

# **THE 2006 NATIONAL BUDGET STATEMENT**

## **MOTION**

1. Mr. Speaker Sir, 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.

## **INTRODUCTION**

2. Mr. Speaker Sir, the 2006 National Budget is being presented against a background of high expectations of resuscitating the economic fortunes of the country. This can only be realised by taking bold policy measures to address the challenges facing the economy.
3. We need to be committed and resolute in implementing policies and programmes, which we agree to. It is also necessary that we jolt our people and all economic players, including Government agencies, to realise that we cannot continue with a business as usual approach.
4. Our trade and investment initiatives need to go beyond rhetoric and lay the foundation for the urgent implementation of agreed mutually beneficial trade and

investment programmes. This requires that Government speaks with one voice and walk the talk.

5. Mr. Speaker Sir, vast opportunities exist across all the sectors of the economy especially in agriculture, manufacturing, mining and tourism for individuals to undertake honest business activities that help to create wealth.
6. Capacity utilisation in our industries has to increase substantially for us to generate jobs. Parastatals have to start playing their pivotal role in the economy. The public sector has also to deliver its services efficiently and effectively, while at the same time Government expenditures have to be restructured to prioritise investment in capital and infrastructure. The transformation of the economy requires that we diversify and focus on value addition and import substitution.
7. The 2006 Budget, therefore, has to set out the basis for economic take-off, by creating the necessary enabling macro-economic environment for promoting growth and development.
8. In this regard, Mr. Speaker Sir, the demands on the 2006 Budget have been enormous and I have had to prioritise Government expenditures on the basis of the critical

requirements of the economy and the available resource envelope.

9. Mr. Speaker Sir, during the formulation of this National Budget, I had the opportunity to consult most of the stakeholders throughout the country. In this regard, ten provincial meetings were held with various associations, captains of industry, labour, Members of Parliament, line Ministries and Government Departments, traditional leaders and civic society to mention but a few.
10. Significant and informative contributions were made during this consultation process. I would therefore, like to thank all stakeholders who contributed to the formulation of the 2006 Budget. Allow me also to take this opportunity to thank the Minister of Economic Development, Hon. Rugare Gumbo and his staff for their invaluable contribution to the formulation of this Budget.
11. Mr. Speaker Sir, allow me to inform the August House that Government is finalising the review and updating of the country's long-term economic development Vision, to take account of recent economic challenges and changes in the economic environment. This revised Vision, will also incorporate strategies to realise the objectives and targets of the Millennium Development Goals and will guide the

formulation of our 2007-2011 Five Year National Development Plan.

12. The Ministry of Economic Development is coordinating, the formulation of the 2007- 2011 Five Year National Development Plan, which will involve the full participation of all stakeholders, including grassroots levels. Active participation of stakeholders in the process will be critical.
13. This Plan will anchor our economic policies after 2006, and become the successor to the consistent Economic Policy Framework we have been implementing from last year, as enunciated in "Zimbabwe: Towards Sustained Economic Growth – Macro-Economic Framework 2005-2006."
14. Mr. Speaker Sir, before I present the 2006 Budget, allow me to share with the House, the Global and Regional Economic Environment under which we have formulated this Budget, as well as this year's Economic Performance and Prospects for 2006.

## **GLOBAL & REGIONAL ECONOMIC OUTLOOK**

### *Economic Growth*

15. Mr Speaker Sir, Zimbabwe is part of the Global Village and it is imperative for us to be aware of the implications of the developments in the rest of the world on our domestic economy. Being part of this Global Village imposes obligations on us over the thrust of our economic policies.
16. Preliminary indications to the end of the year indicate slow down in global economic growth to 4.3% in 2005, from 5.1% in 2004, against the background of high oil prices. This growth performance is forecast to be sustained into 2006. Other negative effects on global economic growth included natural disasters in Asia and hurricanes in America. Manufacturing and trade have however, remained buoyant, anchoring world economic growth.
17. High and volatile oil prices still remain a significant global risk, especially for non-oil producing countries.
18. World economic growth in 2005 has been led by China and India with projected real growth rates of 9% and 7.1%, respectively.

19. In Sub-Saharan Africa, economic growth prospects in 2005 have also decelerated from 5.4% in 2004, to 4.8%. This weakening growth reflects the adverse impact of soaring international oil prices, and drought in some countries in Eastern and Southern Africa.
  
20. Mr. Speaker Sir, economic growth in Sub-Saharan Africa is projected to rebound to 5.9% in 2006, on the back of improved macro-economic management and structural reforms.

### *Inflation*

21. Average inflation in developed economies and in emerging markets and developing countries, both picked up slightly to 2% and 5.9%, respectively in 2005. This is forecast to fall slightly in 2006 to 2% and 5.7%, respectively.

## **ECONOMIC PERFORMANCE & PROSPECTS FOR 2006**

### **Real GDP Developments**

22. The high international oil prices, coupled with the poor performance of the past agricultural season, have impacted negatively on the economy, resulting in an anticipated decline of 3.5% in real GDP.
23. The economy also remains susceptible to fluctuations in the terms of trade, as well as adverse international publicity.
24. The resultant foreign currency shortages have constrained the supply of fuel and importation of critical raw materials, thereby undermining capacity utilisation in many sectors of the economy.
25. High levels of inflation have also undermined the competitiveness of industry and have eroded the purchasing power of incomes.

### *Agriculture*

26. The agricultural sector is projected to register a decline of -12.8% in 2005, mainly due to the drought and the

non-availability and/or the delayed availability of critical inputs such as fertilisers, chemicals, equipment and fuel. These have compromised the productive capacity of the sector.

27. This recurrent adversity of drought requires that we confront it through increased concentration of our farming activities under irrigation.

### *Mining*

28. The mining sector is anticipated to register a decline of 5.7% in 2005, largely due to deteriorating international mineral prices, rampant smuggling of gold, diamonds and other precious minerals.
29. With gold accounting for 44% of the country's mineral production, Government will intensify its surveillance and remedial measures to plug off rampant leakages in the industry.
30. Excluding gold, all the other mining sub-sectors registered remarkable positive growth during the year.
31. The platinum industry, which was accorded the strategic mineral status, is however, reflecting remarkable positive growth, with exports increasing by 548%, from

US\$21.8 million between January and September 2004, to US\$141.4 million during the same period in 2005.

32. Coal, which accounts for 12.6% of total mining output, grew by 21.8%, while asbestos accounting for 10.6% in the sector, also out performed 2004 levels by 8.5%.

### *Manufacturing*

33. Mr Speaker Sir, the manufacturing sector which had shown signs of recovery in 2004, slowed down in 2005 and is projected to register a decline of 3%. The sector has seriously been affected by foreign currency shortages for essential raw material imports, as well as narrowing disposable incomes on the back of high inflation.

## **Growth Prospects for 2006**

34. The economy is forecast to grow by between 2% and 3.5% in 2006, with agriculture expected to register a positive growth rate of 14.8%. This is on the back of a normal rain season, increased hectarage under irrigation, timely provision of critical inputs and the introduction of the targeted production programme to promote food security. Growth in the agricultural sector will be driven by increased production of maize (+33%) and cotton (+26%).
35. Improvement in the availability of foreign currency, owing to liberalisation of the foreign exchange management system, coupled with expectations of a normal agriculture season should boost manufacturing production. This should also benefit from vigorous promotion of value addition and import substitution.
36. Improved fuel and electricity supplies, as well as the beneficial effects of toll manufacturing are expected to see an increase in capacity utilization in manufacturing, as well as other sectors of the economy.
37. The mining sector is expected to grow by 27% in 2006, largely due to increased viability in the sector, including gold and asbestos, on the back of favourable

international prices and the liberalised foreign exchange system.

38. Government's ongoing housing development programmes and the Homelink facility will boost the construction industry.

39. The anticipated increase in tourist arrivals, supported by enhanced marketing initiatives under the Tourism Master Plan, and the country's continued track record of peace and tranquillity should also benefit tourism and also contribute to foreign currency generation.

### **Inflation Developments**

40. Mr. Speaker Sir, inflationary pressures have intensified since the second quarter of 2005 underpinned by both demand-pull and cost-push factors, as well as notable exogenous factors such as the drought, sharp increases in international oil prices, as well as inflation expectations.

41. As a result of this re-emergence of inflationary pressures, the annual rate of inflation rose to 411.3% in October 2005.

42. The annual rate of inflation is, however, targeted to decline to around 80% by the end of 2006. This

deceleration in inflation in 2006 is premised on the expected normal rain season, complementary restrictive fiscal and monetary policies and significantly subdued parallel market activities.

### **Balance of Payments Developments**

43. Mr. Speaker Sir, in the external sector, total exports for 2005 are forecast to decline by 6.4%, to US\$ 1 576.1 million. However, although total imports are expected to decline by 2.6% to US\$ 1 938.6 million due to shortages of foreign currency, there will still be a negative trade balance of US\$ 363 million.
44. Export competitiveness and the viability of producers had been undermined by the resurgence of inflation and rising production costs, in the absence of compensatory movement in the exchange rate.
45. The capital account remained without significant inflows, against the background of low grant support, foreign direct investment and long-term capital inflows.
46. The trade balance in 2006 is projected to slightly improve, partly reflecting a growth in exports of 6.3% and an import growth of 3.9%. The capital account will however, continue to remain under pressure in 2006.

