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2008 National Budget Statement

**presented to the
House of Assembly
by the Minister of Finance**

Thursday 29th November 2007

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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 for 2008 and to make Provisions for matters ancillary and incidental to this purpose.

INTRODUCTION

2. Allow me to begin by expressing my sincere gratitude to Honourable Members of Parliament for the support and guidance they continue to provide me in the formulation and implementation of the National Budget.
3. The Budget formulation process also benefited from wide inputs following consultations with other stakeholders in the major centres countrywide.
4. I believe it is through such engagement that we develop and build the necessary consensus for us to prevail over our economic challenges.
5. As Honourable Members are aware, our economy is confronted with the twin challenges of economic contraction and high inflation.
6. Rising inflation has been felt across the entire spectrum of our society, making the budgeting process difficult. Budget implementation is equally undermined as frequent adjustments to prices of goods and services erode the purchasing power of Ministries' allocations, compromising delivery of essential services.
7. By increasing the cost of doing business, inflation also reduces the scope for long-term planning, growth and development. The impact on the general population is loss of jobs in the formal market and declining real incomes.

8. The thrust of the 2008 National Budget is, therefore, geared towards stabilising the economy, increasing productivity and lowering inflation. This will be driven by the 2007/2008 agricultural season which has been dubbed the *Mother of All Agricultural Seasons*.
9. Accordingly, budgetary support and other fiscal incentives will be availed to agriculture and to the other productive sectors of the economy.
10. Deliberate interventions will also be targeted towards support for small and medium enterprises (SMEs) and grass-root productive activities under Women, Youth and other Community initiated programmes. These are labour intensive, and offer considerable opportunities for employment and income generation for communities.
11. Consequently, this Budget has been dubbed *The People's Budget*. It is dubbed *The People's Budget* because it is geared to reduce inflation by enabling communities at grassroots level to generate their own goods and services at affordable prices.
12. The anticipated increase in production, on the back of Government interventions, will have the effect of reducing prices, thereby placing the economy on a sustainable recovery and growth path characterised by declining inflation.
13. Mr Speaker Sir, before highlighting the specific measures to support the recovery of our economy, allow me to first review our domestic economic developments since January, and fiscal performance to October 2007.

DOMESTIC ECONOMIC PERFORMANCE

14. Mr Speaker Sir, our domestic economic developments have, despite the illegal economic sanctions imposed upon

us by Britain and the West as punishment for our Land Reform Programme, performed remarkably well. The following are indicative of our successes as an economy:

- i) We have constantly been able to fully fund our own Budgetary obligations, a feat that has been attained by few developing countries.
 - ii) In 2007, we completed two phases of our farm mechanisation programme, under which over 2 500 tractors, over 70 combine harvesters and scores of other farm implements and machinery were availed to farmers through concessionary loan facilities. Over 70 000 ox-drawn farm implements were also availed to our communal farmers. These economic achievements remain unequalled elsewhere among most developing countries.
 - iii) We have commissioned the first bio-diesel plant on our continent.
 - iv) We have purchased part of the Beira-Feruka pipeline.
 - v) We have sustained imports of food grains for our people, fuel, power and other essentials.
15. Mr Speaker Sir, the list is long. All these we achieved through our own resources, and in some cases with the assistance of friendly countries, both in Africa and in Asia.
16. However, the *Regime Change Sanctions Agenda*, drought, shortage of foreign exchange and inadequate energy and power supplies have adversely affected the growth of our economy.
17. These challenges manifested themselves in declining export earnings which contributed to low energy supply, capacity under-utilisation and reduced production of goods and services.

Agricultural Performance

18. Mr Speaker Sir, notwithstanding drought conditions experienced during the 2006/2007 cropping season, real growth of 4% is estimated for the agricultural sector this year.
19. Tobacco, horticulture, groundnuts, soya beans, sunflower and tea, were among the major crops contributing to this year's overall positive agricultural performance.
20. Tobacco farmers were able to increase output from 55 000 tons last year to 77 000 tons, due to better preparations and grower support for the crop by Government. This, at an average price of US\$2.40 per kg, generated US\$169.2 million for the economy.
21. With regard to growth in the other crops, groundnuts output rose from 83 000 to 125 000 tons, soya beans from 70 000 to 102 000 tons, horticulture from 64 000 to 66 000 tons and sunflower from 20 800 to 25 700 tons.
22. The above positive performances offset the drought induced decline in maize production. This fell to 953 000 tons compared to the 2006 crop of 1 485 000 tons.
23. This year's cotton production is expected to be over 255 000 tons, which is comparable with the previous year's output.
24. However, winter wheat production suffered extensively from power supply interruptions. These compromised irrigation operations, thus reducing wheat yields. This, notwithstanding, a commendable crop of 144 000 tons is the estimated output for this year, as compared to 163 000 tons for 2006.

