been increasing officially or otherwise and these increases have seriously squeezed the incomes of the workers. The Statutory minimum wages remain far below the poverty-datum line such that the majority of the workers still live in poverty.

The prices and wages spiral has also contributed to high rates of inflation and if there are no policy changes, the rate of inflation is likely to double in the coming year and the effect of price and wage regulations on investment will continue to be in the negative which is detrimental to economic growth as evidenced by the falling per capita income.
19. Zimbabwe's exports are predominantly primary commodities whilst imports are raw material inputs, plant and machinery and some finished goods, and the terms of trade have deteriorated substantially over the years. Such a structure of exports and imports does not guarantee a long term solution to the foreign exchange shortage and also poses serious problems for the servicing of our debt. By and large, the country's exports cannot compete on the world market if the status quo is maintained because of outdated technology, high production costs and the resulting relatively poor quality of manufactured goods. This is so in particular as other strong economies emerge in the Southern African region, and as other countries around the world are implementing reforms to enhance their competitiveness.
20. If the problems facing the economy are to be solved, and a sustainable rate of growth achieved, it will be important to enhance the current investment drive, to promote export and introduce measures which will be conducive to solving the present foreign exchange shortage

D. *Macro-Economic Targets for the Medium Term*

- 21. Having taken note of the major economic problems which affected the economy in the last 10 years, Government has now committed itself to carrying out major economic reforms for adjustment and growth. In the medium-term 1990/91 to 1994/95, Government has set a target growth rate of the Gross Domestic Product of 5 per cent per annum in real terms. In order to achieve this target, the Government is going to de-emphasize its expenditure in social services and emphasize investment in the material production sectors such as agriculture, mining and manufacturing, together with supporting economic infrastructure in transport, power and communications.**
- 22. To achieve a GDP growth rate of 5 per cent per annum, the rate of investment in nominal terms should be at least 20 per cent of gross domestic product. Such a rate can be achieved if the present investment promotion drive is enhanced, backed by a package of appropriate incentives. It is also Government's intention to mobilise investment capital by the encouragement of savings by the public by the adoption of appropriate monetary and fiscal instruments.**
- 23. In order to release more funds for productive investment, Government is going to reduce the budget deficit progressively to 5 per cent of GDP by 1994/95. Various policy measures, particularly directed at reducing expenditure, will be adopted to achieve this objective.**
- 24. An increase in export earnings should result from export promotion programmes, and from the effects of trade liberalisation which is expected to increase the import of inputs for export oriented industries. Once the targetted export level is achieved, the balance of payments situation is expected to improve. In the initial stages of implementation of economic reforms, the balance of payments current account will continue to show a substantial deficit.**
- 25. The investment of borrowed capital is seen as vital because the debt can be serviced through the output of the investment. Borrowing will therefore be directed towards productive investment rather than social services. Government would like the debt service ratio to be reduced progressively to about 20 per cent by 1994/95 from the current level of 25,6 per cent.**
- 26. Employment generation is expected to improve to a rate sufficient to absorb the majority of those joining the labour market each year. A high level of employment will be achieved if the investment levels are high enough and are made in the priority productive sectors of the economy. An increase in employment will also**

depend on the policy change in the employment regulations governing the employer's ability to hire and fire.

E. *Economic Policy Reforms : Major Areas*

27. Government has already embarked on a package of economic policy reforms which are aimed at stimulating investment and economic activity in order to achieve an annual average rate of growth of 5 per cent in real terms in the medium term. The package of policy reforms entails moving away from a highly regulated economy to one where market forces play a greater role within the context of Government objectives.

The major areas of policy addressed include:-

- the budget - public finance;
- trade liberalization and export promotion
- economic regulation;
- investment promotion and incentives;
- monetary policy and financial sector reforms;
- social aspects of adjustment; and
- financing the economic adjustment programme.

F. *Public Finance*

28. The major objective of the Budget is to progressively reduce the budget deficit to 5 per cent of Gross Domestic Product by 1994/95.

F.1 *Taxes*

29. Government is conscious of the already high levels of taxation, and recognises that there is limited scope for using tax measures to raise more revenue in order to reduce the budget deficit. Increased revenues will have to be brought about as a result of a higher rate of economic growth, as opposed to higher rates of tax. During the period of implementation of economic reforms, the tax system will be restructured in such a way as to encourage savings and investment, and to promote growth. Appropriate tax incentives will therefore be instituted and specifically directed towards priority sectors, such as those producing for export and saving on imports or creating employment and improving upon existing technology. Bearing in mind some of the adverse effects which could initially arise from a structural adjustment programme, particularly on the lower paid, the restructuring of the tax system will take into account Government's objective to

promote growth with equity.

F.2 Expenditures

30. The initiative to reduce the Budget deficit would have to focus on expenditure reduction, particularly recurrent expenditures, and on cost recovery measures aimed at encouraging the public to contribute to the provision of social services.
31. The policy reform programme envisages a fall in the proportion of recurrent expenditures in the total Budget and constant capital expenditure in real terms over the programme period. More emphasis will be put on the financing of works-in-progress except for those new projects considered to be of high national priority. The major areas which are expected to facilitate expenditure reduction and optimal resources allocation include parastatals, education, defence and the size of the bureaucracy.

F.2 Parastatals

32. Government has a legal obligation to meet parastatal losses through annual provisions for subsidies. In the last financial year, subsidies to parastatals, excluding ZISCO, accounted for 6,9 per cent of total recurrent expenditure or 35,4 per cent of the estimated budget deficit. Despite having made a provision of \$350 million for these losses, there remained an overhang of \$300 million carried forward to the next financial year, 1990/91. The policy reform programme objective on parastatals is to clear parastatals' losses and eliminate subsidies by the end of 1994/95, except only in exceptional cases, where subsidies will be directed towards target groups. In order to facilitate effective measures, Government will clear the present subsidies backlog within the two year period beginning in 1990/91 so that the parastatals losses can be considered on a current year basis. Once the backlog is cleared, parastatal operations can be monitored closely and, in order to improve the operations of parastatals, the following measures will be taken :-
 - a) Based on the experience and success of the Task Force on the National Railways, Government will set up similar groups to look at each parastatal well before a crisis looms. Such groups would examine the problems of the parastatals and the rationale for their existence. They will come up with a plan to make the particular parastatal viable by a given target date or modify their functions. Parastatals such as the Cold Storage Commission and Dairy Marketing Board, as well as ZISCO are among those needing urgent examination.
 - b) Parastatals will be required to plan their programmes, including projected losses,

if any, and have these scrutinized in advance of programme implementation. Within this context, Government will require parastatals to operate on the basis of set targets, which management should work towards achieving.

- c) As part of the exercise to examine the operations of parastatals, the pricing policies of each of the parastatals will be reviewed, with a view to closing the gap between consumer and producer prices, replacing it where necessary by targetted subsidies to the needy.
- d) The process of giving equity to those parastatals which are involved in the marketing of goods and services in a competitive environment was already started and will be expedited. This will enable such parastatals to plan ahead with certainty.
- e) Government will on a selective basis introduce new partners to create joint ventures or offer equity shareholding to new partners. On this basis Government can take advantage of the management expertise and know-how of the partners in efficiently running the parastatals on business lines.
- f) Government will look into the issue of management incentives, linked to set performance criteria and will also grant a higher degree of autonomy to management of parastatals and clearly spell out the role of the boards versus the respective parent ministries.