## **External Debt**

47. Mr. Speaker Sir, Government remains committed to honouring its external obligations in line with improvements in our balance of payments position. It is on this basis that we have remained engaged with all our creditors, including the Bretton Woods Institutions.

48. Mr. Speaker Sir, Honourable Members will be aware that this year, notwithstanding the difficult foreign exchange environment, we were able to significantly reduce our arrears to the International Monetary Fund (IMF).

49. Mr. Speaker Sir, our efforts to address our external payment arrears have not been limited to the IMF, ADB and World Bank. Significant payments have also been made with regard to the suppliers' credits for both liquid fuel and electricity energy supplies.

50. As I have already alluded to, measures to improve overall economic and export performance remain central to enable the timely payment of our external obligations. This is critical for the development of all future external financial co-operation.

## **Financial Sector Stability**

51. As an integral part of economic takeoff, measures will remain in place to ensure a healthy financial system, playing a supportive role in mobilising savings, as well as financing investment.
  
52. Collaborative efforts between the Ministry of Finance and the Reserve Bank will ensure that any occurrences of mismanagement or delinquent behaviour in the financial sector are dealt with swiftly.

## **BUDGET OUTTURN FOR 2005**

53. Mr. Speaker Sir, the 2005 Budget as presented in November 2004, provided for total expenditure and net lending of \$27.5 trillion and revenue of \$23 trillion. This implied a budget deficit of \$4.5 trillion or 5% of GDP.
54. Mr. Speaker Sir, as Honourable Members are aware, food shortfalls following the drought during the 2004/05 agriculture season, necessitated additional expenditures to allow for drought mitigation measures to support affected communities and for grain imports.
55. These unbudgeted drought mitigation expenditure requirements, coupled with other additional expenditures largely related to pensions and interest payments, had to be met through Budgetary cutbacks of \$3 trillion across all Ministries and some revenue raising measures.
56. Details of the Supplementary Budget were recently presented before this August House in the Mid Term Fiscal Policy Review.
57. The Supplementary Budget raised the 2005 Budget provision for total expenditure and net lending to \$31.0 trillion. Fiscal revenues were also revised upwards

to \$25 trillion, resulting in an overall Budget deficit of \$6.0 trillion or 8.6% of GDP.

### **Expenditure Outturn**

58. Mr. Speaker Sir, expenditure management remained difficult throughout the year, as line Ministries and Government departments struggled to contain escalating costs of goods and services, due to higher levels of inflation.
59. The revenue constraints facing the economy, however, limited the capacity to accommodate the bulk of these additional expenditure requests. The challenge, therefore, remains the need by line Ministries and Government departments to operate within their expenditure caps.
60. In this regard, I would like to appreciate efforts by line Ministries to restrain and prioritise their expenditures within the targeted envelope. Reflecting this, actual expenditure and net lending to October 2005, at \$26.3 trillion, remained broadly in line with the targeted levels.
61. Of this total recurrent expenditure, employment costs, which were \$10.5 trillion, or 40%, continued to constitute the highest component.

62. Goods and services constituted the balance of \$15.8 trillion. Of this amount, \$5 trillion was for transfers, which include \$2.4 trillion for pension remittances.

63. Mr. Speaker Sir, cumulative capital expenditures to October 2005, were \$2.7 trillion, of which \$1.8 trillion was for major capital projects.

### **Revenue Outturn**

64. Mr. Speaker Sir, positive revenue performance was registered to October 2005. Indications are that revenue collections for the whole fiscal year will surpass the budgeted levels, with an expected revenue realisation of \$29.5 trillion. This would be 18% above the revised budget revenue target of \$25 trillion, which I announced during my presentation of the Supplementary Budget.

65. The cumulative revenue collections for the ten months to October 2005 were \$19.2 trillion, against a target of \$17.9 trillion.

66. Pay-as-You Earn (PAYE), which contributed \$5.9 trillion, was below the target of \$7.1 trillion.

67. Collections from companies were at \$3.1 trillion, against a target of \$2.1 trillion. ZIMRA tax audits are starting to yield results under this tax head.
68. Value Added Tax (VAT), continued to perform above target and \$5.9 trillion was cumulatively collected to October 2005, against a target of \$5.2 trillion. The good performance of VAT can be attributed to price increases during the year and the adjustments in the rate from 15%, to 17.5%.
69. The recently introduced Presumptive tax collections amounted to \$2 billion. Collections under this sub head are expected to increase as the base for presumptive tax is widened.
70. Cumulative collections of Customs duties amounted to \$2.2 trillion, against a target of \$1.8 trillion. This positive variance mainly reflects the adjustments in the exchange rate.
71. Non-tax revenue amounted to \$672 billion, against a target of \$ 816.7 billion.

## **Deficit Outturn**

72. The anticipated positive revenue performance outturn to year-end, coupled with the revised Budget expenditure target should culminate in a significantly reduced 2005 Budget deficit outturn of under \$3 trillion.
73. As a percentage of GDP, this would imply a budget deficit of 2.9%. This compares with the revised deficit target of \$6.0 trillion, or 8.6% of GDP.

## **Financing**

74. Mr. Speaker Sir, as Honourable Members are aware, the financing of the Budget deficit has been dominated by domestic bank credit. Given this scenario, Government will limit recurrent expenditures to revenue generated, and only borrow to finance capital development.
75. The domestic financing of the Budget continued to be dominated by short-term treasury bills, amounting to \$5.3 trillion, with medium to long-term paper financing the deficit to the tune of \$646.3 billion. This has significantly raised the level of short-term debt, with over 90% of public domestic debt now being short-term.

76. The prevailing high inflationary environment undermined Government's efforts to restructure public domestic debt, from short-term to medium and long-term maturities.

#### *Domestic Public Debt*

77. The continued dominance of domestic financing of the Budget deficit during 2005 pushed the total stock of domestic debt up from \$1,7 trillion in December 2004, to \$15.9 trillion by the end of October 2005.

78. The structure of domestic public debt reflects the dominance of short term paper (93%), with long to medium term debt taking up only 7%. This structure of debt is expensive and not sustainable.

#### *Overdraft*

79. As part of the 2005 Budget financing strategy, Government limited its recourse to financing the Budget deficit through the highly inflationary Reserve Bank overdraft window. Government, has therefore, remained within this year's statutory limit on its overdraft facility at the Central Bank of \$1,6 trillion.

## **MAJOR POLICY IMPERATIVES & PRIORITIES FOR THE 2006 BUDGET**

80. Mr. Speaker Sir, addressing challenges facing the economy demands not only bold steps on the part of Government, but also sacrifices and commitment by all, including Business, Labour, Civil Society and the generality of the population. However, to realise this we need to be guided by a shared National Vision that binds us to work together towards the common goal of transforming this economy.

81. After extensive consultations with stakeholders, I am now more confident of convergence towards the sharing of a common Vision, central to the restoration of business confidence.

82. Mr. Speaker Sir, allow me to highlight the priorities and critical challenges for the 2006 Budget, that Government is tackling.

83. These National Development Priorities, which guided the formulation of the 2006 Budget, were a result, as I have earlier indicated, of an extensive consultative process and work undertaken by the Ministry of Economic Development, in formulating the National Development Priority Plan for 2006.

## **Confidence Building**

84. Mr. Speaker Sir, the Budget presents an excellent opportunity to reassure domestic and foreign investors of Zimbabwe's commitment to enhancing the role of market forces in the economy. Other countries, notably China and India, are experiencing double digit real economic growth rates due to the huge market driven investment inflows.
85. Government also recognises that the private sector is the engine for economic growth and is therefore committed to provide the conducive environment for its growth.

## **Corruption**

86. Mr. Speaker Sir, no country will develop in an environment of corruption. We must fight graft if we are to turn around the economy. Corruption does not only undermine institutions of Government, but is a cancer that undermines the very fabric of society.
87. Therefore, to strengthen the fight against corruption and graft, which undermines investor confidence, Government has established the Anti-Corruption Commission, to effectively deal with this problem.

Economic Crime Courts have also been created and will be decentralised to all Provinces.

### **Bilateral Investment Promotion and Protection Agreements (BIPPAs)**

88. Government recognises the indispensable need to nurture and preserve an investor-friendly business environment.
89. Consistent with this, Government is actively laying the foundation for stronger business relations between Zimbabwe and its regional and international cooperating partners.
90. BIPPAs have a significant bearing on the ability of the country to mobilise financial and material resources from other countries, for the much-needed foreign direct investment.
91. Where Zimbabwe has ratified BIPPAs, Government is committed to honouring all its commitments and obligations as provided for by our Constitution. This includes payment of compensation for BIPPA related farms that were acquired for resettlement.

