

EMBARGOED TILL END OF DELIVERY



ZIMBABWE

# **The 2003 National Budget Statement**

**Presented to the Parliament of Zimbabwe  
on Thursday November 14, 2002**

**By**

**THE MINISTER OF FINANCE AND  
ECONOMIC DEVELOPMENT**

**THE HON. HERBERT M. MURERWA M.P.**

## **THE 2003 NATIONAL BUDGET STATEMENT**

### **I) MOTION**

Mr Speaker Sir,

- 1** I move that leave be granted to bring in a Bill to make provisions in connection with revenues and expenditures of the Republic of Zimbabwe and to make provision for matters ancillary and incidental to this purpose.

### **II) INTRODUCTION**

- 2** The country is facing severe socio-economic difficulties. Their magnitude requires urgent corrective action to avert further deterioration. Output has declined by 19.3% over the last three years. Inflation, which is associated with high growth rates of money supply, accelerated to 144.2% by end of October 2002.
- 3** This has increased the perception of the country as a high-risk investment destination and, hyperinflation accounting standards are now being applied in the country.
- 4** The severe drought that ravaged Zimbabwe and most of the region made matters worse by reducing food supply. Staple commodities, such as maize and others providing inputs into agro-industry and exports, such as cotton, also declined significantly.
- 5** This has contributed to shortages of basic commodities, often accompanied by frequent price adjustments in both the formal and

informal markets, worsening the hardships being experienced by our people.

- 6 Low foreign exchange availability has also left most companies operating below capacity. Others have closed down, leading to job losses and increased poverty. The negative international perceptions, following the implementation of the land reform programme, have compounded the current economic difficulties.
- 7 In response to these challenges, measures aimed at bringing about the necessary macro-economic stability, increased economic production and exporting will be critical. These will set the tone for economic recovery, complemented by an agriculture-led growth strategy as enunciated in the Ten Point Plan announced by His Excellency, The President, during his inauguration address.
- 8 The thrust of the 2003 Budget allocations, hence, focuses on provision of care and maintenance operations, targeted fiscal intervention areas and sectoral measures to stimulate growth and exporting. To the extent that we are able to contain Government expenditures, this will assist in providing a foundation for recovery.

### **III) WORLD OUTLOOK**

Mr Speaker Sir,

- 9 Economic integration and globalisation mean that world economic developments affect us almost instantaneously. In 2001, global output grew by 2.2% compared to 4.7% in 2000. In all the seven main industrial countries (G7), economic growth slowed down from 3.8% in 2000 to 0.8%. In Latin America, this slackened from 4% in 2000 to 0.6% in 2001, while Asia experienced similar trends.

- 10** Global economic slowdown was largely a result of falling demand, a severe recession in Japan and delayed recovery in the USA following the tragic events of September 11 2001. Global recovery, especially in the industrial countries, is expected to be modest at about 2.8% in 2002 and 3.7% in 2003. However, the emerging markets of Asia are poised for stronger recovery, driven by the rebound in global trade, recovery in information technology and improved domestic demand.
- 11** Inflationary pressures across the globe remained relatively subdued, at an average of 2.2% for advanced economies and 5.7% in developing countries. Further price stability is forecast into the new year, as a result of successful anti-inflationary policies
- 12** African economies also performed better than previous years, with average growth of 4.3% in 2001. Only 16 countries experienced GDP growth of less than 3%, down from 27 countries in 2000. The number of countries with growth rates exceeding 3% increased from 26 in 2000 to 37 in 2001, signalling better prospects for poverty reduction. The good performance in the rest of Africa was largely attributed to sound economic management, leading to stronger economic fundamentals. Inflation averaged 12.6%, M3 growth, 12.3%, and fiscal deficits, 2.6% of GDP. Stronger external positions saw current account balances improve to 0.3% of GDP.
- 13** Efforts to improve the outlook for sustainable growth and development for African economies in 2003 will also centre on forging economic linkages with the global economy, in accordance with the goals of the New Economic Partnership for Africa's Development (NEPAD). This home grown African initiative was formally endorsed by African Heads of State and Government at the OAU Lusaka Summit in July 2001. Recently, in October 2002, in South Africa, African Finance Ministers agreed on strategies to implement NEPAD through respective national and regional budgets and programmes. Mr Speaker Sir, it is therefore

critical that Zimbabwe remains part of this process. This is necessary if we are to reverse the declining foreign investment flows, achieve sustainable economic growth and development.

#### **IV) ECONOMIC DEVELOPMENTS IN 2002.**

##### **Economic Performance**

- 14** Mr Speaker Sir, since the last Budget, the country continues to face huge macro-economic imbalances, with high inflation levels, foreign currency shortages, declining savings, investment and output. The economy is, therefore, performing well below its potential. This year, output performance has been worsened by the drought and is anticipated to decline by 11.9%. This is reflected in the performance of the major economic sectors - agriculture, manufacturing, mining and tourism.
- 15** The drought, coupled with the initial uncertainties associated with the land reform programme, saw agricultural output fall from -12.9% in 2001 to -20.8% in 2002. To illustrate, maize output fell by a third to half a million tonnes, while cotton fell to 190 000 tonnes from 333 000 tonnes in the previous year. The sizeable output losses in the 2001/02 harvest meant a huge food deficit for 2002 and first quarter of 2003 – making importation of food necessary. Total food imports as a result of the drought are estimated at US\$359.3 million.
- 16** The impact of the drought was also felt in the other sectors of the economy, most notably manufacturing. This, together with shortages of foreign currency and high inflation levels further dampened an already depressed manufacturing sector. As a result, the sector operated at below 60% capacity, with some company closures. Manufacturing is expected to decline by 17.2% by year-end.

- 17** Mining is also affected by the general downturn of the economy. The sector is set to decline by 7.1% in 2002, with gold output, the major foreign currency earner falling by 18%. This decline could have been worse without recent improvements to the gold price support scheme.
- 18** Tourism was the most deeply affected sector following negative publicity of the country, associated with perceptions of the land reform programme. Efforts at improved marketing have yielded dividends from the last half of this year. Hotel occupancy is improving and if sustained, should lead to renewed positive contribution to GDP in the new year.

### **Savings and Investment**

- 19** National savings of above 25% of GDP are considered critical for domestic investment to support industrial takeoff. However, overall savings and investment in Zimbabwe have declined to current levels of below 9.2% of GDP due to high fiscal deficits, inflation and declining economic activity. Hence, prudent fiscal and monetary policies are necessary to reverse this trend.

