

EMBARGOED TILL END OF DELIVERY



REPUBLIC OF ZIMBABWE

Budget Statement, 1995

Presented to the Parliament of Zimbabwe

on Thursday, 27th July 1995

by

The Minister of Finance

The Hon. A. M. Chambati M P

BUDGET STATEMENT 1995

A. MOTION

- 1. Mr Speaker, I move that leave be granted to bring in a Bill to make further provisions in connection with 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, it is my honour and privilege to present budget proposals for 1995/96 financial year to this august House. I wish to extend particular warm welcome to those Honourable Members who are participating in the budget session for the first time. I look forward to their incisive, thoughtful and progressive contributions. The new insights and perspectives they may bring, together with the rigour and meticulous scrutiny of the budget, will go a long way in the quest to improve the performance of our economy in pursuit of our desire to enhance the welfare of all Zimbabweans.**
- 3. Mr Speaker, in our endeavour to uplift the quality of life of our people, we have to make the right choices which determine the nature and course of our future development and the manner in which Zimbabweans themselves participate in that development. I am convinced that successful development in which all Zimbabweans are an integral part, dictates that we all must have a common vision for the future. Our choices, which obviously should be implemented timeously, efficiently and effectively, should therefore be directed towards our**

have to prepare ourselves for the difficult times ahead in order to turn the economy around in 1996.

C. ECONOMIC REVIEW

C.1 World Economy

- 7. Mr Speaker, there are signs of recovery in the world economy following a period of recession in the past few years. The industrial countries of USA, UK, Canada and Australia have firmly recovered, achieving high levels of capacity utilisation whilst continental Europe and Japan are beginning to emerge from the recession. The rapid growth of many Asian and Latin American developing countries has indeed bolstered the world economic recovery.**

- 8. The recovery of commodity prices and continued economic reforms which include foreign exchange liberalisation and implementation of appropriate macro-economic policies, have resulted in economic revival in a number of developing countries although the situation remains difficult for the African continent. Similarly, Central Europe and some countries of the former Soviet Union, continue to experience declines in output. Overall, it is estimated that the world economy grew by 3 percent in 1994 and is forecast to grow by 3.5 percent in 1995.**

- 9. The regional political situation has improved tremendously following the demise of apartheid, free and fair elections in Mozambique and the prospects for a peaceful settlement in Angola are encouraging. These positive political developments, coupled with the thrust of economic**

(g) implementation of a social dimensions of adjustment programme to assist the poor and vulnerable members of society .

- 11. Substantial progress has been made since the structural adjustment programme was launched in 1991. Progress has particularly been marked in the areas of economic and financial deregulation, removal of price and labour controls, and in liberalising the exchange and trade regime. Despite these significant achievements, the economy has failed to generate the desired supply response critical for achieving sustained economic growth, expansion of employment and reduction of poverty largely as a result of the continuing fiscal imbalances.**
- 12. Fiscal policy management remains one of Government's major challenges. Government needs to take bold measures in order to address the problem of continued fiscal imbalances which have contributed to high inflation and the resultant high nominal interest rates. The recurrence of drought also complicated macro-economic management. Consequently, the cost of living has become inhibitive, many companies have closed down and others have down-sized their operations substantially, resulting in massive unemployment and a significant fall in per capita income and loss of revenue to the fiscus.**
- 13. Mr Speaker, one of the causes of the current macro-economic instability - the high fiscal deficits - must be boldly addressed and solved in the next phase of reforms. In this next phase of reform, the key is the creation of a stable macro-economic environment with sustainable fiscal deficits, low rates of inflation, low and affordable interest rates in both**

working on new legislation to facilitate the establishment and operation of Collective Investment Schemes.

- 17. To promote investment and facilitate the supply response in the economy, Government will address the question of infrastructure in terms of industrial land development in urban areas and growth points, power supply, water supply, transport and telecommunication. These are the fundamental areas which need to be addressed to make the investment climate more attractive to investors. Government will also seek new initiatives to foster greater participation by the private sector in the provision and funding of public infrastructure such as roads, transport, telecommunication and energy.**
- 18. Mr Speaker, Sir, we have made remarkable gains in social development in the areas of health, education and training. It is our intention to consolidate these gains by ensuring that adequate resources are made available to these key sectors.**
- 19. In the area of health more emphasis will be placed on preventive health and primary health care in order to get value for money. Government also realises the need to replace obsolete equipment.**
- 20. The question of alleviating poverty will remain central to Zimbabwe's socio-political and economic agenda. Through the Poverty Alleviation Action Plan (PAAP) adopted by Government last year, measures will be taken to encourage the participation of vulnerable groups in economic activity. Government will seek to use the land reform programme as a**