## **Tripartite Negotiating Forum**

92. Mr. Speaker Sir, as Honourable Members will recall, the Tripartite Negotiating Forum (TNF) last met in December 2004.
93. I am pleased to report that the TNF has resumed dialogue in the spirit of working together and commitment towards developing a common Shared National Vision.
94. Mr. Speaker Sir, let me assure all stakeholders that Government is committed to seriously dialogue with Business and Labour, through the Tripartite Negotiating Forum, and to the conclusion of the Social Contract to address the many challenges facing the Nation.
95. The Social Contract will be based on the principles of mutual trust and smart partnerships with, a win-win outcome for all stakeholders.
96. The Social Contract will strengthen the institutional framework for stabilising prices and incomes and sharing the burden of economic reforms. This Contract will also contribute to achieving macro-economic stability, stimulate economic growth and create employment.

### *Labour Arbitration Determinations*

97. Mr. Speaker Sir, the difficult economic environment has forced many companies to seek the arbitration of the Ministry of Public Service, Labour and Social Welfare in the determination of salary and wage disputes.
98. Wages and incomes policies should therefore, be benchmarked against productivity factors.
99. As Government moves away from price controls, it is setting up the Incomes and Pricing Commission, which will guide the process of incomes and pricing determination, taking into account industry viability and consumer affordability.
100. In the interim, the Ministry of Public Service Labour and Social Welfare will play this role, guided by underlying economic fundamentals.

### **Macro-Economic Stabilisation**

#### *Budget Balance*

101. Mr. Speaker Sir, central to winning the war against inflation will be containing the budget deficit to sustainable levels, consistent with our inflation targets in

2006. I believe that a budget deficit of 4.6% of GDP in 2006 is consistent with an inflation target of 80% by December 2006.

102. This targeted level of the budget deficit is critical for arresting the inflationary spiral, and instilling confidence. This should be complemented by ensuring that any Government borrowings are limited to finance the capital budget.

#### *Quasi-Fiscal Operations*

103. Mr. Speaker Sir, in an effort to finance extra budgetary expenditures, quasi-fiscal operations through the Central Bank have risen to unsustainable levels.

104. In order to reign in inflation, quasi-fiscal operations by the Reserve Bank will be contained in line with the inflation targets.

#### *Reserve Bank Capital*

105. Mr. Speaker Sir, the Reserve Bank of Zimbabwe was last recapitalised in 1964, and is now acutely under capitalised, given its current operations.

106. In this regard, Government is pursuing sustainable options to recapitalise the Reserve Bank.

*Price Distortions*

107. Mr Speaker Sir, Honourable Members are aware of the distortions in the market that have arisen from price controls. These controls have contributed to the shortages of basic commodities on the open market, with the same goods resurfacing on the parallel market.

108. It will, therefore, be critical that market-pricing mechanisms, be embraced, which are central to ensuring the viability of industry, as well as the well being of consumers.

109. The pricing system for all goods and services will be market driven, in order to eliminate parallel market dealings. However, subsidies and safety nets will be essential to protect vulnerable groups, but will need to be targeted.

110. The removal of producer and selling price distortions especially for agricultural commodities and fuel will result in the efficient and effective utilisation of resources. Government departments will therefore levy economic prices for their services.

## **Food Security**

111. Mr Speaker Sir, agriculture remains the backbone of the economy, and all stakeholders acknowledge the need for the timely provision of agricultural inputs, financial incentives and returns that ensure the viability of agriculture. This is the only way that farmers can invest their time, energy and financial resources into farming.

112. Ensuring the viability of agriculture will also attract private sector resources, thus, obviating the need for large public sector financial interventions.

### *Producer Prices*

113. In this regard, Government will offer post harvest producer prices that allow farmers to be viable. This will enable farmers to cover their costs of production, be self-sufficient and to re-invest in agricultural production.

114. The sustainability of such post harvest producer prices will require that the selling prices of the GMB be at break-even thresholds for maize and wheat. Under this framework, the Grain Marketing Board will continue to play its central role in the management of the National Strategic grain reserves.

### *Grain Trading*

115. Mr. Speaker Sir, Government will put in place administrative arrangements to facilitate the marketing of grain by private sector contract growers in order to reduce transaction costs.

### *Farm Disruptions*

116. In order to effectively guarantee productivity on farms and enhance food security, Government is committed to enforce utmost discipline in the agriculture sector. Any disruption of farming activities is not in the national interest and will not be tolerated.

### **Exchange Rate Management**

117. Mr Speaker Sir, significant progress has been made in liberalising the management of the exchange rate with the day-to-day determination of the exchange rate now in the Interbank Foreign Exchange Market. By allowing exporters to retain and trade 70% of their export proceeds in the market, the liberalisation of the exchange rate will ensure exporter viability and improved generation of foreign exchange.

118. The success of the operations of the Interbank Foreign Exchange Market cannot be overemphasised. This requires that all players in the market, with the support of the Central Bank behave in a responsible and accountable manner.

119. Further liberalisation of foreign exchange transactions will be undertaken during 2006. This will ultimately eliminate the current dual exchange rate arrangements in order to achieve convergence.

### **Energy Supplies**

120. Mr. Speaker Sir, we are all aware and concerned with the current energy supply constraints, which are impacting negatively on the economy's productive capacity. This is affecting the distribution and transport sectors, and also exposing commuters to exorbitant transport fares.

121. Guaranteeing adequate and consistent energy supplies will not only depend on our capacity to generate and provide more foreign exchange. This should be supported by further deregulating the pricing of energy products, complemented by strengthening the regulatory environment.

### *Fuel Price Trigger Mechanism*

122. Government is, therefore, introducing a trigger mechanism for determining the price of petroleum products. This will take account of total procurement costs, including movement in international prices and the exchange rate.

### *Alternative Sources of Energy*

123. Given the high import bills for both electricity and liquid fuels, the need for alternative sources of energy cannot be over emphasised.

124. In this regard, Government is introducing measures to promote and support the production of alternative sources of energy especially the production of bio-diesel, ethanol, solar power and coal bed methane.

### **Parastatal Restructuring & Privatisation**

125. Mr. Speaker Sir, parastatals and Local Authorities have remained a major impediment to economic growth and a drain on the fiscus, with some of the turnaround strategies being implemented inadequate to provide the desired results.

126. Government has, therefore, decided on the restructuring of some of the public enterprises through strategic alliances and joint ventures, that facilitate the injection of additional equity capital, as well as access to modern technology and equipment.

127. In this regard, the following parastatals have been earmarked for privatisation through joint ventures, strategic alliances and concessioning:

- Zimbabwe Power Company (power generation) - Strategic Partner;
- Tel One - Strategic Partner;
- Net One - Strategic Partner;
- NRZ - Concessioning;
- ZISCO - Joint Venture/Management Contract;
- Air Zimbabwe - Strategic Alliance; and
- CSC - Partial Divesture and listing on the ZSE.

128. In order to raise resources, especially Foreign Exchange and to ensure wider indigenous participation in the economy, Government will also divest some of its shareholding in other companies.

129. Mr. Speaker Sir, while much is still to be done with regards to restructuring and turning around the parastatals, allow me to acknowledge that some of the public enterprises are beginning to realise their

obligations with regard to stakeholders, including the shareholder.

130. In this regard, I was pleased to note the improved financial position of ZUPCO from whom Government received a cheque of \$25 billion as part payment towards funds advanced to the company by Government during difficult times.

### *Corporate Governance*

131. Government has finalised the draft Corporate Governance Framework to guide the operations of parastatals. The turn around of parastatals will be underpinned by the appointment of competent and well-remunerated management. The remuneration of management will be performance based.

132. Boards of parastatals will be appointed on merit and in a transparent manner. The performance of Boards and management of parastatals will be evaluated bi-annually.

133. Parastatals will also be expected to present audited financial statements at Annual General Meetings.

134. The pricing policy for goods and services provided by parastatals will be consistent with commercial business ethics.

*Public Private Partnerships*

135. Mr Speaker Sir, given the limited resources to finance the Capital Budget, Government, is promoting the participation of the private sector in joint venture infrastructural projects through Public Private Partnerships.

136. To strengthen and give confidence to investors, Government will come up with a legal framework to underpin and support the existing PPP opportunities. This legislation will give clarity to investors on critical issues pertaining to pricing policy.

## **MACRO-ECONOMIC FRAMEWORK FOR 2006**

137. Mr. Speaker Sir, as I have already elaborated earlier, the economy is focused to grow in real terms by between 2 and 3.5% in 2006, mainly driven by agriculture, manufacturing, mining and tourism.

138. Mr Speaker Sir, the 2006 Budget Framework has been formulated on the basis of strict prioritisation of expenditures. The prioritisation of expenditures will enable Government to allocate resources that will ensure completion of ongoing projects before embarking on new ones and also not spreading scarce resources thinly across many projects.

139. The formulation of the 2006 Budget has also been guided by an anti-inflation thrust. The targeted Budget deficit of 4.6% of GDP is therefore consistent with the end of 2006 inflation target of 80%, as well as the 2-3.5% targeted real GDP growth rate.

140. Mr. Speaker Sir, the Budget should be an effective tool for economic management and its integrity should be protected at all costs. Expenditure targets should be consistent with inflation targets.

