



ZIMBABWE

The 2004 National Budget Statement

**Presented to the Parliament of Zimbabwe
on Thursday November 20, 2003**

By

**THE MINISTER OF FINANCE AND ECONOMIC
DEVELOPMENT**

THE HON. HERBERT M. MURERWA, M.P.

THE 2004 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** Mr Speaker Sir, the country has once more experienced another year of severe socio-economic hardships. The sanctions imposed on the country have worsened the economic environment. These hardships have manifested themselves in rising inflation, erosion of real incomes, critical foreign exchange shortages, decline in savings and investment, capacity under-utilisation, company closures and high unemployment. The HIV/AIDS pandemic has compounded the situation. As a result, the economy is estimated to contract by 13.2% this year and inflation to peak at about 600% by December 2003.
- 3** Our economy's performance vis-à-vis that of the region as well as the rest of the world, limits Zimbabwe's capacity to play its role in the global economy and effectively participate in international relations.
- 4** World economic output has been on an upward trend and is estimated to grow by 3.2% in 2003. Higher growth of 4.1% is projected for 2004. Consistent with these positive growth rates, inflation remained very low, at about 1.6% in 2003 and is projected at 1.8% in 2004.

- 5 In the rest of the SADC countries, positive performances are also being experienced, with average growth rates of 2.6% and inflation of 15.3% in 2003, with a further decline to 8.1% in 2004.
- 6 Rapid development of informal and parallel markets for both goods and foreign exchange are entrenching a growing shadow economy, with rising incidences of rampant corruption in both the private and public sectors. Work and business ethics are fast disappearing as people aspire and search for overnight wealth.
- 7 Uneconomic pricing, management deficiencies and operational inefficiencies of some of our public enterprises have also negatively impacted on the budget and hampered their contribution to economic recovery.
- 8 Mr Speaker Sir, inspite of all the difficulties I have alluded to, the economy remains resilient. Our nation possesses all the ingredients to tackle our challenges head-on, for a successful economic turn-around. These ingredients include, among others, skilled human resources, developed infrastructure, and abundant wildlife and mineral resources. The ushering in of an agrarian culture in our country, which has given our people a new sense of empowerment, will provide an anchor for a broad-based economic revival.
- 9 It is, therefore, critical that the 2004 Budget addresses the challenges I have just highlighted. Specifically, focus should be on containing inflation, increasing the capacity to generate more foreign currency, supporting the productive and export sectors, enhancing conditions for increased private sector involvement, improving infrastructure, job creation, economic empowerment and the delivery of social services. Measures will also be undertaken to enhance the efficient use of public resources and the elimination of corruption in both the public and private sectors.

iii) THE PRIORITIES AND POLICY THRUST OF THE 2004 BUDGET

a) Inflation

- 10** Mr Speaker Sir, inflation remains our number one enemy, whose containment requires total and unwavering commitment and collaboration of all stakeholders.
- 11** In order to arrest rising inflation and reduce it initially to double-digit levels and ultimately to single digit figures, Government will rigorously implement fiscal and monetary stabilisation measures. These will be complemented by structural measures to invoke an immediate positive supply response from the productive sectors of the economy.
- 12** Mr. Speaker Sir, central to achieving macroeconomic stabilisation will be fiscal discipline and increased focus on the efficient use of resources, aimed at attaining the desired target inflation levels for the economy. It will be necessary to implement complementary monetary policies.
- 13** Critical and consistent stabilisation policies to be implemented during 2004 will be as follows:-

Fiscal Policy

Recurrent Expenditure Management

- 14** Beginning with the 2004 Budget, Government will match recurrent expenditures to current revenues. Budget borrowings will only be allowed for capital expenditures as well as infrastructure development. Furthermore, unbudgeted expenditures will only be restricted to national emergencies. Ministries will be expected to live within their budget provisions.

Public Enterprises

- 15 Public enterprises are being directed to charge economic and viable prices so as to ensure their financial independence from the national budget. Their borrowings from the market will be on the strength of their balance sheets with limited recourse to government guarantees.

Air Zimbabwe

- 16 The continued viability of Air Zimbabwe is critical for its operations, the promotion of tourism and national pride. It is therefore imperative that it charges economic prices on all its routes. Government also undertakes to facilitate the introduction of a strategic partner for our national airline. This should enable Air Zimbabwe to re-capitalise, and enhance service and market share in the region and beyond.

National Oil Company of Zimbabwe (NOCZIM)

- 17 In view of the deregulation of the fuel industry, NOCZIM will continue to supply fuel to the public sector as well as the agricultural sector and is expected to charge break-even prices for all its products.

Grain Marketing Board (GMB)

- 18 The adjustments to maize and wheat producer prices have not been consistently passed on and reflected in selling prices. This has led to very costly commercial borrowing for the GMB. To achieve break-even levels, the GMB is expected to diversify its operations. In this regard, Government will provide resources to expand its milling operations.

