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REPUBLIC OF ZIMBABWE

Budget Statement, 1992

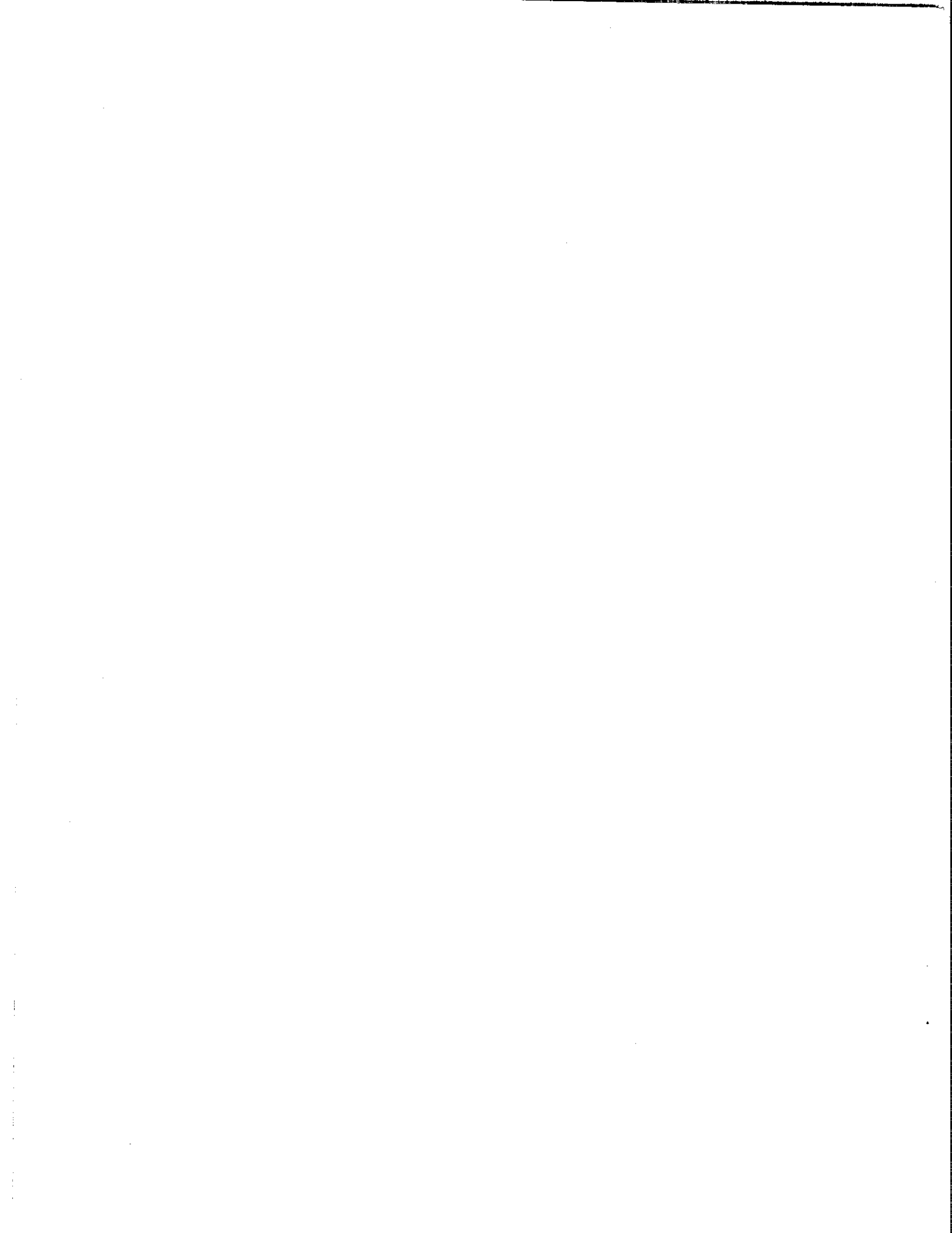
Presented to the Parliament of Zimbabwe

on Thursday, 30 July 1992

by

The Senior Minister of Finance,

The Hon. Dr. B. T. G. Chidzero, M. P.



BUDGET STATEMENT, 1992

I 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 make provision for matters that are ancillary and incidental to this purpose.

II INTRODUCTION

2. Mr Speaker, the Economic Reform Programme (ERP), which was introduced in fiscal year 1990\91 is now in its second calendar year of implementation. The principal objectives of the ERP are to generate a higher rate of economic growth and raise the standards of living of the population. This is being done through the creation of conditions for market led economic development in order to stimulate savings and productive investment and exports which in turn promote sustainable growth and create employment. The Economic Reform Programme articulates and charts out the policy strategies and instruments to achieve these objectives whilst the Second Five Year National Development Plan, which was published earlier this year, sets out the programmes and projects to be implemented over the Plan and Reform period.

3. The economic transformation, which entails the implementation of appropriate fiscal and monetary policies, gradual liberalisation of trade and progressive deregulation of domestic controls as well as investment promotion should, this year, be viewed in the context of the devastating drought which has affected the whole of the Southern Africa subregion as well as in the context of the international recession which has severely affected trade. In the face of depressed exports, Zimbabwe finds herself having to import not only food but also other drought related items, thus putting a strain on our limited resources as more resources are diverted to food imports and water provision. Large expenditures are therefore being borne by Government in the Budget in the form of drought relief, subsidies, and recovery of the agricultural sector.

4. In my statement, today, I will highlight the progress made in the implementation of the economic reforms, the economic performance for 1991 and the problems being experienced, the impact of the drought, prospects for 1992 and the policy and practical implications for the Budget proposals for 1992\93.

III **PROGRESS IN THE IMPLEMENTATION OF ESAP/ERP**

5. There has been significant progress in the implementation of the Economic Reform Programme, since October 1990, and in charting a new direction of restructuring the economy towards market forces as well as putting more emphasis on productive investment and rural transformation. I will highlight progress made on fiscal and monetary policy, trade liberalisation, deregulation and investment promotion, and

social dimensions of adjustment.