141. In line with these targets and fiscal consolidation the 2006 Budget Framework will be as follows:

Total Revenue	\$110.0 trillion
Total Expenditure	\$123.9 trillion
Budget Deficit	\$ 13.9 trillion/ -4.6% of GDP

### **Results Based Budgeting System**

142. Mr. Speaker Sir, this Budget was formulated under the framework of the Results Based Management System, which emphasizes four components namely, Results Based Budgeting, Results Based Personnel System, Results Based Monitoring and Evaluation System and Results Based Management Information System.

143. The Results Based Budgeting System emphasises outputs on the part of line Ministries and Departments. In this regard, Treasury has already signed performance contracts with the respective Ministries and Departments.

144. The Results Based Management System will enhance the effectiveness of public service delivery.

## **THE 2006 BUDGET PROPOSALS**

145. Mr. Speaker Sir, allow me to now turn to the 2006 Budget proposals.

146. I will start by indicating the major highlights of the proposed recurrent, as well as capital expenditure allocations.

147. In line with prudent fiscal policy management, recurrent expenditures will be limited to available revenues and borrowings will only be to support the Development Budget. As indicated in my last Budget speech, expenditure overruns or a Supplementary Budget will only be for unforeseen emergencies.

148. In this regard, I will, therefore, be proposing beginning with the 2006 Budget, that the deficit be lowered significantly over a rolling three year Budget Framework.

### **Public Service Wage Bill**

149. The current huge civil service wage bill, as a percentage of total expenditures of over 40% is not sustainable and very high in comparison to regional and international best practices.

150. Although the wage bill is high, the nominal levels of salaries and wages in the civil service have remained very low in comparison to the private sector and the poverty datum line. This has resulted in the loss of skilled manpower and a demotivated civil service. This has seriously compromised the efficient delivery of services.

151. A leaner and well-remunerated civil service will require the rationalisation and restructuring of the public service.

152. Mr. Speaker Sir, I propose that the review of the remuneration of civil servants be within the context of a sustainable 2006 Wage Bill envelope of \$30 trillion.

153. While this resource envelope will not fully reverse the erosion of civil service incomes, the determining factor is ultimately the capacity of the economy to sustain the current civil service structure. The benefits of high wage reviews financed through money printing are always short lived, as price escalations recur, thereby defeating the intended objective.

## **Public Service Conditions of Service**

### *Housing and Transport Provision*

154. To complement the above civil service wage proposal, the Public Service Commission is also discussing with the Staff Associations, proposals to improve the provision of housing, as well as the introduction of a CMED transport service for civil servants.

### *Health Services Board*

155. Whilst recognising the need to improve the conditions of service for health personnel, Government can only afford to provide \$2.8 trillion, which is in line with the proposed \$30 trillion employment cost envelope.

156. Treasury is, therefore, working with the Health Services Board with a view to coming up with cost recovery and revenue generating measures that will augment the limited resources being provided through the Budget.

### *Premier Services Medical Aid*

157. At the current contribution ratio of 80% employer and 20% employee, Premier Service Medical Aid employer contributions will require about \$5.5 trillion from the 2006 Budget.

158. Given the many competing demands for budgetary resources, I propose that the contribution ratio reverts back to the previous 60% employer and 40% employee ratio. This limits growth in the Government contribution to \$3.5 trillion.

### *Skills Retention*

159. Mr. Speaker Sir, I am also proposing the establishment of a Skills Retention Fund in conjunction with the Central Bank. The Public Services Commission, in consultation with Treasury and the Office of President and Cabinet, is working on the operational modalities.

### **Pension Reform**

160. Mr. Speaker Sir, Honourable Members will remember that during the presentation of the Mid Term Fiscal Policy Review, I highlighted the unsustainable growth pattern in our civil service pension outlays and the need to move

from the current Defined Benefit Scheme to a Defined Contribution Scheme.

161. In 2006, the implied growth in the Pension Bill arising out of the existing Defined Benefit arrangement, which is indexed to 67-100% of salaries of serving members, coupled with new proposals to enhance the indexation levels, would be a rise from \$2.9 trillion to \$23.7 trillion.

162. The total amount arising from the current 7.5% pension contribution by serving members falls far short of the monthly payments to pensioners.

163. In line with Cabinet approval, the modalities of converting from a Defined Benefit Pension Scheme, to a Defined Contribution Scheme, including establishment of a Civil Service Pension Fund, will be made public in due course.

164. Adoption of these proposals will limit growth in pension payments for the 2006 Budget to \$8.7 trillion.

### **Value Addition & Import Substitution Zones**

165. Mr. Speaker Sir, I will be proposing incentives in support of the establishment of Value Addition and Import Substitution Industrial Zones, supported by a Value

Addition Fund that will also finance access to suitable technology.

166. In addition, Government is considering the introduction of taxes to discourage export of such unprocessed commodities as black granite.

*Maintenance Budget*

167. Mr. Speaker Sir, Government has noted with concern, public infrastructure deteriorate due to, in most cases, the absence of basic maintenance.

168. In order to ensure accountability of Ministries in the maintenance of infrastructure under their jurisdiction, Vote appropriations for those Ministries that have capacity already include allocations for maintenance. These include Defence, Home Affairs for the police, and Justice, Legal and Parliamentary Affairs for the prisons.

169. In the case of those Ministries that lack maintenance capacity, their allocations for maintenance will be specified, and ring fenced, under the Ministry of Local Government and Urban Development.

## **Domestic Travel Costs**

170. The current level of resources being devoted to domestic travel costs by Ministries is unsustainable. In the spirit of living within our means, I propose to further review this and provide limits.

## **Government Assets**

171. As I alluded to in the Mid-term Fiscal Policy Review Statement of 16 August, there is need for measures to control the abuse of Government assets, such as motor vehicles. In this regard, Treasury is putting in place the modalities for more effective measures to control Government assets.

## **Expenditure Proposals For 2006**

172. Over the years Government has allocated huge sums of money for various projects and programmes. Results on the ground, however, are not commensurate with the level of investments. This is so because focus has been on activity completion and financial performance.

173. Commencing with the 2006 Budget, Government is implementing the Result Based Budgeting System. Adoption of this system should enable ministries to focus on what they have been mandated to do, whilst at the same time addressing needs of the clients. This will ensure that at the end of the year, tangible results in terms of outputs and outcomes are achieved.

### **Recurrent Expenditure**

#### *Zimbabwe Revenue Authority*

174. International best practice through comprehensive revenue and expenditure accounting dictates that Government accounts fully for all the revenue collected and what expenditure such revenue is financing. The current arrangement where ZIMRA operations are outside the Budget Framework is not transparent.

175. To this end, with effect from January 1, 2006, the allocation to Zimbabwe Revenue Authority will be part and parcel of the Budget Estimates that are presented and approved by the House of Assembly.

176. I therefore propose to allocate an amount of \$4 trillion towards the Zimbabwe Revenue Authority. This amount will cater for both the capital budget and operations of the Parastatals.

177. The analysis of the 2006 allocations is as outlined below:

### **Education**

178. Mr Speaker Sir, the Ministry of Education, Sport and culture takes the lead once more with an allocation of \$7.4 trillion. Of this figure, \$6.9 trillion is employment costs. The rest of the allocation is to meet operational expenses. The allocation for domestic travel has been enhanced from the \$7 billion allocated this year to \$17 billion in view of the need to improve the quality of education through increased supervision.

179. To encourage our national soccer team to perform well and also facilitate their preparations for the Africa Cup of Nations to be held in Egypt in 2006, an allocation of \$10

billion has been included in the Budget as seed money for the team. The Zimbabwe Football Association is encouraged to undertake fundraising activities in order to augment the resources provided by Government.

### **Higher and Tertiary Education**

180. Mr Speaker Sir, I propose to allocate \$3.9 trillion under the Ministry of Higher and Tertiary Education. The bulk of the allocation (\$3.6 trillion) goes towards supporting institutions of higher learning.

181. Mr Speaker sir, I wish to acknowledge and commend efforts being made by institutions of higher learning, especially the University of Zimbabwe towards refurbishment of the institutions so as to create a conducive teaching and learning environment. To ensure continuity of the programme, I propose to allocate \$293.9 billion.

182. Government recognises that the high cost of living has eroded the support granted to students. In this regard, I propose to allocate an amount of \$700 billion towards student loans. This amount should go a long way in improving the allowances payable to the students.

183. When put together, the two-education ministries account for \$11.4 trillion of 26.9% of total vote appropriations.

### **Health**

184. Mr. Speaker Sir, we recognize that the presentation of the 2006 Budget to this august House is on World Aids Day. It is an important day that re-enforces our awareness over the challenges of the aids scourge, which has affected each one of us in one-way or another. It is critical therefore that civil society and Government work together to fight the effects of this pandemic.

185. Mr. Speaker Sir, I propose to allocate an amount of \$5.2 trillion to the Health Vote, which translates to 12% of the total recurrent vote appropriations. Of this amount, \$2.1 trillion is earmarked for hospitals including mission and local authority hospitals.