25. However, Government interventions for the coming season should see farmers benefit from improved access to a wide range of farm machinery and equipment, and such inputs as fertilisers, seeds and chemicals, now in place for the 2007/2008 farming season.
26. Already, farmers have started accessing these inputs through the country-wide GMB depots. In the case of maize seed, measures are in place to provide for the estimated shortfall of 15 000 tons through imports. Seed houses have availed 35 000 tons of maize seed.
27. The dairy industry is also expected to increase production from 90 million litres in 2006 to 100 million this year.

Mining

28. Notwithstanding the general surge in global mineral prices, the mining sector remains depressed.
29. This has posed major challenges, which include reduced production, against the background of leakages and escalating mining costs. Furthermore, inadequate foreign exchange and electricity supply interruptions have exacerbated the decline in production levels.
30. Platinum production was able to maintain previous year production levels, which stood at 5 300 kgs.
31. Nickel production also benefited from the opening up of new mines and is expected to increase from 8 800 tons in 2006 to 9 000 tons in 2007.
32. Positive developments were also experienced with regard to asbestos, where production is projected to record 115 000 tons, up on 104 187 tons in 2006.

Manufacturing

33. The manufacturing sector continues to face a number of challenges which include rising production costs, foreign currency constraints and electricity supply interruptions, among others.
34. As a result, most companies are operating at capacity levels of below 30%. However, performance of industry should benefit from Government interventions to improve production supply through introduction of the necessary supportive measures.
35. These include the Basic Commodity Supply Side Intervention Facility (BACOSI) through the Reserve Bank. BACOSI offers concessionary loans at 25% per annum for productive activities, as well as foreign exchange to kick-start domestic production of goods.
36. A number of companies are beginning to take advantage of this facility to improve their production levels. Targeted companies have been able to import the necessary raw materials and intermediate inputs from the improved access to foreign exchange.

Tourism

37. Mr Speaker Sir, the tourism industry continues to undertake the necessary infrastructural investments, and institute measures that maintain the quality and competitiveness of our tourism services. This ensures that the industry plays its rightful place in our efforts to turn around the economy.
38. The tourism industry has also had to intensify its efforts to counter the negative portrayals of our tourism facilities as unsafe destinations.

39. These interventions have ensured that our tourism industry has been able to remain competitive.
40. Of the total tourist arrivals, 90% came from Africa, with the balance from overseas markets. The share of African tourists increased by 23% from 917 472 last year to 1 132 575 this year.

Inflation

41. The hyper inflationary environment remains a major constraint to sustainable economic growth and export competitiveness. Year on year inflation has been rising rapidly from 1 593.6% in January 2007 to reach 7 983% by September.
42. Figures for October are not available because many items included in the consumer-basket have not been available in the shops. It is hoped the measures taken to reduce inflation will take effect sooner rather than later, so that the shops will be fully stocked again.
43. The two major factors driving inflation are:-
 - Declining production and supply of goods and services, caused by shortages of foreign exchange, sanctions, low export performance, drought and speculative economic behaviour by Business.
 - Depreciating local currency, emanating from the illegal money market activities fuelled by external forces.
44. It is important to underline that the high rates of inflation have become self-sustaining through speculation, whereby producers are adjusting prices on the basis of anticipated future inflation and replacement costs.
45. Similarly, incomes are also driven up by high inflation as salary and wage earners try to avoid the erosion of the

purchasing power of their incomes. As a result, a vicious spiral has emerged.

46. Reversing this trend requires first and foremost, the restoration of national confidence, by building national consensus on strategies to harness and force down inflation.
47. Equally important will be an acknowledgement by the Nation that this process will involve pain which has to be shared by all for the benefit of everyone.
48. Furthermore, it is critical that the Nation takes advantage of the projected good agricultural season and other opportunities to kick-start this inflation reduction process.

Balance of Payments

49. The country has been experiencing deficits between foreign currency inflows and outflows. This situation is reflective of constraints being faced in the economy because of sanctions, drought and sagging national ego or mindset.