National Railways of Zimbabwe (NRZ)

- 19** The performance of the National Railways of Zimbabwe has been severely undermined by inadequate capitalisation and poor revenue recoveries. As a result, infrastructure maintenance and the provision of basic passenger and freight services are severely strained. In particular, the availability of passenger coaches, wagons and locomotives is no longer guaranteed.
- 20** Commercial rates, which are now applicable to inter-city rail passenger services and general freight, have improved revenue flows. Similarly, fares on urban commuter routes will be reviewed to levels, which allow recovery of operating costs.
- 21** Furthermore, NRZ is exempted from the fuel-based road levy, with effect from 1st January 2004. This exemption will improve NRZ's cash flow to the tune of \$60 million.

Quasi-fiscal Operations

- 22** Large quasi-fiscal requirements, mostly financed from inflationary bank sources, have immensely contributed to the prevailing runaway inflation. The cumulative impact of these operations over the years has resulted in an unsustainable large borrowing requirement in excess of \$150 billion. This was in respect of tobacco and gold support schemes, GMB and ZESA support, as well as NOCZIM advances arising from uneconomic pricing policies.
- 23** Beginning in the 2004 Budget, Government will narrow and ultimately avoid such unbudgeted quasi-fiscal operations. The Reserve Bank is now authorised to dishonour all such payment requests and obligations outside the budget framework.

Use of Resources

- 24 To ensure efficient use of resources by the central government, local authorities and public enterprises, Government will engage both public and private auditors to strengthen value for money audits and impose penalties on wasteful use of resources.
- 25 Further, quarterly disbursements will only be made upon satisfactory accountability of disbursed funds.
- 26 An Implementation and Control of Expenditure Unit (ICEU) is being set up to strengthen the capacity of line Ministries to implement and monitor development activities. I have allocated some resources for the Unit in the Budget.

Monetary Policy

- 27 Mr Speaker Sir, a significant reduction in the growth of money supply is critical for containing inflation. This will entail the following:

Inflation and Money Supply Targets

- 28 The Reserve Bank will target money supply growth to levels consistent with the desired inflation path. The Governor of the Reserve Bank will make the necessary announcement in the Bank's Monetary Policy Statement by mid-December 2003. In addition, the Bank's supervisory role will be strengthened.

Concessional Facilities

- 29 The utilisation of concessional facilities will be reviewed and monitoring will be strengthened with a view to eradicating their abuse for speculative activities, which fuels inflation.

Interest Rates

- 30** Mr Speaker Sir, our economy continues to battle against inflation on the one hand and economic contraction on the other. In this regard, Government will pursue an interest rate policy, which will encourage growth on one hand, while fighting inflation on the other through discouraging speculative and consumptive borrowing. The details will be announced in the Monetary Policy Statement to be issued by the Governor of the Reserve Bank of Zimbabwe by mid- December 2003.

Other Measures

- 31** Mr Speaker Sir, the above measures, on their own, are inadequate to achieve economic recovery. Additional measures include support to generate a positive supply response. I will, therefore, be proposing expenditure and revenue measures in support of productive sectors and infrastructure development. Economic activity will also crucially depend on increased foreign exchange mobilisation and generation.

b) Exchange Control

- 32** Mr Speaker Sir, ensuring adequate availability of foreign exchange will require concerted efforts to account for and harness all the foreign currency that is due to Zimbabwe. The recommendations of the Cabinet Taskforce on Foreign Exchange Management will form an integral part of a strategy to achieve this.
- 33** Some foreign currency leakages have, evidently, been through locally registered companies that have been granted Export Processing Zone status. These companies borrow Zimbabwe dollars and also raise foreign exchange from the domestic market, but retain 100% of their foreign exchange earnings, as they are not subject to Exchange Control Regulations.

- 34** In order to stamp out foreign currency leakages in this sector, appropriate changes will be effected to make Exchange Control Regulations applicable to all locally registered companies operating in the Export Processing Zone area.
- 35** All other incentives relating to Export Processing Zone companies shall remain unchanged.

Viability of Enterprises

- 36** The viability and competitiveness of all sectors of the economy especially earners of foreign exchange will receive renewed attention by Government to ensure growth in foreign exchange generation, increased domestic production and elimination of parallel market activities.
- 37** In this regard, the Government will mobilise resources through the Reserve Bank of Zimbabwe, targeted at specific products and all sectors of the economy with a quick turn around in terms of export generation. The details are to be announced in the Governor's Monetary Policy Statement.