III. 1. FISCAL AND MONETARY POLICY

6. A number of measures have been taken in the area of fiscal and monetary policies. The budget, as an instrument of economic management, has set in motion a mix of policies to reduce public expenditure while at the same time introducing tax reduction measures over the past three years to lower the tax burden for both individuals and companies which in turn should encourage hard work, savings and investment. On the reduction of public expenditure the focus is largely on recurrent expenditure. Measures have been taken to rationalise the civil service with over one thousand redundant posts abolished as of June 30, 1992, and subsequently upwards of 4 000 retrenchments made in the public service. Initially the reduction of the civil service may not show a saving because government has to pay out terminal benefits which are higher than annual salaries. The actual expenditure reduction arising from civil service rationalisation will therefore become evident in the following year.

7. The other area of focus in reducing the budget deficit is the reform of the public enterprises. On this front, greater flexibility has been provided in agricultural marketing and pricing. For grains, the Grain Marketing Board's (GMB) producer price now serves as a guaranteed floor price and free trade in white maize has been allowed in Regions IV and V. The Cotton Marketing Board (CMB) has been given

autonomy in pricing and this has been extended to the Cold Storage Commission (CSC), Dairy Marketing Board (DMB) except for fresh milk, and to the National Railways of Zimbabwe (NRZ). The Zimbabwe Iron and Steel Corporation (ZISCO) now charges prices equivalent to import parity, Air Zimbabwe (AZ) has been given autonomy in setting international fares, and the Agricultural Finance Corporation is free to set its own interest rates. Staff rationalization has started in a number of parastatals such as DMB, ZISCO, NRZ, and ZBC. In general the Boards and Management of public enterprises have been accorded significant autonomy. Government is not only concerned about autonomy of parastatals but also and more importantly about efficiency in order to reduce the operational costs of these institutions. The aim is to reduce or eliminate, where possible, subsidies currently required to cover the parastatal losses. Some parastatals have started to show improvement in this regard.

8. On the commercialization or privatization of public enterprises, progress has been made on some parastatals such as the Zimbabwe Mining Development Corporation (ZMDC), and Minerals Marketing Corporation of Zimbabwe (MMCZ). In the case of the Urban Development Corporation, Central Government has completely opted out. The reduction of parastatal losses should release resources for Government to provide infrastructural assistance to other sectors of the economy as well as to reduce the overall budget deficit.
9. Cost recovery measures for primary school education were introduced with primary school fees now payable in urban areas only i.e. wholly excluding rural areas -

communal, resettlement and commercial. Assistance is being provided in the urban areas to those who cannot afford to pay the fees, and over Z\$2 million has already been utilised for this purpose.

10. On monetary and financial sector reforms, the objectives have been to move towards more indirect methods of monetary control, increase competition in the sector, and to introduce new money market instruments. An active monetary policy has become the most visible instrument of macro-economic management in the fight against inflation which emanated from a number of factors including the large Budget deficit, the liberalisation of the economy, and the demand management measures taken at the end of last year. The tight monetary policy being pursued is characterised by restrictive monetary conditions and high interest rates. Government is aware of the problems which the economy is facing due to tight monetary control and high interest rates. I shall discuss these issues later in my statement.

III 2. TRADE LIBERALISATION

11. The liberalisation of trade has progressed well so far with 15 percent of our imports now on the unrestricted Open General Import Licence (OGIL) and 10 percent on restricted OGIL, giving a total of 25 percent imports on OGIL. Government also increased the Export Retention Scheme (ERS) from a range of 5% - 7.5% of export earnings to 15 percent across the board effective from July 1991 and to 25% at the beginning of 1992. Retained foreign exchange entitlements may be used for free importation of goods except for those on the negative list, with the imported goods

being freely transferable. The operation of the ERS and other export incentives is constantly under review in order to ensure efficient operation and maximum benefit from these measures.

12. Soon after moving a substantial number of goods onto OGIL, there was a large influx of imports which put a strain on the balance of payments during 1991. As a result, we adopted demand management measures to limit the level of imports including the raising of the minimum import tariff to 10 percent on all imported goods and a further 10 percent on items on OGIL. At the same time, the Zimbabwe dollar was depreciated by about 36 percent up to the end of September 1991. This was intended both to limit imports and to encourage exports.

13. In order for the trade liberalisation programme to be sustainable, it is important that exports increase at a much faster rate than so far realised. We therefore took a number of measures at the end of 1991 to enhance the export incentive regime. These include: the continuation of the Export Incentive Scheme at 9 percent; the abolition of the manufacturer's rebate and the streamlining of the duty drawback system; the exemption of project-related capital goods from import tax, sales tax, and surtax; and the provision for the establishment of bonded warehouses.

III 3. DEREGULATION AND INVESTMENT PROMOTION

14. The deregulation of the economy is firmly underway. As I have already indicated, there has been relaxation in respect of the operations of the Agricultural Marketing

Boards. Government has also relaxed the permit system for the transport of agricultural produce during the crop season, and the transport of goods in smaller trucks has been decontrolled. There are now flexible retrenchment and compensation procedures and wages are now determined through collective bargaining. The local authority by-laws and regulations are being reviewed to make them promotional of small to medium scale businesses, and the informal sector.

15. Price controls have also been progressively relaxed with only five commodities still directly controlled by Cabinet. The share of domestic production subject to direct price control has declined from 60 percent in October 1990 to less than 30 percent at present.
16. The measures taken on deregulation and decontrol have assisted in investment promotion considerably. In line with the more relaxed regulatory system now prevailing in the country the procedure and criteria used by the Zimbabwe Investment Centre for sanctioning new and expansion projects have been further streamlined during 1992. To ensure that investment approval is based on project evaluation and viability rather than merely on criteria such as foreign currency earned or saved over a specified period, financing agencies are required to do the necessary appraisal work and satisfy themselves with the technical, commercial and financial viability of the project.
17. To expedite approvals, it is necessary that the ZIC Bill go through Parliament during the current session. This will give ZIC the necessary autonomy to make decisions

on investment proposals without referral to other committees in government. It is envisaged that when the Act is enacted and ZIC has the necessary manpower resources, decisions on investment proposals will be issued within 60 days after initial application.