Exports

50. Exports increased by 6.4% from US\$1,302.7 billion between January and October 2006 to US\$1,385.8 million realised over the same period in 2007. This growth was underpinned by buoyant mineral exports which also benefited from favourable international commodity prices, particularly for gold, nickel and platinum.
51. Nickel exports are projected to increase from US\$160.1 million in 2006 to US\$175 million this year. Similarly, the platinum group of metals are expected to increase from US\$311.3 million last year to US\$327.9 million this year.

52. Agricultural exports are also expected to increase from US\$370 million in 2006 to US\$375 million in 2007, contributing about 21% of total exports. Major contributors are tobacco, sugar, horticulture and flowers.
53. Tobacco exports are expected to increase from US\$206.9 million in 2006 to US\$218.6 million in 2007, as a result of increased tobacco production and the firming up of international prices.

Imports

54. Mr Speaker Sir, our economy and particularly the majority of our companies require substantial amounts of foreign currency to import inputs such as raw materials, spares, fuel, and power to sustain productive and other socio-economic activities.
55. Imports are expected to grow by 6.1% from US\$1.965 billion in 2006 to US\$2.085 billion in 2007.
56. Food imports are expected to increase from US\$178.5 million in 2006 to US\$405.1 million in 2007. However, imports of manufactured goods marginally increased from US\$262.6 million last year to US\$270 million.

Capital Account

57. The capital account is expected to register inflows of US\$193.6 million in 2007. Of this, grants account for US\$70.5 million, mainly in support of drought relief, HIV/Aids, gender and population programmes.
58. Investment inflows from friendly co-operating partners are expected to record US\$73.2 million this year. These are largely benefiting the energy, mining and agricultural sectors.

External Debt

59. The total external debt stands at US\$4.1 billion, of which total external arrears amount to US\$2.7 billion.

Public Enterprises Performance

Power Supply

60. Given the overall regional power deficit, strategies to conserve power, develop and expand electricity generation from Hwange and Kariba power stations are a priority.
61. Initiatives by Government on improving electricity supply generation have included financial support for rehabilitation works at Kariba and Hwange.
62. This was complemented by the US\$40 million joint venture partnership between ZESA and Nam-Power of Namibia for the rehabilitation of Hwange power station. The first unit, Unit 3, is now complete and the generator is expected to start producing power by the end of December, adding over a further 100 MW into the grid.
63. This, Mr Speaker Sir, should reduce the power shedding to consumers, including industry.

Liquid Fuels

64. Government initiatives to reduce over reliance on fuel imports include increased support for investment in bio-fuels production. The recently commissioned Bio-diesel plant, when fully operational will produce 90-100 million litres of diesel annually. More such plants are expected to be built in the next 36 months.

65. These will provide a ready market for oil seeds, such as cotton seed, jatropha as well as soya beans to meet demand through out the year.
66. Government stands ready to provide the necessary financial support to farmers to grow more oil seed crops.

Water Supply

67. Mr Speaker Sir, the magnitude of the required resources to overcome water supply constraints in most of the urban areas has warranted the intervention of the State.
68. Government has, therefore, been providing financial resources to boost pumping capacity, rehabilitate treatment works, and reduce water leakages through replacing antiquated equipment, and procuring of critical spares.
69. This year alone, resources amounting to \$10.4 trillion have been availed to ZINWA by Government through the Budget and the Reserve Bank. Another US\$5.2 million has also been provided to import spares.
70. In order to reduce dependence on the fiscus, the charging of economic tariffs for water and sewer services by ZINWA should be considered. ZINWA should also make effort to collect \$240.46 billion owed to it by its debtors in order to improve cash flows.
71. Mr Speaker Sir, I am aware that Government departments also owe substantial amounts to ZINWA, and I will be instituting measures to ensure that they timeously honour on their obligations.

Railway Transport

72. Mr Speaker Sir, positive initiatives being put in place by Government to restore the role of our railway transport system in the economy are beginning to bear fruit. Most notable is the 5.4 million tons increase in the volume of freight moved by the NRZ over the year.
73. This positive performance has seen the National Railways of Zimbabwe transform itself from a loss making to a profitable enterprise with a surplus of \$2.6 billion in revenue generated, from a loss of \$1.3 billion recorded in 2005.