F.3.2 Education

33. Following the introduction of free primary education the numbers of pupils increased from 1 636 million in 1980 to 2 267 million in 1989, while in secondary education the number were 74 966 and 695 612 respectively. As a result, the education budget, as a proportion of recurrent expenditure rose from 14,8 per cent in 1980/81 to an estimated 23,1 per cent in 1989/90. There are two reasons why Government should review the system of financing of education:
- a) Although education represents a long-term investment in human resources, its provision needs to be balanced with investment in immediately productive areas, if the economy is to sustain the costs implied. The trend so far has been for social sectors such as education to grow at the expense of the productive sectors.
 - b) There appears to be anomalies in the present system of financing, and the objective of equity is not necessarily met. First, free primary education is available to both rich and poor alike. Secondly, whilst education is supposed to be free, parents of various social groups are called upon to contribute to the

building fund either in money or in kind, and they have to pay levies collected by different schools at different levels. It is not always the richest who pay the heaviest levies.

34. Government will take steps to recover costs through the introduction of manageable school fees at primary school level beginning with the 1991 school year. The fees would be differentiated on the basis of a system of school designation and the parent's ability to pay. The level of school levies will then have to be reviewed taking into account the fact that school fees are payable. The Ministry of Education and Culture will be working out the details of how these measures can be implemented.
35. Government will also undertake an exercise to review its assistance to private schools, with a view to obtaining maximum contribution from the community.
36. In the course of time, it is Government's intention to decentralise the system of education, in order to obtain maximum efficiency in its administration.

F.3.3Health

37. Government will continue with the present policy of providing free health care for those earning below a specified income level. However, steps will be taken to tighten up the administration of the system so that only those who are eligible can benefit.

F.3.3Defence

38. Defence expenditure is affected by the security situation, particularly in the region. Any improvements in the security situation which may take place should assist in reducing the proportion of this item in the Budget.

Meanwhile, Government will make an effort to rationalise Defence expenditure, especially that pertaining to procurement, vehicle repairs, transportation of rations, and personnel at base will be encouraged to engage in productive activities. Action on this has already started and progress so far is encouraging.

F.3.2The Size of the Bureaucracy

39. In 1989/90 about 41,4 per cent of recurrent expenditures were in salaries, wages and allowances for civil servants and they numbered 181 402 in 1989 compared with a figure of 62 035 in 1980. It is better to have a small but efficient service. Government has taken a decision to reduce the size of the bureaucracy on a

phased basis beginning in the current fiscal year.

To facilitate the reduction, the following steps will be taken :-

- a) identification of non-essential services or areas of duplication with a view to rationalising them;
- b) the freezing of non-essential posts as soon as they fall vacant;
- c) examination of the staffing situation in Government departments and Ministries and removal of over-staffing where it exists; and
- d) consideration of incentives for staff to voluntarily leave the service for example allowing civil servants to buy service and retire early on full pension. The Ministry of the Public Service in consultation with the Ministry of Finance, Economic Planning and Development will work out the details of this scheme.

F.3.6 Public Sector Project Evaluation

40. The cut-back on recurrent expenditures will be accompanied by careful streamlining of capital projects and Government has considered the following:-
 - a) the temporary freezing of all new projects so as to clear the backlog of “works-in-progress” except in cases of those projects considered to be of high national priority;
 - b) the strengthening of the planning process so as to render more effective the process of project evaluation. In this respect, the National Planning Agency will be given greater authority to approve or reject projects for the Public Sector Investment Programme and to monitor implementation.

F.4. Public Borrowing and Debt Management

41. Government is concerned about the increasing size of the public debt, which has a bearing on recurrent expenditures. During the period of economic reform, Government will set up a special unit to give advice on debt contraction, with reference to interest rates, periods of maturity, exchange rates and related matters. Strict adherence will be placed on the policy to acquire debt only for revenue generating purposes.

G.Trade Liberalization

G.1 Major Elements of the Programme

42. For the past 25 years Zimbabwe has operated a highly protective system of import control through allocating foreign exchange, surcharges on imports and tariffs.

This strategy permitted the development of import substitution which achieved the desired objectives in those circumstances but is now acknowledged to be in need of reform if efficiency, higher employment and improved living standards are to be achieved.

43. The present inward-looking trade regime has an anti-export bias as high prices are charged in the domestic market when protection from imports prevails, resulting in higher profits coupled with increased costs for exporters compared to their international competitors.
44. The trade liberalisation programme to be implemented during the second half of 1990, will be selective and gradual in approach and phased over a period of five years. This will allow the stronger sectors to benefit from the removal of constraints on their export performance whilst permitting weaker sectors to adapt and new investment to take place as opportunities arise. Inherent in the trade liberalisation programme is the shifting of resources within and between sectors so that resources are used in such a way as to generate the best outcome for Zimbabwe.
45. The trade liberalisation programme will be implemented in two stages. In the first stage of the programme there will be a managed transition from the present system of import controls, essentially through foreign exchange allocation, to a tariff based system. This will mean that during the transition imports will be progressively placed under Open General Import Licence (OGIL) and action initiated to modernise domestic productive capacity, preparing producers for external competition and orientating their activities towards exporting. The second stage will be :-
- (i) to further develop and strengthen an outward looking strategy which encourages exports and investment and allows the economy to operate at a high level of activity; and
 - (ii) to further identify constraints and weaknesses in the economy to render it adaptable and competitive.

46. The tariff regime to be put in place will be concerned with providing protection to domestic activities considered to be viable or potentially viable in progressively more open trading conditions. It will allow for a level of protection which is adequate but not excessive, while also allowing competitive forces to operate to the overall benefit of the economy. The tariff regime which will apply at the outset of trade liberalisation will be settled with regard to GATT rules and other regional and international legally binding commitments by Zimbabwe. A Tariff Commission will be set up to investigate the appropriateness of particular rates of duty and if justified to recommend revisions.
47. The trade liberalization approach to be pursued will have the following major elements:-
- a) The movement of selected input items onto Open General Import Licence over the transition period on a priority basis. The primary criteria for early OGIL for a sector are economic:-
 - i) The present and potential export capacity and ability to compete.
 - ii) The relative attractiveness of the export and domestic markets for producers as indicated by the domestic and export prices differentials.
 - iii) The linkages between sectors in the supply of imports and the direct and indirect employment effects.
- The secondary criteria will be the balance of payments implications of alternative phasing of the liberalisation process.
- b) The selective transfer of competing goods or outputs onto OGIL on a phased basis so as to safeguard less competitive domestic activities and give them time to adapt to open trading.
 - c) The continued use of the Export Revolving Fund and the Export Promotion Programmes. The agricultural and mining sectors will continue to have access to the Export Promotion Programmes and the manufacturing sector access to the Export Revolving Fund. Although the majority of the inputs for agriculture and mining will not be placed on early OGIL, adequate foreign exchange to meet current imports for these sectors will be provided. Over time the inputs of these sectors will be progressively put onto OGIL.
 - d) The introduction of an Export Retention Scheme for the productive sectors of the

economy.

- e) Direct local market allocations to the industrial and commercial sectors and new entrants. Special allocations will also be set aside:-
 - (i) for the needs of sectors with strong linkages to ensure that bottlenecks in the supply of domestically produced inputs do not disrupt exports; and
 - (ii) for increased domestic production to meet local consumption needs particularly of lower income groups.
 - f) A Capital Sourcing Programme funded by external borrowing to finance the machinery and other capital equipment requirements.
48. The trade liberalisation programme will benefit both producers and consumers alike. Producers will benefit from the increased availability of inputs and greater opportunity to expand and earn a good return on their investment. Despite temporary hardships which may be experienced, consumers will in time benefit from increased availability of products under more competitive conditions. This will ensure good quality products and lower prices.

G.2 Allocation for Investment

49. A Capital Sourcing Programme to finance the capital and machinery requirements of the economy has been put in place. Government has already negotiated an ADB line of credit (Z\$300 million) which will facilitate the rehabilitation of the industrial sector and financial institutions will be signing a US\$130 million credit facility with the IFC for capital requirements of priority projects. Further borrowings will be negotiated to assist the investment needs of the country. Strict criteria will be applied with priority given to projects that increase exports, enhance competitiveness and promote restructuring.
50. Investment in the national infrastructure is necessary to compliment productive investment and Government is therefore addressing the needs of the transport, telecommunications, power and electricity sectors.