Non-Resident Remittances

- 38** Government, through the Reserve Bank, has put in place institutional structures and implementation modalities to mobilise foreign currency from Non-resident Zimbabweans through the formal financial system. Plans for its implementation are at an advanced stage and will be disclosed in the Governor's Statement.

c) Generating Supply Response

- 39** Mr Speaker Sir, I have already alluded to the need for measures

to fight inflation through inducing production supply responses. These will include the following sector specific measures:

Agriculture

- 40** In Agriculture, Government is making budgetary allocations to support A1 farmers' requirements in the form of inputs, tillage and equipment. Tax and non-tax incentives are also being availed to private players supporting the Agrarian Reform.
- 41** In addition, Government has put in place a mechanism for private sector support to both A1 and A2 farmers. This incorporates features of the already signed Memoranda of Understanding between the Ministry of Lands, Agriculture and Rural Resettlement and the private sector. Government is also facilitating contract farming and providing extension services.
- 42** In the beef industry, Government will increase capacity utilisation of the Cold Storage Company (CSC) through private sector concessioning arrangements over unutilised abattoirs and partial debt take-over.
- 43** In order to empower rural communities, whose contribution to agricultural production is significant, Government is establishing a Rural Capital Development Fund to be operationalised through District and Provincial Development Committees structures, under the co-ordination of the Ministry of Rural Resources and Water Development.
- 44** Furthermore, recommendations of the Presidential Land Review Committee will be implemented in order to speed up the land reform programme and improve productivity in agriculture. Particular attention will also be paid to the protection of the environment in order to avoid deforestation.

Manufacturing

- 45** The manufacturing sector has been operating below capacity, in most instances below 50%. This has been largely due to shortage of foreign currency, transport bottlenecks, loss of skilled labour and unreliable supply of energy.
- 46** In order to reverse this trend and arrest de-industrialisation, the following interventions will be introduced:
- Launch an Industrialisation Development Strategy.
 - Evaluate the Distressed Companies Fund with a view to strengthening it. Support from this Fund will particularly target exporters while the qualifying criteria would be made stringent in order to avoid its abuse.
 - Introduce a graduated incentive structure to encourage increased value addition through product beneficiation. This will promote manufactured exports and reduce our over reliance on primary exports.
 - Encourage creation of strategic partnerships and alliances with key international players in industry in order to enhance our capacities. This will improve our global competitiveness and enhance technology transfer.

Mining

- 47** Mr Speaker Sir, given the heavy reliance of the mining sector on foreign markets, a fixed exchange rate under an environment of rising inflation has seriously undermined its viability and competitiveness. In addition to the exchange rate measures outlined above, the following will be undertaken:
- Recapitalise the Mining Industry Loan Fund in support of small miners;

- Support the re-capitalisation of critical mines such Wankie Colliery;
- Avail resources in support of capitalising Metallurgical Services for skills development and acquisition of the necessary equipment. This is intended to improve surveillance of exported minerals and metals.

48 Mr Speaker Sir, Government has noted with concern rampant deforestation and environmental degradation owing to small mining activities such as gold panning. In order to reverse this degradation and rehabilitate the environment, the Ministry of Environment & Tourism will put in place a National Environmental Policy. Meanwhile, Government and Local Authorities will enforce by-laws, and provide incentives to firms and communities, who participate in the protection of the environment.

Tourism

49 The sector continues to experience constraints associated with negative perceptions arising from adverse publicity and shortages of fuel. In order to realise full potential in this sector, Government will avail more resources for extensive promotional campaigns for Zimbabwe as a tourist destination. Further, the existing tourism infrastructure will be upgraded to international standards.

d) Infrastructure Development

50 Mr Speaker Sir, practically, all infrastructure in the country urgently requires rehabilitation, upgrading or expansion. In particular, the capacity as well as the quality of services provided in sectors such as water, roads, railways, airports, electricity, edu-

cation, health, post and telecommunications pose serious bottlenecks to the country's economic growth prospects.

- 51 At the same time, Government as the traditional financier and provider of the above infrastructure services is facing severe financial constraints. Therefore the Government will involve the private sector through concessioning and Build Operate and Transfer (BOT) schemes in order meet the gap. Concessions will be explored with foreign operators for the rehabilitation and upgrading of the railway track and signalling systems.
- 52 In addition, the road dualisation programme will continue to be financed through budgetary allocations complemented by private sector participation on a BOT basis.
- 53 Further, Government will in particular institute measures to restore the vibrancy of the transport sector. In this regard, the recapitalisation of the National Railways of Zimbabwe will be expedited, given its central role in the economy. This Budget will avail resources for the refurbishment of railway locomotives and wagons by local companies.

e) Social Services Delivery

- 54 The decline in the quality and quantum of social services delivery presents another challenge for this budget. In addition to budgetary allocations to resuscitate the sector, incentives for greater public-private partnership in the provision of social services will be introduced.

iv) 2003 BUDGET OUT-TURN

- 55 Mr Speaker Sir, before I give you the economic outlook and estimates of expenditure for the 2004 Budget, allow me to present the anticipated budget outturn for 2003.