National Airline

74. The national airline, though operating under considerable challenges, has been able to open new routes to Dubai and China, open additional routes internally, as well as increase the number of its flights to London to take advantage of British Airways' withdrawal from the route.
75. Air Zimbabwe will continue to explore other avenues to increase its competitiveness and carry the national flag to further new destinations.
76. Amongst these strategies is the development of a policy framework which will facilitate the participation of other partners and the development of strategic partnerships in the turnaround strategy.

FISCAL DEVELOPMENTS IN 2007

77. Mr Speaker Sir, the consolidated 2007 National Budget provided for total expenditure and net lending of \$43.3 trillion and revenues of \$29.4 trillion, thus leaving a budget deficit of \$13.9 trillion.
78. The performance of the Budget, under many constraints, shows prudent fiscal management by your Treasury. Amongst the challenges were salary increases to civil

servants in September and additional funding for agriculture, including the payment of wheat to farmers by the GMB.

Revenue Performance

79. Mr Speaker Sir, cumulative revenue collections to October 2007, at \$28 trillion, are on track towards the realisation of the revised overall 2007 fiscal target of \$46.6 trillion.

80. Value added tax, pay as you earn and corporate tax contributed significantly to the revenue performance over the first ten months and will continue to do so up to year end.

81. The broadening of the tax base initiated during the course of the year, together with intensive ZIMRA audits and investigation efforts, led to increased compliance and hence improved revenue collections.

Pay As You Earn (PAYE)

82. PAYE collections to October 2007 amounted to \$8.2 trillion, accounting for 25% of total revenues collected.

83. Collections during the last two months of this year will also benefit from the payment of year end employee performance related bonuses and awards.

Corporate Tax

84. Mr Speaker Sir, corporate tax collections to October amounted to \$5.3 trillion against a target of \$2 trillion, accounting for 16% of the total revenue.

Tax on Domestic Dividends & Interest

85. Mr Speaker Sir, tax on domestic dividends and interest for the year to October 2007 amounted to \$1.3 trillion. This was largely due to the upward review of interest rates during the review period.

Other Income Taxes

86. Cumulative collections to October 2007 amounted to \$137.7 billion, with capital gains withholding tax accounting for 79% of this.

87. In the prevailing high inflation environment, asset holders have tended to hold onto acquired assets including property and equities.

88. This has restrained their asset selling activities, hence lower collections of capital gains tax. Furthermore, escalating property prices have also tended to deter potential buyers.

Carbon Tax

89. The review of the level of the carbon tax levy from \$100 per litre to \$5 000 per litre from September 2007 is yielding higher collections.

90. September and October collections alone were \$118 billion and \$305 billion, respectively, compared to the \$50 billion raised over the eight month period January to August.

Taxes on Goods & Services

Value Added Tax

91. Mr Speaker Sir, value added tax (VAT) collections benefited largely from frequent price hikes experienced during the year, improved field audits and investigations by ZIMRA and the upward review of the exchange rate used on VAT on imports.
92. Consequently, cumulative collections to October 2007 amounted to \$8.4 trillion against a target of \$2.6 trillion, representing 30% of total revenue.
93. Furthermore, VAT collections are set to improve following the supply side interventions under Basic Commodity Supply Side Intervention Facility as well as the regular reviews by the National Incomes and Pricing Commission.

Customs Duty

94. Mr Speaker Sir, customs duty is now levied in both local and foreign currency. This measure follows the review in customs duty policy wherein duties for imports deemed to be luxuries are levied in foreign currency.
95. The adjustment in the exchange rate from \$250 to \$30 000 per US dollar effected from October 2007 has improved performance of this revenue head. Collections in October 2007 amounted to \$1.3 trillion.
96. In addition, customs duty collections in foreign currency from April to October 2007 amounted to US\$9.6 million. The month of October alone gave us about US\$2 million.

Excise Duty

97. Excise duty collections amounted to \$854.6 billion, and performance to year end is expected to improve as a result of increased domestic production supply and the availability of imported critical raw materials.

98. Beer and tobacco, the traditional major contributors to this head, weighed in with 61%, while motor vehicles also contributed 30%.

Other Taxes

99. Cumulative collections were \$706.2 billion. Major contributors under this revenue head were stamp duties, \$613.4 billion, followed by withholding tax on tenders, \$74.6 billion.