III. 4. SOCIAL DIMENSIONS OF ADJUSTMENT

18. In trying to cushion the effects of the economic reforms on the poor and vulnerable groups, Government created a Social Development Fund (SDF) in which we put our own Z\$20 million as seed money. The African Development Fund (ADF), an arm of the African Development Bank providing soft resources, has provided some money for the SDF. Other donors have also expressed interest in assisting on social dimensions. The SDF, which is administered by the Ministry of the Public Service, Labour and Social Welfare has two components: the Employment and Training Programme (ETP), and Social Welfare. The ADF funds are intended for micro-projects on the ETP side. In view of the importance of this programme in providing employment, we are, as I shall indicate later, enhancing the programme by providing a special facility for the small scale business sector, the details of whose operation are being worked out.

19. These schemes will, of course be complemented by the operations of institutions such as SEDCO. The institutional arrangements for the operation of the SDF are now in place and the Fund, whose focal point is the Co-ordination Unit in the Ministry of the Public Service and Labour, is now considering projects for approval. As I have already mentioned, the SDF has so far assisted on the social welfare side with the

payment of school and examination fees for those who could not afford to pay.

VI. ECONOMIC PERFORMANCE, 1991

20. Against the background of economic reforms, the economy improved over its performance in 1990; it grew by 3.6 percent in real terms in 1991 compared to 2 percent in 1990. Although the performance was an improvement over 1990, we are still concerned that the rate of growth was just above the population growth rate estimated to be near 3 percent per year. There are a number of factors which contributed to this low growth, one of them being low agricultural output emanating from below average rainfall and the depressed international market which affected our exports. A look at the sectoral performance may provide a better picture of the economic performance in 1991.

21. Agricultural performance was below expectation, with only 605 000 tonnes of maize delivered to GMB, and 205 000 tonnes of cotton produced in 1991. The outbreak of foot and mouth disease also severely affected our exports to the EEC. The low crop output was the result of an unsatisfactory rain season. Although tobacco production was at its peak, it had limited impact in improving the performance of the agricultural sector. There has been, it should be noted, a shift from food crop production to non-controlled crops by commercial farmers. It should also be noted, however that much of our maize and cotton comes from small scale and communal farmers whose areas are more susceptible to drought than the large commercial farms. Agriculture

therefore grew by only 3.1 percent in real terms in 1991.

22. Output in the manufacturing sector rose by 2,5 percent in 1991 with the highest increases recorded in the textiles and drinks and tobacco subsectors. Foodstuffs including stockfeeds grew moderately and the largest declines were in chemicals and oil products.
23. Output volume increase in the mining sector remained somewhat the same as in previous years at about 2.8 percent. However, the value of output of the sector increased by 28.2 percent mainly due to the depreciation of the Z\$ which assisted gold, coal and nickel output. The price of copper remained depressed on the international market and we therefore experienced a decline in the output of copper at home. The sector grew by 5.4 percent overall in real terms, while transport and communication grew by 2.3 percent.

V. PROSPECTS FOR 1992 AND THE IMPACT OF THE DROUGHT

24. With the worst drought ever in recorded history upon us for the 1991\92 agricultural season, the prospects for economic growth in 1992 are very gloomy. The agricultural sector is expected to decline by about 35 percent in real terms. Maize deliveries to the GMB are expected to be at their lowest ever, about 10 000 tonnes. Most other crops have been a write-off, except for tobacco which is expected to reach last year's levels.

25. The effects of the drought on the economy, on which I will give an account in a moment, have serious implications on the performance of the overall economy. It is now projected that the economy will decline by between 9 and 12 percent of GDP in real terms. This implies a sharp decline in the level of per capita income. All sectors of the economy which require substantial amounts of water will be severely affected by water shortages. There is a growing shortage of industrial inputs which normally come from agriculture such as cotton, sugar and vegetable oil seeds.
26. The optimism arising from the ground work in terms of policy initiatives, including attempts at reducing public spending, are in danger of losing momentum in 1992 due to the severe drought. The very harsh and devastating 1991\92 drought has reduced agricultural production to its lowest; and this in turn affects the agro-industries and exports, all of which exacerbate the supply capacity of the economy and the transitional effects of adjustment.
27. The drought has led to very severe shortages of essential commodities and this is generally pushing up prices and contributing to the high rate of inflation. The need for food assistance has increased substantially from 2 million people in January 1992 to about 4 million now. It is therefore apparent that government has to import food items which should last till June 1993 assuming that there will be a normal rain season this coming year. There is also need for additional water supplies through-out most parts of the country.
28. Due to shortages of agricultural inputs, Zimbabwe's export performance will decline

substantially in 1992 and 1993. To keep our agro-based manufacturing industry going, we have to import the inputs. Import requirements for food, water provision, and for inputs for the recovery of the agricultural sector are expected to be substantially high, currently estimated at over Z\$3 billion and as a result, the balance of payments current account is expected to deteriorate substantially in 1992, from its position in 1991.

29. The need to import food and other drought related items will impose a strain not only on the balance of payments but also on the Budget and on the already tight financial market to meet local financing needs. In addition to Government's direct expenditures related to drought, agricultural parastatals deficits have increased, in particular for the Grain Marketing Board, because of the need to supply imported maize at an affordable price.

VI. POLICY PERSPECTIVES FOR 1992\93

30. Despite the severe strain the drought has imposed on the Budget, Government is committed to the implementation of the Economic Reform Programme since it is the only way forward even in these difficult times. We are prepared to steer the boat forward. Government is aware of the problems currently existing in the economy, which result from the transitional adverse effects of adjustment measures but have been exacerbated by the drought situation. Many of the problems are to be expected as part of the adjustment process, and we had foreseen that there would be

transitional adverse effects when we introduced the programme, necessitating the design of the Social Dimensions of Adjustment Programme.