### **Inflation and Monetary Developments**

- 20** The upward trend in inflation to three digit levels has been accompanied by similar growth rates in money supply. M3 growth rose to 113.6% by August 2002. Underpinning this is the level of the budget deficit and its financing through the Reserve Bank of Zimbabwe overdraft.
- 21** High inflation remains a major setback to the economic gains made over the last 21 years. As inflation soars and economic decline worsens, many of our people are put at the risk of living below the poverty datum line. Worst affected are the unemployed and those on low and 'fixed' incomes, such as pensioners. Even most middle-income



earners, who classically constitute a significant component of aggregate demand, have also seen their incomes substantially eroded.

- 22** Inflation has become an interactive process – self-perpetuating and generating a perilous momentum of its own. When economic agents expect inflation to persist, implicit indexation and discretionary pricing become inevitable. This leads to more inflation as adaptive expectations force past inflation trends to influence current and future inflation, as is the case now.
- 23** The major challenge facing the country is, therefore, to bring down inflation, while stimulating growth and minimizing the adverse social costs of the dis-inflation process. This, Mr Speaker, will require reduction of the budget deficit to levels that can be financed from non-inflationary sources. The postponement of implementing appropriate measures will make the required adjustment measures even harder with higher social costs. This will be in terms of further erosion of real incomes, investment, business confidence, output and employment.

### **Interest Rates**

- 24** Government implemented in 2001 a time-framed and targeted reduction in interest rates to provide relief to the productive and export sectors, which were on the brink of closure as lending rates soared in excess of 70%. This was clearly beneficial to the country's productive sectors, and the fiscus, through reduced interest burden.
- 25** These benefits have, however, been achieved at the cost of high inflation caused by the increased demand for credit, and parallel market activities, which are fuelled by the availability of relatively cheap bank credit. Low interest rates, which accompany high money growth, have seen the emergence of inflationary asset price bubbles and artificial property market values.

- 26 Asset prices - particularly property prices - have risen sharply since the beginning of 2001. The surge in stock and property market prices persisted in 2002, notwithstanding the weakening macro-economic environment.
- 27 In the medium to long-term, negative real returns on investments hurt insurance companies, pension funds and other financial savings. This is severely compromising the capacity of the economy to guarantee future rates of return that compensate pensioners for the loss of purchasing power, and leaving many near destitute.

### **External Position**

- 28 The country's external position further deteriorated in 2002, reflecting the combined impact of sanctions and declining exports. Exports, which were US\$3.1 billion in 1996 and 1997, have progressively declined to an estimated US\$1.4 billion this year as a result of declining viability for most of our exporters.
- 29 Capital inflows from our co-operating partners as well as investment inflows fell from US\$502 million in 1995 to a net **outflow** of US\$347 million this year. As foreign exchange declined, balance between receipts and payments has been achieved by building up external payment arrears to US\$1.3 billion and cutting down on critical imports - compromising the effective utilisation of existing production capacity.
- 30 The commitment we made last year to stabilise our arrears at December 2001 levels was, therefore, not fulfilled. Demands for food imports, in excess of US\$300 million, made the situation even more difficult. Mr Speaker Sir, we cannot continue to nurse this unsustainable arrears situation.



## **V) 2002 BUDGET OUT-TURN**

### **Revenue Performance**

- 31** Total revenue collected to the end of September 2002 amounted to \$192.5 billion. Collections during the last quarter of 2002 are expected to yield \$73 billion. Total revenue for 2002 is, therefore, being revised upwards from \$251.9 billion to \$265.5 billion.
- 32** Individual, sales and corporate taxes performed better than anticipated. Customs duties were, however, lower due to reduced imports and the effect of the fixed exchange rate. Exchange rate adjustment on selected items in July 2002, as part of the Supplementary Budget, somewhat limited the overall negative effect of the fixed exchange rate on this revenue head.

### **Expenditure Outturn**

- 33** The original 2002 Budget provided for total expenditure and net lending of \$390.2 billion. Mr Speaker Sir, it is Government's desire to live within our means. This entails that expenditures be contained within the Votes approved by this August House and are spent for purposes for which they were allocated.
- 34** I am pleased to report that the introduction of the Public Financial Management System (PFMS) has assisted in ensuring that expenditures under individual Votes are contained within limits.
- 35** For the current fiscal year, the House approved a Supplementary Budget amounting to \$52.97 million. This enabled funding of drought mitigation requirements, cost of living adjustment for civil servants and funding for agricultural inputs, among others. All this was financed through additional revenue measures on selected products, expenditure

reductions on some Votes and savings on the interest bill. The supplementary expenditures raised the total 2002 Budget expenditure to \$443.2 billion.

36 Actual expenditures to end of September 2002 amounted to \$306.8 billion. We, therefore, project our expenditure outturn to end of December 2002 to be \$401.2 billion.

37 It should be noted, however, that there were expenditures which were originally budgeted for, but were not incurred in full. We had estimated to make interest and external payments of \$130 billion and \$86 billion, respectively. However, we now anticipate these to be \$29.9 billion and \$1.4 billion, respectively, due to lower interest rates and non-availability of foreign exchange. Hence, total 2002 Budget expenditures would have been much lower.

### **Budget Deficit**

38 Based on the above expected revenue and expenditure outturn, the overall budget deficit is now projected at 14.1% of GDP.

39 The deficit is higher, at 17.8%, than the original target of 14.9% when the gold and tobacco price support expenditures of \$9.1 billion and \$37.5 billion, respectively, are incorporated in the expenditure figures.

40 Budgeted international grants of \$9.8 billion and privatisation proceeds of \$40.9 billion will not materialise. Only \$1.9 billion and \$10.2 million, respectively, are now anticipated.

41 The shortfalls, coupled with higher expenditures, have increased the total domestic borrowing requirements for the 2002 Budget from \$87.4

billion to \$136.3 billion. This increases money supply and inflationary pressures in the economy.

## **VI) CHALLENGES AND PRIORITIES FOR 2003**

- 42** Integral to reversing economic decline and putting the country back on a sustainable recovery and development path are several challenges and priorities. In this endeavour, Mr Speaker Sir, the private sector has to resume its role as the main engine of economic growth. Government, on its part, will continue to offer special incentive packages conducive to positive rates of return.

### **Economic Empowerment**

- 43** I note progress being made in redressing historical inequalities in the ownership of land. The land redistribution programme since independence to date has provided the most profound economic empowerment of our people. Equally, commendable progress has been achieved in the financial services sector. Economic empowerment of the indigenous people in other economic areas, such as mining, tourism, manufacturing, and agro-processing will also be pursued.

### **Food Security**

- 44** An important priority for the 2003 Budget will be ensuring that all Zimbabweans have access to food. Resources will, therefore, be made available for importation of food as well as provision of child supplementary feeding and disadvantaged groups support schemes. In light of this, Ministries will be called upon to make sacrifices, as allocations will not match requested bids.

### **Agrarian Finance**

- 45** Finalisation of the land acquisition allows us to focus on assisting new

farmers to productively utilise the land. This calls for adequate financial and technical support by both the public and private sectors.