### **Defence**

186. Mr Speaker Sir, I propose to allocate an amount of \$4.3 trillion under this Vote. Of this figure \$3.1 trillion, caters for employment costs. The balance is for

operational expenses, which should facilitate maintenance and upkeep of our defence forces.

### **Public Service, Labour and Social Welfare**

187. Mr Speaker Sir, the \$5.1 trillion I am proposing to allocate under this Vote is dominated by employer contributions to the Premier Medical Aid Society (\$3.5 trillion), which I have already alluded to, and the National Social Security Authority (\$442 billion).

188. In recognition of the difficulties many families are facing arising out of the economic hardships, I propose to allocate an amount of about \$800 billion for social protection programmes such as Basic Education Assistance Module, drought relief and public assistance to the disadvantaged members of our society.

### **Agriculture**

189. The opportunity cost arising from the decline in agricultural output to the country and the economy at large is huge. There is therefore need to strengthen extension services, with an allocation of \$31.4 billion made. I have also provided an amount of \$116 billion for procurement of vaccines, dipping chemicals and tsetse fly eradication.

## **Capital Expenditure**

190. Mr Speaker Sir, while infrastructure development is critical for sustainable economic growth, these expenditures have also been among the casualties of many budgetary cuts, adversely impacting on completion of projects.

191. I therefore, propose to increase capital expenditures substantially to a minimum 20% of total expenditure, with funds earmarked for key projects ring fenced to guarantee the completion of projects.

192. Furthermore, it is important that we refrain from spreading Budget resources too thinly over many projects, which we often fail to complete. I, therefore, propose deferment of most new projects, as well as postponement of some of the ongoing projects, in order to redirect resources to those projects that are likely to be completed in 2006.

193. Cognisant of the above, I therefore propose to allocate \$30.9 trillion or 25% of total expenditure towards capital expenditures. This will be made up of \$29.7 trillion for ongoing works and \$849 billion for critical new works in the health and education sectors.

194. The \$29.7 trillion is earmarked for the following major programmes:

### **Transport and Communication**

195. Mr. Speaker Sir, in recognition of the importance of the transport sector, I propose to allocate \$2.7 trillion for the sector. Of this amount \$1.4 trillion is for the construction and rehabilitation of roads and bridges throughout the country.

196. This amount is expected to cover 94 kilometres of construction of the following roads:

- Bulawayo – Nkayi (10km),
- Kwekwe – Nkayi – Lupane (remaining 20km),
- Mt Darwin- Mukumbura (25 km),
- Gutu – Kurai (10km),
- Hwedza – Sadza – Murambinda (14km) and
- Bindura – Shamva (the remaining 15km).

197. Mr Speaker Sir, a total amount of \$276 billion has been allocated for the construction and rehabilitation of the following bridges: Nyabote, Chiwidze, Munyati, Save, Bote, Mukuvisi, Chipangayi, Nyautsa, Nyahode, Tuli, Dande and Manyame.

198. Mr Speaker Sir, to improve the infrastructure which is supporting the tourism industry, I propose to allocate for the rehabilitation and construction works, \$140 billion for

the Joshua Mqabuko Nkomo Airport and \$75 billion for Harare International Airport.

### **Rural Development**

199. Mr Speaker Sir, rural development and the attainment of the Millennium Development Goals (MDGs), remain one of the key objectives of Government. I, therefore, propose, to set aside resources amounting to \$100 billion under the Rural Capital Development Fund under the Department of Water for water (boreholes) and sanitation facilities in at least two districts in every province.

200. Mr. Speaker Sir, under the District Development Fund (DDF), I propose to allocate \$285 billion for borehole drilling in resettlement areas (\$60 billion), road construction (\$100 billion) and the construction of bridges (\$125 billion).

201. I have also set aside an amount of \$400.6 billion for the construction of rural water supplies and \$471.5 billion for small irrigation schemes spread throughout the country.

### **Health**

202. Mr. Speaker Sir, in line with Government commitment to improve the people's livelihoods, I propose to allocate an amount of \$655.2 billion for construction and rehabilitation of facilities at various hospitals and rural

health centres throughout the country. I have also allocated \$610 billion for the procurement of ambulances, service vehicles and medical equipment.

203. Of this allocation, \$230.9 billion will go towards the construction and rehabilitation of central hospitals, with Harare Central Hospital receiving \$44 billion, Mpilo \$49.5 billion, United Bulawayo Hospitals \$18.5 billion, Chitungwiza \$40 billion, whilst Parirenyatwa Hospital will receive \$78.9 billion.

204. The two provincial hospitals of Marondera and Lupane have been allocated \$194.4 billion, with Marondera receiving \$12 billion and Lupane \$182.6 billion, for the construction of the hospitals' superstructures.

205. Twelve district hospitals have been allocated \$187.6 billion with eight rural health centres receiving \$60 billion. I also, propose to allocate for the development of clinics in resettlement areas at a total cost of \$17 billion.

206. I have also allocated \$200 billion for the procurement of 120 ambulances to be distributed to all Central, provincial and district hospitals. For the transportation of hospital provisions and medical supplies, I propose to

allocate \$200 billion towards the procurement of 45 service vehicles.

207. Most of the equipment at our health institutions is now either obsolete or non- functional. This has affected the delivery of health services. I, therefore, propose to allocate \$260 billion for the procurement of medical equipment to be distributed to the five Central Hospitals, eight Provincial Hospitals and sixty District Hospitals.

### **Education**

208. Mr Speaker Sir, I propose to allocate an amount of \$664.6 billion for the construction of schools throughout the country. Of this amount, some \$245 billion is earmarked for seven primary and six secondary schools in the newly resettled areas. This should assist Government in the attainment of the Millennium Development Goals on primary education.

209. This amount should enable the Ministry to complete at least twelve schools in 2006, at a cost of \$141.9 billion.

210. Mr Speaker Sir, I have allocated a total amount of \$2.2 trillion for the construction and rehabilitation works at the various institutions of higher learning.

211. In addition to the above, the Ministry in 2006 will take over the financing the completion of schools in resettlement areas formerly financed under the District Development Fund. For this purpose I propose to allocate \$50 billion.

212. Of the above amount, the University of Zimbabwe will receive \$270 billion, Masvingo State University \$158 billion, Lupane University \$212 billion and Chinhoyi University \$180 billion. Construction works at NUST have been allocated \$650 billion, ZOU \$203.9 billion, Midlands State University \$165 billion, whilst Harare Institute of Technology \$139 billion.

### **Housing Development**

213. Mr Speaker, Sir, the current National Housing Policy recognises housing as a basic need and human right. As part of Government's contribution towards improving the quality of human settlements and in line with the National Housing Policy, I propose to allocate \$972 billion for the national housing construction programme.

214. Of this amount, \$800 billion is earmarked for the Garikai/Hlalani Kuhle programme. This brings Government's contribution to the programme to more than \$1 trillion. This amount will mainly be utilised

for off site infrastructure development, while the beneficiaries will be expected to take greater responsibility in putting up the structures.

215. It is envisaged that the private sector will compliment Government efforts in providing both financial and technical support in the housing sector.

### **Agricultural Extension Services**

216. Mr. Speaker Sir, following conclusion of the Land Reform Programme, focus is now on ensuring the full utilisation of the land. To support this, I therefore, propose to allocate \$882.8 billion to capacitate Agricultural Research and Extension Services (AREX) for vehicles, motor cycles, bicycles and equipment for agricultural colleges.

### **Crop Inputs Finance**

217. Mr Speaker Sir, in recognition of the need to support A1 and small-scale communal farmers who have been left out from previous financing arrangements, I propose to allocate an amount of \$1 trillion in support of their agricultural activities. This amount, to be channelled through Agribank will finance inputs. The A2 and commercial farmers will continue to be supported through

commercial financing arrangements such as ASPEF and contract farming.

### **Local Authorities**

218. Mr Speaker Sir, given the persistent water and sewerage challenges facing Local Authorities, I propose to allocate \$1.1 trillion for water and sewer infrastructure development in both Urban and Rural Local Authorities. Of this amount, \$966 billion is earmarked for the development and rehabilitation of urban Local Authorities infrastructure, whilst \$138 billion is for Rural District Councils.

219. Of this amount, \$966 billion is earmarked for the development and rehabilitation of urban Local Authorities infrastructure, whilst \$138 billion is for Rural District Councils. Local Authorities can also submit bankable project proposals that can be financed under Infrastructure Development Bank.

### **Infrastructure Development Bank Capital**

220. Mr Speaker Sir, the establishment of the Infrastructure Development Bank has created a window for raising long-term capital to finance infrastructure projects, some of which were being funded by Government through the Public Sector Investment Programme (PSIP).

221. An adequately capitalised Bank will be critical to enable the Bank to raise resources from the market. To this end, I have made a provision of \$9.057 trillion, towards the capitalisation of the Bank.

222. Mr Speaker Sir, it will be critical that the Infrastructure Development Bank follows best practices in project appraisal and financing, to ensure its viability.

