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REPUBLIC OF ZIMBABWE

Budget Statement, 1993

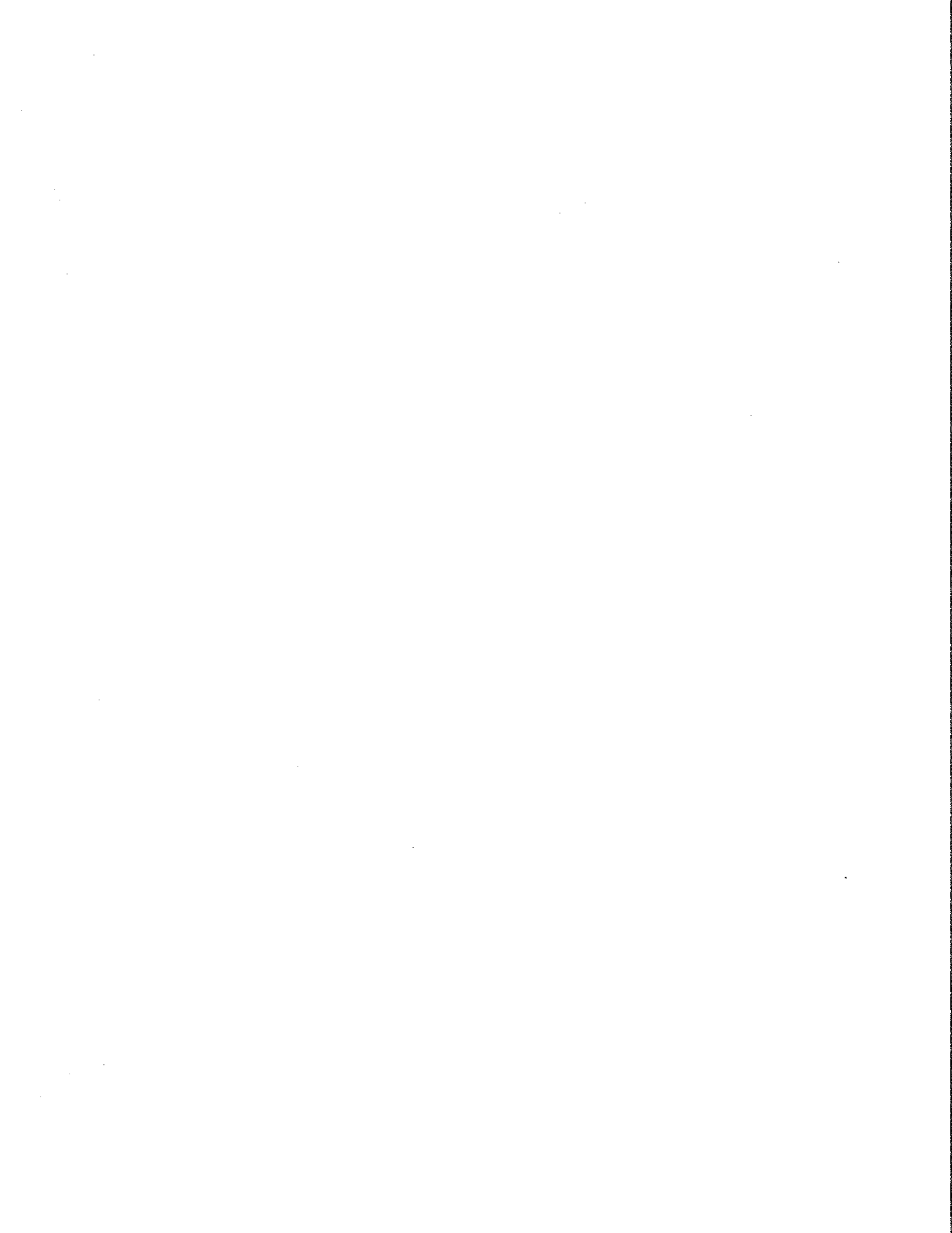
Presented to the Parliament of Zimbabwe

on Thursday, 29 July 1993

by

The Senior Minister of Finance,

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



BUDGET STATEMENT 1993

A. 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.

B. Introduction

2. Mr Speaker, the Budget for 1993/94 is being presented at a time when the economy has just gone through the worst drought in living memory. The year 1992 was an extremely difficult one, with gross domestic product falling by almost 8 per cent in real terms. A variety of problems resulted from a combination of drought, the transitional effects of the economic reform programme, and the world recession. Major economic problems included shortages of food items, high inflation, high interest rates, tight liquidity, low investment and increasing unemployment. On the economic reform programme, we were not able to meet some of our targets, in particular on the Budget and the balance of payments.
3. Despite these problems, we have remained committed to economic reform, and there has been significant progress in some of the major aspects of the reform programme, for example trade liberalisation and price decontrol and investment promotion.
4. Mr Speaker, with the drought behind us, and economic recovery set in motion, the challenge for 1993/94 is to forge ahead with reform and foster the recovery which is now taking place to ensure growth and higher living standards. As you are aware, we are now well into the third year of our economic reform programme, scheduled for a five-year period ending in 1995. Government is committed to the success of the economic reform programme, whose objective is to raise the

standards of living of the population through the promotion of investment and growth, and the creation of employment opportunities. It is therefore the aim of this Budget to create an environment which gets us back on course the original targets of reform, in order to meet our 1995 objectives.