- 23. The inflationary pressures emanating from the drought and recourse to domestic borrowing by the public sector will continue to push inflation upwards. Inflation increased from 20.8 percent in January 1995 to 24.4 percent in February then declined to 21.6 percent in March 1995 and further down to 19.9 percent in June 1995. Due to the tariff increases in power, anticipated salary adjustments and general review of prices, inflation is expected to be on an upward trend for the last half of 1995. We however expect that inflation will then start to decline in the first half of 1996.**
- 24. Mr Speaker, the balance of payments position in 1994 improved significantly from a surplus of Z\$1.16 billion in 1993 to \$2.2 billion in 1994. This improvement emanated from an improved trade balance position. Exports grew by 17.6 percent while imports grew by 10.1 percent. The current account deficit improved from 5.4 percent of GDP in 1993 to 4.5 percent of GDP in 1994. Gross reserves were equivalent to 3.5 months import cover by December 1994. In 1995, the balance of payments position will be negatively influenced by drought related imports. The shortfalls of maize, cotton, sugar, wheat and soya beans will call for Z\$1.7 billion in foreign currency. The growth in imports of 13.7 percent will entail a current account deficit of 6.3 percent of GDP in 1995. Against this background exports are expected to grow only by 3.9 percent.**

introduced new revenue measures in January 1995 to bridge the shortfall. While the measures, in some instances contributed to additional revenue, there were some dysfunctional aspects leading to negative effects on output.

30. Company tax did not perform to expectation as \$2.378 billion was collected compared to the original estimate of \$2.975 billion. The low collections are attributed to the current economic hardships.
31. International aid grants amounted to \$1.258 billion against an original estimate of \$977 million. This was due to an improvement in the accounting system for donor finance.

E.2 Expenditure

32. Mr Speaker, Sir, the total expenditure and net lending for 1994/95 was estimated at \$17.909 billion. The outturn for the year is \$22.257 billion. The additional expenditure is attributed to a cleaning up exercise involving the Vote of Credit where substantial amounts of donor resources had been tied up in the National Development Fund. This was, in reality, a bookkeeping exercise which did not require additional financing.
33. Mr Speaker, Government had also accumulated exchange losses of \$319 million largely on account of the operations of the Ministry of Foreign Affairs. This amount was cleared through the supplementary appropriation.

F.1 Recurrent Expenditures

- 38. I have allowed for total recurrent expenditure of \$21.965 billion which is inclusive of Constitutional and Statutory obligation of \$7.839 billion and subsidies of \$200 million.**
- 39. I am proposing that the total salaries, wages and allowances bill increases from \$6.2 billion in 1994/95 to \$7.2 billion in 1995/96. This figure excludes the provisions for compensation in respect of retrenchment which is catered for under the Constitutional and Statutory Appropriations.**
- 40. After taking into account drought related expenditures, subsidies, Constitutional and Statutory Appropriations and salaries, wages and allowances, the other recurrent expenditure amounts to \$6.136 billion compared to \$5.530 billion in 1994/95. The major provision in this category include grants, maintenance, procurement, incidental expenses, travelling and subsistence and furniture and equipment. The nominal increase of about 11 percent over the 1994/95 outturn is in fact a decline in real terms of other recurrent expenditure taking into account the rate of inflation.**
- 41. Mr Speaker, let me now relate the recurrent expenditures to individual votes. I am proposing marginal increases in allocations. Ministries must reprioritize and rationalize their activities in order to direct their limited resources in a more economic, efficient, productive and effective manner.**

wages bill I alluded to earlier. I have also retained in the contingency reserve, funds for the establishment of the long awaited Tariff and Monopolies Commissions. The funds in the contingency reserve will be transferred to the Ministry Votes as and when necessary.

46. Mr Speaker Sir, I propose to allocate \$1.353 billion to the Ministry of Health and Child Welfare. The allocation represents 17.1 percent increase over the 1994/95 outturn for the Ministry. I hope the Ministry will manage these funds as efficiently and as effectively as possible in order to maintain good health standards. The allocation includes \$20 million for the child supplementary feeding scheme. I will be approaching the donor community for additional support in this regard.
47. Mr Speaker, I have provided \$887 million for the Home Affairs Vote. This provision includes \$50 million for the Presidential Elections in 1996.
48. Mr Speaker, the drought affected many areas of the country and Government has had to adopt the Grain Loan Scheme to avert starvation. I have allocated \$420 million under the Ministry of Public Service, Labour and Social Welfare for this purpose. I have also allocated \$100 million under the Ministry of Agriculture for seed and fertilizer packs for communal farmers.

available for provision of water supplies to institutions and growth points which have been adversely affected by the drought.

