

**EMBARGOED TILL END OF DELIVERY**



**REPUBLIC OF ZIMBABWE**

# **Budget Statement, 1994**

**Presented to the Parliament of Zimbabwe**

**on Thursday, 28 July 1994**

**by**

**The Acting Senior Minister of Finance**

**The Hon. E. D. Mnangagwa, M. P.**

# **BUDGET STATEMENT 1994**

## **A. MOTION**

- 1. Mr Speaker, I move that leave be granted to bring in a Bill to make further provisions 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 preparation of this budget has been one of the most difficult and daunting tasks my ministry has had to perform. The budget has been prepared against a background of a still recovering economy in 1993, after the 1992 major economic decline, continued implementation of the economic reform programme now in its fourth year and a new fast changing environment in the region and the world over.**
- 3. Mr Speaker, the world economy has become more of a global village where interaction with other economies has become one of the most important aspects for sustainable economic growth. The ushering in of South Africa into the regional and international community as a democratic state has created opportunities for peace and stability in the region and the onus is now on the business community to take up the challenge in this new and competitive environment.**

economy was largely due to the good rains experienced during the 1992/93 agricultural season which saw much of the agricultural sector bouncing back, with its value added output growing by 48.5 percent in real terms. However, due to the shortage of agricultural inputs in the first half of 1993, the fall in real disposable incomes, and the credit squeeze as a result of the tight monetary policy, there was a lagged supply response from the manufacturing sector. The sector only started to recover during the second half of the year. As a result the sector's contribution to GDP fell by 8.3 percent in 1993. There was a partial recovery of the mining sector from a decline of 5.5 percent in 1992 to an increase of 1.9 percent in 1993. The continuation of the international recession militated against a stronger recovery of the mining sector inspite of the easing of some of the constraints such as shortage of water and power that had clogged the sector in 1992.

7. The year 1993 experienced a marked deceleration in the rate of inflation. The year-on-year inflation rate fell from 45 percent in January 1993 to 18.6 percent by December 1993. The tight monetary policy that was put in place in mid 1992 and largely remained in place for the first quarter of 1993 accounted for this very significant fall in the rate of inflation; inspite of the removal of subsidies on basic commodities such as maize meal and bread, the 15 percent devaluation of the dollar at the beginning of the year, and price increases on some of the goods and services provided by parastatals. Consequently, the average annual rate

Government is making this effort, it is paramount that industry improves on its management and marketing capabilities. The establishment of Export Processing Zones is high on the agenda and should be implemented this fiscal year. The relevant piece of legislation is now before this Honourable House and we are confident that once it goes through there should be no further delay in the implementation of this facility.

11. The liberalisation of trade has proceeded ahead of schedule with the removal of import licences effected in January this year. In the Budget statement last year, we indicated our desire to allow exporters to open foreign currency accounts in the same way we had allowed individuals. From January 1994, exporting companies were allowed to retain 60 percent of their export earnings in their foreign currency accounts. We created an interbank foreign exchange market from which all importers, except Government requirements and fuel imports, were catered for at the market rate of exchange. The Government import transactions were being carried out at the rate quoted by the Reserve Bank of Zimbabwe. With this development the business community now had the opportunity to access foreign exchange directly from the interbank market. Effectively, the economy was operating on a two-tier exchange rate system. I am happy to say that since the beginning of July 1994, Government has removed the two-tier exchange rate system and moved to a market determined rate. At the same time exporters are also allowed to retain 100 percent of export earnings in their foreign currency

high level of domestic financing from the banking sector at relatively high interest rates required additional resources to meet the interest costs.

14. Fiscal performance has also been jeopardised by the performance of public enterprises whose losses continue to be a burden on Government, which already has a large potential liability on guarantees it has provided to the market. Cumulative losses of the parastatals amount to \$1 457.6 million excluding almost \$1 000 million required by the Grain Marketing Board (GMB) for the strategic grain reserves. Losses by the Grain Marketing Board in 1993/94 amount to \$1 040 million constituting 69 percent of all parastatal losses. The National Railways of Zimbabwe (NRZ) is another problem enterprise with losses of \$243 million. A number of initiatives are under consideration to address these problems which have severe ramifications on the money market.