G.3 Export Policies

51. The success of the trade liberalization programme is critically dependent on the achievement of rapid and sustained growth in exports. It may be worthwhile noting that a flexible exchange rate policy was adopted in December 1982, coupled with the introduction of the Export Incentive Scheme and the establishment

52. It is therefore imperative that the thrust of the trade liberalisation programme must be aimed at increasing the attractiveness of earning foreign exchange by removing the bias against exports, which is inherent in the current protectionist regime. This must be done by giving priority in accessing foreign exchange to the export sectors to strengthen their export performance and to ensure that they obtain inputs at world prices so that they can be competitive internationally.
53. In addition to existing export incentives Government will introduce an Export Retention Scheme for the productive sectors of the economy, based on actual export earnings. The modus operandi of the new scheme will be announced in due course. Government will also review the operation of the present export bonus scheme, with a view to rendering it more attractive to exporters. A decision to set up the National Export Agency has been taken by Government. The Agency will be responsible for export promotion activities, including the training of manpower to spearhead these activities.
54. Government has accepted the concept of Export Processing Zones and/or Free Trade Zones, which facilitate incentives for priority sectors, such as those producing for export. The concept will be concretised during the course of the year and appropriate incentives introduced.

G.4. Financing Trade Liberalisation

55. The trade liberalisation programme will be funded by export earnings, new foreign investment or reinvestment of funds and external borrowed funds. Every effort will be made to maximise export growth and to encourage new investment or reinvestment so that reliance on borrowed funds, which have to be repaid, is minimised. Borrowed funds will be used for productive investment to permit the generation of export earnings to fund repayments in future years. The macro-economic measures being implemented, including demand management and appropriate exchange rate policies, have a key role to play in balancing the demand for foreign exchange with the present and future export capability of the economy. Export incentives will also play a key part in maximising the realisation of export potential.

G.5 Managing Trade Liberalisation

56. The trade liberalisation programme will need to be actively managed for its successful implementation. Public representatives, economic agents, employers and workers, public officials and the general public must be made aware of the challenges and opportunities that trade liberalisation presents for

Zimbabwe. A partnership between Government and economic agents in agriculture, mining, industry and other sectors must be established, based on mutual trust and understanding so that the aims of the programme will be understood and accepted and made to succeed.

57. Management of the programme will include monitoring and analysing its economic and social impact. Such monitoring will indicate where the programme should be adapted and what measures are taken to make sure that its benefits flow throughout the economy

H. *Economic Regulation*

58. While economic regulations have their advantages, these should be weighed against the costs incurred in enforcing them and other possible economic gains which the country has to forego as a result of such controls. With trade liberalisation and general structural adjustment programmes in place, Government has seen this to be the opportune time to do away with most of the economic regulations by allowing market forces operate in directing the pace and course of economic activities in Zimbabwe.
59. In this respect, Government has already embarked upon a price decontrol exercise which has already seen many commodities removed from the price control list. However, it should be pointed out that the prices of basic food stuffs will remain under control in order to provide protection for vulnerable groups in society or to avoid monopolistic pricing. These controls will be reviewed from time to time as measures to alleviate the plight of the vulnerable groups are being implemented. Price decontrol means that firms will be able to give price signals which adequately reflect the cost of production giving a reasonable rate of return on investment and prices which are in line with the efficient operation of the firm.
60. The other area where decontrol is taking place is the area of wage and salary determination and the employment regulations. Following the aspiration of growth with equity and the protection of the worker from exploitation and unfair retrenchment, Government introduced regulations on minimum wages and withdrew the employer's right to fire.
61. In 1989, Government started moving away from Statutory wage increments to collective bargaining which takes into account the firm's ability to pay. However, this was done within set parameters. In 1990 the parameters were reduced further such that collective bargaining is now a permanent feature in wage and salary

increments negotiations. On the issue of hiring and firing, Government is going to streamline the procedures so as to reduce the time lag between the time an employer applies to retrench and when the responsible Minister grants permission to fire. Both the employers and workers representatives are being consulted on this issue.

62. In addition to reviewing price and income controls, Government will be studying other controls in the economy, with a view to introducing flexibility in areas where these controls act as constraints on investment.

I. Investment Promotion and Incentives

63. In order to achieve the target of 5 per cent annual growth rate it will be necessary for the investment rate to increase to at least 20 per cent of GDP from its current level of 14,3 per cent in nominal terms. This requires a large amount of resources both in terms of local savings as well as foreign capital inflows. Government has embarked on an exercise to promote investment. The new thrust is reflected in the document published in April 1989: "THE PROMOTION OF INVESTMENT : POLICIES AND REGULATIONS." The new policy initiatives reflect a number of changes which are aimed at mobilising and encouraging both local and foreign investors. The publication of the policy document was also complemented by the publication of the Investment Register, which is an indicative outline of priority projects from which investors can choose.
64. Since the establishment of the Zimbabwe Investment Centre (ZIC) in mid-1989, progress has been encouraging, with a total of \$600 million worth of projects approved by the Centre to date. Government is in the process of defining legally the status of ZIC and strengthening it in terms of personnel and the process of investment approval so that investment projects approval can be expedited.
65. To ensure investors on the protection of investment in Zimbabwe, Government signed, in September, 1989, the World Bank's Multi-lateral Investment Guarantee Agency Convention, and in June, 1990 signed the US's Overseas Private Investment Corporation (OPIC) Agreement. The necessary arrangements are being made to sign the convention of the International Centre for Settlement of Investment Disputes. In addition, negotiations are underway with a number of countries with a view to entering into bilateral investment protection agreements. In some cases, these agreements also protect Zimbabwean investments in those countries. Further more, double taxation agreements have been signed with a number of countries and a few more are being negotiated.

66. Investment incentives have also been introduced through flexibility in exchange control regulations, with regard to dividend remittances, limitation on foreign owned companies and the use of blocked and surplus funds for investment.
67. Government is currently examining further incentives intended to introduce flexibility with regard to exchange control regulations, and further fiscal and financial incentives in the context of export processing zones and the encouragement of investment into growth points and rural areas.
68. Government in its exchange control policy is cognisant of the importance any investor attaches to the flow of income in an investment decision. In this regard the foreign investor must be entitled to the remittance of net after tax profits without hinderance. However, the balance of payments situation has forced Government to reduce in recent years the level of dividend remittability for some of the old investments. The affected investments are those made prior to 1st September, 1979. As a temporary measure, dividend and branch and partnership profits for these investments were lowered to 25 per cent of net after tax profits in May, 1987 as a result of severe balance of payments problems experienced at the time.
69. Investments and profits made in Zimbabwe from external sources post 1st September, 1979 have not been affected by the 1987 exchange control change; and thus continue to be allowed dividend and profit remittability equivalent to at least 50 per cent of net after tax profits.
70. It must be emphasised that the apparent discrimination of investments was introduced in the main, as a result of severe constraints on the country's balance of payments situation. Failure to take measures such as this one at the time would have implied a further deterioration in our ability to meet external obligations including satisfying, in some modest degree, the requirements of the economy.
71. This move has no influence of any ideological nature but rather one which had to be initiated in order to address the prevailing economic situation. Once the balance of payments situation improves this regulation will be reviewed with a view to according all investments from external sources equal opportunities particularly on the dividend and branch and partnership profits remittability levels without regard to the age of that investment.

J. Social Aspects of Adjustment

72. Structural adjustment programmes are usually accompanied by social problems, especially to the vulnerable segments of the society such as the poor, and

unemployed. With market forces determining price levels, in the short term prices are bound to increase beyond the reach of the poor and this can lead to social unrest. Government will therefore take measures to cushion the poor against such possible adjustment effects.