100. ATM tax contributed \$6.3 billion, followed by road access fees at \$5.4 billion, and the banking levy \$4.7 billion. Presumptive tax raised \$1.8 billion, in large part reflecting the need for increased compliance.

Expenditure Performance

101. Mr Speaker Sir, I have already alluded to total expenditure and net lending of \$36 trillion during the first ten months of the year.

102. Of this, recurrent expenditures for the period were \$26.3 trillion, whilst capital expenditures stood at \$9.7 trillion.

103. Allow me now to outline the major expenditure items during this period.

Recurrent Expenditure

Employment Costs

104. The wage bill for the period January to October amounted to \$14.5 trillion. This represents an expenditure

overrun of \$2.4 trillion. This will be made good by increased tax revenue for November and December.

105. Mr Speaker Sir, this expenditure overrun was on account of a larger than budgeted for review from September 2007, as Government intervened to cushion public servants against increased cost of living.

Pensions

106. Expenditure on this item for the period was \$2 trillion, against a target of \$1.9 trillion.

107. Pension reviews were undertaken in January, February, May and October following reviews in salaries and allowances for civil servants.

Operations and Maintenance

108. Mr Speaker Sir, expenditure on operations and maintenance amounted to \$4.3 trillion against a target of \$6.2 trillion resulting in under expenditure of \$1.9 trillion. The under expenditure is mainly due to bottlenecks in the supply of goods and services on the market.

109. The major expenditure items on this head include domestic travel, communication, medical and office supplies, institutional provisions, rental and utility charges to support general operations of Government departments.

Domestic Travel Expenses

110. Expenditure for the period under review was at \$140.7 billion against a target of \$161.3 billion, yielding a positive variance of \$20.6 billion. Performance on this subhead was due to reduction of trips, serve for critical ones.

Communication Supplies and Services

111. Expenditure, at \$68.9 billion, against a target of \$75.5 billion yielded a positive variance of \$6.7 billion.

Medical Supplies and Services

112. In order to improve the availability of drugs and medical supplies in the country, \$91.8 billion has so far been utilised.

Office Supplies and Services

113. Expenditure for the period under review amounted to \$110.9 billion against a target \$101.8 billion, yielding a negative variance of \$9.2 billion.

Rental and Other Service Charges

114. Expenditure on this item amounted to \$369.4 billion against a target of \$545.6 billion, giving a positive variance of \$176.2 billion.

Institutional Provisions

115. Expenditure on this item was \$661.9 billion against a target of \$883.8 billion, yielding a positive variance of \$221.9 billion.

Programmes and Institutions

116. Expenditure on this item was \$2.2 trillion. This was against a target of \$3.3 trillion yielding under-expenditure of \$1.1 trillion.

Current Transfers

117. Government support to grant-aided institutions remained on target at \$5.5 trillion. The review of fees at most institutions, however, reduced pressure on the fiscus.

Capital Expenditures

118. Against a budgetary provision of \$13.1 trillion, Ministries and Departments' cumulative capital expenditure for the period stood at \$9.7 trillion.

119. Furthermore, Government disbursed resources amounting to \$208 billion towards the capitalisation of the Infrastructure Development Bank. A further \$1.9 trillion was disbursed in November to enable the Bank to implement ongoing housing development projects and finance medium term projects for the productive sector.

120. The Bank is currently supporting housing development projects, an irrigation project, infrastructure development, agricultural mechanisation programme, resuscitation of the textile industry and an import substitution project in the mining sector.

Road Rehabilitation and Construction

121. Mr Speaker Sir, to take care of the country's road network, an allocation of \$1.8 trillion was made towards road rehabilitation as well as construction of new road works.

122. However, of this amount \$504.8 billion had been spent by end of October. In spite of this, little meaningful progress has been made due to capacity constraints and increasing costs of materials.

Dams Construction

123. Resources amounting to \$2.4 trillion had been disbursed towards dam construction by end of October. This has allowed works to continue, especially for Bubi-Lupane and Marovanyati where protective works required before the onset of rains are now complete.

124. Matezva dam is almost complete and is scheduled for commissioning early next year. Excavation and backfilling works are in progress at Bindura, Shave and Mutange dams.

Agriculture Support

125. Mr Speaker Sir, a vibrant agriculture sector is essential for the revival of our economy. This will ensure food self-sufficiency and increased industrial production for the country.