- 56** Total expenditure for the year is estimated at \$1.442 trillion, against revenues of \$1.141 trillion. This gives a deficit of \$301 billion or 7.5% of GDP. Inclusion of quasi-fiscal expenditures, however, increases the estimated budget deficit out-turn to over 11%.

ECONOMIC OUTLOOK FOR 2004

- 57** Mr Speaker Sir, the 2004 economic outlook which forms the basis of my expenditure and revenue proposals is as follows:

- Real GDP decline will decelerate from 13.2% this year to 8.5% in 2004;
- Inflation will initially rise to above 700% during the first quarter of 2004 due to the momentum it has gathered this year. However, it is my projection that inflation will start to dissipate thereafter in response to both monetary and fiscal measures to be implemented in 2004.

- 58** I anticipate nominal GDP for 2004 to be \$24.63 trillion. Given a revenue to GDP ratio of 28%, revenues will be about \$6.9 trillion. Total expenditures will amount to \$8.74 trillion giving a deficit of \$1.85 trillion, which translates to 7.5% of GDP - a stand still position compared to 2003 in the absence of significant international flows.

v) ESTIMATES OF EXPENDITURE FOR 2004

- 59** Mr Speaker Sir, the above challenges and policy measures form the basis for allocating resources under the 2004 budget and guide our economic development path.

Recurrent Expenditure

- 60 Mr Speaker Sir, I have allowed recurrent expenditure of \$7.75 trillion with Constitutional and Statutory Appropriations accounting for \$1.33 trillion.

Social protection

- 61 The implementation of the measures contained in this Budget will entail transitional hardships especially for the vulnerable groups. I therefore propose to allocate \$70.9 billion towards social protection programmes under the Ministry of Public Service, Labour and Social Welfare. This amount includes \$48 billion for drought relief. Mr Speaker Sir, at this juncture allow me to acknowledge the support of our co-operating partners in drought alleviation, mitigating the HIV/AIDS pandemic and other humanitarian assistance.
- 62 In addition, I propose to allocate \$3.5 billion in order to assist disadvantaged children under the Basic Education Assistance Module (BEAM) programme for assistance with school fees.
- 63 The global allocation for the Ministry of Public Service, Labour and Social Welfare amounts to \$467.97 billion, which also includes grants to the Premier Medical Aid Society (PSMAS) and the National Social Security Authority (NSSA) of \$105 billion and \$9.5 billion, respectively, as employer contributions.

Health Services

- 64 Mr Speaker, Sir, in order to address the challenges in the health sector, I propose to allocate \$701.2 billion to the Ministry of Health and Child Welfare, which will cater for field programmes and procurement of drugs.

- 65 Mr Speaker Sir, there is a significant number of our people with special health needs. In recognition of this, I propose to allocate \$500 million for this purpose.

Education

- 66 Honourable Members may be aware that we have scored significant gains in the education sector. However, of late the quality of education has been compromised owing to resource constraints. I, therefore, propose to allocate a total of \$2.08 trillion for the two Ministries of Education. Of this amount, \$1.52 trillion will be for the Ministry of Education, Sport and Culture and \$557.7 billion for Higher and Tertiary Education.
- 67 The proposed allocations are motivated by the need to provide adequate infrastructure, basic teaching materials, adequate per capita and equalisation grants.
- 68 Under Education, Sport and Culture, an amount of \$7.7 billion covers tuition and learning materials. I also propose to allocate \$11.1 billion as a grant to the Zimbabwe Schools Examination Council, in order to enhance the administration of our examinations.

Science and Technology

- 69 In view of role that science and technology plays in providing a basis for innovation, value addition and enhancing competitiveness of industry and commerce. I propose to allocate \$20.1 billion for both recurrent and capital budget requirements for SIRDC and the Department of Science and Technology in the Office of the President and Cabinet.
- 70 Mr Speaker Sir, our success in Tunisia depends on thorough preparation by the national team. In this regard, I propose to

allocate \$1.4 billion for the Warriors' Tunisia campaign. This allocation falls under the grant to the Sport and Recreation Commission.

Maintenance of Infrastructure

- 71** The quality and development of infrastructure in any economy is one of the major determinants of economic growth. Its maintenance and rehabilitation is critical. I have, therefore, made a total provision of \$157.6 billion for infrastructure maintenance in the Budget. Of this amount, \$96 billion has been set aside for road maintenance and \$25 billion for Government buildings.

Agriculture

- 72** Mr Speaker Sir, the call for increased funding for agriculture remains imperative. This, however, should be purposefully programmed and targeted to incorporate incentives for private sector involvement.
- 73** I propose to allocate a sum of \$439.8 billion to the Ministry of Lands, Agriculture and Rural Resettlement. This allocation includes a provision of \$25 billion for agricultural inputs for communal farmers. Other farmers will benefit from resources under the Agricultural Development Bank. The allocation also includes \$15.4 billion for suppression of animal diseases. Allocations to Veterinary Services and Agricultural Research and Extension Services (AREX) have been increased to facilitate vehicle hire, field trials, training and other operational activities.