73. It is important that measures to reduce unemployment are introduced and that small investors are given incentives to expand and take on new employees. There will be need to examine and promote the activities of the informal sector which equally has a potential of creating employment. It is certain that the unemployed will be the most affected hence more effort is required to create more employment during the programme period.
74. With reduced subsidies and a relaxation of the prices of parastatal output and services, price increases are expected and these will affect mostly the poor. There is need for targetted subsidies to be introduced to alleviate the hardships affecting the vulnerable groups. For the general public to appreciate the problem that might beset them, Government will devise an information system consisting of simplified literature, radio and television programmes, press reports as well as suitable public lectures to educate the people on the programme.

K.The Financial Sector

75. One of the major pre-requisites to the successful implementation of the macro-adjustment programme and trade liberalisation will be a sound monetary policy that inflation is controlled but at the same time being promotive of exports, investment, employment.

K.1 Strengths and Weaknesses of the Financial System

76. The Zimbabwe Financial system, compared to a number of countries at a similar level of development, has a number of strong characteristics:-
 - a) firstly, the institutional framework of the Zimbabwe financial system is quite broad, and sound, with diverse and well-established specialist institutions providing a wide range of financial services to borrowers and savers.
 - b) second, the financial system, has commercial, merchant banks and others, and is highly profitable by international standards.

- c) third, despite the substantial fiscal deficits experienced since independence, it has been possible to successfully finance government expenditures from non-bank sources (i.e. insurance companies and pension funds), thereby avoiding crowding out the private sector of domestic resources.

77. Despite the given strengths of Zimbabwe's financial system, a number of inherent weaknesses have been identified, including:

- a) first, the financial system has operated under a corset of controls for so long that the system has left little room for imagination and innovation and therefore limited competition among the market participants to the detriment of both savers and borrowers.
- b) second, because of the tight controls on the operations of these institutions and the resultant captive market it has bred, the market has remained complacent and inactive.
- c) third, due to Government's adopted policy of limiting entry by newcomers into the financial sector, the existing financial institutions have enjoyed cosy protection from the rough wind of more aggressive international market players. Hence their ability to generate substantial profits.
- d) fourth, the current lending policies of banking and financial institutions strongly favours established businesses and entrepreneurs whilst being somewhat biased against small and aspiring entrepreneurs and the rural sector.
- e) fifth, the capital market, e.g. the Stock Exchange, has not been used as an active vehicle for the redistribution and broadening of the ownership of the productive base of the economy. This leads to a greater concentration of wealth in fewer individuals while the majority remain excluded.

K.2 Monetary Policy Stance

78. Price stability will always remain one of the central objectives of Monetary Policy. In this respect, Monetary policy will be geared towards fighting inflation particularly from excessive money growth from whatever source.

For this purpose an array of instruments both traditional and non-traditional will be employed to achieve these goals. These will include :-

a) Interest Rates

An interest rate policy adequate enough for efficient mobilisation of savings, attractive enough to offer positive returns to savers and realistic enough to promote investment has been designed. Interest rates will however, continue to be managed in such a manner as to achieve the above and in the same vain, active enough to achieve some degree of optimality in resource allocation.

b) Credit

Banks will continue to be persuaded through various means to display a national character in their allocation of credit without of course compromising prudence and sound banking practices. The latter, however, should not be equated to risk aversion and avoidance but directed to ensure greater risk management and aggressiveness. The allocation of credit should be profit based, rather than sectarian. To improve accessibility to credit, collateral requirements are to be reviewed.

As far as credit controls are concerned, they will be relaxed enough to encourage productive borrowing while at the same time remaining strict enough to dampen any potential inflationary pressures. The relaxations and restrictions will manifest themselves in interest rates where applicable, downpayment requirements and effective credit periods. The details pertaining to these policy dictates shall shortly be announced.

In this respect, therefore Government will maintain greater cooperation and consistency between the fiscal and monetary aggregates.

K.3 *Institutional Arrangements*

79. While commending efforts so far expanded by the financial sector, there is still, however, greater need for more flexibility and adaptability to change. In this respect the high level of concentration of financial and banking activities in the major cities should be complemented by a countrywide provision of such services through a rural or growth point bank branch network. This branch network would not only be used effectively as points for deposits but would be used effectively as instruments of development through provision of loan facilities, particularly for productive purposes.
80. To encourage savings mobilisation, quality service and competition, Government has approved new entrance into the financial sector, by other banking institutions,

80. To encourage savings mobilisation, quality service and competition, Government has approved new entrance into the financial sector, by other banking institutions, both local and foreign. There will be set guidelines for the determination of entrance by local entrepreneurs, while for foreign banking institutions, there will be need on the part of the foreign banks to demonstrate how Zimbabwe will benefit from their entry. In other words entry will be targetted. The initiative will come from the banks or at invitation by Government.

K.4 Stock Exchange

81. Traditional methods of investment financing alone can no longer be considered adequate. In this respect, the active use of the stock exchange as a medium for raising investment funds is envisaged. Deliberate policy measures will be taken shortly to increase availability of attractive script on the market. Further fiscal incentives to encourage companies to go public and the public to hold shares on and through the Stock Exchange are being considered.

It should however, be stressed at this point that developments stated above should be viewed as consistent elements of broader objectives of capital market development.

K.5 Investment by Small Scale Entrepreneurs

82. There is a perceived large gap for long term financing needs of small to medium scale enterprises and it is recognised that the existing financial institutions may not change their lending attitudes sufficiently enough to address the special needs of start-up businesses. To redress this problem a study on the feasibility of setting up a venture capital company in Zimbabwe has been completed and its conclusions are very positive and its implementation not far off. It is envisaged that a public announcement on this institution will be made soon. The venture capital company will be in addition to facilities already in place (i.e. the Zimbabwe Development Bank Fund and the Small Enterprises Development Corporation.

L. Financing the Structural Adjustment Programme

81. Government, on an informal basis, kept potential donors informed about its approach to economic reform. A formal approach will soon be made to various donors, who will be presented with the total package of reforms, and details of the financing requirements of the programme. Funding arising from these approaches will be additional to facilities already granted by the African Development Bank and the International Finance Corporation.

BUDGET STATEMENT 1990

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EMBARGOED TILL END OF DELIVERY

BUDGET STATEMENT 1990

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 must be seen in the overall context of the economic policy reforms which Government is committed to embark upon. These policy reforms and initiatives are designed 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. Government's policy approach is outlined in the Economic Policy Statement which is complementary to my speech. The statement will be made available together with the Budget documents. The next few months will be devoted to operationalising the policy reforms which Government has agreed upon, and are reflected fully in the Economic Policy Statement.

Economic Performance, Constraints and Problems Facing the Economy

3. Last year I outlined the factors which had contributed to a poor rate of growth during the period since 1980. As background to the 1990/91 Budget and to put in perspective the thrust of economic policy reforms, I wish to emphasize the erratic nature of growth performance in the last decade, the major constraints on growth and the problems that the economy is facing as a result of poor growth performance.
4. After growing in real terms at an impressive average growth rate of about 10 per cent between 1980 and 1981, the economy went into recession for the period between 1982 and 1984. Recovery which started during 1984 and carried through 1985 was shortlived, with the economy experiencing a decline in the gross domestic product both in 1986 and in 1987. Although positive growth rates

were registered in 1988 and in 1989, the average growth rate for the period since 1980 was only 3,2 per cent. This average rate is barely above the population growth rate of 2,9 per cent and well below the targets of both the Transitional National Development Plan (8 per cent) and the First Five Year National Development Plan (5 per cent).

5. An economic growth rate of 4.9 per cent in real terms was achieved in 1989, which is slightly lower than the First Five Year National Development Plan target of 5 per cent. This was a decline from the 1988 growth rate of 6,3 per cent. Productive sectors grew by 5 per cent and over 37 per cent of this growth was accounted for by the manufacturing sector which grew by 1,7 per cent.