31. Mr Speaker, as I have already done previously, I would like, once again to put across the message to the nation that the adjustment process is not an easy path, and now the more so in the face of the drought. And the success of the programme is dependent on us making sacrifices in the interim as a nation. Government is committed to finding solutions to current problems, which ensure the survival of our industry, and the cushioning, as much as possible, of the vulnerable groups from the effects of adjustment.
32. Major problems that the Government is concerned with include the current high rate of inflation and its impact; the tight monetary conditions, and the impact on investment; and the consequential unemployment levels. The current problems being experienced by industry are, of course, having an adverse effect on export performance, and generally on supply capacity.
33. The rate of inflation, which has become the number one problem which the country has to fight, increased from about 28 percent in 1991 to over 36 percent by May 1992. It is expected that the rate will average between 40 and 45 percent in 1992. A combination of factors have contributed to this high rate of inflation. These include the high cost of importing, the removal of price control on a substantial number of commodities combined with the reaction of the business sector to price decontrol, and the passing of costs in the form of price increases by parastatals as

they move towards reduction of their deficits. Although some progress has been made towards the reduction of the Budget deficit within the past year, expenditures are still at an unacceptably high level, significantly contributing to the high rate of inflation. In addition, initial food shortages experienced at the beginning of the current drought also tended to push up prices. Generally, the rate of inflation could be expected to be high as we move from a highly controlled economy to one that is liberalised, and prices determined by the market. The situation would stabilise over time. We are however, determined that the rate of inflation be brought down as quickly as possible, and the period of hardship shortened, in order for the objectives of the reform programme to be achieved. We are therefore currently making every effort to bring down the rate of inflation.

34. Due to the high rate of inflation, and the high rate of growth of money supply for the end of 1991, tight monetary policy measures were adopted, and are in place, in an attempt to bring down the rate of inflation. The measures are intended to limit money supply and to achieve positive rates of interest, which have at least to approximate the rate of inflation, in order to encourage savings for investment. Interest rate controls have been maintained in areas where it is felt that high interest rates could result in an unsustainable situation, for example, mortgage rates for residential housing.
35. The tight monetary conditions should ease as soon as the rate of inflation falls. It is therefore important to adopt policy measures which bring down the rate of inflation as quickly as possible. In the interim, however, we are concerned about the impact

of the current high rates of interest, and the tight liquidity situation, on industry, in particular the exporters, the small to medium scale enterprises, and the farmers who have been hit by drought. For the farmers, a financing facility has already been put in place through the Reserve Bank of Zimbabwe. We are currently doing all we can to assist the priority and vulnerable sectors. Thus, as already announced by the Minister of Lands, Agriculture and Water Development, government will, from its own resources and with the support of the World Bank, assist communal farmers with seed, fertilizer and pesticides as well as tillage. This should assist them in preparing for the next season. We should like to see our agricultural sector revive as quickly as possible.

36. For the small scale enterprises to remain viable, government is putting in place a facility which will enable the small entrepreneurs to access finances to sustain their operations. However, due to the limited funds available, the facility will be designed to targeted productive enterprises.
37. The importance of the export sector cannot be over emphasised. We have already provided a number of incentives and we have also now put in place the pre-and post-shipment facility for small exporters. The current 9 percent export incentive scheme is being continued. We are examining the existing export incentive regime, with a view to making it more attractive. The concept of Export Processing Zones has already been accepted by Government, and significant progress has been made in arranging for their operation in Zimbabwe.

38. Mr Speaker, it is evident that the Budget for 1992\93 has to be a major instrument of macro-economic management, and in particular, to control inflation. Given the drought, this is not an easy task. Government will be feeding some 4 million people in the rural areas and will purchase maize from the GMB for this purpose. In addition, because only part of the cost of importing maize is passed on to the consumer, a huge subsidy to the GMB will have to be paid by Government. I have already indicated that a programme has been put in place to provide agricultural inputs and tillage facilities to communal farmers. All these, as well as the Child Supplementary Feeding Programme , the public works programme, and the provision of water facilities constitute almost \$2 billion in expenditure by Government. Given the large drought related expenditures envisaged, it is of paramount importance that the strategy we adopt curtails non-drought expenditures in 1992\93. It should also be understood that the revenue base for 1992\93 has been undermined by the drought due to low economic activity.
39. We have, of course, had to revise the Budget target for the Economic Reform Programme in 1992\93, in order to accommodate drought expenditures whilst providing for only essential expenditures to sustain the existing level of bureaucracy. In order to get back on course the targets of the reform programme, we have to adjust more sharply in 1993\94.
40. But before I come to the actual proposals for the 1992\93 Budget, let me first turn to the Budget outturn for 1991\92.

VII. BUDGET OUTTURN 1991\92

41. Mr Speaker, I indicated earlier that although the economy performed relatively well in 1991, the agricultural sector's performance was unsatisfactory and deliveries to the marketing boards were very low. I have also referred to the effects of the current drought which resulted in an increase in the population in need of food aid rising to 2 million by the end of 1991, and now to 4 million. Under these circumstances, government had to incur extra expenditures to finance drought requirements in fiscal year 1991\92. We had to import maize beginning February 1992 and this increased subsidies to the GMB. Drought expenditure by Government for the 1991\92 financial year totals almost \$600 million. This included subsidies in respect of maize amounting to \$500 million. The rest included food relief, child supplementary feeding, and urgent provision of water supplies. Mr Speaker, I should emphasise that this drought related expenditure had not been originally budgeted for and had to be included in the supplementary estimates of expenditure.
42. The outturn for revenue and international aid grants in 1991\92 was \$9 364 million which was \$1 189 million more than the Budget estimate of \$8 175 million. Revenue collections were \$9 015 million, \$1 090 million more than the budget estimate of \$7 925 million. This increase in revenue was partly due to the increase in duty collections as a result of the higher level of imports arising from the introduction of OGIL and the liberalisation of individual imports. The increase was also due to the introduction of demand management measures which I have already referred to earlier. International Aid grants amounted to \$349 million, compared to the original

estimate of \$250 million.

43. Mr Speaker, given the total expenditure and net lending of \$11 073 million and total revenue amounting to \$9 015 million, the budget deficit for 1991\92, excluding international aid grants, amounted to \$2 058 million, or 9,1 percent of Gross Domestic Product. The comparable figure for 1990\91 is \$1 829 million, or 10,6 percent of GDP. This constitutes a reduction in the deficit by 1,5 percent of Gross Domestic Product. The original target for deficit reduction in 1991\92 was 2 percentage points, further revised to 3 percentage points to take into account the revenue measures introduced towards the end of 1991. Given the high performance in revenues, the outcome indicates that greater effort has still to be made in cutting back on expenditure, particularly recurrent expenditure. The 1992\93 Budget is framed against this background.