15. These operational problems which appear common to most public enterprises need to be addressed as a matter of urgency. Government has set up a Cabinet Committee on Privatisation which is tasked with examining in detail each of the parastatals with a view to moving swiftly into commercialisation and/or privatisation or joint ventures as deemed necessary. Parastatal reform is one area which has lagged behind in the reform process and is now slowing down progress in areas where good results have been achieved.

- d) **interest rates are sustained at a high level and business suffers due to the resultant high cost of money.**
17. **Consequently, in recognition of the slow-down in inflation, the Reserve Bank took measures to ease the level of market interest rates through reduction of the overnight accommodation rate from 39 percent in June 1993 to 30 percent in August, and further down to 28,5 percent from September 1993. Money market rates, in response to the Reserve Bank's reduction of the overnight accommodation rate, eased significantly from historical levels of over 43 percent for three month Negotiable Certificates of Deposit (NCDs) during mid 1993 to levels of around 27-28 percent at the beginning of 1994. In response to the upsurge in inflation from 19.1 percent in February 1994 to 25 percent in May 1994, interest rates have increased to above 30 percent. Although the rate of inflation dropped to 23.6 percent in June 1994, this will not immediately affect interest rates.**
18. **The decline in inflation experienced in 1993 significantly improved the competitiveness of the stock exchange vis-a-vis the money market. Building societies and the finance houses, traditional sources of medium term productive sector finance, also benefited from the slow down in inflation and the consequent fall in money market interest rates. As money market rates fell, other lending rates became more competitive. The turn-around in the flow of savings to the building societies has seen the resumption of mortgage lending by the societies. The liquidity situation of**

**Under the 1993/94 targets, recourse to domestic bank sources for budget finance was pegged at under \$500 million in an effort to create capacity within the banking sector to service the credit needs of the productive sectors. The out turn shows the difficulties Government has had to contend with which undermined the full recovery of the economy from the harsh effects of a combination of the drought and the international recession. The out turn for the 1993/94 fiscal year shows major recourse to domestic sources to finance the budget at \$1 776 million.**

- 21. Reducing this high level of domestic borrowing will greatly benefit the productive sectors as the resources thus released become available for the support of these sectors. At the same time, this would also greatly assist in arresting the rapid growth of money supply, which is threatening the resurgence of inflation. Already, the Reserve Bank has been taking a number of measures to bring down the growth of money supply. In this regard, the statutory reserve requirement ratio for banking institutions was raised from 12,5 percent to 13,5 percent with effect from the beginning of February 1994. This is in addition to the existing restrictive monetary accommodation stance which is being supported by increased reliance on the use of Reserve Bank bills.**
  
- 22. This instrument, however, is only effective in containing short term fluctuations in market liquidity. In view of this limitation and, together with continuing rapid growth of money supply**

place, real GDP is forecast to grow by about 4.4 percent in 1994 and by over 5 percent in 1995. Agriculture is projected to grow by only 6 percent in 1994 mainly due to the low rainfall experienced in the last season. The manufacturing sector is expected to grow by 7 percent in 1994, given that most agricultural inputs are now available. The mining sector is expected to grow by about 3 percent in real terms and this is accounted for by anticipated growth in gold, nickel, coal, asbestos, while there are indications of major activity in diamond production.

25. The policy changes announced at the end of December 1993 have created a more efficient and transparent system of allocating foreign exchange devoid of administrative delays. These changes should produce the expected supply response and improve export performance in combination with supportive fiscal policies. The 17 percent devaluation of 1 January 1994 was designed to make our exports more competitive. To allow industry to modernise its plant and equipment, and to respond to emerging market opportunities, the private sector is now allowed to borrow offshore up to US\$5 million without Government approval. All these initiatives are aimed at increasing output and exports for Zimbabwe.
26. The projected GDP growth of 4.5 percent in 1994 and 5 percent in 1995 can only be attained if the 1994/95 budget is designed in such a way that it is directed at reducing inflation from the