Mines

- 74** Honourable Members will be aware that Government is in the process of building capacity of the Ministry of Mines and Mining

Development in response to the challenges we face in the mining sector. This explains my proposed allocation of \$22.1 billion to the Ministry. The allocation includes an amount of \$5 billion as support to small-scale miners through the Mining Industry Loan Fund.

Local Authority Debt

- 75 Mr Speaker Sir, Government remains committed to reducing its indebtedness to local authorities. I propose to allocate \$17 billion for this commitment under the Ministry of Local Government, Public Works and National Housing. It is expected that the local authorities concerned will put these resources to critical social and economic programmes.

Defence and Security

- 76 Mr Speaker Sir, for defence and security, I propose a total allocation of \$1.27 trillion for the operations of our forces, with salaries, wages and allowances accounting for \$854 billion. Of the total allocation, \$661.1 billion is for the Zimbabwe National Army, \$128.7 billion for the Air Force, \$339.8 billion for Zimbabwe Republic Police and \$142.7 billion for Zimbabwe Prisons Service.

Resource Use

- 77 Mr Speaker Sir, appreciating the significance of value for money in public spending is important in reducing wasteful expenditures. It is imperative that we enhance expenditure tracking, which entails monitoring and evaluation of projects and programmes from both a physical and financial perspective. I am therefore, proposing an allocation of \$5 billion under my Ministry with a specific subhead which, I have designated - 'Implementation and Control of Expenditure Unit (ICEU)'.

- 78** The monitoring will be undertaken in conjunction with key stakeholders such as the Portfolio Committees, the Public Service Commission, Comptroller and Auditor General's Office

Wage Bill

- 79** Mr Speaker Sir, the brain drain has become an important policy challenge both in Government and the private sector. It is also pertinent to note that the country is not reaping the dividends from the massive investment in human capital, which the Government made since independence, as professionals and skilled workers emigrate to other countries in search of greener pastures. In addition, the high levels of inflation have seriously eroded civil service wages and frequent strikes, particularly in the health sector have dislocated service delivery.
- 80** In cognisance of the need to address this problem, I have allocated \$3.18 trillion for wages and salaries in the civil service. It is my hope that this will, to some extent, go a long way in alleviating the plight of the civil servants.

Capital Expenditure

- 81** Mr Speaker Sir, as I mentioned above, it is critical that we begin to re-orient our budget towards development projects and programmes. In line with this policy thrust, I intend to increase total capital expenditure from 10% in 2003 to 11.3% in 2004. I propose to allocate \$991,3 billion for capital development.
- 82** Let me now turn to specific proposals for 2004 under the Public Sector Investment Programme (PSIP).

Rural Capital Development Fund

- 83** Mr Speaker Sir, currently there are many community based initiatives such as Rural Development Fund, Community Action Programme, the Integrated Rural Water and Sanitation Programme and the Dry Areas Development Programme. These have resulted in the duplication of effort and wastage of resources. I therefore, propose to rationalise these initiatives into a single Rural Capital Development Fund under the co-ordination of the Ministry of Rural Resources and Water Development. I have proposed an allocation of \$16 billion to be distributed equally among respective provinces.

Agriculture

- 84** In order to improve productivity, mitigate the effects of drought and restore the viability of the agricultural sector, I have allocated \$587.6 billion to be channelled towards irrigation rehabilitation and development, mechanisation, capitalisation of the Agricultural Development Bank, livestock production and enhanced extension services.

Transport and Communication

- 85** In order to strengthen this sector, I propose to allocate \$148.5 billion towards rehabilitation and construction of roads and bridges, procurement of vehicles for CMED as well as refurbishment of the NRZ's infrastructure and provision of postal services. The above allocation will also provide for the dualisation of the Harare-Masvingo and Harare-Gweru roads.

Social Sector

- 86** I propose to allocate \$115,2 billion towards construction of facilities at institutions of higher learning, hospitals and secondary

schools. Included in this provision is \$17,1 billion for the refurbishment and rehabilitation of infrastructure at institutions of higher learning, especially at the University of Zimbabwe where infrastructure has reached an advanced stage of deterioration.

Tourism

- 87** The tourism sector has quick turn-around potential for generating foreign currency. In recognition of this, I propose to allocate \$21 billion towards the refurbishment and upgrading of major airports and tourism facilities. Included in this amount, is a sum of \$17.9 billion for upgrading the Harare, Joshua Nkomo and Buffalo Range Airports. A further \$2.2 billion has been set aside for the upgrading of tourism facilities in the Gonarezhou Transfrontier Park.