This moderate growth was partly due to the low growth of the agricultural sector which declined from 25,4 per cent real growth in 1988 to 7,8 per cent in 1989 due to inadequate rainfall.

6. Principal economic constraints included inadequate transport facilities, interruptions in power supplies and continued pressure on the balance of payments, resulting in inadequate foreign exchange flows for the economy's import requirements.
7. The poor performance of the agricultural sector contributed much to the minimal growth of 1 per cent in exports, particularly due to a fall in cotton lint delivered to the marketing boards as well as the outbreak of the foot and mouth disease which effectively meant no beef or dairy product exports to the European Community and to Botswana.
8. Although gross fixed capital formation grew by 4 per cent in real terms, overall investment levels continue to be unacceptably low. The low level of investment especially in the material production sectors is further illustrated by the economy's failure to generate sufficient levels of employment opportunities. Thus the problem of unemployment remains critical.

Economic Policy Approach

9. Government is aware that unless there are structural changes designed to address the problems facing the economy, and to stimulate economic activity, the rate of economic growth will continue to be far below that needed to at least maintain reasonable standards of living, and to provide employment for the majority of the population. It is in this context that Government has adopted a policy package

to be implemented over the next four to five years, intended to stimulate economic activity and achieve a sustainable rate of growth of 5 per cent per year in real terms. The Economic Policy Statement, which is being made public together with this year's budget proposals, outlines the major areas of policy reform decided upon by Government.

10. The economy is currently subjected to a host of economic regulatory mechanisms on prices, incomes, employment of labour and foreign exchange. The positive effects of these regulatory mechanisms should be weighed against their cost to investment, employment creation and the overall economic development. Government is now convinced that these regulatory mechanisms have served their purpose and should now be changed to be more attractive to investment.
11. The major policy changes envisaged by Government cover the following areas:-
 - balance of payment and trade liberalization;
 - prices and incomes policy;
 - labour regulations;
 - investment promotion and incentives ;
 - monetary and financial sector policy;
12. In the area of trade and balance of payments, the protective controls which exist have been re-examined with a view to achieving efficient allocation of the most scarce resource in the country today, namely foreign exchange, and with a view to getting local industry to operate more efficiently. Last year I indicated Government's intention to liberalise trade and I announced that Government had taken a decision to adopt an overall structural adjustment programme of which trade liberalization is a component.
13. The decision to adopt a trade liberalisation programme reflects a desire to improve the efficiency of the economy, to allow output and sales, especially export sales, to grow in order to increase the availability of foreign exchange.
14. The programme entails :-
 - phased movement, over a period of five years, from quantitative import controls to a tariff based system involving increases in imports in order to modernize the domestic industry so as to enable local producers to withstand international competition;

-movement of selected input items onto the Open General Import Licence (OGIL), in such a way that allows industry to adjust before being subjected to foreign competition, given the present shortage of foreign exchange and the fact that most industries are operating at far below capacity;

-movement of selected outputs onto OGIL where it is felt that industry can be immediately subjected to competition and in cases where industry has had sufficient time to adjust and modernize;

-restructuring the present foreign exchange control system as some import items move onto OGIL while taking cognisance of the effects on exports, sectoral linkages and overall balance of payments position - before liberalisation takes full effect; and

-putting in place a revised tariff regime.

15. The success of the trade liberalisation programme will be heavily dependent on the country's ability to generate foreign exchange. In addition to existing export incentives, therefore, Government will be introducing new incentives which are intended to generate sustained increases in exports and save on the use of foreign currency.
16. To complement and back up the trade liberalisation programme, Government is finding ways of modernizing and making the infrastructural sectors, i.e. communication, power and transport, efficient. Government is currently discussing with the World Bank on the rehabilitation of the National Railways of Zimbabwe and also putting together funds to improve commercial vehicle supply in the country.
17. The programme will be gradual and selective in approach and phased over a period of five years. I must emphasise, however, that for the programme to be a success it is important that adequate resources are available. As an initial step we have negotiated the UA100 million (approximately Z\$300 million) African Development Bank loan for industrial rehabilitation and the International Finance Corporation Capital Goods Facility Line of Credit amounting to US\$130 million (approximately Z\$325 million). Negotiations are underway with other financial institutions and donor agencies for more resources.

A decision has been taken to place some items on OGIL with effect from 1st October, 1990. Details of this will be announced in due course. More products will be placed on OGIL as more resources become available.

18. The success of the trade liberalization programme and the ability to mobilise international financial resources, depends very much on the reciprocal changes in some of the macro-economic issues I have already referred to. I must now briefly explain each one of them.
19. As Honourable Members are aware, last year Government relaxed controls on the prices of some commodities which have been under control since independence. Government recognizes the problems which have been part of the system of price controls and the system of controls cannot operate alongside trade liberalisation, and is not conducive to industry responding sufficiently positively to policy reforms aimed at introducing efficiency. Government now intends to decontrol commodity prices so that they can be determined by market forces except for the basic foodstuffs which remain under price control. Price decontrol means that firms will be able to give price signals which adequately reflect the costs of production giving a reasonable rate of return in line with efficient operation.
20. Since 1980, Government's policy on incomes and employment has been aimed at achieving equitable distribution of income and minimizing unemployment arising from retrenchments. The policy, which has given the impression to the investors of a highly regulated environment, has been a factor contributing to the low rate of investment and low generation of employment opportunities. Some policy changes in this area have already been implemented and further changes have to be made to make the liberalisation programme more effective. Last year Government introduced collective bargaining with given parameters to determine wages and salaries and this year there was a reduction in the parameters set. This shows a clear movement to free collective bargaining which is in conformity with the liberalisation programme. The only area to be looked at further is the area of "hiring and firing" regulations. Government, workers representatives and employers are currently working out how this issue could be streamlined so that it does not disadvantage employment growth and economic development.
21. On the issue of investment, considerable ground has already been covered through the publication of the documents "The Promotion of Investment : Policies and Regulations", and the "Investment Register", and the establishment of the Zimbabwe Investment Centre (ZIC). All these policy changes and initiatives are meant to create an atmosphere which is conducive to investment in Zimbabwe. I am pleased to note that during the first year of its existence the Investment Centre has approved projects worth more than \$600 million. Government has also gone further and signed the World Bank's Multilateral Investment Guarantee Agency Convention (MIGA) in September 1989 and the United States' Overseas Private Investment Corporation (OPIC) agreement in June, 1990. Arrangements are also being made to sign the Convention of the

International Centre for the Settlement of Investment Disputes. In addition, negotiations are taking place with a number of countries with a view to entering into bilateral investment protection agreements.

22. Government is also working out a package of incentives, not only based on the fiscus but also through flexible remittance arrangements and through interest rates which encourage savings from the general public for investment.
23. In order to complement the economic policy reforms in other areas, monetary and financial sector reforms geared at achieving efficiency in the mobilization and utilization of financial resources have been considered. As the new economic package unfolds, use will be made of active monetary policy instruments such as the rate of interest, in order to encourage savings especially from the public for investment. Measures to control inflation which may be fuelled by economic activity arising from trade liberalization will be instituted as part of the monetary policy to support the programme of policy reform.
24. In order for investors to respond positively and effectively to the investment drive, Government has seen it necessary to provide a wider choice of banking and financial facilities. The financial sector will be opened up to allow other banks and financial institutions on a selective basis, to be established in Zimbabwe. Beside encouraging new banks and financial institutions in Zimbabwe, these institutions will also be encouraged to open up branches in rural areas and to give favourable treatment to small entrepreneurs or small-scale enterprises.
25. The objective on public finance is progressively to reduce the budget deficit to 5 per cent of Gross Domestic Product by 1994/95. Given the present levels of taxation, there is limited scope for using tax measures to raise revenue in order to reduce the budget deficit. The only option, therefore, is a reduction of expenditures, especially recurrent expenditure. The critical areas which can facilitate expenditure reduction include parastatals, education, and generally the size of the bureaucracy.
26. Annual provisions for parastatals losses, excluding ZISCO, constitute some 35,4 per cent of the budget deficit. At the same time accumulated losses which have not been covered by Government amounted to some \$300 million at the time of the Budget last year. It is Government's intention to wipe out subsidies, except in exceptional carefully targetted cases, by the end of 1994/95, or earlier. Measures to be taken in this respect include :-

- setting targets for management of parastatals to be achieved within a specified time period;

-giving equity to those parastatals which are involved in the marketing of goods and services in a competitive environment;

-reviewing of the pricing policies of each parastatals so that the gap between consumer and producer prices is closed and the parastatals can break even;

-the introduction of new partners to create joint ventures and the granting of a higher degree of autonomy to the management of parastatals and to clearly spell out the role of the Boards versus the respective parent Ministries.