- 46 Measures to assist financial institutions and other private sector stakeholders mobilise financial resources for on lending to farmers, through the issuance of a guaranteed Agri-bond, are now in place. Disbursements and loan recoveries will be done through Special Purpose Vehicles, such as agro-processors.
- 47 Allow me to acknowledge the support of the financial community and agro-based companies to partner with farmer organisations in mobilising more financial resources. Transforming such support into sustainable future pools of revolving agricultural funds is necessary.
- 48 I will be proposing direct budgetary allocations in support of crop inputs and extension services for the benefit of A1 farmers. This will be additional to over \$15 billion availed under the 2002 National Budget.
- 49 Great commitment and hard work on the part of all farmers and supporting institutions will be necessary for productive land utilisation. There is no other way to realising the immense productive potential of our land.
- 50 The expected growth of agriculture should improve overall economic growth, anchor sustainable inputs supply into agro-based manufacturing and distribution industries. In addition, this will guarantee food security and agro-exports generation and reduce inflation, through increased supply. More than half of the population derive their livelihood from farming. Productivity in agriculture will also improve income levels and generate increased aggregate demand.

## **Producer Prices and Contract Cropping**

- 51** Sustainable agricultural production will require viable pre-and post-planting producer prices of the key agricultural commodities, including maize, wheat, cotton, sorghum etc.
- 52** Increased and more focused agricultural production will also require that Government and agro-processors enter into contract with farmers to grow strategic crops for exports and local consumption.

## **Irrigation Development**

- 53** Whilst great strides have been made in water harvesting, there has not been commensurate irrigation development in the country through the provision of irrigation infrastructure for communal and resettlement areas. Current indications are that some 400 000 hectares of irrigable land are needed for food security. Therefore, channelling of resources towards irrigation development and their effective use should be an important facet of the Budget - interventions from private sector stakeholders are also necessary.

## **Restoration of Confidence**

- 54** Mr Speaker Sir, allow me to dispel negative perceptions that Zimbabwe does not adequately guarantee property rights – critical for confidence and private investment the world over. Most of these negative portrayals have followed our efforts to redress a historical land imbalance.
- 55** Government recognises that Zimbabwe is an integral part of the global economy and has always respected internationally recognised rules, which govern property rights.
- 56** Mr Speaker Sir, we will continue to ensure that property rights are

respected in accordance with the laws of Zimbabwe. Bilateral agreements with other countries will be honoured and enforced.

## **Inflation**

**57** The 2003 and future Budgets have to target double digit inflation by the end of next year, and single digit thereafter. In pursuance of this, the Governor of the Reserve Bank of Zimbabwe will soon provide the requisite Monetary Policy measures for 2003. These will encompass:

- Some increase in the general structure of interest rates, if we are to contain monetary growth within levels that are consistent with single digit inflation over the medium term.
- Preferential interest rates to support the productive and export sectors. Market determined rates will progressively apply on non-essential, postponable or consumptive borrowing. This policy will achieve the twin objective of enhancing economic growth and bringing inflation under control.
- Ensuring viability of pension and insurance funds as well as giving value to the saving public through an appropriate interest rate level that partially compensates for inflation. Targeting a reasonable spread between deposits and lending rates will be critical.
- Tightening abuse of the export and productive sector finance facilities and ring fencing them into revolving funds to limit secondary affects on money supply growth.

## **Exporter Viability**

**58** The current fixed external price regime, which is part of the strategy to stabilise domestic prices, is being undermined by the impact of rising domestic production costs on prices. As a result, our exporters have

become uncompetitive at the current exchange rate, as costs of Zimbabwean goods are higher, when compared to those from the region. Government has therefore, introduced financial subsidy support for some exports such as tobacco and gold to ensure continued production. However, these subsidies have consumed public resources from other needy areas.

- 59** It is, therefore, apparent that under the current fixed external price arrangement, the survival of exporters will require the implementation of a compensatory incentive package.

### **External Payment Arrears**

- 60** While the foreign exchange shortages over the last three years have made external debt repayments increasingly difficult, we cannot continue to default on our external debt commitments.
- 61** The accumulation of arrears hinders our ability to fully participate in the international financial system and imposes huge foreign currency costs on the economy. I, therefore, remain determined to initiate a credible programme to reduce these arrears. Agricultural recovery, stabilisation of the economy and improved exporting can only enhance our capacity to address this challenge. This will help restore much-needed credibility in international financial markets and relations with co-operating partners.

### **Pricing Policy**

- 62** Efforts to protect the consumer from spiralling prices are being undermined by price controls that focus mostly on the final product, ignoring developments affecting inputs into the production process. This has affected production viability and the sustainability of the controlled price levels. As a result, the real costs to Society have been high and include the following:



- Shortage of critical basic commodities on the formal market. Where these are available, they are not easily accessible to the majority of the poor since they are not traded openly.
- A thriving parallel market for basic commodities where the price is much higher than the controlled price. This is the market where a significant part of our population is sourcing basic commodities. The beneficiaries of the price controls are, therefore, the speculators and dealers **and not** the targeted vulnerable groups.
- Production of lower quality products as producers are forced to '*shave inputs*' in order to maintain profit margins against a backdrop of rising input costs.
- Loss of employment opportunities as companies downsize production capacity in view of viability problems occasioned by unsustainable price control levels.

**63** The thrust of price monitoring and surveillance in 2003 should, therefore, first and foremost, focus on increased viability of companies and sustainability of production, while protecting the consumer from some unscrupulous dealers. To complement this, a Social Contract, embracing critical transitional structural measures for price stabilisation, will be imperative.

### **Public Enterprise Reform**

**64** Public enterprises still remain a drain on scarce public resources, which could have been channelled to productive activities. Public enterprise reform has not successfully addressed problems of poor management, corporate governance and inconsistent pricing of goods and services offered by these enterprises.

**65** ZISCO, NRZ, CSC, GMB, ZUPCO, ARDA, ZBC, ZIANA, Agribank,

Air Zimbabwe, ZESA, etc. all have huge demands on the 2003 Budget. GMB requirements in 2003 alone exceed \$60 billion to cover trading account losses. The total contingent liabilities for 2003 of the other parastatals exceed \$62 billion.

- 66 The lessons from COTTCO and Dairibord are that public enterprises can be turned around to contribute positively to the revenues of the fiscus. Therefore, addressing the way these enterprises do business will reduce haemorrhaging of the fiscus, thereby, releasing resources to national development programmes.

### **Infrastructure Development**

- 67 Resources allocated to the capital budget have been declining overtime. Yet the quality and quantity of infrastructure is an important determinant of the country's growth potential.
- 68 Therefore, intervening in strategic areas, which are catalytic to sustainable development and underpin the productive capacity of the economy, needs to be undertaken from 2003 and onwards, in areas which include roads, construction, among others.