Support to Local Authorities

- 88** The delivery of critical services such as housing, water, sewer reticulation and health, by local authorities has been constrained by the difficult macroeconomic environment over the years. To address this challenge, I have allocated \$40.8 billion in this budget.

Economic Empowerment and Employment Creation

- 89** In an endeavour to promote and encourage participation of indigenous persons in the development of our economy, I propose to allocate \$8.5 billion for the recapitalisation of the Small Enterprise Development Corporation (SEDCO). This institution plays a critical role in the development of Small and Medium Scale Enterprises (SMEs). I also propose to make provision, within this budget, of a further \$5 billion as capital injection into the Zimbabwe Development Bank (ZDB). I further propose to allocate \$1.5 billion to the Venture Capital Company of Zimbabwe (VCCZ).

Civil Service Housing Programme

- 90 Mr Speaker Sir, most civil servants are facing accommodation problems. Honourable Members will recall that I allocated \$1 billion in the 2003 Budget for this programme. I propose to set aside \$10 billion for this purpose in the next fiscal year.

Budget Support

- 91 Honourable Members will appreciate that the cost of service delivery has been escalating on account of inflation. I have therefore had to set aside some resources to take account of this, representing 15% of the overall budget, for contingency budgetary support under my Ministry.

vi) REVENUE PROPOSALS

- 92 Mr Speaker Sir, in response to consultations held with various stakeholders, the 2004 revenue measures seek to address the following issues:

- Enhancement of disposable income in the hands of tax payers thereby stimulating aggregate demand;
- Intensification of revenue collection from the informal sector thereby widening the tax base; and
- Stimulation of economic activity through provision of incentives.

INCOME TAX

Individual

Pay As You Earn (PAYE)

- 93 Mr Speaker Sir, high levels of inflation have eroded the purchasing power of workers. I therefore, propose to take meas-

ures that will give relief to individual taxpayers from the effects of these developments.

- 94** With effect from 1st January 2004, I propose to increase the individual income tax threshold from \$180 000 to \$2 400 000 per annum and also widen the income tax bands to end at \$4,5 million above which income will be taxed at 45%. This measure will release \$1,2 trillion to taxpayers.

Bonus

- 95** Bonus represents additional income to taxpayers, which they use to purchase durable consumer goods. In view of the surge in inflation I also propose to increase the tax-free portion of the bonus or performance related award from \$20 000 to \$100 000 with effect from 1st November 2003, thereby releasing \$14.4 billion to the taxpayers.

Credits

- 96** Income tax credits are used to alleviate the tax burden on the elderly, blind and disabled. I propose to increase the income tax for the elderly, blind and disabled from \$20 000 to \$120 000 with effect from 1st of January 2004.

Tax Free Pension Contribution

- 97** Pension contributions are an important part of savings mobilisation in any economy. The value of these pension contributions have however, been adversely affected by the current high rate of inflation. I propose to increase the allowable tax free pension contribution from \$90 000 to \$720 000 per annum with effect from 1st January 2004.

Commutation from Pension and Provident Fund

- 98** The tax-free portion on a commutation of a pension is currently pegged at \$250 000 or one third of a lump sum whichever is greater. I propose to increase the tax-free portion to one million or one third of the lump sum whichever is greater with effect from 1st January 2004.

Contribution to Pension/ Retirement Annuity Funds

- 99** Mr Speaker Sir, the Pension and Provident Funds regulations provide that the aggregate maximum yearly contributions that a member can make to a Pension/Retirement Annuity Fund should be limited to 25% of the member's gross salary as declared for tax purposes in the previous year. In order to enhance savings, I propose to remove the restriction with effect from 1st January 2004.
- 100** Severance packages are a source of income that can be used to start up small to medium scale enterprises. It is therefore important that taxpayers remain with a large portion of disposable income after tax. The tax-free severance package is currently pegged at \$300 000 or 1/3 of \$1, 5 million whichever is greater. I propose to increase the tax-free portion of the severance package to \$1,5 million or one third of the severance package.

DEEMED BENEFITS

Motor Vehicles

- 101** The current threshold of motor vehicle deemed benefits range from \$240 000 to \$900 000 depending on the engine capacity. I

take full cognisance of the fact that the motor vehicle benefit is important to retain skills. However the cost of maintenance of these vehicles has escalated due to the currently obtaining high inflation. I therefore propose to increase the benefits as follows:

Engine Capacity	Proposed Deemed Benefit
Up to 1500 cc	\$600 000
1501 to 2000.cc	\$1 260 000
2001 to 3000 cc	\$2 480 000
Over 3000 cc	\$3 312 000.