126. Government extended \$1.9 trillion towards agricultural input support and maize purchases. Of this amount, \$1.2 trillion was for grain production under the Agribank scheme whilst \$80 billion was for tobacco production under the Agribank/TIMB scheme. By the end of October, \$1.4 trillion had been spent.

127. During the period under review, Government also availed resources amounting to \$98.6 billion for purchase of fertiliser, chemicals and seeds. These funds were channelled through Agribank and Operation Maguta/Inala.

128. Local maize purchases amounting to 164 777 tons were also secured to ensure food security up-to end of 2007/2008 season.

129. The Reserve Bank has also supported this effort through the Mechanisation Programme and provision of incentives in order to encourage agricultural production. By October 2007, over 2 500 tractors and other farm machinery were allocated to farmers under this programme. Over 70 000 ox-drawn implements have also been availed to communal farmers.

Winter Wheat Production

130. Government disbursed resources amounting to \$958.6 billion in support of wheat production. Of this amount, \$500 billion was for wheat purchases which has seen over 70 000 tons delivered to GMB.

Housing Delivery

131. A budgetary provision of \$237.5 billion was availed towards housing development under Operation Garikayi and Beitbridge redevelopment programmes.

132. Of this amount, \$210 billion had been spent with much progress on most housing units.

Health and Education Facilities

133. By end of October, resources amounting to \$827 billion had been disbursed towards rehabilitation and construction of health and education facilities. This was against a budgetary provision of \$1 trillion.

Rural Development

134. Resources amounting to \$550.8 billion were disbursed towards rural development. These resources were used to finance various programmes, including water, sanitation and community based projects.
135. Construction of clinics, schools, community facilities and roads accounted for resources to the tune of \$26 billion under the Rural Capital Development Fund.
136. A further \$52 billion was spent on the rehabilitation and construction of roads and bridges under the District Development Fund, while \$58.8 billion was for rural housing development projects and the rehabilitation of schools in various provinces.
137. In addition, \$414 billion benefited the Rural Electrification Programme, providing for extension of the grid and support for end use infrastructure projects such as solar, schools milling and schools irrigation projects.

Support to Small and Medium Enterprises

138. To boost production and facilitate employment creation, resources amounting to \$54.3 billion were availed through SEDCO in the 2007 Budget for onward lending to SMEs. This was complemented by additional resources amounting to \$32 billion availed under the Reserve Bank facility.

Domestic Debt

139. Increased reliance on domestic financial borrowings has seen total domestic debt rise significantly, especially against the background of high nominal interest rates.

Reflecting this, total domestic debt has progressively risen to the current levels of \$12.5 trillion as at end of October.

140. We have managed to restructure our domestic debt profile, which, though mainly still comprised of short term debt, is now constituted of 35.8% instruments of 3 years maturity with the remaining 64.2% being 365 day treasury bills.

THE 2008 NATIONAL PEOPLE'S BUDGET THRUST

Expenditure Submissions

141. Mr Speaker Sir, the overall Bids by Ministries and Departments, including employment costs, amount to \$42 435 trillion.

142. These Bids are geared towards chasing inflation rather than reducing it. However, the thrust of the 2008 People's Budget is geared at stabilising the economy and increasing output and productivity in order to put the economy back on a sustainable recovery and growth path.

143. If we are to make positive impact on reducing inflation, our Budget should instead aim at positively contributing to the inflation reduction effort.

144. This clearly demonstrates the critical need to prioritise on our expenditures.

145. We, therefore, need to re-focus our thinking away from inflation inducement towards inflation reduction by seeking to live within our means and in a non-inflationary manner.

146. In this regard, the 2008 Budget expenditures and revenue framework need to be in line with desirable inflation target levels, supported by a consistent monetary

policy stance. I, therefore, propose to rationalise the 2008 Budget submissions.

147. To guide Budget rationalisation, Treasury has, after consultation with other key economic agencies, come up with a macro-economic and Budget framework that is consistent with lower inflation. This is also in line with the various submissions from stakeholders during the pre-Budget consultative process.

People’s Budget Framework

148. Mr Speaker Sir, the 2008 macro-economic framework is premised on a projected real economic growth of 4%, due to the anticipated growth in the agriculture sector, improved industrial performance and economic programmes by the grassroots, including SMEs.

149. This implies a nominal Gross Domestic Product of \$16 000 trillion and a decline in the end period inflation to 1 978% for 2008.