C. Economic Reform Targets, Performance, Problems and Policy Measures

C.1 Economic Growth

5. The fall in GDP of almost 8 percent in 1992 means that we were far below our target growth rate of 5 per cent per annum in real terms. In per capita terms, real incomes fell by about 10 per cent in 1992 from their level in 1991. All the major sectors of the economy were adversely affected by the drought, and agricultural output alone fell by about 35 per cent. The manufacturing and mining sectors were adversely affected by a combination of drought, world recession, reduced domestic demand following a fall in real incomes, shortage of local inputs, shortage of water and power, and the tight monetary conditions necessitated by a high rate of inflation.

As a result, manufacturing output fell by 9.5 per cent, whilst mining output fell by 5.5 per cent in real terms.

C.2 Balance of Payments and Trade Liberalisation

6. On the external front, the drought necessitated unprecedented high levels of food imports, whilst export earnings fell as a result of the poor performance of the major sectors of the economy. Even though non-food imports fell in line with the recession and low investment, the balance of payments current account deficit, excluding official transfers, worsened from 9.6 per cent of Gross Domestic Product in 1991 to about 17 per cent in 1992.
7. In 1993, the recovery of the agricultural sector from the devastating drought in 1992 is expected to generate increased growth in exports from the other sectors

of the economy. This, coupled with a dramatic reduction in food imports, should result in the improvement of the current account position on the balance of payments. To strengthen this recovery, Government will continue to pursue its objective of improving the regulatory and policy framework with a view to enhancing the overall macro economic and investment climate through the deregulation of the economy and the liberalisation of current account transactions.

8. The strategy under the reform programme is to promote exports, so that the external current account deficit can be reduced to a sustainable level. The incentive measures which I announced earlier this year are intended to encourage investment and export activity, and to boost our export earning capacity as recovery takes place.
9. Over the last financial year, significant steps were taken in the implementation of the decision by Government to establish an Export Processing Zone (EPZ) regime in Zimbabwe. Government is now working on the legal and institutional framework within which EPZs will operate, commencing this financial year.
10. As I have already indicated, the trade liberalisation programme has proceeded according to schedule, despite the set backs which we have experienced as a result of drought, and the unfavourable balance of payments position. We increased the Export Retention Scheme earlier this year to 50 per cent of export earnings, and about 20 per cent of goods are now on unrestricted Open General Import Licence (OGIL). Following the introduction of foreign currency denominated accounts for individuals and the liberalisation of investment on the Stock Exchange, we are continuing to examine the situation with a view to further liberalising trade and exchange arrangements.

C.3 Fiscal Performance in 1992/93

11. On the fiscal side, the devastating drought necessitated higher than planned

expenditures to finance drought relief food, higher agricultural subsidies, the provision of agricultural inputs and water supply. At the same time, revenue collections fell as a result of poor economic performance, as well as the introduction of a number of exemptions in the tax system, intended to lower the cost of capital equipment and other materials, in order to encourage investment.

12. The combination of poor revenue performance and a high level of expenditure resulted in a higher deficit than had been planned for under the economic reform programme, whose objective is to reduce the deficit to less than 5 per cent of Gross Domestic Product by 1995. At the same time, disbursements of external funds remained low for most of the fiscal year. Although both revenue collections and external funds disbursements improved during the fourth quarter of the fiscal year, the fact that these were low for most of the year meant that Government had to resort to the local money market to finance the deficit. At the time of the budget last year, we had expected that the deficit would largely be financed from external financial inflows, necessitating only a small proportion of local funding.
13. Recourse to domestic financing added further pressure on an already tight money market under conditions of high inflation. Measures were taken to improve on revenue collection and to expedite disbursements of external inflows. These measures started to bear fruit during the fourth quarter of the year, with increased revenue collections, higher levels of disbursements, thus easing of the money market. High levels of domestic financing, however, also contributed to high debt-servicing expenditure, given the high levels of interest rates prevailing in the market over the past year.

C.4 Inflation

14. At budget time last year, I mentioned inflation to be the number one problem facing the economy. The rate of inflation peaked at almost 50 per cent in August last year. The high level of inflation resulted from a combination of factors,

including the high level of Government expenditure necessitated by the drought; the transitional effects of adjustment as companies responded to price decontrol and shortages of essential commodities; the high cost of importing food and other items under drought conditions; and the adjustments in prices of goods and services produced by parastatals.

15. For the economic reform programme to be successful, it is important that inflation be brought down to single digit figures during the reform period. The high rate of inflation has tended to perpetuate tight liquidity and high rates of interest, thereby having negative effects on investment and growth.

C.5 Monetary Policy Management

16. The upsurge of inflation during 1992 necessitated the implementation of a tight monetary policy, resulting in tight liquidity conditions and rising nominal interest rates. Since the middle of 1992, we pursued a vigorous anti-inflation policy based on tight liquidity management through higher reserve ratios, and limiting traditional central bank holding of trade paper combined with severely reduced overnight accommodation of the money market. These measures were buttressed by the raising of the rediscount rate by the Reserve Bank of Zimbabwe (RBZ), the Treasury Bill Rate and the overnight rate designed to influence short-term interest rates. At the same time, the Reserve Bank de-emphasised use of the base lending rate which now became a monetary signal for longer term institutions such as building societies and finance houses, i.e. a signal of the direction to which money market rates would gravitate in future when more normal conditions prevail. The use of a restrictive monetary policy did result in a deceleration of inflation
17. Restrictive monetary management aimed at bringing down inflation and characterised by tight liquidity conditions and high nominal interest rates continued into 1993. The tight monetary policy stance has succeeded in reducing money supply expansion from a peak annual growth of 40.0 per cent in February 1992 to

21.3 per cent in December 1992 and 22.3 per cent for the 12 months to June 1993.