Carbon Tax

- 102** Mr Speaker Sir, I propose to review the rates of carbon tax with effect from 1st January 2004, as follows:

Engine Capacity	Tax Level
Up to 1500 cc	\$20 000
1501 to 2000 cc	\$35 000
2001 to 3000 cc	\$50 000
Over 3000 cc	\$100 000

COMPANIES AND TRUSTS

Corporate Tax

- 103** Mr Speaker Sir, corporate tax is currently pegged at a rate of 30%. I propose to maintain the corporate tax rate at the current level.

Capital Allowances

104 Capital allowances are one of the incentives that enhance productivity of companies. The value of these incentives has however been eroded by inflation. I propose the following adjustments with effect from 1st January 2004

- Passenger motor vehicles: - from \$1 million to \$10 million
- Staff housing: - from one million with upper of limit of \$3 million to \$15 million with an upper limit of \$50 million
- Schools hospitals and clinics: - from \$10 million to \$50 million

Deposit Protection Scheme

105 One of the objectives of the Deposit Protection Scheme is to build a sustainable fund, from which depositors will be paid should a financial institution fail. In the absence of such a fund, the fiscus may be called upon to bear the responsibility for reimbursing depositors or bailing out failing banks. The introduction of the Scheme will contribute towards the stability of Zimbabwe's financial system. I therefore propose to exempt the Scheme from income tax and withholding tax on interest with effect from 1st January 2004.

Allowable Deductions in Respect of Donations

106 Maximum allowable deductions in respect of donations to schools, hospitals and clinics, research and development were fixed during the last fiscal year. In order to encourage private sector participation, I propose to increase the allowable deductions, with effect from 1st January 2004, as follows:

- Schools: from \$10 million to \$100 million;
- Hospitals and Clinics: from \$10 million to \$100 million;
- Research and Development: from \$20 million to \$100 million.

107 I further propose to introduce a section, which allows for the deduction of amounts donated to the Public - Private Partnership Fund to a maximum of \$100 million.

Convention Attendance

108 The maximum allowable expenditure for attendance of a convention or trade mission is currently pegged at \$100 000 incurred during the year of assessment. In view of the importance of trade missions in promoting exports, I propose to increase the maximum allowable expenditure to \$5 million with effect from 1st January 2004.

Royalties

109 Mr Speaker Sir, the Mining Tax Regime, which was introduced in 2001, included royalties among other measures. Collection of royalties will commence on the 1st of January 2004. In line with regional and international practice, I propose that the Income Tax Act be amended to allow for deduction of expenditure on royalties with effect from 1st January 2004.

Thin Capitalisation

110 Mr Speaker Sir, to close loopholes under which companies in the same group claim tax deductions on interest charges arising from intra-company lending, I propose to extend the thin capitalisation provisions that are currently applied on the mining sector to other sectors with effect from 1st January 2004.

Automated Financial Transactions Tax

- 111** The automated financial transaction tax is currently charged at the rate of \$5 for each transaction. Due to the higher inflation, I propose to increase the rate to \$50 for each transaction with effect from 1st January 2004.

Revenue Protection Measures

- 112** Mr Speaker Sir, due to rampant tax evasion, it has become necessary to empower the Commissioner General to estimate PAYE not remitted within the required period.
- 113** I further propose to realign the Statutory Rate of Interest to the prevailing Treasury Bills rate. ZIMRA will also be required to pay interest at the same rate on delayed payment of refunds due to taxpayers.
- 114** In addition, the Income Tax Act will be amended to enable interest on withholding tax to become payable after due date. The Customs & Excise Act will also be amended to provide for the charging of interest on duty paid after the time of importation and the penalty rate will be increased for repeating offenders from 100% to 300%.

STAMP DUTY

Marketable Securities

- 115** Stamp duty is chargeable on marketable securities at a rate of \$1 for every \$100 or part thereof. The rate was last reviewed in 2001. I propose to increase the rate to \$5 for every \$100.

Cheques

- 116** Currently the stamp duty payable on any cheque is \$5. I propose to increase the amount to \$50.

CAPITAL GAINS

Inflation Allowance

- 117 The inflation allowance used in the calculation of capital gains tax is currently pegged at 50%. In view of the hyperinflationary environment, I propose to increase the inflation allowance to 100% of original cost with effect from 1st January 2004.

Withholding Capital Gains Tax

- 118 Under the withholding tax on capital gains, a tax clearance certificate is required before property transfer. With effect from 1st January 2004, I propose to waive this requirement in the following circumstances:

- Transfers ordered by the Court ,
- Sale in execution of immovable property by the Sheriff of the High Court, and
- Where the transaction is wholly financed by a Building Society.

ESTATE DUTY

- 119 Mr Speaker Sir, estate duty rebates are currently pegged at \$5 million and \$10 million in respect of a surviving spouse or surviving minor children, respectively. I propose to increase the rebates to \$20 million and \$40 million where there is a surviving spouse or surviving minor children, respectively.