150. Based on the above, the proposed People’s Budget Framework is indicated in the Table below.

The 2008 Peoples’ Budget Framework

	\$ trillion	% of GDP
Revenues	6 080	38%
Expenditure	7 840	49%
Budget Deficit	-1 760	-11%
Projected GDP	16 000	

151. Mr Speaker Sir, I accordingly seek to contain expenditures within this Budget Framework.

THE 2008 PEOPLE'S BUDGET EXPENDITURE PROPOSALS

152. Mr Speaker Sir, in presenting the expenditure proposals for the 2008 National People's Budget, I will begin by a submission of the capital expenditure for the coming year.

Capital Expenditure

153. In order to promote productive economic activity, it is essential that the Budget supports Capital expenditure.

154. Capital expenditure including maintenance of infrastructure will, therefore, be pegged at 32% of total expenditure in line with Government's thrust to prioritise the Capital Budget.

155. Under the Capital Budget, key areas are outlined below: -

- Capacity utilisation;
- Support to the Agricultural Sector;
- Roads and Bridges;
- Government Offices and Institutional Accommodation;
- Social Infrastructure;
- Irrigation Capacity Development;
- Support to Grassroots Economic Programmes and Projects;
- Water and sanitation; and
- Small and Medium Enterprises.

Capacity Utilisation

156. Key to the success of the Budget is inflation reduction. The Budget will deal with supply constraints by complementing Monetary Policy and other sectoral policies on increasing aggregate supply of goods and services by industry, including agriculture, with emphasis on grassroots economic programmes.
157. There is need to implement to the full and monitor the effectiveness of initiatives such as the Basic Commodities Supply Side Intervention (BACOSSI), the Agricultural Mechanisation Programme (Phases I and II), payments to grain farmers, rural electrification, Operation Maguta/Inala, import substitution and value addition in order to realise the full benefits of these programmes.
158. Fair pricing spearheaded by the National Incomes and Pricing Commission in the context of the Social Contract should also promote capacity utilisation once prices start relating to viability and affordability.
159. Support to construction and other projects under the Infrastructure Development Bank is critical as this will resuscitate activity in the construction sector and increase the supply industry capacity.

Support to the Agricultural Sector

160. Government will continue to support the agriculture sector through provision of inputs and working capital.
161. The 2007/2008 Agricultural season which has been dubbed *The Mother of all Agricultural Seasons* has to be accorded highest priority in the 2008 Budget.
162. This is with respect to funding for farmer input support, extension services as well as in the marketing and distribution of produce.

163. Since the majority of our people are engaged in agriculture, increased support for agriculture is increased support for the people. This is why this Budget is dubbed *the People's Budget*.
164. I propose to allocate a sum of \$97 trillion for Crop Inputs Support. Of this amount, \$25 trillion is towards supporting the 2007/08 summer crop programme. The balance of \$72 trillion relates to requirements for the 2008 winter wheat programme, and early requirements for the 2008/09 summer cropping season.
165. Attention is also on sectors which have direct contribution towards the success of agriculture. These include utilities such as coal, electricity and fuel where the providers of these utilities are in need of recapitalisation.
166. Included in the areas of agricultural production under focus is livestock production. This requires budgetary support in terms of veterinary services and loan scheme for the rebuilding of the national herd.
167. I, therefore, propose to allocate an amount of \$6.4 trillion in support of livestock production.
168. To augment these efforts to support agricultural production, Government will work out and implement cost plus pricing for agricultural commodities with two objectives of ensuring farmer viability and productivity as well as affordable food crop prices to the end consumer.
169. The above focus is consistent with current initiatives such as the ongoing agricultural mechanisation, ASPEF as well as operation Maguta/Inala, and is a direct strategy for reducing inflation through increased agricultural production by the majority of our people.
170. In addition to the inputs support, such as fertiliser, chemicals and seeds, the 2008 People's Budget seeks to

avail resources in support for the capitalisation of local fertiliser companies to increase fertiliser production capacity so that fertilisers should reach our communal farmers – the people – at affordable prices.

Support for Agricultural Extension & Mechanisation

171. Mr Speaker Sir, I propose to allocate an amount of \$73 trillion to the Ministries responsible for Agriculture, Agricultural Engineering and Mechanisation, and Irrigation in order to enhance extension outreach to farmers so as to improve productivity.

Grain Procurement

172. I propose to allocate an amount of \$78.7 trillion in support of the procurement of both maize and wheat during 2008.