18. Fiscal pressures on monetary growth that emanated from the rise in government recourse to the banking system, particularly the Reserve Bank, for credit in 1992 and necessitated by huge drought-related expenditure outlays and shortfalls in external financing have been significantly offset by an improvement in foreign inflows to government in the first six months of 1993, particularly in the month of April. However, the expansionary impact of net central government borrowing on monetary growth, on a year-on-year basis, continued into 1993, with net claims on the government by the banking sector accounting for \$1 649 million and \$1 338 million of the expansion in money supply (M2) in the twelve month period to April and May, respectively. By June 1993, however, following inflows of structural adjustment loan counterpart funds, government borrowing's contribution to monetary expansion had slowed down considerably with increases in net foreign assets and private sector borrowing largely accounting for the \$1 198 million annual expansion in broad money for the year to June 1993.

19. Reflecting the generally tight money market conditions, interest rates have remained generally high in the first half of 1993. However, with the slowdown in the rate of inflation from a peak of almost 50 per cent in August 1992 to 26.1 per cent in June 1993, largely the result of the tight monetary policy coupled with the contraction in government borrowing from the banking system upward pressures on interest rates have eased markedly. Consequently in recognition of these developments on the inflation front, the Reserve Bank recently took measures to ease the tight liquidity situation through the reduction of the overnight accommodation rate from 39 per cent to 31 per cent. In sympathy, interest rates in the money market have generally declined from levels of above 40 per cent to below 30 per cent currently in the case of NCDs. The further deceleration of inflation, necessary for the significant easing of nominal interest rates to levels

supportive of the recovery of investment, needs to be supported by a combination of both fiscal restraint on the expenditure front and measures to stimulate investment and promote economic recovery.

20. The high rate of inflation which forced nominal interest rates to rise, coupled with the impact of the drought, the opening up of the economy to foreign competition, the depreciation of the Zimbabwe dollar and the import tariff measures adopted to contain the balance of payments situation, resulted in financial difficulties for some companies. This was particularly so for small scale enterprises and for those starting up with no built up reserves of their own. We therefore effected targeted measures to partially offset the negative impact of the tight monetary policy on investment, exports and economic activity.
21. Some of the measures we took include the following:
- (a) provision of \$400 million to the commercial banks and the AFC for the rescheduling, through the Reserve Bank, of farmers' debts as well as assisting farmers who experienced crop losses due to the drought.
 - (b) provision of finance for the free distribution of seed-packs, fertilizer and pesticides to communal areas, and assistance with tillage.
 - (c) financing of the GMB drought related commitments.
 - (d) provision of Z\$100 million at concessional rates of interest to assist small to medium scale enterprises.
 - (e) for the small to medium scale exporters, the Reserve Bank has for some time been operating a facility that provides pre-and post-export finance at concessional rates.
 - (f) we have facilitated access to offshore borrowing for the export sectors which should benefit them from lower interest rates prevailing on the international markets. In this regard, commercial and merchant banks have been granted permission to negotiate external facilities which are already assisting exporters with working capital finance at cheaper rates.

(g) we introduced a new export financing scheme which provides low interest rate funding to all exporters and thus enhancing their competitiveness. This is additional to the existing pre- and post-shipment facility which I have already mentioned, available mainly to small scale exporters.

22. To protect house-owners and to limit the cost of borrowing at sustainable levels, we have continued to regulate the structure of interest rates for the building societies and the P.O.S.B. at a time when all the other institutions' rates have been deregulated. This has therefore meant that building society and P.O.S.B. deposit rates have lagged behind those prevailing elsewhere in the market, which has in turn undermined their ability to mobilise savings. Of late, these institutions have been experiencing serious outflows of deposits. In the light of this, we have been compelled to raise P.O.S.B. deposit rates in an attempt to stem the outflow of deposits. Given that the same situation prevailed at the building societies, their rates have also been adjusted upwards. We have, however, provided assistance through the Social Development Fund (SDF), to assist in meeting the costs of higher mortgages for houses in the high density areas. The long term solution to the problems of the building societies and of other long term institutions such as the finance houses lies in a lower inflation environment under which they become competitive with banks in attracting funds and in on lending at affordable rates to houseowners and the productive sector investors.

23. Mr Speaker, the economic performance for 1992/93 which I have just outlined, together with the major problems experienced, point to the importance of the policies we have adopted so far to reduce the rate of inflation. There is need to continue to adopt an appropriate mix of policies to maintain a downward trend in the rate of inflation.