223. Mr. Speaker Sir, I have also invited the insurance and pension funds, including the National Social Security Authority (NSSA) to take up part of the 30% of the equity in IDBZ.

### **Value Addition and Import Substitution Fund**

224. I also propose to allocate \$100 billion towards the establishment of the Value Addition and Import Substitution Fund to be administered as a separate portfolio by the Infrastructure Development Bank of Zimbabwe.

## **Outstanding Debts**

225. Mr Speaker Sir, despite budgetary provisions made under Ministries' Votes, service providers including parastatals and Local Authorities are still owed huge sums of money for services rendered. This is not only poor financial management on the part of Accounting Officers, but this also compromises the viability of suppliers.

226. In line with Government's commitment to pay what it owes, I am proposing to set aside resources to settle these debts. The amount has been raised through reducing the votes of defaulting Ministries. Payments will be made directly to the suppliers once the amount of the debt has been reconciled and confirmed by the debtor Ministry.

## **Budget Overruns**

227. The emergence of inescapable expenditures such as drought related expenditures during the course of the year has always presented a challenge for Government in its effort to contain expenditures within the approved budget. This has forced Government to go for a supplementary budget, which has been viewed as a sign of fiscal indiscipline. This also compromises the credibility of the Budget.

## **Expenditure Control**

228. For other Government expenditures, we are going to continue with the fiscal restraint measures where disbursement is strictly based on revenue inflows. The disbursement of resources for capital projects will be based on the programme of works.

229. We are aware that there are a number of Ministries that are making commitments outside the PFMS system. As a result the Ministries end up incurring commitments above funds available and thus fail to pay the suppliers. This obviously threatens the viability of service providers and undermines the effectiveness and credibility of the system. To curb this practice, any Ministry that transacts outside the PFMS system, a 10% garnish will be instituted on its Vote.

## **Securities Commission**

230. Mr. Speaker Sir, I propose to allocate a grant of \$11.4 billion for the Securities Commission, which will regulate the securities market in Zimbabwe.

231. The self-financing Commission will become operational during the course of 2006, with the Nomination

Committee that will assist the Minister of Finance in the recruitment of the Commissioners now in place.

## **REVENUE PROPOSALS**

232. Mr Speaker Sir, Government recognises the need to enhance productivity of companies and to provide tax relief to the already overburdened taxpayers through review of most of the prevailing tax measures.

233. Government also faces a mammoth task to mobilise resources under the current difficult economic environment. This requires consolidation of revenue collection efforts through additional presumptive tax measures, further rationalisation of VAT zero-ratings and exemptions and increasing tax compliance levels.

### **234. Revenue Enhancing Measures**

#### **235. *Companies***

#### **236. *Self Assessment of Corporate Income Tax***

237. Mr Speaker Sir, under the current system, taxpayers lodge an income tax return containing information from which the Tax office prepares an assessment of the taxpayer's taxable income and tax payable.

238. Self assessments, on the other hand, place greater responsibility for assessing tax payable on the taxpayer. This system frees ZIMRA tax officers from assessment of each and every tax return, allowing them more scope and focus on auditing compliance standards of the major taxpayers and high yielding revenue heads, in line with regional and international best practices.

239. Implementation of the self assessment system, however, requires the buy-in and training of corporate taxpayers. Hence, prior to implementation, ZIMRA will be undertaking a consultative exercise on the self assessment system during the course of the 2006 fiscal year.

240. ***Value Added Tax***

241. **Threshold**

242. Mr Speaker Sir, the current VAT threshold was put in place at the inception of VAT in January 2004. The threshold has, however, been eroded by inflation, greatly stretching the ZIMRA VAT administration capacity as officers now have to deal with the larger number of taxpayers qualifying for VAT registration.

243. I, therefore, propose to increase the threshold from \$250 million to \$6 billion per annum with effect from January 1, 2006.

244. Current VAT registered taxpayers whose turnover is below the proposed threshold may be accommodated under voluntary registration.

**245. Exemptions and Zero Ratings**

246. Honourable Members would be aware that the schedule of VAT zero rated and exempt goods and services was partially rationalised in the Mid-term Fiscal Policy Review, in line with regional best practices.

247. I propose to further streamline the schedule of zero ratings and exemptions with effect from January 1, 2005. The list of good includes electric typewriters, word processing and calculating machines, pocketsize, and data recording machines.

**248. Payment of VAT on Imported Services**

249. VAT is levied on supplies of both locally produced and imported goods and services.

250. I propose that VAT collected in foreign currency on provision of services be remitted to the tax administration in foreign currency with effect from January 1, 2006.

251. ***Carbon Tax***

252. Mr Speaker Sir, Carbon tax was introduced in 2001 with the intention to mobilise funds in support of efforts to address environmental pollution.

253. Currently, Carbon tax is levied on motor vehicles according to the engine capacity and is payable at designated ZIMRA offices. I have, however, noted concerns that taxpayers spend considerable time queuing in order to pay Carbon tax.

254. I propose to change the current mode of payment, where Carbon tax is levied according to engine capacity, to a system based on fuel consumption. Carbon tax will, therefore, be collected at the point of fuel importation at a rate of \$1000 per litre with effect from January 1, 2006

255. Furthermore, the level of payment of Carbon tax now becomes a function of vehicle fuel consumption.

256. Payment of Carbon tax on transit motor vehicles will, however, continue to be based on the current system.

257. ***Deemed Benefits***

258. ***Motoring Benefits***

259. Fringe benefit tax is assessed on deemed income which generally accrues to individuals through use of company vehicles and subsidised interest on personal loans.

260. I propose to review deemed motoring benefits in line with inflationary trends with effect from January 1, 2005 as follows:

261. <b>Engine Capacity</b>	<b>Current</b>	
<b>Proposed</b>		
262. Up to 1500 cc 000 000	\$2 280 000	\$9
263. Over 1500cc but not exceeding 2000cc \$15 000 000	\$4 200 000	
264. Over 2000cc but not exceeding 3000cc \$18 000 000	\$6 480 000	
265. Over 3000cc \$24 000 000	\$7 200 000	

266. ***Interest on Unpaid Penalties***

267. Mr Speaker Sir, the current tax statutes provide for levying of interest on unpaid taxes. However, there is no provision for charging interest on unpaid penalties.

268. I propose to amend the tax legislation to address this by empowering the Commissioner General to charge market related interest rates on unpaid penalties with effect from January 1, 2006.

269. ***Withholding Tax on Interest***

270. Withholding tax on interest is currently deducted upfront and before interest is earned. The impact of this is to lower the initial investment capital to the extent of the Withholding tax deduction.

271. I propose that with immediate effect Withholding tax on interest becomes payable on maturity. This applies to all deals concluded after December 1, 2005.

272. ***Presumptive Tax***

273. Honourable Members are aware that Presumptive tax was implemented on selected sectors of the economy, in line with the experience of other developing countries to bring the informal sector into the tax net.

274. During the consultative process, most stakeholders commended introduction of Presumptive tax and proposed that this be extended to cover other sectors.

275. I, therefore, propose to extend Presumptive tax on unregistered taxpayers with effect from January 1, 2006 as follows:

276. ***Chrome & Tantalite***

277. 5% based on gross value of mineral

278. ***Driving Schools***

279. Vehicles used for Class 4 training - \$8 million per quarter.

280. Vehicles used for Class 1 & 2 training - \$12 million per quarter.

281. ***Haulage Trucks***

282. Haulage truck of carrying capacity of less than 20 tonnes - \$12 million per quarter

283. Haulage truck of carrying capacity of more than 20 tonnes - \$20 million per quarter

284. Taxpayers have the option, where they want to be exempted from Presumptive tax, to become Registered Taxpayers with ZIMRA and that way become subject to Corporate tax.

285. ***Customs Duty***

286. ***Fuel***

287. I propose to align valuation for duty purposes on fuel products to the ruling inter-bank market rate with effect from January 1, 2006.

288. **Excise Duty**

289. ***Imported Cigarettes and Tobacco Products***

290. Imported cigarettes currently attract excise duty at a rate of 60% plus \$45 000 per thousand cigarettes. This specific rate of excise duty took effect from August 17, 2005.

291. However, there is still some undervaluation of imported low quality cigarette brands, hence, the need to maintain

the real value of the minimum specific duty by taking account of inflationary developments.

292. I, therefore, propose to maintain the real value of current specific duty by reviewing it from \$45 000 per 1000 cigarettes to a Zimbabwe dollar equivalent of US\$5 per 1000 cigarettes with effect from January 1, 2006.

293. ***Value Addition***

294. Mr Speaker Sir, a significant number of products with potential for value addition, which include cotton, granite, raw hides and skins, among others, continue to be exported in raw form.

295. Government will, therefore, impose a penalty targeted at discouraging the exportation of raw materials with potential for value addition. This will be undertaken in consultation with all the relevant stakeholders to take account of any impediments that undermine the realisation of this objective.

296. ***Fees and Charges***

297. **Review of Fees and Charges**

298. As I announced in the Mid-Term Fiscal Policy Review, all Ministries and Departments are required to review fees, rentals and other charges applicable to goods and services they provide, where possible to economic levels.