64. The Ministry of Public Construction and National Housing has been allocated \$247 million of which a large proportion is for the National Housing Fund. The provision for Government buildings is mainly to complete the construction of the composite offices which are currently in progress. Under the Construction Vote, a provision of \$37 million has been made to the Scientific and Industrial Research Development Centre, which falls under the office of the President and Cabinet.

65. Mr Speaker Sir, the decline in the capital budget should be viewed as a temporary set back which will be reversed as the recurrent budget is streamlined through commercialisation and privatisation of parastatals. In addition, a number of initiatives intended to raise the proportion of capital budget to the required level are underway.

66. These initiatives include efforts to involve the private sector in the construction of major projects such as dams and roads to be promoted through participatory and toll arrangements and the creation of the National Investment Trust. The Trust is intended to facilitate the transfer of Government assets to indigenous people.

F.3 Financing the Budget

67. In estimating revenues, I have taken into account the decline in economic growth and the problem being faced by the productive sector. I have therefore estimated that revenues will increase by about 19 percent

to \$18.3 billion or 28.5 percent of GDP taking into account new revenue measures I will announce shortly.

68. Mr Speaker, given total expenditure excluding the Vote of Credit of \$22.574 billion and revenues of \$18.3 billion, the Budget deficit amounts to \$4.274 billion. This represents 6.7 percent of Gross Domestic Product. The deficit will be financed from \$300 million net foreign inflows and \$4 billion from the domestic market.
69. Mr Speaker, Sir, the allocations I am proposing are obviously insufficient to carry out the full mission of Government. I want to reiterate that in the face of limited resources Ministries have to reprioritise their activities in line with these provisions. There is need for a redefinition of missions consistent with availability of resources. The Public Expenditure Review currently in progress seeks to prioritise Government functions and to fund them accordingly.
70. In the meantime, however, Government can no longer afford the luxury of overspending. The Treasury will therefore introduce a STOP PAYMENT facility at the Central Payments Office to ensure that expenditure targets are not exceeded. I want to enlist the support of this Honourable House, particularly the Committee of Public Accounts which has to date treated derelict Accounting Officers with kid gloves, to reassert its position as a major custodian of public funds. The Public Accounts Committee should not be shy to take appropriate disciplinary measures to ensure that public officers are accountable to the public in the performance of their duties.

71. Mr Speaker, Treasury is addressing another shortcoming on the question of the budget cycle. The annual estimates have proved to be an inadequate base to plan for the medium term. The Treasury is therefore working on a three year rolling budget, to be updated on an annual basis. This will enable the Treasury to allocate resources with sufficient lead time to allow Accounting Officers the necessary flexibility to clearly re-examine their priorities as they craft their budgets.

F.4 TAXATION PROPOSALS

72. Mr Speaker, for the past five years we have seen a marked reduction of company and individual taxes as well as adjustments to the trade tax regime. My tax proposals take cognisance of the need to raise more resources for Government and to allow the private sector to grow.

73. Mr Speaker, Members may recall that since the implementation of the Economic Reform Programme, a number of measures which led to the overall reduction of tax on incomes and profits were taken. The top marginal tax rate which was pegged at 60 percent on individual incomes of \$48 000 per annum and above has been reduced to 40 percent on incomes of \$60 000 per annum and above, effective 1st April 1995. At the same time, the tax exemption threshold was increased from \$3 600 to \$9 000 per annum.

74. Taking cognisance of these measures, it has become necessary to revisit some of the tax credits that have since been compensated for by these

reductions. The system of tax credits imposes an administrative burden on the tax system. I therefore propose to repeal all child and dependant credits. I propose that this measure be effective as from 1st April 1996.

75. Mr Speaker Sir, Section 15(2) of the Income Tax Act provides for certain professions to deduct for tax purposes expenses they incur in achieving their professional status. The deductible expenses are limited to a maximum of \$5 000 per annum. It has become difficult to come up with an exhaustive definition for some professions such as Accountants, which comprise bookkeepers and others who work as tax consultants but do not hold any professional qualification, and others with professional qualifications such as economists but are offering accountancy services. To avoid further definitional problems, I therefore propose to abolish this provision altogether with effect from 1st April 1996.

76. Mr Speaker, proceeds from the sale of a house are currently not subject to capital gains tax to the extent that they are used to purchase another principal private residence. Over the years, the elderly tax payers who dispose of their principal private residences to live in old people's homes or to purchase a smaller house have increasingly found it difficult to sustain themselves since the capital gains are taxable in full at the rate of 30 percent. This has caused financial hardships particularly for those with no other source of income. I therefore propose that capital gains tax be chargeable at a lower rate of 10 percent on capital gains realised on disposal of a principal residential house by tax payers who

have reached the age of 60 years and above. I further propose that the rate of capital gains tax be reduced to 20 percent for other capital gains. These measures will be effective on 1st April 1995.