D. The Policy Thrust for the 1993/94 Budget

24. As I have already mentioned, with recovery now taking place and inflation declining, the thrust of policy in 1993/94 is directed at ensuring that recovery is sustained, and to create conditions necessary for the success of the economic reform programme. The growth in GDP in 1993 is projected to be about 4 per cent, taking into account the significant recovery in the agricultural sector, and its support to other sectors especially manufacturing and commerce, and policy measures by Government on the fiscal and monetary side, as well as the promotion of investment and exports.
25. For recovery to be sustained and to achieve the projected rate of growth, and maintain a downward trend in inflation, it is important that the Budget deficit be reduced in line with the original target of the reform programme. The strategy in the Budget for 1993/94 is therefore to cut to a minimum expenditures which are of a non-productive nature, and to promote those expenditures which enhance production and recovery, and are essential for the success of the economic reform programme. In this context, special emphasis is being placed on small scale industry, communal agriculture, and activities under the Social Dimensions of Adjustment Programme.
26. Central to the strategy of reduction of the budget deficit is the exercise on civil service rationalisation, and the reform of public enterprises. Because of the hardships emanating from drought, it became difficult to implement the civil service rationalisation exercise according to plan. This issue will be pursued much more vigorously during 1993/94, with a view to not only reducing numbers, but realising savings on the budget. The rationalisation measures will be combined with an active programme to improve upon and strengthen efficiency in the public service. It is expected that policies implemented in 1993/94 will contribute to substantial savings in the 1994/95 Budget.
27. On the parastatals, the diagnostic studies which were instituted towards the end

of last year have now been completed. Government is studying the results of these expert studies, with a view to taking firm policy decisions regarding the operations of each of the parastatals. It is the intention of Government to eliminate subsidies to parastatals except in cases where parastatals have been tasked with a clear social responsibility.

28. The reform of parastatals will be more vigorously pursued in 1993/94, and all options which promote efficiency will be considered, including private sector participation. The aim is to transform parastatals from their present state where they act as a drain on available financial resources and to get them to operate efficiently.
29. Mr Speaker, the investment and export measures which I announced earlier this year are part of a continuous process to improve upon the investment climate, which is necessary if investment is to take place and employment opportunities created. We are continuing to monitor the investment environment, with a view to removing impediments to both domestic and foreign investment.
30. Government recognises the role that the small to medium scale enterprise can play in our economy through new ventures or sub-contracting to established industries and thus creating employment opportunities. Government is also aware that in spite of the improvements made in the investment climate, imperfections still exist relating to the availability of both local finance and foreign exchange which make it difficult for small businesses to operate.
31. In recognition of this fact, the Investment Centre is promoting greater participation of indigenous entrepreneurs in the economy through facilitating access to foreign currency and through programmes such as EMPRETEC which are intended to develop entrepreneurial skills amongst upcoming local business. Financial institutions such as SEDCO, ZDB, and VCCZ also provide facilities for this class of

- business. Further, enhanced capitalisation of SEDCO will be provided in this year's budget.
32. I have already mentioned some of the facilities which we put in place last year to assist this class of business. In addition, the Reserve Bank made available through local financial institutions facilities for small scale entrepreneurs to borrow at concessional rates for the purchase of capital equipment. A facility along these lines to the tune of US\$ 5 million is available at UDC and other financial institutions are free to negotiate such facilities with external banks to assist this sector. The ceiling for this facility has been set at US\$25 million.
 33. Government is currently negotiating with the World Bank a financial facility that will significantly assist the small business sector. Modalities on the operation of this facility are currently being worked out between Government and the Bank, and once these are finalised the funds will be made available to the sector.
 34. In the merger of ZDC and IDC, as Government has decided, arrangements will be made to ensure the establishment of a facility which will be promotive of investment, particularly in growth points, as well as the process of indigenisation in the national economy.
 35. Work on the programme of deregulation, which is essential for the removal of constraints on informal and small to medium scale businesses, is now more actively being pursued. A team of full-time staff has been appointed to work on this area for a period of time. It is expected that during the current year, the team should come up with recommendations on action which should be taken in some areas to facilitate the operation of small business.
 36. In view of the need to maintain recovery in the agricultural sector, Government is concerned about the continued availability of inputs at affordable prices,

particularly for the communal and small scale sectors. We are therefore considering possibilities for targeted assistance during the current year, on a limited scale, given the success of the drought assistance programme last year.

37. Whilst we forge ahead with the reform programme, we are aware of the transitional hardships which are being experienced, and the limitations of the Social Development Fund (SDF) so far. The Fund operates to support two major components - social welfare and employment and training. We realise that the employment and training component of the fund can act as an important source of employment. Efforts have therefore been made in the current budget to enhance the SDF so that more people can benefit from the employment and training component of the Fund.

E. Budget Outturn for 1992/93

38. Before I present the Budget proposals for 1993/94, let me briefly outline the outturn for 1992/93.
39. As I have already indicated, revenue performance was unsatisfactory for most of the year, with collections improving only during the last quarter of the fiscal year. For 1992/93 as a whole, therefore, total revenue amounted to \$10 024 million, compared with the original estimate of \$10 086 million.
40. The Budget estimate for total expenditure and net lending for 1992/93 was \$14 020 million. During the course of the year, when it became apparent that revenue collections were going to fall below target, we instituted measures to cut back on expenditure. Whilst the exercise was successful in some areas, it proved to be difficult in others, particularly because of the pressures arising from drought-related needs. Added pressures on expenditure arose from the fact that we had to finance the Budget deficit largely from the domestic market at high rates of interest. Thus interest payments exceeded the original estimate by more than

\$300 million.