299. Periodic reviews of fees and charges, taking account of developments in the economy, will be undertaken by line Ministries and other Government Departments in conjunction with Treasury. This will alleviate resource constraints which impact negatively on such service delivery as health, education, provision of national registration etc.

300. Regular review of the level of Standard Scale of Fines will also be undertaken in order to relate this to the current value of money. The prevailing Standard Scale of Fines which ranges from \$5 000 for Level One to \$2.5 million for Level Fifteen was last reviewed in September 2003, rendering the penal fines ineffective in discouraging indiscipline, corrupt tendencies, hoarding, smuggling and underhand dealings

301. ***Review of Revenue Retention***

302. Honourable Members will recall that during the Mid-Term Fiscal Policy Review, I announced that to improve accountability over retained funds Treasury will be reviewing all revenue retentions in consultation with line Ministries.

303. This exercise has since been undertaken and, cases of requests for Budget allocations in support of funding activities where authority would have been granted for use of retained funds have been encountered. In some instances, audit reports indicate expenditures being incurred not in accordance with fund retention constitutions.

304. Hence, with effect from January 1, 2006, all revenue previously collected for retention will now be remitted to the Consolidated Revenue Fund. Treasury will only consider new retentions in line with past performance on utilisation, and provisions for improved transparency over use of funds.

305. **Tax Relief Measures**

306. **INCOME TAX**

307. **Individuals**

308. ***Flat Tax***

309. Corporate tax is already taxed at a single uniform Flat tax rate of 30%, with no schedule of rates. Various deductions for capital allowances, depreciation, training etc are, however, still allowed. Personal incomes are still taxed on the principle of Progressive rates.

310. These are on the basis of higher income earners contributing more. Increasingly however, consideration of the Flat tax concept applied to Corporates is now gaining momentum in a number of countries, with its ease of administration, enforcement and compliance part of the attraction.

311. Our own stakeholder consultations also indicate the need for appraisal and debate over Flat tax on personal

incomes, which combines a tax free threshold and a single rate of tax on all income above it. It will, therefore, be necessary that all stakeholders, including those in academia, professional consultants etc all participate in this debate.

312. ***PAY as YOU EARN***

313. Mr Speaker Sir, individual taxpayers remain a major contributor to tax revenue, in part reflecting the impact of inflation on incomes. Hence, Government recognises the need for relief through regular review of the PAYE income brackets and tax thresholds.

314. In pursuance of this, I propose to adjust the tax free threshold upwards from the current \$1.5 million per month to \$7 million per month. Furthermore, I propose to widen the income tax band to end at \$40 million per month, above which income is taxed at 35%.

315. These measures will be effective from January 1, 2006.

316. ***Tax free Pension Contribution***

317. Savings through pension contributions have a bearing on investment levels within the economy. In order to

incentivise taxpayers to save, the tax deductible limit on Pension contribution is reviewed on an annual basis.

318. I, therefore, propose to review upwards the minimum tax free pension contribution from \$120 000 to \$6 million per month with effect from January 1, 2006.

319. ***Credits***

320. Tax credits currently applied on incomes earned by the elderly, blind and disabled taxpayers reduce tax obligations. In view of the challenges faced by this category of disadvantaged taxpayers, it is necessary to review credits in line with inflationary trends.

321. I, therefore, propose to review tax credits upwards from \$41 600 to \$1 million per month with effect from January 1, 2006.

322. ***Pension Income – Elderly Taxpayers***

323. In view of the plight of elderly taxpayers, I propose to exempt from tax Pension income earned by elderly taxpayers who are 55 years old and above with effect from January 1, 2006.

324. ***Investment Income earned by Elderly taxpayers***

325. In view of the predicament of elderly taxpayers, some relief has already been extended to income earned from specified investments.

326. Mr. Speaker, Sir, I propose to adjust the exempt portion of proceeds from rental and investment income, earned by elderly taxpayers from \$2 million to \$12 million per month in line with inflationary developments. This measure will be effective as from January 1, 2006.

327. ***Retrenchment Packages***

328. The current economic environment has resulted in a couple of companies downsizing or winding up leading to retrenchment of employees. Chances of affected employees to be gainfully employed once they are laid off are minimal, hence end up engaged in informal activities.

329. Currently one third of retrenchment packages is tax free, within a minimum threshold of \$300 million and a maximum of \$400 million. In view of the erosion of the real value of incomes by inflation, I propose to raise the minimum threshold to \$1 billion and a maximum of \$1.5 billion.

330. This measure takes effect from December 2, 2005.

331. ***Deemed Income benefit on disposal of company vehicle***

332. Companies often dispose vehicles to staff upon retirement or retrenchment at book value plus some mark up. Under the current legislation, the difference between the purchase price and market value of a vehicle disposed is deemed to be the income earned and is grossed up to the taxable income.

333. Stakeholders raised concern over the valuation method which, under this difficult economic environment, raises the deemed values beyond affordable levels.

334. I, therefore, propose full exemption from income tax the deemed income on motor vehicles being sold to retiring elderly taxpayers who are 55 years and above.

335. For sales of vehicles to those employees below 55 years, I propose to give an inflation allowance calculated from the purchase date on the original price of the motor vehicle. In the case of a 3 year old vehicle, the deemed value will be determined after offsetting the sum of 3 year inflation allowance and the purchase price by the employee, against the prevailing market value.

336. These measures take effect from December 2, 2005.

337. ***Bonus***

338. Employees look forward to the bonus income in order to acquire assets as well as prepare for the festive season. Aggregate demand for goods and services is thus stimulated.

339. To uphold the spirit of celebration, I propose to increase the tax free portion of bonus income and performance related awards from the current \$5 million to \$20 million from November 1, 2005.

340. ***AIDS Levy***

341. The AIDS Levy Fund was established in 2000 to provide seed funding for AIDS support Programmes under the coordination of the National AIDS Council. Concerns have, however, been expressed that the Council's resources remain un-accessible to most HIV/AIDS sufferers.

342. This leaves households bearing the brunt of the medical costs involved in home based patient care and management, prompting calls for review of the 3% AIDS

levy. However, in view of the many challenges that face the National AIDS Council this will be counter productive.

343. Introduction of parameters and guidelines over use of the AIDS Levy by the National AIDS Council are being considered. This follows concerns that a disproportionate share of the AIDS levy was being channelled towards administration at the expense of procurement of such drugs as Anti-retrovirals.

344. ***Corporates***

345. ***Corporate Tax Payment System***

346. Mr Speaker Sir, this year's introduction of contemporaneous taxation under which corporate tax is taxed on a current basis relies on companies paying tax on forecast income. This, however, poses challenges for companies, under the prevailing unstable macro-economic environment.

347. In line with stakeholder submissions I, therefore, propose to alter the current quarterly payment rates to require companies to pay 70% of the 2006 projected profits as follows:

348. the 10% in March is reduced to 5%;

- 349. the 40% in June is reduced to 10%;
  - 350. the 40% in September is reduced to 20%; and
  - 351. the 10% in December is increased to 35%.
352. The effect of the above measure is to defer the tax burden to the second half of the year.

353. ***Capital Allowances***

354. Capital allowances are instituted for purposes of encouraging companies to invest in expansion projects. The value of the current allowances has, however, since been eroded by inflation.

355. I propose to review the allowances with effect from January 1, 2006 as follows: -

356. Passenger motor vehicle allowance from \$50 million to \$1 billion.

357. Staff housing from \$270 million to \$1.5 billion.

358. ***Tax Holiday***

359. Income earned by companies operating under the Export Processing Zones Authority is exempt from tax for the first five years of operation. However, once income

tax exemption is granted, companies cannot carryover losses incurred during the first five years of operation.

360. In order to allow EPZ companies to carryover losses incurred, I propose that tax exemption on income earned be replaced by a tax rate of 0% from January 1, 2006.

361. ***Objections to the Commissioner's Ruling***

362. Mr Speaker Sir, any taxpayer who is aggrieved by an assessment made upon him under the Income Tax Act or any decision of the Commissioner General may object to such assessment, decision or determination within 30 days of the date of assessment or of written notification of the decision.

363. When a taxpayer makes an objection to an assessment and no decision is made within 6 months, the objection is deemed to be disallowed. This practice is however unfair to taxpayers who would have waited for a period of six months for the Commissioner General to make a ruling.

364. In order to uphold tax principles of fairness, I propose to reduce the time period which the Commissioner-General should make a decision from six to three months.

365. This measure is with effect from January 1, 2006.

366. ***Value Added Tax***

367. ***VAT Rate***

368. The rate of VAT was raised from 15% to 17.5% in the Mid-Term Fiscal Policy Review in order to raise additional revenue. This measure has yielded positive results.

369. In order to provide relief to consumers, I propose to reduce the rate of VAT from 17.5% to 15% with effect from January 1, 2006.

370. Stakeholders are encouraged to report on registered operators who fail to pass on this benefit to consumers.

371. ***Refunds***

372. Under the current VAT provisions where refunds are not processed within a period of 60 days, interest accrues on the outstanding amount.