77. Mr Speaker, Sir, there are companies, miners and farmers who assist their workers or communities by providing staff houses, hospitals, clinics and motor vehicles. Allowances for these items were last adjusted for inflation in 1992.
78. I therefore propose, with effect from 1st April, 1995, to adjust the allowances as follows:-
- (a) motor vehicles to increase from \$50 000 to \$75 000.
 - (b) staff housing to increase from \$35 000 to \$50 000 and the upper limit from \$65 000 to \$100 000.
 - (c) clinics and schools located on farming and mining areas to increase from \$250 000 to \$500 000.
79. Mr Speaker, the expansion of our exports base is critical for sustainable economic growth. This country should get out of the vicious circle of borrowing for balance of payments support. The need to rely on multilateral and bilateral support, with heavy conditionality is compromising, thus it is essential that fiscal policy is fully supportive of the export drive. I am therefore proposing, with effect from 1st April 1995, to allow double deduction of export market development expenses for all exporters.
80. The inward processing rebate which enables exporters to import raw

materials without payment of duty requires them to provide a 100 percent bond or guarantee on the duty due as security. I am aware of the hardships being experienced by exporters in fulfilling this requirement. I am therefore proposing to reduce the bond or guarantee requirement to 50 percent of the duty due on the raw materials. I am also proposing that the annual registration fee for the inward processing rebate be raised from \$1 000 to \$2 000. These measures will take effect from tomorrow.

81. While these measures will generally have an adverse effect on Revenues, this is a small price to pay for the expansion of the export market which this country so badly needs. Together with the initiative on the Export Processing Zones, it is clear that Government is serious in its endeavours to facilitate the development of industry in this country.
82. Mr Speaker, contributions to pension schemes are generally a form of saving which is realised as a pension and/or lump sum payment. Special services are often rendered by actuaries to self administered pension funds and a service tax is currently chargeable on such services. I therefore propose an amendment to the effect that such services rendered to a pension fund or insurance company be exempted from sales tax with effect from 1 August 1995.
83. Mr Speaker, Sir, in January this year, revenue measures were taken to alleviate the budgetary imbalance when excise duties were increased. These measures led to a decline of the product volumes through contraction of business although they have had some positive effect on

revenue. The reduced business on excisable commodities further impacted negatively on down stream industries such as production of glass for beer bottles and bottle corks.

84. I am convinced that volumes and production could increase substantially if excise duties are lowered on some of the excisable products and accordingly propose that excise duty on clear beer be reduced from 85 percent to 77.5 percent ad valorem, and that on aerated beverages be reduced from 25 percent to 22.5 percent ad valorem. These measures will be effective from tomorrow.
85. The liberalisation of trade has opened up a lot of industries to competition from imported products. Whilst this has had a positive effect on the economy, some industries have been adversely affected by such imports, which are cheaper than the locally finished products. A need has therefore arisen to provide these industries with some measure of protection through tariffs.
86. Mr Speaker, you will recall that in last year's Budget, the clothing and textiles sector was assisted through reduction in duty on raw materials to 15 percent and 10 percent respectively. Competition, especially from second hand clothing imports, has continued to erode the viability of these sectors of industry. Accordingly, with effect from tomorrow, I propose to impose a duty of \$75 per kilogram or 45 percent ad valorem whichever is greater on items of apparel and clothing.
87. Mr Speaker, currently, the majority of spares imported into the country

attract an average duty of 20-30 percent excluding import tax and surtax. In recognition of the need to keep the machinery and equipment in good working order, I propose to reduce the duty on spares to average levels of 15-25 percent with effect from 1st September 1995.

88. The opening up of the economy to outside trade has brought about demands for efficient management of production systems and information flows in the business environment. In recognition of this, I propose to reduce duty on computers from the current rates of 25 percent and 20 percent depending on the type of computer to 15 percent. I also propose that sales tax or import tax as the case may be for computers be reduced from 20 to 15 percent. These measures will take effect from 1st August 1995.

89. Mr Speaker, trade liberalisation has led to an influx of a wide variety of motor vehicles in the country which is necessary competition for our local assembly plants. However, Government is concerned that most of the vehicles being imported are heavily subsidised at source giving a competitive edge to the imported product. The current rate of duty for motor vehicles ranges from 55 to 75 percent for passenger vehicles depending on engine capacity, and is 15 percent for commercial vehicles. I propose to increase the duty by 10 percent to 65-85 percent for passenger vehicles and to 25 percent for commercial vehicles. These measures will be effective from tomorrow.