44. Mr Speaker, I now move on to present my budget proposals.

VIII BUDGET PROPOSALS FOR 1992\93

45. The Budget Proposals I am presenting to you today have been extremely difficult to put together under the present circumstances where the expenditure demands far exceed the revenues available. Mr Speaker, the Budget I am presenting takes cognisance of the determination and commitment by Government to keep the Economic Reform Programme on track. The strategy for the Budget in 1992\93 is

therefore targeted at sustaining the Reform Programme, ensuring a recovery in agriculture, ensuring survival in the face of the drought and at the same time containing the budget deficit at reasonable and sustainable levels.

VIII **1. RECURRENT EXPENDITURE**

46. Mr Speaker, I have allowed for total recurrent expenditure of \$10 898 million which is inclusive of Constitutional and Statutory obligations of \$2 506 million. As I have already indicated, drought expenditures alone amount to almost \$2 billion. This includes subsidies to the GMB in respect of maize; drought relief, public works, water provision, child supplementary feeding, and provision of agricultural input packs and tillage. The current landed cost of maize amounts to about \$1 600 per tonne (inclusive of the GMB's handling costs). At a selling price of only \$690 per tonne, Government has been subsidising maize to the tune of over \$900 per tonne. With the increase in price to \$1 070 per tonne, there will still be a subsidy of \$530 per tonne. In addition, there is a consumer subsidy on roller meal, arising from the difference between the selling price of maize, the cost of producing roller meal, and the price paid by the consumer.

47. In order to assist in the GMB cashflow position, Government will buy maize for drought relief at the full cost of \$1 600 per tonne. The rest of the subsidy will therefore be primarily for the urban areas. I have provided some of the Social Development Fund and drought expenditures under my Ministry, and transfers will

be made to relevant Ministries as the expenditures are incurred.

48. Subsidies to parastatals other than the GMB and ZISCO amount to about \$214 million. Whilst there has been improvement over the past year in the operating losses of some of the parastatals, the gains have been offset by the large demands arising from the drought situation. As I have already indicated, whilst progress has been achieved, there is a lot that still needs to be done to improve the operating position of parastatals. As in 1991\92, we have set targets for parastatals to meet in 1992\93.
49. The total salaries and wages bill has been allowed to increase by 7,3 percent to \$3 755 million, from \$3 500 million in 1991\92. This figure is exclusive of provisions for compensation in respect of retrenchment, which is catered for under the Constitutional and Statutory Appropriations. In order for the salaries and wages expenditure to keep within the provision of \$3 755 million whilst accommodating a salary review, it will be necessary to accelerate the pace at which the public service is reduced.
50. Under the recurrent expenditure, I have provided an allocation of \$100 million for assisting the small to medium scale enterprises who are facing formidable cash flow as well as operational problems emanating from the tight monetary policy we are pursuing. The modus operandi of the form of this assistance will be announced shortly.
51. After taking into account drought expenditures, subsidies, Constitutional and Statutory

Appropriations, salaries and wages, and assistance to small scale enterprises, the rest of recurrent expenditure amounts to \$2 524 million compared to \$2 252 million in 1991\92. The major provisions in this item include grants, maintenance, procurement, incidental expenses, travelling and subsistence and furniture and equipment. I have kept allocations for these items to a minimum in order to make provision for drought - related expenditures.

52. Mr Speaker, let me now come to the recurrent expenditure as it relates to the individual votes. For most votes I am proposing marginal nominal increases, which effectively is a stand still position or a decline in real terms from the 1991\92 Budget. Ministries are therefore urged to be cost effective in their expenditure under these difficult circumstances.
53. The recurrent Budget is dominated once more by the following votes; Education and Culture, Defence, Health, Home Affairs, and Higher Education. Total recurrent expenditure for these votes constitutes 62.5 percent of total current expenditure excluding Constitutional and Statutory provisions and subsidies.
54. The Ministry of Education and Culture, with an allocation of \$1 911 million, accounts for the largest single share of the votes and together with the Ministry of Higher Education (\$331 million), the two Ministries stand at \$2 242 million which is 29.7 percent of total recurrent expenditure net of Constitutional and Statutory provisions and subsidies. The proposed allocation for Education and Culture is a 15.4 percent increase over the 1991\92 outturn while that for Higher Education is a 29.5 percent

increase.

55. The Defence vote is the second largest after Education and Culture with an allocation of \$1 326 million, a nominal increase of 9.5 percent over last years' provision. The increase on this vote is mainly due to contractual obligations and the increased cost of upkeep of the Army. With the prospects for peace in Mozambique now brighter than ever before, we expect this vote to decline in future.
56. The Ministry of Health and Child Welfare has been allocated \$688 million which is a 22.2 percent increase over the 1991\92 outturn. This increase is mainly due to the retention allowance granted to the Doctors as well as the Child Supplementary Feeding Scheme.
57. The Ministry of Home Affairs has been allocated \$452,1 million which is an increase of 4.1 percent over last years' outturn. The increase is mainly to maintain existing services as well as allocations to cater for the Police medical bills and the maintenance of the Zimbabwe Republic Police's own transport system.
58. The Ministry of Finance vote increases by 19 percent from last years' provision. The increase is mainly due to regrading for the Departments of Customs and Excise and Taxes. The Finance vote also includes allocations for preshipment inspection, \$15 million; population census, \$30,8 million; and the Export Incentive Scheme of \$70 million. As Honourable Members may recall, last year I announced that the Export Incentive Scheme would be phased out by reducing it to 5 percent in January 1992

and eliminating it by 1st July, 1992. However, after further consultation with industry, it was felt that the Export Incentive Scheme be maintained at 9 percent of exports to boost our export performance as well as to make them competitive.

59. Mr Speaker, I would like to urge the individual Ministries to try to live within their allocations despite the decline of those allocations in real terms. The period we are going through requires us to tighten expenditures and to be as thrifty as possible if we are to keep the economy on the right course.