### **Rates, Fees and Penalties**

- 69 I have alluded to the difficult economic situation and scarcity of resources in the 2003 Budget. The need for creativity in mobilising additional resources to fund operations, therefore, extends across all Government Ministries and Departments.
- 70 Resource allocation in the 2003 Budget will be on the premise that Ministries and Government Departments will charge reasonable economic prices for services they provide. In some cases, such as accommodation rentals, market rates should be applied.

- 71 The Ministry of Lands, Agriculture and Rural Resettlement will review and effect appropriate levels of rentals/leases for respective farmers. The proceeds will be ploughed into an Agricultural Revolving Fund to support new farmers.
- 72 Urgent and early review of rates, fees and penalties, to levels that reflect the impact of inflation on the value of money will, thus, be necessary.

### **Effective Use of Public Resources**

- 73 In spite of limited resources, much of the scarce budget resources are not being effectively and efficiently utilised by line Ministries. Examples of inefficient use of public resources is the level of accumulated standing time charges related to idle equipment under the Dande Dam and Tunnel (\$7.6 billion) as well as Tokwe Mukorsi Dam.
- 74 Procurement of goods and services in Ministries has also not always fulfilled value for money. Delays and use of middleman have resulted in under delivery of public services and huge cost over-runs.
- 75 Instances of inappropriate targeting and distribution of resources have been sighted in various institutions. The National AIDS Council is a case in point. A value for money audit report by the Comptroller and Auditor General and presented to this August House revealed serious inappropriate use of scarce resources.
- 76 This calls for the strengthening of auditing and accounting capacity within Ministries as well as introducing strong penalties for non-performance. These will be extended to all other funds set up by Government.
- 77 For that purpose, requisite resources will be made available to Treasury

and the Comptroller and Auditor General to monitor use of resources by line Ministries and managers of other public funds. Where necessary, the services of private audit firms will be enlisted.

- 78 Continuous monitoring of project implementation through value for money audits will be conducted. Thus, any subsequent disbursements will take recommendations of such audits into account.

### **Public Transport**

- 79 Poor and insufficient public transport has contributed to high transport costs, accidents and other hardships on our travelling public. Productivity at the work place is badly affected as workers arrive late, following long hours queuing for transport. I will, therefore, seek to introduce measures to address this.

### **Corruption**

- 80 The current economic difficulties and hardships faced by our people threaten to introduce and entrench a culture of high level corruption. Already, reports of large amounts of fraud, cyber and white-collar crime are receiving regular media coverage. If unchecked, these negative tendencies are highly detrimental to investment and overall economic development.
- 81 Efforts in this direction include the strengthening of the National Economic Conduct Inspectorate and the introduction of a Money Laundering Bill.

### **Cross Border Investment**

- 82 Government continues to support and encourage cross border initiatives by Zimbabwean enterprises experiencing domestic growth and, thus

earmarking even bigger business opportunities and niche markets from investing in the region. Successful operation in the domestic and regional markets also offers access to latest technology and best practices, which are all critical for penetration into the highly competitive global village.

- 83** I am confident that the strong entrepreneurial spirit being demonstrated by some of our growing pool of indigenous entrepreneurs will be emulated across the spectrum of sprouting new businesses. In the financial sector an increasing number of new banking institutions are setting up shop across the SADC region and beyond. Similar successes are being noted in the telecommunications, food and hospitality industries.

## **VII) ESTIMATES OF EXPENDITURE FOR 2003**

- 84** Mr Speaker Sir, the macro-economic imbalances and hardships facing the nation, against a background of resource constraints, demand that we prioritise our needs to meet the provision of critical public goods and services.
- 85** Therefore, this Budget will have to re-orient spending patterns of Government towards developmental issues. This is the only way the national budget can positively contribute to the other efforts to pull the nation out of the current economic difficulties.
- 86** I propose to collect \$540 billion in total revenues and spend \$770.2 billion, yielding a budget deficit of \$230.2 billion. We anticipate a growth rate of minus 7.2%, with a year-end inflation of 96.1% for 2003. This will result in a budget deficit of 11.5% of GDP.

### **Recurrent Expenditure**

- 87** I have allowed for total recurrent expenditure of \$682 billion, including

Constitutional and Statutory Appropriations of \$274 billion.

- 88** I now relate the recurrent expenditures to individual expenditure heads.
- 89** Recurrent expenditure outside the Constitutional and Statutory Appropriations comprise the wage bill, grants to quasi-Government institutions for their salaries and operations, as well as operational expenses for line Ministries.

### **Wage Bill**

- 90** As inflation erodes incomes and the economy remains under pressure, professional and skilled civil servants continue to emigrate to other countries in search of higher income prospects, rendering Zimbabwe a training ground for other countries. This jeopardises our medium to long term growth prospects, since these cadres are critical for the development process. Hardest hit is the health sector, which now has 2297 vacancies as at end of September 2002, 1920 being nurses and, 77 doctors. The brain drain is not confined to this sector alone, but has spread to all other sectors of the economy.
- 91** I wish to recognise the sacrifice made by Government workers whose remuneration has not been adjusted in line with the rise in the cost of living. Inadequacy of resources, against the background of the current economic difficulties mean that redress will have to be staggered over some time. Otherwise recourse to money printing as a solution will only further entrap us in a vicious cycle of higher inflation, perpetuating demands for even larger compensatory adjustments.
- 92** I, therefore, propose to allocate a sum of \$266.5 billion to cover salaries, wages and allowances for civil servants. This provision allows for Cost of Living Adjustment for 2003 and funding for filling critical and essential vacant and additional posts, especially under the Ministry of Lands, Agriculture and Resettlement.

## **Social Welfare**

- 93** Company closures and downsizing have led to an increasing number of workers losing their source of livelihood and, thereby, aggravating poverty. The current food shortages have compounded the situation.
- 94** I, therefore, propose to allocate \$16.6 billion to the Department of Social Welfare under the Ministry of Public Service, Labour and Social Welfare. In view of the ever rising cost of living, I also propose to increase the support rates under some of the components of social protection.
- 95** The drought that affected most of Southern Africa this year entails support to our citizens until the next harvest after March 2003. I, therefore, propose to allocate \$12.5 billion for this purpose.