90. There has been an increase in the importation of batteries to the

detriment of local battery manufacturing. I therefore propose to raise duty on batteries by 10 percent with effect from tomorrow.

91. Finally Mr Speaker, Members will be aware of the huge investments that the economy has been experiencing in the mining sector, the Hartley Platinum Project being a case in point. Mining investments of this magnitude operate under a special mining lease. In recognition of the role played by investments of this nature such as employment creation and area development, I propose to amend the relevant legislation to provide for tax incentives for mining investments that have been granted mining leases in terms of Part VIIA of the Mines and Minerals Act.
92. Mr Speaker, the budget cannot all be a garden of roses. I have to take measures to balance the expected outflows from the measures I have already announced, and to cater for nominal growth in expenditures.
93. Mr Speaker, sales tax is currently levied on most goods and services at the rate of 12.5 percent, save for those that are exempt by legislation. I propose to increase the sales tax rate to 15 percent with effect from 1st August 1995. Sales tax is chargeable on use of telephone services, among others, and I propose to extend the same concept to electricity. Taking into consideration the recent increases in electricity tariffs, I propose to introduce a final tax of 5 percent on electricity. This measure will take effect from 1st October 1995.
94. The last review of customs duty for petrol was done in 1993 when the

duty was fixed at 67.5 cents per litre. Customs duty on diesel has not been reviewed since the last increase to 11.8 cents per litre in 1991. The current retail prices for petrol and diesel are \$3.39 and \$2.45 per litre respectively. I propose that the customs duty for petrol be increased to 75 cents per litre while that for diesel be increased to 20 cents per litre. This measure will be effective from midnight today.

95. Mr Speaker, I propose that customs duty on imported clear beer, aerated beverages, wines, spirits and cigarettes be increased by percentages ranging from 18 to 50 percent. Apart from raising revenue, this measure is necessary to provide adequate protection to local industry which has been adversely affected by competition from imported products. With effect from tomorrow, therefore, duty will go up as follows:-

- (a) Clear beer will increase from 85 to 100 percent ad valorem.
- (b) Aerated beverages will increase from 40 to 60 percent ad valorem.
- (c) Wines will increase from 50 to 75 percent ad valorem.
- (d) Brandy, whisky and gin will increase by 25 percent from 9 400 cents per litre to 11 750 cents per litre of absolute alcohol and from 4 200 cents per litre to 5 288 cents per litre. Other spirits and spirituous beverages will increase by 20 percent from 9 400 cents per litre to 11 280 cents per litre of absolute alcohol and from 4 230 cents per litre to 5 076 cents per litre.
- (e) Cigarettes and tobacco will increase from 80 to 100 percent.

96. Mr Speaker, a provision currently exists for the waiver of duty on goods

purchased using remittable dividends. This provision, which was put in place during the days of exchange control restrictions on dividend remittability, has outlived its purpose. I therefore propose to repeal this provision with effect from tomorrow and the legislation will be amended accordingly.

- 97. Mr Speaker, a culture has been developing among Ministries which tended to focus only on expenditures at the expense of revenue. It is my intention to bring these together, and starting this year, I have combined the Estimates of Expenditure with the Financial Estimates. I hope, therefore, that before Ministries rush to the Treasury for additional resources they take stock of availability of revenue. The old adage that you cannot reap where you did not sow is as true today as it was in biblical times. I am confident that the combination of these documents into the Budget Estimates will receive the full support of this House. I therefore lay the Budget Estimates for the year ending 30th June 1996 upon the table.**

G. CONCLUSION

- 98. Mr Speaker, Sir the credibility of this budget depends on a high degree of political commitment and fiscal discipline. Honourable Members are aware that this budget has been described as "make or break". My position as Minister of Finance has been dramatised as "baptism of fire". I regard such observations as representing a negative and pessimistic view of life. Admittedly we are going through a period of**

turbulence and in this respect I ask my fellow Zimbabweans to fasten their belts and hopefully for a short period of time. I would also appeal to our people not to ask to be served with dinner while we go through the storms. Once we are over the clouds, you may dine like a king.

99. Mr Speaker, before I take my seat, I want to pay special tribute to my predecessor Dr. Bernard Chidzero for steering the ship over very difficult times of our economy. I wish him well in his new responsibilities. I also want to thank Honourable Minister Emmerson Mnangagwa for holding fort in the absence of Dr Chidzero due to a prolonged period of physical indisposition.

Thank you.