Value Added Tax (VAT)

Rate

- 120 Mr Speaker Sir, VAT will replace Sales Tax with effect from 1st January 2004. I propose to introduce VAT at a standard rate of 15%.

Registration/Refunds Thresholds, Zero Rating & Exemptions

- 121** I propose that registration/refunds thresholds, zero rating and exemptions be moved from the Principal Act to subsidiary legislation.

VAT EXEMPTIONS

Agricultural Machinery

- 122** In order to support agricultural activities and boost productivity in this sector, I propose to expand the exemption schedule to include agricultural machinery.

TOURISM

Accommodation & Other Services Paid For In Foreign Currency

- 123** Under the current Sales Tax legislation, sales tax is not payable on accommodation and other tourism related services provided non-residents pay for them in foreign currency. I propose to extend this provision under the Value Added Tax.
- 124** Mr Speaker Sir, I further propose to expand the exemption list to include the following:
- Hospitals and Nursing homes
 - Educational services
 - Financial services and
 - Fuel.

NOCZIM Debt Redemption Levy

- 125** Before the liberalisation of fuel procurement, amortisation of the Noczim debt was part of the pump price build up. In view of the

many Direct Fuel Importers now involved, I propose a levy of \$110 per litre of diesel and petrol, both leaded and unleaded, to be collected at the point of entry by ZIMRA. This measure is effective from 1st December 2003 and does not include illuminating paraffin and aviation fuel.

CUSTOMS DUTY

Selected Goods Imported by Local Authorities

- 126** In support of improving provision of such Local Authority amenities as refuse collection, road maintenance etc, I propose to remove duty on refuse collection and road maintenance trucks with effect from 1st December 2003.

Commuter Omnibus Transport

- 127** In order to ease commuter omnibus transport problems, I propose suspension of customs duty on commuter omnibus with a carrying capacity of 26 passengers and above. This is with effect from 1st December 2003.

EXCISE DUTY

- 128** Mr Speaker Sir, specific rates of duty on spirits have not been adjusted for a long time. I propose to convert the specific rate on spirits to 10% per litre with effect from 1st December 2003.

- 129** I further propose to reduce excise duty on the following products with effect from January 1, 2004 as follows:

- Aerated waters from 15% to 5%
- Cigarettes and tobacco from 85% to 60%
- Opaque Beer from 10 to 0%
- Clear beer from 60% to 40%.

- 130 Value added tax at a standard rate of 15% will be levied on the above products with effect from January 1, 2004.

Building Societies Paid Up Permanent Shares (PUPS)

- 131 Last year, I reviewed limits on individual and corporate deposits in tax-free Class C Paid Up Permanent Shares with Building Societies to \$5 million and \$3.5 million respectively. In light of the inflationary developments, I propose to increase the limits to \$20 million for individuals and \$14 million for corporations.

Peoples Own Savings Bank (POSB) Fixed Deposits

- 132 In the same vein, I propose to raise the limit on POSB fixed deposits from \$5 million for individuals and \$3.5 million for corporates to \$20 million and \$14 million respectively. This will assist in increasing the flow of deposits into the bank.

vii) FINANCING

- 133 Mr Speaker Sir, the projected low levels of external inflows, means that the bulk of the deficit of \$1.85 trillion will have to be financed domestically. This underlines the importance of improving revenue performance, avoiding expenditure over runs and speeding up the pace of privatisation.
- 134 In order to avoid bunching up of public debt service, I will during 2004 institute measures to further restructure domestic debt in consultation with financial community. I am pleased to note commitments to support this exercise as contribution to bring down inflation and foster sustained growth and development.

viii) CONCLUSION

- 135 In this environment, Mr Speaker Sir, we cannot afford to do business as usual. We need to adequately appreciate the magni-

tude of the macroeconomic challenges facing us. This is critical for the introduction and implementation of fully informed policy responses. It is also imperative that we avoid reversals on agreed policy positions and aborting painful measures mid way through implementation.

- 136** It is vital that measures to revive domestic production and exporting are expeditiously implemented. Confidence building, policy consistency and political commitment in policy implementation, re-engagement of partners within the TNF are also critical in fighting inflation and stabilising the economy.
- 137** It is also vital that we protect the integrity and credibility of the budget as an instrument of economic management. This will require that all Ministries and Departments demonstrate their commitment by living within their allocations and the agreed budget framework. Mr Speaker Sir, the role of the Parliamentary Portfolio Committees will be critical in ensuring that this happens.
- 138** Failure to implement agreed measures can only send wrong signals, fuelling self-fulfilling inflationary expectations. We should now address these challenges in earnest, if the economy is to be turned around.
- 139** Mr Speaker Sir, our future lies in our own hands. The challenges that confront us are surmountable provided we show unity of purpose. As one Nina O'nill once said, "Out of every crisis comes the chance to be reborn".

I THANK YOU

HARARE

November 20, 2003.