## **Health Services**

- 96** The impact of the HIV/AIDS pandemic spans across all sectors. Not only is the health budget and delivery system stretched, but companies also suffer from decreased productivity, while communities' social expenses increase as the number of dependants and orphans grow. Inflation and foreign currency constraints have exacerbated the difficulties of procuring necessary drugs and medical supplies.
- 97** I, therefore, propose to allocate \$73.4 billion to the Ministry of Health and Child Welfare. This amount includes a provision of \$2.1 billion for the Child Supplementary Feeding Programme, in view of the current drought. However, availability of foreign currency will have a bearing on the availability of drugs and health delivery.
- 98** In view of the advances made so far in the medical field in dealing with the AIDS scourge, several drugs have been developed to prolong life, as well as reduce incidences of mother to child transmission. Costs



of these drugs are, however, extremely prohibitive and out of reach for the vast majority. To alleviate this, I propose to allocate \$2.5 billion for procurement of anti-retroviral drugs. The modalities for accessing the drugs will be announced by the relevant authorities.

- 99** The need for collective effort in the fight against HIV/AIDS, cannot be over emphasised. Allow me, therefore, to applaud the efforts of other stakeholders in helping deal with this problem.
- 100** However, inappropriate use of the National Aids Levy, introduced in the 2001 Budget, is undermining effective support for the targeted beneficiaries. The Ministry of Health and Child Welfare is, therefore, putting in place measures to improve transparency and accountability.
- 101** In recognition of the plight of members of our society who have special health needs or require special medical attention, I propose to allocate a sum of \$350 million to this end.

### **Education**

- 102** It remains our challenge to ensure quality education that is affordable, accessible and relevant to the needs of our country. However, the high cost of tuition and other educational materials, under the high inflationary environment, is now adversely affecting the gains made so far in education. I, therefore, propose to allocate a sum of \$109.2 billion, of which \$2.6 billion is for the purchase of tuition materials in order to enhance the quality of our education.
- 103** I have already alluded to the high levels of brain drain, mainly due to erosion of salaries by high inflation. Inflation has also left Budget allocation to institutions of higher learning inadequate for efficient delivery of services. Other challenges to be addressed include the shortage of teaching and learning materials, and inadequate teaching space.

- 104** In view of this, the proposed allocation for the Ministry of Higher and Tertiary Education of \$33.7 billion, incorporating an increase in the support rate for our students at tertiary institutions.

### **Agrarian Reform**

- 105** Government is proposing to provide further resources towards consolidation of the agrarian reform. A provision of \$12.5 billion has been set aside for the crop-input scheme. Further, the success of the agrarian reforms hinges on availability and accessibility of extension services. I have, therefore, allocated \$ 1.5 billion towards field trials and training as well as subsistence and transport. Resources from the private sector and recoveries from earlier disbursements will augment this.

### **Road Maintenance**

- 106** Government has invested heavily in the national road network. In order to facilitate economic activity, the network must remain in good condition. I, therefore, propose to allocate \$5.86 billion for road maintenance. The resources from the Road Fund will supplement this effort.

### **Defence and Security**

- 107** With peace in the DRC and the withdrawal of our troops from that country, I would like to take this opportunity to congratulate our gallant fighters for a job well done. However, there is now a need to re-capitalise both the army and the airforce, in order to enhance their capacity to defend our sovereignty.
- 108** To assist the police in maintaining law and order, given the ever rising incidence and sophistication of crime in our various communities, I have substantially increased the allocation for the Ministry of Home

Affairs. We believe the proposed allocation will ensure that Zimbabwe remains a safe place to live in.

### **National Documents**

- 109 We are all aware of the pain and suffering that our citizens have to endure in obtaining national documents, such as passports, birth and national registration certificates etc.
- 110 I propose to allocate \$1.2 billion to the Registrar General's Department to enable them procure equipment and other accessories necessary to clear the current backlog on the demand for public documents. This will also support decentralisation to enable issuing of birth certificates at health delivery institutions.

### **Effective Use of Resources**

- 111 I have alluded to the problem of effective use and accountability of public resources. I, therefore, propose to allocate \$200 million for use in undertaking value audits, monitoring and evaluation of the administration of public resources under Ministries. These resources will also enable spot audits. Where necessary, the Comptroller and Auditor General will enlist the services of private audit firms.

### **Mining Industry Loan Fund**

- 112 In support of the mining industry I propose to:
- Allocate \$450 million to the Mining Industry Loan Fund;
  - Review its operations to enhance efficiency and attractiveness starting April 2003; and
  - Revive the mining sector by providing capital investment and working capital. Both large and small miners will have access to the funds.

## **CAPITAL EXPENDITURE**

- 113 The 2003 Budget seeks to reorient public expenditures towards infrastructure development in areas critical for sustainable economic growth and development. In accordance with the development thrust enunciated in the Ten Point Plan, priority has been accorded to the agrarian reform, water resources development and irrigation infrastructure.
- 114 I, therefore, propose to allocate \$88.2 billion for capital development. This accounts for 11.7% of the total budget and about 4.9% of GDP, compared to 8.1% and 3.3% in 2002, respectively. While this demonstrates Government's commitment to raising the capital budget to 20% of total expenditure, this allocation still falls far short of the levels required to expand the country's infrastructure. I, therefore, call upon the private sector to fill in the gap in partnership with the Government.

### **Dams and Other Water Supply**

- 115 Out of the \$88.2 billion allocation for capital development, I propose to allocate \$10.3 billion for dam construction, borehole drilling and other water supplies. Major dams under construction include Dande, Tokwe Mukorsi, and Mundi-Mataga. New dams proposed for construction in 2003 include Tuli-Manyange, Marovanyati, Shavi, Bubi-Lupane and Gwayi-Shangani. These water bodies, when completed, will provide water for irrigation as well as for household and commercial purposes at nearby growth points.

### **Spatial Development Initiatives**

- 116 In order to take equitable development to the people, I am proposing to allocate, under the Spatial Development Initiative, \$4 billion for

provincial, district, ward and village development under the Ministry of Local Government, Public Works and National Housing in rural areas. Of this allocation, \$2 billion will be in the Unallocated Reserve under my Ministry.

- 117 This facility will play an important role in uplifting standards of our people as resources go towards social and economic infrastructure and financing income-generating community identified projects. My Ministry in conjunction with Local Government, Public Works and National Housing will work out details of the disbursement criteria.
- 118 Immediate co-ordination of use of public works programmes to support development of agricultural infrastructure, e.g. digging of canals for irrigation and construction of small bridges to enhance accessibility in all districts will start in the new year.

### **Transport and Road Dualisation**

- 119 To accommodate rising traffic, reduce accidents and create employment in the construction industry, Government will invigorate the highway dualisation programme in phases, starting with the dualisation of 30 km to 70 km of roads leading out of major urban centres. This will be extended during the second and subsequent phases.
- 120 For the first year, 2003, a total of 100 kilometres will be dualised on the Harare–Ruwa and Harare–Norton highways as well as the Harare – Masvingo highway.
- 121 To recover some of the costs related to dualisation of roads, Government will put in place tollgates on the major exit routes in partnership with the private sector.
- 122 I propose to allocate \$5.5 billion towards construction and rehabilitation of roads and bridges. This amount includes \$575 million for dualisation

as well as overtaking lanes to reduce carnage on our highways.