In order to achieve these objectives special Task Forces will be set up to analyse the rationale for the existence of each parastatal, mode of operation and the changes necessary to commercialise their operations.

- 27. On education, steps will be taken to reduce expenditure on education through cost recovery measures. These involve the re-examination of the basis for primary school fees and how this can be related to location and ability to pay, and a revision of the nature of Government assistance to private schools. The Ministry of Education and Culture is working out details of these changes.**
- 28. In 1989/90 about 41,4 per cent of recurrent expenditures were in salaries and allowances for civil servants. In order to reduce the burden on the budget, Government proposes to reduce the size of the civil service, beginning in the current fiscal year through various measures outlined in the Policy Statement.**
- 29. On capital expenditure, it is Government's intention to put more emphasis on productive projects rather than on service projects. Concentration will be placed on works-in-progress so as to clear this backlog before embarking on new projects unless the new projects are of high national priority**
- 30. The policies and measures I have outlined are necessary if the economy is to be restructured in such a way that it sustains a target average growth rate of 5 per cent annually over the next five years.**
- 31. Before I outline the Budget for 1990/91, I now want to outline briefly the Budget outturn for 1989/90.**

Budget Out-Turn 1989/90

32. Last year I announced a total expenditure and net lending programme of \$6 292 million. Of this, recurrent expenditure amounted to \$5 105 million, whilst capital and net lending constituted \$1 187 million. Given revenues, including international aid grants, of \$5 303 million, I estimated the Budget deficit to be \$989 million for 1989/90. Supplementary and additional estimates of expenditure approved later in the year of \$275 million increased the estimate for total expenditure and net lending to \$6 567 million. In the absence of new measures to raise revenue further, the estimate for the Budget deficit went up to \$1 263 million.
33. Actual expenditure and net lending amounted to \$6 445 million, of which recurrent expenditure amounted to \$5 271 million and the rest was capital expenditure.
34. Given total expenditure and net lending of \$6 567 million and revenue, including international aid grants amounting to \$5 307 million, the outturn for the budget deficit was \$1 138 million. This deficit is equivalent to just over 9 per cent of the year's Gross Domestic Product, close to what I had projected last year.
35. The budget deficit was financed by net foreign borrowings of \$202 million and net domestic borrowing of \$936 million. Net foreign borrowing compares with the original estimate of \$125 million.
36. The net domestic financing of \$936 million was lower than the original estimated due to the higher foreign borrowing figure.

The 1990/91 Budget Proposals

37. Turning now to the 1990/91 Budget proposals, these have been guided by the objective of progressively reducing the budget deficit to about 5 per cent of Gross Domestic Product by 1994/95. An effort has been made to cut down on recurrent expenditure and putting more emphasis on productive capital expenditure. I have already alluded to the measures Government is going to take to achieve this objective, however, this is being done at a time when the civil service salaries and allowances are being restructured, which makes the task a difficult one.

Recurrent Expenditure Proposals

38. The total recurrent expenditure figure inclusive of the Constitutional and Statutory Appropriations and Subsidies, amounts to \$6 594 million. This represents an increase of 25 per cent, in nominal terms, over the out-turn for 1989/90. The general salary review as well as the restructuring exercise for the civil service accounts for more than half a billion dollars in total recurrent expenditure. The major items on recurrent expenditure combine to give cause for concern as I indicated earlier on in terms of the size of the civil service and parastatal losses.
39. In order to start on a clean slate and to implementing the measures which I have already outlined on parastatals, Government will, beginning with the current year, clear the subsidies overhang over a a two year period. Having taken into account the subsidies backlog and the current requirements, a figure of \$550 million, excluding ZISCO requirements of \$100 million, is being allocated for subsidies. This is out of a total requirement of about \$710 million, thus leaving an overhang of \$160 million. Government is in the meantime taking measures to improve the efficiency of parastatals as well as looking at the pricing system of the goods and services provided by the parastatals so that they can operate along business lines.
40. The largest requirement for subsidies by a single parastatal is from the National Railways of Zimbabwe, \$281 million which is almost 40 per cent of the total subsidies. Much effort has already been directed towards identifying the problems facing the National Railways of Zimbabwe, and measures are already being taken to rectify these. In order to allow the Railways to recover to a position of efficiency, without the hindrance of large accumulated losses, I have allocated a figure of \$255 million to cover its losses, leaving an overhang of only \$26 million to be cleared during 1991/92.
41. I have allocated a total of \$220 million to the Agricultural Marketing Boards, covering Grain Marketing Board (\$100 million), Dairy Marketing Board (\$60 million), Cold Storage Commission (\$30 million) and Cotton Marketing Board (\$30 million). Given a total requirement of about \$312 million, the overhang to be carried forward to 1991/92 with respect to the marketing boards amounts to about \$92 million.
42. I have allocated \$40 million to the Agricultural Finance Corporation, out of a total requirement of \$53 million. This arises primarily from unrecovered loans made to peasant farmers.
43. Air Zimbabwe subsidy requirement for the current year amounts to about \$13

million. Out of this, I have allocated \$9 million leaving \$4 million to be covered during the next financial year.

44. The fact that we have, in the current budget, picked up the bulk of the subsidies' overhang of parastatals, combined with the measures planned to be taken immediately to reduce the losses of parastatals, should mean that this year is the last that such a large figure for subsidies will be allocated. As the economic reform programme is implemented, most parastatals will be required to either make a profit or at least break even.

Those parastatals which cannot operate efficiently will, on a selective basis, either be allowed to go out of existence, or be converted into joint ventures in order to introduce new management skills.

45. Apart from the general salary review and salary adjustments, the rest of the recurrent expenditure has been designed to maintain existing services and programmes. Expansion and introduction of new programmes have been kept to a minimum.
46. The Ministry of Education and Culture accounts for \$1 329 million, showing an increase of 28 per cent over the out-turn of last year. The combined two Ministries of Education take up a total of \$1 524 million, or 23 per cent of total recurrent expenditure. I have already indicated that measures are being worked out to reduce education costs to Government through cost recovery measures.
47. The Defence vote has been allocated an amount of \$1 031 million. The main factor contributing to the increase in the Defence vote is the increase in salaries and wages; first to rectify the discriminatory pay scale which existed before Independence and then the recently announced salary review effective from July 1, 1990. These adjustments have added some \$190 million to the vote. As part of the economic policy reform programme, Government is already taking measures to ensure that defence expenditures are cost effective.
48. I have provided \$458 million for the Ministry of Health, which represents an increase of 20 per cent on actual expenditures in 1989/90. This allocation is meant to pursue the country's stated objective of health for all by the year 2000.
49. I have allocated \$327 million to the Home Affairs vote, which is 14 per cent up on actual expenditures of \$288 million last year. The bulk of this provision is for the Zimbabwe Republic Police. The allocation should go a long way in enabling the Ministry to maintain the vital services it is responsible for.