Given the expenditure control measures which we adopted, however, total expenditure and net lending amounted to \$13 408 million, or \$612 million below the Budget estimate.

41. Given revenues of \$10 024 million, and the expenditure figure of \$13 408 million, the Budget deficit, excluding international aid grants, amounted to \$3 384 million. International aid grants amounted to \$740 million, leaving a financing gap of \$2 644 million.
42. As I have already mentioned, disbursements of external loans were slower than expected. Net foreign financing therefore amounted to \$1 366 million, compared with a Budget estimate of \$1 795 million. The rest of the deficit, \$1 278 million, was financed from the domestic market.
43. I now turn to the proposals for the 1993/94 Budget.

F. Proposals for the 1993/94 Budget

F.1 Recurrent Expenditure

44. The 1993/94 recurrent expenditure budget is estimated at \$11,5 billion of which \$3,1 billion is for Constitutional and Statutory obligations and \$272 million is for subsidies. This provision is an increase of only 1,7 per cent in nominal terms over the actual recurrent spending in 1992/93. In real terms, the figure is actually a decline, in line with Government's objective of reducing recurrent expenditure.
45. The recurrent budget, net of Constitutional and Statutory appropriations and subsidies, has been designed to maintain basic services and programmes. Expansion

has been kept to an absolute minimum. During the course of the year, my ministry will continue to monitor and exercise control over recurrent spending.

46. Turning to the votes of Ministries, as in the previous financial year, the recurrent budget is dominated by the Ministries of Education and Culture, Defence, Health, Home Affairs, Higher Education and Finance. These account for 78 per cent of total recurrent expenditure, excluding Constitutional and Statutory provisions and subsidies.
47. The Ministries of Education and Culture and Higher Education, with a combined allocation of \$2,8 billion, have the largest allocation and account for 33 per cent of the voted provisions, outside Constitutional and Statutory provisions and subsidies. This combined estimate for the two Education ministries is an increase of 15 per cent over the 1992/93 outturn in nominal terms. This illustrates the extent to which Government places importance on education. Whilst reductions are experienced in other recurrent votes in real terms, the allocations on the two Education ministries and the Ministry of Health continue to increase.
48. With an allocation of \$1,5 billion, which is a 14 per cent increase in nominal terms over the 1992/93 outturn, the Defence vote remains the second largest. The increase on this vote is mainly due to contractual obligations which have been increasing over the years due to the devaluation of the Zimbabwe dollar against major foreign currencies. The vote is expected to fall with the rationalisation exercise that will take place during the course of this financial year.
49. I have allocated \$873 million to the Health vote for recurrent expenditure. This is a 22 per cent increase over the 1992/93 outturn. I am confident that this increase will go a long way in improving our health standards and health education which is very vital in fighting against the spread of killer diseases such as Aids and Cholera, as well as other diseases. As I have previously pointed out, I am placing

great importance on Health and Education as far as the allocation of our scarce resources is concerned.

50. The Ministry of Home Affairs has been allocated \$533 million. The need to improve police transport and general and technical equipment continues to affect this vote's allocation. This is the third year since a transport system, separate from the Central Mechanical Equipment Department's operations, was established for the Zimbabwe Republic Police.

51. Included in my ministry's vote of \$842.5 million is an allocation of \$150 million for the Social Development Fund, while \$100 million is for payment to exporters. I have also included a contingency reserve for the purpose of the general review of salaries and wages, which is not expected to exceed 5 per cent on average.

52. Subsidies are decreasing from \$931 million in the 1992/93 financial year to \$272 million in the 1993/94 financial year. As a result of the good harvests we had last season, the subsidies on maize meal and bread were removed during the 1992/93 financial year.

F.2 Public Sector Investment Programme

53. Turning now to my proposals for capital development expenditures, Mr Speaker, I fully recognise the operational role that the Public Sector Investment Programme has to play as a key instrument in the transformation and implementation of both the development and drought recovery plan objectives and the need to increase public investment to a level sufficient to facilitate restructuring in favour of the productive sector.

54. Because of the continued high levels of current expenditures, persistent cost escalations on capital projects due to inflation and exchange rate fluctuations on foreign inputs, together with the distortionary effects of the drought on resource

allocation, the policy objective to redirect more investment towards the development of infrastructure may not be realised immediately.

55. Taking into account these factors and consistent with the targeted reduction in the budget deficit, the thrust on capital expenditure focusses on minimising the disruption of on-going projects and the completion of drought related programmes whilst allowing a small share of outlays for approved projects scheduled to start during the current year, and for which commitments have already been made in the previous years.
56. In this context, the proposed total capital programme for 1993/94 is \$4 374 million, including financing from parastatals' own resources of \$1 192 million. Central Government financing will constitute \$3 182 million, of which \$1 434 million will be from external sources in the form of loans and grants. This amount represents a nominal increase of 10.5 per cent from the 1992/93 revised allocation of \$2 874 million after taking into account supplementary estimates on the Vote of Credit.
57. Mr Speaker, members will observe that the low levels of development finance over the years have necessitated substantial commercial borrowing both from the domestic and external markets mainly to finance programmes for major parastatals such as the Zimbabwe Electricity Supply Authority, Zimbabwe Iron and Steel Company, Posts and Telecommunications and the National Railways of Zimbabwe.
58. Turning now to the allocations by sector ministries, the major vote is that of the Ministry of Transport and Energy with an allocation of \$663 million, which constitutes 22 per cent of the capital budget. This allocation is dominated by the provision for the construction of roads and bridges, enabling works at the Harare International Airport and the National Railways of Zimbabwe's re-equipping and strengthening programme. Under this provision is \$231 million loan financing from