### **Irrigation**

- 123** Having asserted to pursue an agrarian-led economic recovery programme, the 2003 Budget will allocate resources earmarked for rehabilitation and increasing capacity utilisation of existing irrigation schemes, and development of new ones.
- 124** I, therefore, propose to allocate \$4.1 billion for irrigation development and \$1 billion for mechanisation. In addition, \$700 million has been set aside for farmer credit facilities and \$1.8 billion for agricultural research and farmer-training facilities throughout the country.

### **Small to Medium Scale Enterprises**

- 125** In pursuance of economic empowerment, growth and employment creation, Government will continue to provide budgetary support for setting-up factory shells in support of SMEs. Local authorities will also be incentivised to undertake similar initiatives.
- 126** I propose to allocate \$1.5 billion for further capitalisation of the SME Fund. Of this, \$900 million will be financed from the 5% bank levy earmarked for this purpose. Transparent mechanisms for monitoring the disbursements and utilisation of SMEs support funds are being finalised. This will require evaluation of previous utilisation.

### **Social Infrastructure**

- 127** With respect to social infrastructure, I propose to allocate \$8.9 billion for health and educational facilities, which includes provision for the establishment of a State University at Lupane, Gokwe District Hospital and mortuaries at central hospitals.

- 128** It is further proposed that \$11.3 billion be allocated for construction of office and institutional housing. This includes a provision for relocation of the Matabeleland North Provincial Office from Bulawayo to Lupane.

### **Strategic Parastatals**

- 129** There are a number of parastatals that represent strategic national investment for the country. These include ZISCO, capable of meeting the domestic and external demand for steel products. Others include ZUPCO, Agribank, CSC, NRZ, CMED and CAAZ.
- 130** In order to enable such parastatals to realise their potential, the Budget will provide resources, in partnership with other stakeholders, for the rehabilitation of plant and equipment as well as working capital. I, therefore, propose to set aside \$12.7 billion for capitalisation of the above-mentioned parastatals.
- 131** Comprehensive turn- around strategies for these companies will be critical. Improved operational performance will also require that Government underwrite the following:
- Review of enabling Acts to ensure efficiency and effectiveness;
  - Formulation of a clear vision and policy for each parastatal;
  - Setting quantifiable performance targets to ensure the delivery of outputs;
  - Establishment of audit committees within parastatals; and
  - Ensure that the 2003 privatisation programme targets are met.

### **Tourism**

- 132** In a bid to revive the tourism sector, I am proposing to allocate \$1.5 billion for the rehabilitation and upgrading of Joshua Mqabuko Nkomo and Buffalo Range Airports. CAAZ are examining various options of upgrading Kariba Airport to enable landing of larger aircraft.



- 133** Targeted support for Air Zimbabwe on domestic air routes will promote tourism by enabling re-introduction of flights on certain priority routes, such as Kariba and Buffalo Range. Air Zimbabwe will, however, need to identify and lease suitable aircraft capable of landing at these airports

#### **Distressed Companies**

- 134** I further propose to allocate \$1 billion towards the continued support for the collapsed companies revolving loan facility.
- 135** However, these amounts, coupled with those to SMEs and other Funds, will be allocated under the Unallocated Reserve to allow for disbursements following value for money audits and evaluation reports on utilisation of funds previously allocated by Treasury.

#### **Civil Service Housing**

- 136** The cost of housing has gone up beyond the reach of most people, and civil servants are among the worst affected.
- 137** I, therefore, propose to establish a Revolving Fund Loan Scheme to support civil servants to acquire houses and undeveloped stands. An initial amount of \$1 billion, to be availed on a Ministry by Ministry basis, is being proposed for this purpose. This amount will be in the Unallocated Reserve under my Ministry until such time that the relevant stakeholders have worked out the modalities for disbursement.

### **VIII) REVENUE PROPOSALS**

- 138** Mr Speaker Sir, it has not been an easy task to design revenue measures for the current budget, given the declining economic performance, growth of the informal sector, the need to raise enough revenue to

finance the agrarian reform and the expectation of taxpayers for alleviation of the tax burden.

**139** Under these circumstances, the tax policy thrust for 2003 addresses the following challenges:

- Stimulating exports, which are fundamental to the growth of the economy;
- Adjustment of tax threshold, bands and credits to enhance disposable income; and
- Implementing cost recovery measures.

## **INCOME TAX**

### **Individuals**

#### **Pay As You Earn (PAYE)**

**140** With effect from 1<sup>st</sup> January 2003, I propose to increase the income tax threshold for individuals from \$90 000 to \$180 000 and widen the income tax bands to end at \$1.5 million, above which income tax is taxed at 45%. I also propose to increase the tax-free pension contribution from \$45 000 to \$90 000. These proposals release \$63 billion back into the hands of taxpayers. The consequence of this measure is that a significant number of taxpayers will be released from the tax net and disposable incomes will be enhanced.

### **Bonus**

**141** With effect from November 1, 2002, I propose to increase the portion of bonus not subject to tax from \$10 000 to \$20 000. This measure will cost the fiscus \$3.55 billion.

## **Credits**

- 142** Tax credits extended to the elderly, blind and disabled taxpayers are currently pegged at \$12 000, \$7 500 and \$7 500, respectively. In order to give relief to this category of taxpayers, I propose to adjust all the credits to \$20 000.

## **Commutation from Pension and Provident Fund**

- 143** Non-taxable portion of pension commutation is currently pegged at \$60 000 or 1/3 of amount due, whichever is greater. Packages paid upon retirement have increased due to high incidence of inflation. I propose to increase the lower threshold to \$250 000 or 1/3 of the amount due whichever is greater. This measure is effective from 1<sup>st</sup> of January 2003.

## **Approved Severance Package**

- 144** I propose to raise the tax free severance package from \$150 000 or 1/3 of \$750 000 to \$300 000 or 1/3 of \$1.5 million, whichever is greater, with effect from 1<sup>st</sup> of January 2003, thereby, releasing more resources to retrenched taxpayers.

## **Employee Share Ownership Trust**

- 145** During the last Budget, a number of measures were implemented to support the indigenisation process. I further propose, with effect from 1<sup>st</sup> of January 2003, to exempt from tax, capital gains that arise on shares disposed to the Employee Share Ownership Trust by an employee, in order to perpetuate the life of a Trust Fund. The Ministry of Public Service, Labour and Social Welfare will design the regulatory framework that will safeguard the interests of employees.