- 27. The continued high domestic borrowing by Government with consequent high interest rates is also adversely affecting the small to medium scale sector. For the past few years, Government has directed its energies at enhancing the development of the small scale sector and the indigenous community and particularly minimising the adverse effects arising from high interest rates. Institutions such as the Zimbabwe Investment Centre, Venture Capital Company, the Zimbabwe Development Bank soft window and the \$400 million facility being disbursed by the Credit Guarantee Company of Zimbabwe, the continued injection of funds into SEDCO and the Social Development Fund are all designed to facilitate the development of small scale enterprises which have a higher potential for employment generation.**
- 28. Government has decided to establish a National Investment Trust as part of its programme of positive action to spearhead the development of human resources and promotion of investment in both existing and new ventures or activities in the economy. The Trust is intended to engender the spirit of entrepreneurship amongst our people, who have for so long been denied a footing in the economy. Government is now working on the institutional framework for this development.**
- 29. For the gains made in the 1993 recovery process to be sustained, it is paramount that the budget deficit be contained and that inflation is brought down to single digit levels.**

**32. Interest charges on debt have become a large component of the budget, taking up 19 percent of the total. The increase in these charges is generally a result of large borrowing from the domestic market at high interest rates. Government is facing a paradoxical situation in which it must borrow in order to meet interest charges. The only way to break the circle created here is by making sure that we spend in line with what we collect as revenue. We must all have the discipline to live within our means if we are to reform our economy.**

**33. We should all remain committed to the reform programme and take bold measures to reduce the size of the civil service, correct the operations of parastatals and reduce the deficit. I have no doubt that we will achieve these goals.**

**E. BUDGET OUTTURN FOR 1993/94**

**34. Before I present the Budget proposals for 1994/95, let me briefly outline and explain the outturn for the 1993/94 Budget.**

**35. Revenue performance for 1993/94 was on course as \$12 753 million was collected compared to the original estimate of \$12 600 million. As I have already mentioned, additional resources had to be provided to enhance revenue collections by the Department of Taxes and the Department of Customs. We are in the process of reviewing the levels and models of collection of fees and duties with a view to enhancing revenue collection by Government**

disbursing mainly due to low levels of imports as most of the Structural Adjustments loans are dependent on imports for them to support the budget. Net foreign financing realised was only \$359 million compared with an original estimate of \$895 million while net domestic financing was \$1 776 million compared with the original estimate of \$490 million. This shows that 83 percent of the deficit was financed from the domestic market at interest rates ranging between 32-35 percent.

39. I now turn to the proposals for the 1994/95 Budget.

**F. PROPOSALS FOR THE 1994/95 BUDGET**

40. Mr Speaker, the proposals for the 1994/95 Budget include a number of pressure areas, in particular the following:-

- (a) All Africa Games preparatory works
- (b) Demands for salaries and wages adjustments within the civil service.
- (c) Government guarantees for public enterprises called up including the Development Trust of Zimbabwe.
- (d) Subsidies for parastatals
- (e) Provision for the strategic grain reserves.

41. The provisions made for these items are not adequate given the limited resources and I will come to this issue later in my address.

- 45. The provision for recurrent expenditure totalling \$10 328 million, net of subsidies and Constitutional and Statutory obligations, is an increase of 12 percent over actual recurrent expenditure in 1993/94, in nominal terms. This means that the recurrent expenditure provision has actually declined in real terms, given the high rates of inflation that have been experienced in the recent past.**
- 46. Mr Speaker, let me now come to the recurrent expenditure as it relates to individual votes. For most votes, I am proposing marginal increases which effectively is a stand still position or a decline in real terms from the 1993/94 budget. Ministries are therefore urged to be cost effective in their expenditure under these difficult circumstances. During the course of the year, my Ministry will continue to monitor and exercise control over recurrent spending.**
- 47. The recurrent budget is dominated once more by the following votes:-**

**Education and Culture, Defence, Health, Home Affairs, Higher Education and Finance. These six Ministries account for 79 percent of the total recurrent expenditure, excluding Constitutional and Statutory Appropriations provisions and subsidies.**