VIII. 2. PUBLIC SECTOR INVESTMENT PROGRAMME FOR 1992\93

60. Mr Speaker, I now turn to my proposals for the Public Sector Investment Programme, which has been tailored to address the essential recovery of the agricultural industry from the current devastating drought and is in keeping with the necessity to reduce the budget deficit.
61. The proposed total capital programme for fiscal year 1992\93, excluding financing from own resources of parastatals, amounts to \$2 315 million, of which \$1 097 million will be from external resources. Together with financing from parastatals own resources of \$1 073 million, the proposed total capital budget for 1992\93 amounts to \$3 388 million which is a nominal increase of 18 percent over the 1991\92 outturn of \$2 860 million.

62. The thrust of the capital budget, as indicated last year, is to finance on-going projects and make provision for only essential new projects which are of high national priority. In this respect, 75 percent of the capital budget will go towards financing on-going projects and 25 percent is for new priority projects mainly to provide infrastructure and supporting elements required to service new investment as well as works designed to support drought relief efforts country- wide. It should be noted, Mr Speaker, that while some of the drought related projects are actually projects which are included in the Second Five Year National Development Plan but have been brought forward for implementation, there are others which are new and had not been planned for. We have had to re-organise the sequencing in order to address the immediate needs and problems of drought. The drought related component of the capital Budget amounts to \$213 million.
63. Turning now to individual votes, I have allocated \$718 million to the Ministry Lands, Agriculture and Water Development which constitutes 21 percent of the capital budget. The Agriculture Development Authority's (ADA) commercial farm operations and its operations on behalf of government have been allocated \$34 million from Government and donor funds with own resources of \$12 million. For the upgrading of the Cold Storage Commission's truck fleet and completion of the Masvingo abattoir rehabilitation, I have allocated \$18 million from own resources.
64. In order to increase Zimbabwe's grain handling capacity, I have allocated \$38 million for the construction of bulk grain depots at Lion's Den, Murehwa and Magunje. Government will contribute \$4.8 million, while donor contribution is \$29 million

and the rest is from GMB's own resources. In an effort to combat drought, I have allocated \$28 million from the Vote of Credit and \$8 million from Government to Agritex's irrigation schemes programme. It is also necessary to increase Agritex's capacity in implementing these irrigation schemes.

65. The water sector has been allocated \$230 million of which \$146 million is for the normal on-going water supply programme which includes the construction of major dams such as Osborne, Mtshabezi, Nyamafufu and Musaverema. Feasibility studies for the Tokwe- Mukosi and Zhove dams have been completed and I have allocated funds for preliminary works to commence this financial year. The balance of \$84 million is for the drought related water supplies programme with major components being borehole drilling, Nyamandlovu aquifer, purchase of drilling rigs and rehabilitation of piped water schemes.
66. Mr speaker, on land acquisition, I have allocated \$15 million taking into account the need to urgently resettle people displaced by some of the major dams being constructed and limited implementation capacity of the various agencies involved in resettlement.
67. The other major vote in the capital expenditure is that of Transport and Energy with an allocation of \$658.4 million. Under this provision, \$230 million has been set aside for the construction and rehabilitation of State roads and bridges, which is an increase of 37 percent over the 1991\92 allocation of \$168 million. I have allocated to National Railways of Zimbabwe \$8 million from Government, which includes \$3

million for housing, \$47 million donor funds and \$17 million own resources, mainly for re-equipping and strengthening programmes supported by the World Bank.

68. I have allocated \$32 million for immediate works at Harare International Airport. The enabling works such as the new taxi way and charter area are planned to start in 1993\94. For Air Zimbabwe I have provided \$3.3 million from donors and \$20 million from own resources for the purchase of aircraft overhaul and maintenance equipment.
69. The Ministry of Industry and Commerce has been allocated \$385.7 million under which Government has allowed ZISCO to borrow funds for the purchase of a sinter plant; \$100 million from the Vote of Credit and \$150 million from own resources has been earmarked for this purpose. In addition, I have also provided \$100 million as ZISCO's cash flow support. Efforts are underway to secure donor or loan funding for a comprehensive rehabilitation programme necessary for the survival of ZISCO estimated to cost \$2.3 billion. The main components of this programme include the relining of the blast furnace Number 4, Iron Ore restructuring, the Coke Ovens Battery Number 3 and the transportation works.
70. As part of the effort to facilitate the penetration into the productive economy by the national small to medium scale operators, I am proposing a further capitalisation of SEDCO by allocating \$15 million in 1992\93. This brings SEDCO's capitalisation level to \$56 million and this should enhance its operations. I am happy to note that SEDCO also has soft loan facilities from the World Bank.

71. Mr Speaker, under the Ministry of Finance, the \$1 110 million allocated is to make provision for expenditure related to donor funded projects, in the form of loans and grants already contracted for specific projects such as civil works and other capital developments; consultancy and other technical services, feasibility studies and procurement of vehicles, equipment and supplies, etc. The funds will be transferred to the implementing agencies as and when required. Also included in the Finance allocation is \$3 million for the commencement of building works for the localisation of 'O' and 'A' Level examinations and \$7 million for the construction of the Beit-Bridge border post and upgrading of the Highlands Customs training centre.
72. Under Local Government, Rural and Urban Development, I have provided \$580 million, of which \$119 million has been earmarked for the development of housing and community facilities in urban areas through local authorities under the Urban II Project. Local Authorities will contribute \$158 million from own resources for this programme.
73. The resettlement programme has been allocated a total of \$49.4 million of which \$16.7 million is from government and the rest from donor funds. Also included under the Local Government, Rural and Urban Development provision is \$148 million from government and donors for the extensive drought relief programme to be implemented by local authorities and DDF. A major component under this programme is the Bulawayo-Nyamandlovu aquifer pipeline and reservoirs. The rest of the programme includes borehole drilling, purchase and installation of handpumps and purchase of drilling rigs and the rehabilitation of piped water schemes.