external sources for ZESA's major power generation and transmission projects including the rehabilitation of old thermal power stations. Efforts are already underway to secure additional financing for the Cabora-Basa Interconnector, the Matimba Transmission lines and further upgrading of the Hwange Power Station.

59. In order to accelerate recovery from the drought the Agriculture and Water sectors continue to be accorded high priority with an allocation of \$526 million. A large portion of this provision amounting to \$280 million will go towards the construction of on-going major dams and irrigation schemes I highlighted last year, and the implementation of drought related water works such as the Odzi-Mutare pipeline and the Albanie dam for Marondera. Arrangements are underway to finalise financing for the Tokwe Mukosi and Zhove dams. The balance of \$140 million is for other agricultural operations, including land purchase for the resettlement programme.
60. The Ministry of Local Government, Rural and Urban Development has been allocated \$390 million for the provision of general infrastructure development in urban and communal areas. Of this allocation \$202 million is earmarked for housing and community facilities in local authority areas mainly in support of the Urban II Project and Private Sector Housing scheme financed by the World Bank and USAID respectively. Complementary to this provision, I have also allocated an amount of \$79 million to the National Housing Fund under the Ministry of Public Construction and National Housing for the construction and upgrading of houses in various towns. The rest of the total allocation under the Ministry of Local Government, Rural and Urban Development amounting to \$188 million is for development in communal and resettlement areas and for continuation of the Public Works Programme.
61. Mr Speaker, given the current tight money market conditions, ZISCO continues to experience serious cashflow problems and requires further assistance from

Government to go through the planned restructuring exercise necessary for its survival. In this light I have allocated \$367 million in support of ZISCO's comprehensive rehabilitation programme whose main components consist of the Sinter plant, Iron Ore restructuring and the relining of Number 4 blast furnace. Of this amount, \$167 million will be financed through external borrowing and \$200 million is from Government, of which \$100 million is cash flow support towards the company's operational costs.

62. In view of the effort to encourage and facilitate more entrepreneurship of the small to medium scale ventures, I have made a capital injection of \$25 million to SEDCO of which \$10 million is the balance on the existing soft loan facility from the World Bank. Further, negotiations are currently underway with the World Bank and other donors to secure additional concessionary lines of credit for this purpose.
63. To improve on the quality of services provided by the Social Sector, Government remains committed to providing increasing levels of public expenditure for basic Health and Education. In this regard the allocation for the combined Ministries of Education and Health have been increased from \$264 million in 1992/93 to \$410 million for the current year. Included in this provision is \$44.5 million for construction of the National University of Science and Technology and \$40 million for the initial phase of the Family Health II programme. Further a provision of \$28 million has been made to the Ministry of National Affairs, Employment Creation and Co-operatives for skills training for youths and for the promotion of women and co-operative programmes.
64. Cognisant of the inadequate accommodation facilities in prison and police camps I have allowed an amount of \$46 million towards the improvement of these camps country wide.
65. In spite of the increasingly high level of capital expenditure allocated to the Ministry

of Defence over the past three years, the requirements for the Defence programme remain unmanageable in relation to the total Capital budget.

66. Mr Speaker, the total current and capital expenditure programme amounts to \$14 685 million. In terms of Gross Domestic Product, this amounts to 38 per cent, compared with 44.6 per cent last year. Under the reform programme, the aim is to cut expenditures to 33 per cent of GDP by 1995.

67. Mr Speaker, I now lay the Estimates of Expenditure for 1993/94 upon the Table.

F.3 Financing the Budget

68. In estimating revenues, I have taken into account the recovery now taking place, and the improvement in revenue collection realised towards the end of the last fiscal year. I estimate that revenues will increase by about 25 per cent to \$12 600 million in 1993/94. There is need, however, to be cautious, given that recovery is only starting to take place and there will be some lag in the full effects on revenue performance.

69. Given expenditures of \$14 685 million, and revenues of \$12 600 million, the estimated Budget deficit for 1993/94, excluding grants, amounts to \$2 085 million. This represents 5.4 per cent of GDP, compared with an outturn of 11 per cent in 1992/93.

70. International aid grant inflows are estimated to be \$700 million, leaving a financing gap of \$1 385 million. Of this, net inflows of external loans are expected to amount to \$895 million. The remainder of \$490 million will be financed from the domestic market.

F.4 Taxation and other Proposals

71. Mr Speaker, Zimbabwe has for a long time been cited among the countries that

have the highest taxation rates in the world, both for individual and company tax. For the past 4 years, efforts to redress this anomaly have been implemented and I am proposing a continuation of the reduction in this budget. In the tax year 1990/91, PAYE represented 46 per cent of gross income on a single earner, on incomes of

\$48 000 per annum and above. This percentage has reduced to 43 per cent, 39 per cent and 34 per cent of gross income during the tax years 1991/92, 1992/93 and 1993/94 respectively. The benefits of tax reduction which became effective in April this year are now beginning to be felt and enjoyed by our tax paying population.