## **DEEMED BENEFITS**

### **Motor Vehicles**

- 146** Maintenance costs of motor vehicles have escalated. I therefore propose to adjust deemed benefits on motor vehicles in line with escalated costs as follows:

- Below 1 500 cc      \$50 000 to \$624 000
- 1 500 - 2 100 cc      \$180 000 to \$936 000
- 2 100 - 3 000 cc      \$250 000 to \$1 224 000
- Above 3 000 cc      \$400 000 to \$1 800 000

This measure is effective from January 1, 2003.

### **Carbon Tax**

- 147** I propose to increase the level of carbon tax with effect from January 1, 2003, as follows:

- Up to 1 500cc      \$1 200      to      \$ 4 000
- 1501-2000cc      \$2 400      to      \$ 7 000
- 2001-3000cc      \$3 600      to      \$10 000
- Over 3000cc      \$4 800      to      \$20 000

## **COMPANIES AND TRUSTS**

### **Corporate Tax**

- 148** Zimbabwe has been one of the most highly taxed countries in the region. To redress this, I undertake to further review corporate tax to levels comparable to the region. Over the last two years, we have progressively reduced corporate tax initially from 40% to 35% and to the current 30%.

## **Capital Allowances**

- 149** The value of capital allowances has diminished due to high inflation. I propose the following adjustments with effect from January 1, 2003:

- Passenger motor vehicles – from \$500 000 to \$1 million.
- Staff housing – from \$250 000 and an upper limit of \$500 000 to \$1 million and an upper limit of \$3 million.
- Hospitals, clinics and schools - from \$3.5 million to \$10 million.

## **Convention Attendance**

- 150** A deduction of \$3 600 is allowed, where an employee attends a convention on behalf of a company. This amount has not been reviewed since 1996. I propose to increase the deduction to \$100 000, with effect from 1<sup>st</sup> of January 2003.

## **Research and Development**

- 151** In order to promote research and development, a deduction on donations of up to \$10 million to approved research institutions was implemented in the last budget. I propose to increase the deductible amount to \$20 million. I further propose a double deduction on expenses incurred by companies in pursuance of research and development. These measures are effective from January 1, 2003.

## **AIDS Levy**

- 152** When the AIDS levy was promulgated, it was envisaged that contributions would at one stage be directed towards formation of an AIDS Endowment Fund, which is self sustaining, thereby lifting the tax burden on consumers. I believe sufficient funds would have been accumulated by end of 2003. Hence, I propose that such funds be placed in an endowment fund and that taxpayers cease to contribute towards the AIDS levy after December 2003.

### **Automated Teller Machine Tax**

- 153** ATM tax is charged on withdrawal transactions on the Automated Teller Machines. Developments on electronic commerce have reached an advanced stage whereby transactions can be carried out on the Internet. I propose to increase ATM tax from \$1.50 to \$5.00 and also widen the definition of transactions that attract tax with effect from January 1, 2003.

### **Agri-bond Withholding Tax**

- 154** The Agribond is one of the instruments that will be used to raise funds for support of new farmers. I propose to exempt from withholding tax interest that accrues to investors who invest in the bond. This measure takes effect from November 12, 2002.

### **Export Promotion**

- 155** In order to enhance performance of the export sector, the tradable duty free certificate scheme was implemented in 2002. I propose to increase the 5% FOB Tradable Duty Free Certificate Scheme to 10% with effect from January 1, 2003.

## **SALES TAX**

### **Passenger Motor Vehicles**

- 156** Sales tax on passenger motor vehicles is currently pegged at 25%. In order to boost sales of local assembly plants, which are currently depressed, I propose to reduce sales tax on passenger motor vehicles from 25% to 15% with effect from January 1, 2003.

## **Commercial Vehicles**

- 157** Commercial vehicles currently attract sales tax of 15%. I propose to reduce this to 10%, with effect from 1 January 2003.

## **158 Second Hand Motor Vehicles**

Sales tax on second hand motor vehicles is currently subjected to sales tax through registered car dealers. Sale of vehicles has thus shifted to individuals. I propose to extend sales tax on second hand motor vehicles to individual sales with effect from 1<sup>st</sup> December 2002.

## **Construction Materials**

- 159** I, propose to exempt roofing timber, asbestos and corrugated iron sheets from sales tax with effect from 1 January 2003.

## **EXCHANGE CONTROL**

### **Customs Rate on Luxury Products**

- 160** In order to level the playing field on imported and locally produced goods, the exchange rate for purposes of duty was increased on selected luxury goods. I propose to increase the customs rate on luxury products from \$300 to \$500 with effect from 1 December 2002.

### **Minimum CD1 for Export Purposes**

- 161** Exchange Control authority is required where goods valued above \$5000 are exported from Zimbabwe. Due to rising prices, it has become a constraint on travellers to carry goods for their own consumption, which do not exceed the set threshold. I propose to increase the value of goods that can be exported without Exchange Control authorisation



to \$50 000 with immediate effect.

### **Export of Currency**

- 162** Passengers are allowed to export a maximum of Z\$15 000 and US\$500 when travelling outside Zimbabwe. The Zimbabwe dollar allowance is used to purchase goods in the duty free shops, payment of duty and taxi fares upon return, among other expenses, while the US dollar allowance is to cater for expenses incurred during one's stay in the foreign country. I propose to adjust the amounts to Z\$50 000 and US\$1 000, respectively, with immediate effect.

### **CAPITAL GAINS**

#### **Inflation Allowance**

- 163** Inflation allowance used in the calculation of capital gains tax is currently pegged at 30%. Due to high incidence of inflation, capital gains tax is payable on a large proportion of inflation gain. I propose adjustment of the inflation allowance upward from 30% to 50% in order to alleviate the tax burden on taxpayers.

### **ESTATE DUTY**

- 164** Deceased estates are liable for Estate Duty if their value does not exceed \$600 000 and \$750 000 where the deceased did not leave a surviving spouse or minor children, respectively. I propose to raise the rebate and threshold to \$5 million and \$10 million in both cases, where a spouse and minor children survive the deceased estate.

## **STAMP DUTY**

- 165** Stamp duty is charged on payments through cheques. I propose to increase stamp duty on cheques from \$1.50 to \$5.00 and also widen the definition of transactions that attract stamp duty with effect from January 1, 2003.

## **Harmonisation of Taxes**

- 166** Mr Speaker Sir, my Ministry will carry out an exercise to review possibilities of harmonising some local authority unit taxes with those of central Government during the coming year.)

## **CUSTOMS DUTY**

### **Duty on Public Transport**

- 167** In order to ease transport problems, I propose to suspend customs duty on buses with a capacity of at least 26-seated persons including the driver, with effect from December 1, 2002.
- 168** I further propose to suspend duty on imported spare parts, intended for passenger transport, with effect from December 1, 2002. This measure will also cover railway operators, to facilitate maintenance and refurbishment of equipment, wagons and locomotives.
- 169** In addition to the concessions above, I propose to remove customs duty on hiring of locomotives by railway operators with effect from December 1, 2002
- 170** Aircraft leasing costs are already exempt as announced in the 2001 Budget. Furthermore, duty on commercial aircraft spares was reduced to zero.