74. Mr Speaker, under the drought related expenditure, Government has decided to emphasise the public works programme and for this purpose I have allocated \$28 million, of which Government contributes \$20 million and the remainder comes from donors for the purchase of equipment.
75. Mr Speaker, I want to stress that Government is doing everything in its power to assist the drought affected areas as evidenced by an allocation of \$23.4 million in the last financial year for water provision and now I have allocated \$225 million this financial year for drought related capital works. The main projects under the water provision programme include: the construction of Nyamandlovu pipeline and water works (\$63 million), the rehabilitation of piped water schemes at Growth points, District and Service Centres (\$33 million); nation wide borehole drilling (\$53 million); other urban water supply schemes (\$17 million); and transport equipment, raw materials, etc (\$11 million).
76. It should also be pointed out that progress has been made to provide water to urban areas with the Chegutu Canal due to be completed, a substantial number of boreholes drilled in Mutare, and the Nyamandlovu aquifer project well underway. With regard to the Pungwe pipeline project on which a decision was recently taken, I have allocated an initial amount of \$10 million. Strong efforts will be made to seek and additional resources from whatever sources possible, including donors. Meanwhile an evaluation exercise is being carried out by the Ministry of Lands, Agriculture and Water Development on the feasibility of the project.

77. To consolidate the development of human resources and health programmes, I have allocated \$269.2 million for training colleges and health institutions. Included in this provision is an allocation of \$600 thousand to Gwanda District Council for servicing the Gwanda Teachers Training College site. The allocation of \$38 million for the National University of Science and Technology has been confined to Phase I developments which include the construction of the Administration Block, Faculties of Industrial Technology, Applied Science, Commerce and the Central Library.
78. Under Public Construction and National Housing, I have allocated \$193.4 million of which \$62 million is for housing programmes funded under the National Housing Fund including Urban II Project. I have also allocated \$35 million for extraneous and professional fees, \$29,3 million for miscellaneous works which incorporate electrical, civil and mechanical engineering. I have allocated \$50.9 million for the completion of Government Offices countrywide and civil service housing of which \$9 million is provided to pay off the balance on the purchase of Tongogara Flats. Mr Speaker, due to financial constraints, some building projects have had to be postponed.
79. The total capital programme, excluding financing from own resources by parastatals and inclusive of net lending, amounts to \$2 007 million. Together with current expenditures of \$10 898 million, the total expenditure and net lending for 1992\93 amounts to \$12 905 million.
80. Mr Speaker, I now lay the Estimates of Expenditure for 1992\93 upon the Table.

IX. FINANCING THE BUDGET DEFICIT

81. Taking into account the current economic situation and other policy measures, I estimate that revenues, excluding international aid grants, will amount to \$10 086 million in 1992/93. International aid grants are estimated to be \$800 million, giving total revenues and international aid grants of \$10 886 million.
82. The total expenditure and revenue figures, including international aid grants, give a Budget deficit of \$2 019 million. When we exclude international aid grants, the deficit is \$2 819 million or about 9 percent of Gross Domestic Product. This is about the same level as the outturn for 1991/92. Although we managed to achieve a 1.5 percentage points reduction in the deficit last year, this year it has been difficult to achieve the original target of 1 percentage point reduction, given the impact of the drought. As I have already indicated, however, we will have to make a much bigger adjustment in 1993/94.
83. To finance the deficit, it is estimated that net foreign financial inflows will be \$1 925 million leaving a net domestic borrowing of \$94 million. It is expected that Government will raise the domestic financing requirement from the non-banking institutions.

X. TAXATION PROPOSALS

84. Mr Speaker, members will recall that in my economic policy statement of 1990, I indicated that 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 to reduce the budget deficit. I further advised that during the period of implementation of economic reforms, the tax system will be restructured in such a way as to encourage savings and investment. Steps have already been taken to reduce taxation levels during the past three financial years (1989/90, 1990/91 and 1991/92) and are continued in the current budget.

85. Beginning in April this year, the income threshold at which income tax becomes payable was raised from \$3 600 to \$4 800 per year. I am proposing, with effect from 1st April, 1993 to make a further concession to assist those in the lower income groups, by reducing the minimum rate of tax to 15 percent from its present level of 20 percent. This rate will apply to a new income band from \$4 800 to \$6 000. In addition all the income bands will be altered to achieve income tax reduction, and the bands will end at an annual income of \$48 000, above which income tax will be charged at 50 percent, instead of the present top marginal rate of 55 percent.

86. As stated in the Framework for Economic Reform document, our goal by 1995 is to reduce the company tax rate to approximate the effective rate of tax, through the reduction of existing tax deductions and allowances. Although this exercise continues, it has not been possible to rationalise any deductions during this financial

year, hence the current company tax rate of 42.5 percent remains unchanged for the financial year 1993/94.

87. To cushion companies and individuals against inflation and also to encourage savings through pension funds, I am proposing the following measures:-

- (a) The current deductible cost of motor vehicles allowance is \$30 000. With effect from 1st April, 1992, I am proposing to increase this cost to \$50 000.
- (b) As regards staff housing, I am proposing to increase the housing allowance from \$30 000 to \$35 000 and the upper limit from \$65 000 to \$75 000 with effect from 1st April, 1992.
- (c) In 1988, I introduced a credit of \$100 to tax payers who have attained the age of 59 years and whose taxable income is less than \$5 000. With effect from 1st April, 1992, I am proposing to increase the tax credit from \$100 to \$200, whilst the limit of \$5 000 is to be increased to \$7 200.
- (d) My Ministry has noted that the level of withdrawal of benefit funds is on the increase. In order to encourage savings through accumulated capital, I am proposing to limit amounts received or accrued by way of lumpsum payments from pension funds which shall not be included in the beneficiary's gross income to :-

- (i) amounts used to acquire a right to an annuity on retirement; and
- (ii) amounts transferred into another pension fund.

(e) Fringe benefit tax was introduced in 1984, when wages and salaries were controlled while fringe benefits were on the increase. The effects of this tax are desirable in that they ensure equitable distribution of income. I have, however, realised the adverse effect of the assessed income as regards loans for housing purposes. I am therefore proposing to give relief of 5 percentage points less on the rate used to calculate the benefit with effect from 1st April, 1992. This will have the effect of reducing the deemed salary for income tax purposes, and should go a long way towards alleviating the burden for those affected. It should be noted, of course, that any further concessions in this area would have undesirable effects, in that it would discriminate against those who do not have access to fringe benefits, or have no access to housing assistance.