72. With effect from 1st April, 1994, I propose to alter as well as narrow the income tax bands used in the calculation of income tax to begin at \$6 000 a year instead of the present \$4 800, and end at \$48 000 a year, above which income tax is charged at a rate of 45 per cent. The tax rate for the lowest band will be 20 per cent. In effect, what this means is that taxpayers whose annual income is \$6 000 and less will not be liable to pay income tax. Those whose incomes are between \$6 001 and \$8 000 will pay at most income tax of \$400 per year, or \$33 per month. It is also important to note that the effective tax rate for a single earner who earns \$48 000 per annum will be 29 per cent as compared to 34 per cent during the current tax year. Because of the raising of the threshold, and the narrowing of income bands, all individual taxpayers will benefit from the amendment.
73. In the framework for economic reform, we indicated that company tax will be rationalised and, at the same time, existing tax deductions and allowances would be reduced. I am aware of the economic difficulties that corporate bodies were faced with during the last financial year mainly due to the drought, the recession and the tight monetary policy. I am therefore proposing a reduction in the company tax rate from the current level of 42.5 per cent to 40 per cent with effect

from 1st April, 1994. In order to encourage decentralisation of manufacturing companies, I propose to further reduce the rate of company tax on new manufacturing companies located in designated growth point areas from 20 per cent to 10 per cent for a period of 5 years with effect from 1st April, 1994.

74. Mr Speaker, a number of allowances and deductions such as special initial allowance (SIA) exist to enable immediate reduction in tax payable by corporate bodies. I propose that the SIA which is allowed on cost incurred on items such as the construction, addition or alteration to farm improvements, industrial buildings, licensed hotels, railway lines, machinery, utensils and certain motor vehicles for the mining sector purchased for purposes of trade be spread over a period of 4 years on a straight line basis, at consecutive rates of 25 per cent. This is in line with the policy to rationalise deductions whilst reducing the basic corporation tax rate to approximate the effective rate.
75. Mr Speaker, Members will recall that holiday currency tax was introduced in 1984 on foreign currency allocations made for holiday purposes, at a rate of 20 per cent. The main reason for imposing this tax was to discourage depletion of the meagre foreign exchange resources which the economy very much needed. Through the liberalisation process, more foreign exchange has become available, thereby reducing pressure on our foreign exchange reserves. I am therefore proposing to lower the rate of tax on holiday currency to 10 per cent with effect from 1st August, 1993. I am aware that the annual holiday allowance of \$850 is very small considering the current exchange rate and inflation. In this regard, a review of the level of the allowance will be undertaken and an announcement will be made in due course.
76. Deductions for expenditures on schools and clinics on farms and mines are allowed up to a maximum of \$100 000. I propose to review this allowance to \$250 000 with effect from 1st April, 1993. This should encourage farmers and

miners to build more schools and clinics for their communities.

77. Mr Speaker, developing countries are fast opening up their economies and are competing for funds on the international market. Zimbabwe cannot lag behind in this competition. I therefore propose two measures that may enhance the stock exchange market, coupled with exchange control measures that have already been announced. With effect from 1st January, 1994, capital gains realised on securities registered on the stock exchange would be taxed at a lower rate of 10 per cent compared to the current level of 30 per cent. Furthermore, dividends earned on such securities would also be taxed at a lower rate of 15 per cent, which is 5 per cent lower than the current rate of 20 per cent and comparable with rates obtaining in the region.
78. As an incentive to attract individual Foreign Currency Denominated Accounts (FCDA) funds, withholding tax on interest earned on individual FCDA accounts will not be levied during the first three years commencing 1st April, 1993. Thereafter, a lower rate of 10 per cent will apply.
79. Deceased estates are liable for estate duty if their value exceeds \$50 000, where the deceased did not leave a surviving spouse, and \$100 000 where the deceased is survived by a spouse. In addition, where the deceased left a surviving spouse or minor children, the family home is not included in the value of the estate for the purposes of estate duty. Furthermore, proceeds from an insurance purchased to meet the estate duty of a deceased estate are exempt from estate duty, to the extent that they are applied to cover the estate duty of the deceased estate. I propose to increase the current rebates to \$125 000 and \$250 000 respectively with effect from 1st April, 1993.
80. Mr Speaker, direct taxation has over the years been one of the reliable instruments of raising revenue. The base over which this tax is chargeable, is however, narrow

necessitating high tax rates. Consequently, there has been migration of labour to neighbouring countries, where income tax rates are lower. A larger percentage of our population is, however, gainfully engaged in the informal sector where it is not possible to bring them into the tax net. I therefore propose to introduce a tax on services offered in Zimbabwe at a rate of 10 per cent with effect from 1st January, 1994 as set out in the Finance Bill. Health and education services will not be subject to tax.