50. I have allocated \$247 million to the Ministry of Finance, Economic Planning and Development. The bulk of this amount is intended to cater for the current exercise still being carried out by the Public Service, on salary adjustments in a number of fields.

Public Sector Investment Programme

51. I now turn to my proposals for the Public Sector Investment Programme. Again in an effort to restrain the budget deficit, the capital programme has been carefully streamlined, taking into account continuing needs for which commitments were made on a long-term basis and in particular the share of outlays for on-going projects which should be supported until completion.
52. Of the total PSIP of \$2 086 million an amount of \$553 will be financed from Parastatals own resources. Central Government financing will constitute \$1 533 million, of which \$737 million will be from external sources in the form of loans and grants.
53. The proportion of the PSIP with respect to programmes funded through own resources of parastatals and other public institutions constitutes 27 per cent of the total capital budget, which still falls far short of the plan target of 46 per cent. In order to realise the desired target, it is essential that there be a rapid increase in the total programme funded from the own resources of public institutions. Parastatals must further strive to devote more resources to productive investment and to be more efficient to enable them to contribute effectively to the planned economic growth target.
54. Since a large portion of the capital budget is for continuing projects, the allocation of expenditures among programmes was focused on marginal additions taking into account the previous relationships between estimates and actual expenditures, performance ratios, and factors contributing to their variation - such as the shortages of foreign exchange, building materials and transport which continue to be the major constraints.
55. In this context, I have allocated an amount of \$438 million, which constitutes 21 per cent of the total PSIP budget, to the Ministry of Transport. This allocation is dominated by the provision for the acquisition of a new second long-range aircraft for Air Zimbabwe, the balance on the first aircraft, the provision for the traffic development programme, for the National Railways, the construction of roads and bridges and immediate improvements on the Harare Airport. It is expected that the programmes for Air Zimbabwe and the National Railways of

Zimbabwe should improve the operational efficiency and reduce the losses of these institutions. Members will recall that last year I anticipated that the Gokwe-Sengwa road, which is wholly funded by the Government of Zimbabwe and is necessary for access to the Sengwa Coal Mine, would be completed in the 1989/90 fiscal year. This road has not been completed as planned because I had to re-allocate part of the funds to cater for the construction of the Harare-Chitungwiza and Masvingo-Great Zimbabwe roads which we had to start during the course of the year. I have therefore made a provision of \$20 million for completion of Gokwe-Sengwa road this year.

56. Agriculture and land development continue to receive high priority with an allocation of \$345 million, or 16,5 per cent of the total PSIP in 1990/91.

In order to improve both the quantity and quality of our beef exports to the EEC countries, provision has been made to allow the Cold Storage Commission to continue with the Abattoir Rehabilitation Programme in Harare, Masvingo and Bulawayo. The Dairy Marketing Board will replace its old powder milk plant with a new one in order to provide additional capacity for the manufacture of powder milk and butter and increase milk intake from producers.

57. In respect of the provision for land acquisition, I have again included an amount of \$10 million under the Ministry of Lands, Agriculture and Rural Resettlement for land purchase and an amount of \$23 million under the Ministry of Local Government, Rural and Urban Development for infrastructural development of Resettlement areas. It is however, anticipated that more funds for land acquisition and resettlement will be made available through the Vote of Credit.

58. The Ministry of Energy and Water Resources and Development has been allocated an amount of \$326 million or 15,6 per cent of the PSIP budget. A substantial amount of this allocation will go towards the construction of dams such as Muzhwi in Masvingo Province and Shashani in Matabeleland North which are due for completion in 1990/91. An amount of \$208 million of the total provision for the Ministry is earmarked for the Zimbabwe Electricity Supply Authority. This amount will go towards financing the continued development of the country's power and energy resources necessary for the generation and transmission of electricity. Funds for the total development programme for ZESA will come from own resources, supplemented by external loans.

59. An amount of \$290 million has been allocated to the Ministry of Local Government, Rural and Urban Development for the purpose of general infrastructure development in rural and urban areas. The Public Works programme is continuing with works-in-progress which had been affected by the temporary suspension

of the programme last financial year. A new list of projects for action under the programme is being worked out.

60. Cognisant of the need to provide reasonable accommodation for the large numbers of the population in the Urban and Rural areas, I have allocated an amount of \$105 million to the Ministry of Public Construction and National Housing. The provision is for construction of Urban housing through Local Authorities, rural housing, civil service housing in provincial capitals as well as office accommodation.
61. With regard to the Service sectors, significant strides have indeed been achieved over the years by way of providing the basic infrastructure. The main thrust now is to improve structures already built. In this context, a total provision of \$93 million has been made for consolidation of the existing facilities in the Education and Health sectors.

Total Expenditure

62. The total capital programme excluding financing from the own resources of parastatals plus net lending amounts to \$1 607 million. Together with the recurrent expenditure amounting to \$6 594 million, the estimated total budgetary expenditures for 1990/91 amount to \$8 201 million.
63. Mr Speaker, I now lay the Estimates of Expenditure for 1990/91 upon the Table.

The Budget Deficit

64. With total revenue, including international aid grants, amounting to \$6 771, I estimate the Budget deficit to be \$1 430 million. This deficit, in terms of its proportion to Gross Domestic Product, remains at about the same level as in the 1989/90 outturn, at just over 9 per cent. I have already indicated Government's adopted stance to reduce the subsidies backlog, and have informed members that an amount of \$550 million has been allocated this year as opposed to \$350 last year. This, together with the salary reviews and adjustments, has had the effect of increasing the Budget deficit. If the effect of clearing the subsidies backlog is removed and an amount for subsidies is allocated as in previous years, the Budget deficit will reduce to just under 8 per cent of Gross Domestic Product, indicating a satisfactory improvement on last year. If ZISCO's requirements are included, the present subsidy allocations alone account for some 4 percentage points of the Budget deficit in relation to Gross Domestic Product, leaving the deficit as 5 per

cent of Gross Domestic Product. This indicates the importance of the success of the policy to eliminate subsidies. The success of that policy should ensure the reduction of the Budget deficit to 5 per cent of GDP.

Financing the Budget Deficit

65. To finance the deficit it is estimated that net foreign borrowing will amount to \$117 million, whilst net domestic borrowing will amount to \$1 313 million. The necessary monetary measures will be taken as part of the overall economic package, should inflationary tendencies occur.

Taxation Proposals

66. Turning now to taxation proposals, I have considered these in the context of the policy measures being instituted in the economy to encourage investment, taking into account the effects of structural adjustment on various social groups.
67. With regard to company tax, Zimbabwe has for a long time been cited as having one of the highest company tax rates in the world. This is, however, incorrect because recent studies of our tax structure reveal that the generous deductions offered, when taken into account, reduce the basic tax rate of 50 per cent to an effective rate of approximately only 29 per cent.

It is Government's desire to restructure the company tax structure, on a phased in such a way as to realign an effective tax rate with the statutory rate. I am therefore proposing to begin this exercise with the alteration of the Special Initial Allowance (SIA) which offers the most generous deductions.

68. The rate of tax on most investments is often substantially lower than the statutory rate, particularly for investments qualifying for SIAs. SIAs have the effect of indiscriminately favouring particular kinds of investments.

With effect from 1st April, 1991, I am proposing a rate of 50 per cent depreciation on a declining balance basis. On this basis, 87 and a half per cent of an asset can be written off in 3 years.

I hope that such kind of treatment of assets that qualify for SIA will reduce losses carried over.