373. In line with submissions from stakeholders, I propose to reduce the time period within which VAT refunds should be processed from the current 60 days to 40 days.

374. ***Second Hand Vehicles***

375. Under the concept of value added tax, VAT is only charged where there is a value addition chain. The sales tax concept, whereby sales tax was levied on second vehicles was rolled over to VAT.

376. During the consultation process, stakeholders reported cases whereby vehicle ownership is not changed even after a sale agreement is concluded. The reason cited is that the rate of VAT is high hence most buyers cannot afford to pay the assessed VAT.

377. I propose to remove VAT on locally registered second hand motor vehicles and instead levy excise duty of 5% on such vehicles payable on transfer of ownership with effect from January 1, 2006. The current exemptions provided under VAT Act will be applicable.

378. ***Capital Gains Tax***

379. ***Marketable securities***

380. Unit trusts are an investment vehicle which pools resources of investors in order to obtain a better return. The pooled resources are invested mainly on the stock market or the secondary money market. Unit Trust fund investments are thus subject to withholding tax on

interest or capital gains tax, depending on the nature of the Investment.

381. In the event of an investor deciding to dispose their units in a unit trust fund, that unit is subject to capital gains tax, irregardless of the fact that the same investment would have been subject to either capital gains or withholding tax.

382. I therefore propose to exempt unit trusts from Capital Gains Withholding tax in order to eliminate double taxation on investments by unit trust funds.

383. This measure will be effective as from January 1, 2006.

384. *Withholding Capital Gains Tax*

385. Mr Speaker Sir, Honourable Members may recall that in the Mid Term Fiscal Policy Review, I lifted the suspension on withholding tax on sale of Marketable securities and fixed it at rate of 10%. This rate was later reduced to 5% following further consultation with stakeholders.

386. In line with regional experiences and best practices, I propose to maintain the rate of 5% withholding tax on gross sales.

387. ***Stamp Duty***

388. *Cheques*

389. Currently stamp duty on cheques is pegged at \$2 000.

390. In order to promote the use of electronic transfers, I propose to increase stamp duty on cheques to \$10 000 with effect from January 1, 2006.

391. *Transfer of shares*

392. Stamp duty is levied upon transfer of marketable securities and is payable by both the buyer and seller at the rate of 2%.

393. In order to reduce transaction costs, I propose removal of the 2% stamp duty on transfer of shares payable by the seller, with effect from January 1, 2006.

394. ***Customs Duty***

395. ***Customs Duty Rates on Raw Materials, Capital, Intermediate Goods and Spare Parts***

396. Customs duty on raw materials, intermediate goods and spare parts ranges from 0-25%.

397. The movement to the inter-bank market exchange rate has drastically increased duty payable thereby increasing the cost of production. Stakeholders recommended the removal of customs duty on raw materials in order to enhance capacity utilisation.

398. I propose to review downwards customs duty rates on raw materials, intermediate goods and spare parts in line with COMESA Common External Tariff proposals of 0-5%, 10-15% and 10% respectively. This is with effect from February 1, 2006.

399. Companies that produce raw materials, spare parts or intermediate goods are called upon to make representations to the Ministry before the new structure is implemented.

400. ***Threshold for Lodging a Bill of Entry***

401. Exporters are required to lodge a bill of entry provided the value of goods being exported exceeds \$3 million.

402. In order to ease congestion and facilitate fast movement of goods at ports of entry, I propose to review

upwards the threshold for lodging a bill of entry by exporters to an equivalence of US\$1000 as from January 1, 2006.

403. ***Green Routes***

404. The international practice whereby passengers who have nothing to declare use the demarcated green routes system eases congestion on passengers.

405. Although this system is provided at our international airports, it has not been extended to road ports of entry. This has consequently resulted in overcrowding at such major ports of entry as Beitbridge and Chirundu, thereby affecting fast movement of tourists and small scale cross border traders.

406. I, therefore, propose to introduce green routes at all ports of entry with effect from April 1, 2006. ZIMRA will be called upon to provide the necessary infrastructure.

407. ***Licencing of Clearing Agents***

408. The Commissioner General is empowered under the Customs and Excise Act to license clearing agents. However, the Customs and Excise Act does not provide the right to appeal against the decision of the Commissioner General, where the applicant is denied a licence.

409. I propose to amend the Customs and Excise Act to enable applicants aggrieved by the decision of the Commissioner General to appeal to the Fiscal Appeals Court.

410. This measure is effective from January 1, 2006.

411. ***Travellers' Rebate***

412. Travellers rebate is currently pegged at US\$250.

413. I propose to increase this rebate to US\$300 with effect from January 1, 2005.

414. ***Excise Duty***

415. ***Wines and Spirits***

416. Stakeholders raised concern that the current excise duty structure promotes the production and consumption of harmful spirits instead of quality wines.

417. Government recognises the need to incentivise the production of quality products which are not hazardous to society. I therefore propose to review the duty structure of fortified wines, sparkling wines and spirits from 15% to 10%, 15% and 20% to 10% and 10% to 15% respectively with effect from December 2, 2005.

418. ZIMRA will be called upon to monitor the production process in accordance to set standards.

419. ***Customs Duty***

420. **Payment of Duty in Foreign Exchange**

421. During the Mid Term Fiscal Policy Review, I announced that efforts to conserve the scarce foreign exchange will be complemented by curtailing of non-essential imports. I further proposed the introduction of payment of duty on some luxury items in foreign exchange in the foreseeable future and that necessary stakeholder consultation over the scope and extent of the coverage is underway.

422. I propose to charge duty in foreign currency on selected luxury motor vehicles with effect from December 8, 2005.

423. **Customs Duty on Non-Essential Imports**

424. Use of specific rates of duty is advocated under circumstances where declared values are often unrealistically low. The disadvantage of specific rates of duty under the current environment is that their values are quickly eroded hence need to be reviewed on a regular basis.

425. In order to maintain the real value of specific duties, I propose to levy specific duty on clothing, shoes, travel bags and beverages, denominated in foreign currency, and payable at the inter-bank rate with effect from December 8, 2005.

426. ***Estate duty***

427. Deceased estates are currently taxed at a minimum rate of 2 percent which progresses to a maximum rate of 20 percent, depending on the value of the dutiable estate. In the case of the estate of a person who died leaving a spouse or minor children or both, there shall be deducted from the amount of duty so

determined a rebate of \$400 million dollars. This rebate is reduced by 40 percent of an amount which is in excess of a dutiable amount \$10 million.

428. Stakeholders raised concern on the complexity of the calculation of estate duty. They further observed that the maximum rate of 20% is punitive, in view of the increased values of estates resulting from high levels of inflation.

429. I, therefore, propose to simplify the method of calculation of estate duty through removal of rebates. I further propose to provide a tax free threshold of \$10 billion above which dutiable estates are taxed at a maximum duty rate of 5%.

430. These measures will be effective from December 2, 2005.

431. ***Insurance Policy***

432. Where the deceased is survived by a spouse, the first \$20 000 of an insurance policy is exempt

from estate duty. I propose to increase this amount from \$20 000 to \$100 million with effect from December 2, 2005.

433. ***Donations***

434. Any donation in excess of \$10 000 given to any person in any one year preceding the deceased's donation is brought into the estate for purposes of estate duty. I propose to raise this amount to \$100 million with effect from December 2, 2005.

**FINANCING**

435. Mr. Speaker Sir, the expenditure and revenue proposals I have outlined above culminate in a financing requirement for the year 2006 estimated at \$13.9 trillion.

436. Innovative strategies to restructure domestic public debt and introduce sustainable financing instruments will be necessary for us to manage the financing requirements of the Budget.

437. In this regard, the strategy is to restructure domestic debt from short term to medium and long-term debt instruments.

## **CONCLUSION**

438. In conclusion, Mr. Speaker Sir, the simple message of this Budget is that as a Nation, we must live within our means. **Self-sustainability** in terms of Revenue generation and Expenditure control will remain critical to ensuring that we remain in charge of our destiny.

439. Our success will depend on the rigorous implementation of all the policies I have outlined.

440. It is also critical for us to have a sense of patriotism and a shared National Vision, which defines who we are as Zimbabweans, where we want to go and how to get there.

441. Mr. Speaker Sir, we need to create an environment of confidence, foster work ethics and discipline among our people if we are to achieve the desired results.

442. We need to deliver services more efficiently and effectively to the people. We must be a Government that delivers results to all Zimbabweans.

443. We need to develop entrepreneurial values so that our young people can be proud to work for themselves and create jobs for others.

444. Dear colleagues, poverty has become entrenched, and we have a society that is now divided between the rich and the poor, and the gap is widening. Economic development will improve incomes, create jobs and enhance the quality of life of the people. This is the challenge.

445. Mr. Speaker Sir, we have an opportunity to make a difference.

446. May the Lord Almighty bless this great Nation.

447. Mr. Speaker Sir, I now place the Budget Estimates of Expenditure and Taxation Proposals for the 2006 Financial Year before the House.

I THANK YOU

**HARARE**

**December 1, 2005**