**52. Included in the Ministry of Finance vote of \$1 577 million is an allocation of \$50 million for the payment to exporters to cover claims in respect of exports made prior to the abolition of the Export Incentive Scheme in December 1993. The general salary review including allowances is estimated to cost about \$1 200 million. The rationalisation exercise within the Public Service will be accelerated during the year and I have accordingly retained about 40 percent of the estimated cost of the general salary review on my Ministry's Budget in anticipation of a possible saving. This amount, which I have included in the contingency reserve may be transferred to Ministries during the course of the year for salaries and wages. I have also retained funds under my Ministry to cover such areas as the establishment of the Monopolies and Tariff Commissions and the Export Processing Zones when the legislative process has been completed.**

**53. Mr Speaker, Government is concerned with the plight of the disadvantaged and has over the years introduced various programmes to alleviate suffering. I am, therefore, providing \$100 million for the Social Development Fund with another \$60 million for drought relief and \$20 million for tillage in the communal areas. A substantial amount will also be provided for seed and fertilizer packs. This provision is quite apart from the \$10 million under the public works programme.**

**Provision for infrastructure necessary for the hosting of the All Africa Games has been included in the 1994/95 PSIP. The total provision for capital expenditure for the All Africa Games, both new and ongoing projects, amounts to \$200 million.**

- 57. The largest allocation is for Ministry of Transport and Energy with a total allocation of \$1 964 million constituting 33 percent percent of the total capital budget. Under this Vote, ZESA alone accounts for \$1 456 million of which \$1 386 million will be from own resources. Major projects under ZESA include refurbishment of Harare and Munyati Power Stations, and transmission projects namely Caborra Bassa-Dema and Matimba- Insukamini Interconnectors. The 1994/95 programme also includes the recently launched Power Plan III project which will provide operational assistance to Hwange Thermal Power Station as well as assist ZESA in minimising distribution losses. The project will be commissioned in 1996. The other major programmes under the Vote include the construction of roads and bridges and enabling works at Harare International Airport.**
- 58. The Ministry of Lands, Agriculture and Water Development has been allocated \$559 million. The Dam construction programme has the largest allocation under this vote because of its importance in mitigating the effects of drought as well as irrigation projects in the communal areas.**

**of Zimbabwe to facilitate the implementation of the double intake of medical students. The Family Health II has been allocated \$40 million. An allocation has also been made to the Ministry of Health and Child Welfare for Chinhoyi Hospital to be completed in 1995/96.**

- 62. The Ministry of Public Construction and National Housing has been allocated \$315 million, of which a large proportion is for the National Housing Fund while \$63 million has been allocated for the Urban II project. Provisions for Government buildings are only for those in progress. The Ministry of Foreign Affairs has been allocated \$29.9 million for the purchase of properties in South Africa.**
- 63. Under the Construction Vote a provision of \$29.9 million has been made for the Scientific and Industrial Centre which is now in its third year of implementation.**
- 64. In recognition of the importance of telecommunication in the development of the economy, a total of \$522 million has been allocated for the PTC of which \$488 million will be financed from own resources. The corporation will continue with its digitalisation and modernisation programme. The Midlands and Matabeleland digitalisation programmes will be started in 1994/95. A substantial provision has also been made for the completion of the Mutare transmitter and new provisions have been made for refurbishment of ZBC studio equipment in order**

**69. International aid grant inflows are estimated to be \$977 million leaving a financing gap of \$1 432 million. Net external loan inflows are expected to be \$276 million which leaves \$1 156 million to be financed from the domestic market.**

**F4. Taxation Measures**

**70. Mr Speaker, as part of our philosophy on economic reform, Government seeks to reduce tax levels and rationalise tax structures.**

**71. When we started on the road to ESAP 4 years ago, it was clear that in the short term, the general rise in prices in the country following liberalisation, would adversely affect the standard of living, particularly for the poor. In each and every year, Government has met its promise to reduce personal and corporate tax. We are aware of the high cost of living, but this should change for the better as the benefits of the recovery process become clear.**

**72. Mr Speaker Sir, our tax system is one of the most complex in the world. Administrative simplicity is one key measure to ensure efficient collection of revenue, broadening the tax base and ultimately securing reduction of tax rates to desirable levels that minimise distortions in the allocation of resources. We therefore proceed with our endeavour to reform the tax structure through the design of taxes that are simple to administer and relatively efficient.**