69. It is realised however, that the company tax rate of 50 per cent needs to be adjusted downwards in line with the decision to phase the SIA. I am therefore proposing to reduce the present rate to 45 per cent, beginning from 1st April, 1991.
70. The Special Initial Allowance is part of the incentive package that is currently being offered to companies. Its phasing is being considered as part of a new package which is presently being worked out. These include possibilities of tax holidays on a selective basis, particularly for investors going to rural areas. Incentives for exporters are also being examined in the context of the concept of export processing or free trade zones. Details of these will be announced in due course.
71. Government has been and continues to encourage companies to localize. To facilitate localization of companies, I am proposing an amendment to the Income Tax Act to introduce postponement of tax liability until such time as shares are subsequently disposed of to third parties.

A similar amendment is also proposed to postpone transfer duty on the transfer of shares and properties owned by the locals in the event of localizing. These measures will take effect as from 1st April, 1991.

72. With regard to the status of growth points, benefits derived from Chitungwiza have been so far limited to industrial operations. This has been because of Chitungwiza's proximity to the major urban centre, and to prevent the proliferation of commercial ventures, as opposed to industrial activity. We have come across situations other than industrial operations where it has been necessary to provide the benefits of a growth point. I am therefore proposing to amend the relevant legislation to allow operations such as data capture to derive the benefits.
73. It has been noted that existing legislation on non-resident's tax on interest is difficult to administer as it is not always possible to identify the source of interest on which tax is payable. I am therefore proposing to amend the relevant legislation in order to clarify the position and extend the definition of interest for this purpose to cover all interest payable by persons ordinarily resident or carrying on business in Zimbabwe.
74. Turning to individual taxation, it will be recalled that last year I announced a reduction in income tax to take effect from 1st April 1990, as well as exemption of a proportion of the annual bonus amounting to \$1 100 or 10 per cent of annual salary, whichever is the lower. The majority of tax payers are enjoying benefits from these reductions, with substantially higher disposable incomes. The arrangements with regard to annual bonus will remain in force.

75. I am aware, however, that the level of income tax rates continues to be relatively high. In view of the anticipated effects of the forthcoming structural adjustment programme I am taking measures which will further increase disposable income and cushion the lower paid from any temporary adverse impact on their standards of living.
76. Therefore, I am proposing to abolish the Lower Level Employee Tax with effect from 1st November, 1990. This should be of considerable benefit to this category of workers. In any case the cost of collecting this tax now little justifies continuation.
77. In addition, with effect from 1st April, 1991, I am proposing to further raise the band of tax-free income from the present \$2 000 to \$3 600 per year. The top marginal rate of taxation will apply to incomes above \$45 000, instead of the present \$40 000 per year. Between the incomes of \$3 600 and \$45 000 per year, income bands at which different tax rates apply will further be widened, in order to provide tax relief. These measures will have an overall effect of reducing income tax payable. Effectively, those with incomes of \$3 600 per year and below will not be liable for income tax, beginning on 1st April, 1991, while earners of incomes above this, in addition to experiencing income tax reductions, will continue to benefit from the usual family and other credits.
78. I am also aware of the problems experienced by individuals who have to pay duty on the winding up of deceased estates. In order to ease the burden, I am proposing to exempt from duty proceeds from an insurance policy purchased to meet estate duty of a deceased estate.
79. Turning to the area of indirect taxation, there is at present a sizeable list of items that are exempt from sales tax. Among the list are basic foodstuffs such as bread, cooking oil, maize meal, margarine, milk, sugar, tea, uncooked fish, meat and poultry, and fresh fruit and vegetables. I am proposing with effect from 1st August, 1990, to add eggs and salt for domestic use to the list.
80. In line with other policy measures being introduced, and to lighten the burden on the public, I am proposing, with effect from 1st August, 1990, to introduce a three-tier sales tax system, in place of the present two. The present basic rate of 12 and a half per cent will be reduced to 10 per cent whilst the 20 per cent rate for luxury goods will remain. A new middle rate of 15 per cent, however, will be introduced. This will apply to specified durable goods such as certain household items. It will also apply to motor vehicles. Some durable household items which are considered to be essentials will be reduced from the 20 per cent rate to 10 per cent. These include fridges, stoves, radio and furniture.

81. It is generally known that clear beer in this country is unusually cheap, and the situation tends to distort consumption patterns in relation to other forms of drinks. With effect from tomorrow, therefore, I am proposing to increase excise duty on clear beer by 13,3 cents per litre. The Ministry of Industry and Commerce has been advised accordingly.
82. I turn now to an issue which I alluded to in my Budget Statement last year, the issue of land taxation. Government has been studying the issue and has found out that much technical work has got to be undertaken before the measure is implemented. During the course of the year, further technical work will be carried out in order to determine the basis for land taxation, with a view to implementing the measure by 1st April, 1991. Parliament will be asked to enact legislation to this effect before that date.
83. It will be noted that apart from the planned or eventual land tax, the only slight burden I am imposing is on clear beer and I am certain I have in this the full support of the nation, including the patrons and clients of this age-old type of ale who should be happy to contribute to the revenues of the country for developmental purposes and job creation!

Conclusion

84. Mr Speaker, it is time for me to conclude my statement, but before I do so I must make a few pointed observations to remind us of the road we have travelled and to redirect our energies for the attainment of the main tasks we have set for ourselves.
85. In 1983, at the height of a prolonged drought and after I had introduced a number of stringent measures, including the Lower Level Employee Tax which I have now decided to abolish, I did not hesitate to say :-

“ The Budget I have presented is one of austerity and I have called on all the people of this country to tighten their belts; this will mean great sacrifice”.
86. The nation responded remarkably, with confidence and unity of purpose. Today, seven years later, I trust you will agree we have begun the process of loosening belts! But development is not a static state of affairs. We still have major problems to solve and major tasks to accomplish to generate growth, and create employment and improve the standards of living of our people, especially the rural and the poor.

Let me also remind the House of what I said in concluding my Budget Speech in July, 1987 -

“The tremendous efforts we have put into educating our people is a far-reaching investment that is virtually unique in the history of young nations. It is ironical, however, that this investment has not been matched by growth in requisite employment opportunities. This predicament, inherent in the fact that increasing numbers of young graduates and school leavers walk our streets with the intellectual equipment but without jobs and unable to find a role to play in the economy, strikes at the very heart of society. It is imperative that this investment in manpower is fully utilized to realise returns of corresponding proportions. This calls for concerted action in the public and private sectors.”

87. We have accordingly begun the difficult task of mobilising savings for investment, restructuring the national budget in favour of productive sectors, encouraging both domestic and foreign investment, and pressing on with an export drive. But the economy is shackled by 25 years of controls and is overly protected to the point that it has become high-cost and largely uncompetitive, as well as beset with inefficiency and creeping monopolistic practices. We must face the challenges of today and those of tomorrow and that is why we have opted for structural adjustment and phased or managed trade liberalization.

88. But these processes will bring with them new problems and challenges. Therefore in loosening belts, we should not become a nation of consumers, plagued with unending inflation, in conditions of stagnant growth. Adjustment and trade liberalization have their own costs, but we are determined to keep the costs, to a minimum and for as short a period of time as possible. As well, we shall keep a close eye on the social costs or dimensions of adjustment and, as may be necessary, take remedial measures accordingly.

89. Mr Speaker, at a time of decisive change there are at least two groups of people. I shall illustrate by borrowing from a famous 16th century thinker, writer and strategist who said :

“It must be remembered that there is nothing more difficult to plan, more doubtful of success, nor more dangerous to manage, than the creation of a new system. For the initiator has the enmity of all who would profit by the preservation of the old institutions and merely lukewarm defenders in those who would gain by the new ones.

90. There is the rub! The initiator - your government - must pilot and implement the new economic programme in respect of structural adjustment and trade liberali-

sation always bearing in mind these two groups of people. But there is no going back; we just have to grow and be competitive to survive as a nation in this region and abroad.

91. If 1985 was our Year of Consolidation, let 1990 - marking 10 years of Independence and varied experience - be the high point of decisive changes and the commencement of sustainable growth and **Development in already prevalent conditions of internal Unity and Peace.**