88. Mr Speaker, the issue of improving liquidity of Building Societies, consequential to the current monetary policy to curb inflation, is of paramount importance and we have continued to hold discussions with the Building Societies and within Government, in order to find solutions. In an effort to further address the situation, I am proposing a withholding tax on interest received from:-

- (a) a person registered in terms of the Banking Act [Chapter 189], at a rate of 30%, and
- (b) a person registered in terms of the Building Societies Act [Chapter 189] at 20%.

Members should note that under normal circumstances, this interest could be taxable at the highest marginal tax rates of 55% or 42,5 percent for individuals and companies respectively. Given the preferential tax rate on interest earned with Building Societies, I expect the measure, which takes effect from 1st September, 1992, to increase the flow of funds into the Building Societies. In addition, I am proposing to increase the aggregate amount exempt from tax, to \$1 000, from the present level of \$500.

89. The initiative to reduce the Budget deficit is focussed on expenditure reduction, particularly recurrent expenditures through reduction of the size of the bureaucracy. A sizeable number of employees have already been retrenched in the Public Service and I realise that a number of employees have also lost their jobs in the private sector. In order to assist those being retrenched to adjust quickly. I am proposing to exempt from tax, with effect from 1st April, 1992, the first ten thousand dollars or one-third, whichever is greater, of the amount of severance pay on cessation of employment due to retrenchment, under an approved scheme of retrenchment, to the extent that the aggregate of such severance pay awarded in any one year of assessment does not exceed one hundred thousand dollars.

90. Mr Speaker, leasing has declined over the years for various reasons. Due to the tight monetary policy, it has become extremely difficult to purchase certain capital machinery, which could instead be obtained through lease-hire. I am therefore, with effect from 1st April 1992, proposing to exclude finance charges on calculation of sales tax on a financial lease, as a first step towards encouraging lease-hire.

91. Since 1980, the tourist industry has grown tremendously and, as a result, new operators have joined the industry. To avoid doubt and facilitate sales taxes collection, I am proposing to tighten the legislation by widening the definition of hotels to include any premises intended for the business of supplying lodging and meals. This includes motels and boatels, safari camps and lodges.
92. The other sales tax measure I am proposing with effect from 1st April, 1993, is to increase the threshold for sales tax registration from \$100 000 to \$250 000.
93. The drought which has devastated Zimbabwe, is the first of its kind in a century. I have already outlined the additional budgetary expenditures being incurred as a result of the drought. Consequently, I am proposing to impose a drought levy or surcharge on taxpayers which will amount to 5 percent of the income tax chargeable on the annual assessment of the taxpayers concerned. The levy or surcharge will be chargeable in respect of the 1992\93 tax year in the case of individuals and in respect of the 1992 and 1993 tax years in the case of companies and trusts. The surcharge will be collected through a ten percent levy on P.A.Y.E. from October, 1992 to March, 1993 in the case of employees and through additional payments of provisional tax for the tax years concerned in the case of self employed individuals, companies and trusts. I expect to collect a total of about \$200 million from the drought levy. This is a small contribution in relation to the large drought outlays I have already referred to and I am certain that all the taxpayers concerned are more than ready to join in the battle against drought!

94. Turning to Excise duty, it has been noted that since the decontrol of excisable products, the prices of those commodities have risen considerably, while the excise duty rates have remained constant, resulting in the excise duty now representing a very small percentage of the retail price compared to the situation a year ago. I am therefore proposing to adjust the excise duty rates upwards on wines, spirits, tobacco and clear beer to restore the ratio of excise duty to the retail price of these commodities a year ago. With effect from tomorrow, therefore, these will go up as follows:-

- *Clear beer will increase from \$1,43 to \$1,52 per litre*
 - *Brandy and other spirits from \$12,65 to \$14,23 per litre*
 - *Wine will increase by an average of 53 cents per litre*
- and Cigarettes by about 22 cents per packet of 20 cigarettes.*

I expect to collect a total of \$53 million from these measures.

95. The existing sliding scale rates of customs duties on passenger motor vehicles has become obsolete and difficult for members of the public to understand and also cumbersome for customs officers to apply. I am therefore proposing with effect from tomorrow, to replace these rates with ad valorem rates of duty, which vary according to engine capacity. The lowest rate will be 40% for vehicles of an engine capacity not exceeding 1000 cc, whilst the highest rate will be 60% which will apply to vehicles having an engine capacity of more than 3000 cc. The net effect of this measure will be to reduce by about 10%, the customs duty payable on small vehicles.

96. Mr Speaker, I announced in my press statement in December 1991 that an export guarantor scheme will be arranged to alleviate cash flow problems experienced under the existing drawback of duty scheme. The Customs and Excise (Inward Processing) (Rebate) Regulations , to give effect to this arrangement, will be published in two weeks time. Under this scheme, a rebate of duty will be quoted on raw materials imported by registered manufacturers for the purpose of manufacture and re-export. I am aware of the current problems being faced by industry, and we will continue to review the situation with a view to enhancing industry's competitiveness. My Ministry has been giving case by case consideration, and will continue to do so, on duty treatment, particularly for projects approved by the Zimbabwe Investment Centre.

97. Mr Speaker, I now lay the Financial Statements for 1992 upon the Table.

XI. CONCLUSION

98. Mr Speaker, I must come to the end of my statement. Before doing so, however, I must place on record the hard fact that the crafting of this year's Budget has been a very complex and most arduous task. While we have covered considerable ground since the launching in 1990 of the Economic Reform Programme (ERP) and have progressively travelled away from a highly controlled to a more market-oriented economy which last year showed significant growth, the road has been rough and the terrain rugged as was to be expected in any journey of transformation. Under the prevailing domestic circumstances generally and the world economic situation and now in particular, the pervasive effects of the severest drought in living memory, the way ahead is still steep and slippery but we must take courage from the fact that there is national determination and commitment which remains

undiminished even in the face of the multiplicity of problems now confronting the economy.

Yet the whole journey has to be travelled and completed. There is no choice.

99. Mr Speaker, I would want to conclude my statement on the same note as last year. National unity of purpose is the key to the achievement of the objectives and goals we have set for ourselves.