**expenses, so as to vary the burden of taxpayers. Credits, however, add excessive administrative burden to the tax administration. Moreover, the rationalisation of the tax structure has resulted in substantially enhanced disposable incomes, hence the role of credits should be curtailed.**

**76. Consequently, I propose to remove the insurance credit which is calculated on the basis of \$1 for every \$5 of premiums or contributions to the maximum of \$400. The tax incentive is no longer necessary since insurance cover for employees especially those in low income groups will be compulsory under the National Social Security Scheme.**

**77. A tax credit of \$120 is allowed for each child to a maximum of six children. I propose to limit the maximum number of children to four, to compliment the family planning efforts of the Ministry of Health and Child Welfare.**

**78. Currently, the amount of \$3 600 allowable as a deduction in respect of ordinary contributions to pension funds by individuals is based on a salary of \$48 000 per annum at 7.5 percent. This amount was adopted when salaries were low and is no longer realistic. I therefore propose to increase the existing amounts allowable by 50 percent.**

- 83. A survey conducted shows that there are a number of companies that do not file annual returns. I am therefore proposing that with effect from 1st April, 1995 all companies that participate in Government tenders should produce evidence that a return was filed for the previous year of assessment. If such evidence is not forthcoming, 10% of the value of the contract awarded will be withheld and paid over to the Department of Taxes until the company files a return for assessment.**
- 84. The Venture Capital Company is a new phenomenon in Zimbabwe which has mobilised resources for small to medium scale projects assuming greater risk itself. In recognition of the important role played by this company, I propose to exempt the Venture Capital Company of Zimbabwe from income tax and capital gains tax with effect from 1st April, 1993 for a period of five years.**
- 85. Mr Speaker, Development Finance Institutions such as the Commonwealth Development Corporation (CDC) are exempt from company tax, capital gains tax and withholding taxes, to the extent that approval from such exemption is granted on a project by project basis. Of recent, we have noted a number of similar organisations that wish to establish similar business in Zimbabwe. I therefore propose a change in the legislation to accommodate all such institutions without further amendments to the provisions in the relevant Acts.**

been addressed. I therefore propose to increase excise duty on opaque beer from 15.5c per litre to 20c per litre and also increase excise duty on aerated beverages from 11,5 percent to 15 percent ad valorem with effect from tomorrow. On opaque beer brewed by local authorities, my Ministry has reached an agreement with the Ministry of Local Government, Rural and Urban Development for rebates to the local authorities concerned.

90. Furthermore, excise duty will be imposed on wines that exceed 14 percent alcohol content at a rate of \$2.50 per litre or \$6.00 per litre of absolute alcohol with effect from tomorrow. As the majority of wines have an alcohol content of less than 14 percent, the wine industry should continue to benefit from the exemption which was announced in the last Budget.
91. Mr Speaker, a provision for exemption of capital goods from surtax and import tax was implemented with effect from January, 1992 to assist new investment. I further propose to remove customs duty on these capital goods with effect from 1st August, 1994.
92. As part of the economic reform programme strategy, a commitment to phase out surtax across the board has since been made. Surtax was subsequently reduced with effect from 1st January 1994 from 20 percent to 15 percent. I propose to further reduce surtax to 10 percent across the board with effect from 1st August 1994. I have no doubt, Mr Speaker, that these measures

## **G. CONCLUSION**

- 96. In concluding my address to you Mr Speaker, I want to pay tribute to a man who has worked tirelessly over the past 14 years, developing and nurturing an economic framework for Zimbabwe. Dr Bernard Chidzero has worked behind the scenes in preparing this Budget. Sadly, he has not been well over the last nine months and I am sure all Honourable Members here will join me in wishing the Senior Minister speedy recovery. The last few months have thus been exacting with the appointment of the new Governor of the Reserve Bank and a new Senior Secretary for Finance. If you add to this two Acting Senior Ministers, then indeed you will appreciate the challenges that faced the preparation of this Budget.**
- 97. Mr Speaker, inspite of all these changes, the Reform Programme is very much on course, as we prepare now for the second phase starting in July 1995. The process of change is not easy and can be painful, but this, like a mother in labour, often brings relief and joy.**
- 98. May I thank you Mr Speaker and Honourable Members for your patience.**

**I thank you.**