81. With regard to services provided by hotels, I am aware of the excellent facilities provided by the hotel industry and also of the need to promote tourism in our country. I am also aware, however, that the cost of these facilities remains at a competitive level by international standards. I am therefore proposing an increase in the sales tax chargeable for such services from the current 10 per cent to 15 per cent.
82. During the last budget, legislation was amended to exclude finance charges on calculation of sales tax on a financial lease, as a first step towards encouraging lease-hire which has dwindled over the years. I propose to further amend the Sales Tax Act to allow payment in instalments, in view of the financial difficulties arising from the tight monetary policy.
83. Stamp duty is payable on a number of items in terms of the Finance Act [Chapter 179]. The rates payable were last reviewed in 1984. I propose to increase rates of stamp duty chargeable on brokers' notes, cheques and insurance policies by a small margin with effect from 1st October, 1993.
84. I am aware that our wine industry is facing difficulties, because of the high competition from countries where excise duty is not levied. I am therefore proposing to remove excise duty on locally produced wines with effect from tomorrow and at the same time increasing the duty on imported wines. I hope this

will result in the revival and expansion of our wine industry.

In addition, I am also proposing to increase duty on imported potable spirits such as brandy, whisky, gin, rum and liqueurs with effect from tomorrow in order to protect our local industry. The details on the increases are contained in the White Paper.

85. Mr Speaker, members may be aware that customs duty on fuel was reduced in 1991 from 72.5c to 52.5c litre. In order to contain consumption and thereby assisting the balance of payments, I propose to increase customs duty on petrol by 15 cents per litre to 67.5c a litre with effect from tomorrow. The price of petrol will have to be adjusted accordingly.
86. Our current system of excise duty is based on specific rates which need to be adjusted from time to time, to maintain the same value of revenues. In order to avoid the current system of reviewing the rates every budget, I propose to introduce ad valorem rates of duty on clear beer, opaque beer and cigarettes.
87. Finally, Mr Speaker, during the 1992/93 financial year, the Export Incentive Scheme was extended for a further twelve months to provide assistance to exporters while the Government's longer-term trade liberalisation programme under the Economic Reform Programme was developed and expanded. This was also necessary to provide adequate incentives to exporters during the drought and recession period which dominated economic activity.
88. In line with the liberalisation strategy adopted by Government, the Export Retention Scheme (ERS) has been significantly increased, doubling from 25 per cent of export receipts in June 1992 to the current level of 50 per cent; Similarly the list of inputs that could be imported under unrestricted OGIL has been expanded to cover 20 per cent of import items, mostly raw materials. The ERS provides for

both imports of raw materials and capital goods not on the ERS negative list as well as for certain specified services such as business related services.

89. The proposed extension of FCDAs to exporters together with planned expansion of retention under the ERS will provide additional encouragement to exporters.

90. The Government is confident that exporters are well catered for under the liberalisation programme and in a way that does not seek to discriminate between different types of exports, all of which are equally valuable to the economy. In line with these developments the Export Incentive Scheme will be reviewed during the course of the year and an announcement will be made before the end of 1993.

91. Mr Speaker, I now lay the Financial Estimates for 1993 upon the Table.

G. CONCLUSION

92. Mr Speaker, I must now come to the conclusion of my statement and in doing so I wish to make a few general observations.

93. To begin with, as I said at the start in my opening paragraphs, 1992/93 has been an extremely difficult year. The whole economy suffered enormously from the drought as well as from the world economic recession and the transitional adverse effects of the economy I have already outlined. I am happy, however, to say that the worst of the drought is behind us; we must, however, sustain the process of recovery now in evidence. In a sense it can be said that the nation routed the drought by pulling its resources together in a united and efficient manner, to keep the economy going and to feed the people. The nation also withstood the harsh effects of structural adjustment with a sense of vision and determination to achieve success. It is therefore my earnest hope that the various measures we have put in place or contained in this Budget and those yet to come will not only generate

growth and employment but sustain the process of reform and development for the improvement of the lives of our people. After all we are reforming to succeed and not to inflict suffering. Suffering may be a virtue in a moral sense but it is no justification whatsoever in the socio-economic field, although it is often inevitable as the gate to success. I would hope that, like in Greek drama, we have been put through the process of the catharsis and become purified and strengthened by the combined forces of drought and ESAP; become, as it were, purified like gold in the furnace of tribulation.

94. The challenge remains, to persevere and to put in place a mix of policies which would not only modernise the economy but also strengthen it and prepare it to be efficient and competitive in a world of harsh realities such as protectionism, exchange rates and interest rate variations and generally, scarcity of investment resources. We have the will power, we have the skills and we have the national political stability and racial amity which should facilitate the process of growth and development.
95. I referred to suffering. The whole nation suffered but I must pay particular tribute to the peasants and the workers, the poor and the unemployed, who have endured and continue to endure more suffering and yet have shown so much resilience and discipline, demonstrated confidence in their Government and in the future. These are acts which cannot go unrewarded. ESAP cannot and will not go down in history simply as extreme suffering of the African people as has often been said. It must be recorded in the annals of the history of this country as the stage of decisive change for growth and development. I am confident, as indeed is the whole Government that we have demonstrated beyond doubt our capacity to withstand the severest of troubles inherent in drought and reform process. Some benefits are already being felt, and more will follow as the process of reform leads to the attainment of the objectives we have set for ourselves in the programme; to achieve a sustainable average growth rate of 5 per cent, to generate employment,

to provide more and better housing as well as other services, to make this a strong and more productive economy for the benefit of all our people.

XX