## **Duty on Agricultural Equipment**

- 171 I also propose extending duty exemption to agricultural equipment that is not locally available with effect from 1<sup>st</sup> December 2002.

## **EXCISE DUTY**

### **Wines**

- 172 I propose to increase Excise duty on wines with effect from 15<sup>th</sup> November 2002 as follows: 5% to 25% and \$2.5 per litre to \$5 per litre.

## **IX) OTHER MEASURES**

### **Export Support Scheme**

- 173 In order to stimulate and restore viability in the export sector, Government, through the Reserve Bank of Zimbabwe, will introduce an Export Support Scheme to support exporters. Details will be announced in due course.

### **Economic Recovery Trust**

- 174 Mr Speaker Sir, the Economic Recovery Trust has been established to boost production, generate employment and increase the country's foreign exchange earnings. In pursuit of this objective, the Trust will fund and oversee production activities across broad export sectors of the economy, taking advantage of existing institutional arrangements.

### **Non-Residents Fund**

- 175 To realize the potential for the country to earn foreign exchange

remittances from Non – Resident Zimbabweans, Government is incentivising them to remit foreign exchange through formal banking channels under a Fund administered through the Reserve Bank of Zimbabwe. It is estimated that non-resident Zimbabweans have the potential to remit over US\$250 million per annum. Incentives for mobilization of these resources will be announced shortly.

### **Corporate Foreign Currency Accounts**

- 176** There has been rampant abuse of the country's scarce foreign exchange export earnings. As a result, critical foreign exchange payments have not been met at a time when non-essential imports have continued to flood the market. A number of measures to address this as well as monitor leakages through corporate foreign currency accounts are, therefore, being implemented.
- 177** The surrender to the Reserve Bank of Zimbabwe of foreign exchange received from the export of goods and services is raised from the current 40% to 50%, with immediate effect to meet critical imports. This means that Authorized Dealers will now be required to buy 50% of all export service receipts, upfront, for the account of the Reserve Bank of Zimbabwe.
- 178** The remaining 50% will also be surrendered to the Reserve Bank and held to the order of the exporter. Usage will be related to a priority list to be specified by the Reserve Bank. The priority list and operational details will be announced by the Governor of the Reserve Bank of Zimbabwe shortly.

### **Pre and Post-shipment Inspection**

- 179** To curtail transfer pricing and ensure that the country realises the true and fair value of its exports, the Reserve Bank will shortly enlist the services of a pre- and post-shipment inspection agency:

## **External Loans and Trade Finance Facilities**

- 180** All external loans, regardless of amounts are now required to be submitted to the External Loans Coordinating Committee (ELCC) for approval.

## **Bureaux de Change**

- 181** In line with the above measures, Bureaux de Change will be abolished with effect from the end of November 2002. The Ministry of Justice, Legal and Parliamentary Affairs will work out the legal modalities of this wind-down.
- 182** The above Exchange Control measures have been necessitated by the gravity of the foreign currency leakages. These measures will, therefore, be reviewed in due course as and when the situation improves.

## **Incomes and Prices**

- 183** In an effort to bring Zimbabwe's run away prices and incomes under control, the Minister of Industry and International Trade will, within a Social Contract, which will include Government, Labour and the Business Community, shortly announce additional measures to stabilise prices.

## **Marketing and Processing of Gold**

- 184** To restore and increase the production of gold, Government is introducing the following measures:
- Designate purchase points for small scale gold producers nearer their mining sites;
  - Offer spot payments to small miners; and
  - Establish milling and buying points across the country.

## **Building Societies PUPS**

- 185** The last review of limits on individuals and corporate deposits in tax free Class C Paid up Permanent shares with Building Societies was in 1999. However, inflation has since risen significantly. I, therefore, propose to raise these limits from \$1.4 million and \$1 million, to \$5 million and \$3.5 million, respectively.

## **POSB Fixed Deposits**

- 186** In order to also maintain the flow of deposits into the People's Own Savings Bank (POSB), I propose to raise the limit on fixed deposits from \$3 million and \$2.5 million for individuals and corporates to \$5 million and \$3.5 million, respectively.

## **X) FINANCING**

### **Domestic Financing**

- 187** Mr Speaker Sir, the size of the deficit and its financing from bank sources will continue to pose a number of challenges during 2003.
- 188** In last year's Budget, we alluded to our intention to increase the proportion of medium and long-term debt to at least 40%. While 70% of our debt is now in the form of two-year treasury bills, I believe there is significant scope for improvement.
- 189** I, therefore, propose to float longer-term instruments, that way increasing the proportion of medium to long term debt to 80%. Support by the financial industry will be critical for success.

### **Privatisation**

- 190** Mr Speaker Sir, the privatisation programme slowed down significantly in 2002. However, if successfully carried out, privatisation raises both

domestic and foreign currency for the Budget. It also creates opportunities for increased participation by the indigenous, reduces monopolies and contributes to growth.

- 191** I have alluded to the fact that in 2002 we only sold \$10.2 million worth of assets, far below the target of \$40.9 billion envisaged in the Budget. I am, therefore, determined to ensure that privatisation gains momentum in 2003 so that we realise a target of \$20 billion.

## **XI) CONCLUSION**

- 192** The success of the 2003 Budget to address the challenges that the country currently faces will depend on us implementing bold and painful economic policies timeously and in their entirety. Structures to minimise policy reversals, nurture participation of stakeholders, and ensure the predictability and consistency of policies will be critical. These encompass the management of social and economic challenges in the national interest.
- 193** Close monitoring of implementing agencies will ensure effective delivery of policy objectives and outcomes. As some of the policies pose temporary hardships on the population, there is need for us to remain focused on the goal of extricating the economy from its current problems and putting it back on a path of sustainable growth and development.
- 194** A conducive socio-political environment is also required to direct effort at resolving economic difficulties that face the Nation. Above all, in order to achieve our desired goal of agro-led development we need to achieve unity of purpose among all stakeholders in the development process. In this way, the challenges we face can be overcome.
- 195** Mr Speaker Sir, allow me to conclude with a message from the Prophet Jeremiah. In Chapter 29, verse 11, he says “For I know the plans I

have for you, declares the Lord. Plans to prosper you and not to harm you. Plans to give you hope and a future.”

**196** I believe Mr Speaker, God has a similar plan for Zimbabwe as well.

**197** Mr Speaker Sir, I now lay on the Table, Estimates of Expenditure for the year 2003.

**I THANK YOU.**

**HARARE**

**November 14, 2002.**