Agriculture Infrastructure

173. Further, support for the development of agriculture infrastructure such as dams, irrigation rehabilitation and development, feeder roads, processing and storage facilities, have also been considered under the 2008 People's Budget.

Dam Construction

174. The 2008 People's Budget will provide resources for ongoing dam construction projects such as Marovanyati, Bindura, Bubi-Lupane, Tokwe-Mukosi, Mutange, Manyange, and Shave dams. Completion of these will ensure security of water supply for nearby settlements as well as provide water for agricultural activities.

175. I, therefore, propose to allocate \$107.3 trillion towards supporting the completion of these dams.

176. I have also included in this allocation resources towards the commencement of works on Kunzvi dam.

Irrigation Capacity Development

177. Given the perennial drought the country continues to face, it is critical that Irrigation infrastructure is rehabilitated and expanded in order to ensure security in agricultural production and output. In this regard, the budget will need to provide resources for completion of ongoing irrigation projects as well as rehabilitation of existing schemes, especially in the arid regions of the country.

178. In addition there is need to develop irrigation infrastructure on existing water bodies such as Osborne and Mtirikwi.

179. I have, therefore, allocated some \$89.7 trillion for the development and rehabilitation of the above irrigation schemes.

Feeder Roads

180. Feeder roads in our rural areas are central to the distribution of inputs as well as marketing of agricultural produce.

181. I propose to allocate an amount of \$26.8 trillion towards the rehabilitation of feeder roads. Implementation will be spearheaded by the District Development Fund, working together with local authorities.

Rehabilitation of Agricultural Production Facilities

182. Mr Speaker Sir, I propose to allocate resources amounting to \$6.5 trillion in support of rehabilitation of tobacco barns, green houses as well set up maintenance centres for agricultural equipment and implements.

183. These resources will be channelled through an Agricultural Infrastructure Rehabilitation Scheme to be managed by the Ministry of Agricultural Engineering, Mechanisation and Irrigation.

Mining

184. The Budget, true to its people orientation, also provides more support to the small and medium scale miners, through the Mining Industry Loan Fund.

185. I, therefore, propose to allocate \$6.3 trillion towards this Fund.

Public Utilities

186. Mr Speaker Sir, ensuring that the productive sectors fully take advantage of the financial support through the Budget and the Reserve Bank, guaranteeing minimum energy supplies will also be necessary for the sustainable restoration of production capacity, especially in the key sectors.

187. I, therefore, propose to make a global allocation of \$146.4 trillion in support of addressing structural bottlenecks in energy, water and transport sectors, among others. This will be channelled through ZESA, the Rural Electrification Agency, ZINWA, as well as the National Railways.

ZESA

188. In order to reduce power interruptions and support on-going rehabilitation and expansion of power generation capacity in the country, I propose to allocate \$5.5 trillion.

189. These Budget provisions of resources will be complemented by demand management measures which will include periodic review of tariffs to reflect costs, complemented by energy conservation publicity and awareness campaigns.

Rural Electrification

190. Mr Speaker Sir, significant strides have been made in empowering our rural communities through the rural electrification programme. I, therefore, propose to allocate \$80 trillion in support of the rural electrification programme during 2008.

191. Furthermore, I propose to allocate \$10 trillion towards supporting rural communities to take advantage of the electricity end-use infrastructure development programme by venturing into income generating projects, including irrigation. This is consistent with the people orientation of this Budget, and I call on communities to take advantage of this support.

Alternative Energy

192. Furthermore, in support of alternative energy sources such as solar, bio-gas, bio-diesel and ethanol, I propose \$5 trillion.

193. I will also be proposing fiscal incentives for promoting increased use of energy efficient and saving equipment.

ZINWA

194. Mr Speaker Sir, substantial amount of resources are required to address ZINWA challenges associated with ageing infrastructure, lack of spares and equipment for repairs and maintenance of machinery.
195. In the 2008 Budget, I therefore, propose to allocate \$48 trillion to guarantee water availability.

National Railways

196. Mr Speaker Sir, I have already alluded to the pivotal role the NRZ plays in the sustenance of the economy and hence, by supporting it we are supporting the national economy. Increasingly, commuter trains are alleviating transport problems of urban people.
197. In order to sustain services of the NRZ, I propose to allocate \$2.2 trillion in support of the maintenance and upgrading of our rail infrastructure as well as the NRZ motive power.
198. This will be complemented by targeted availing of foreign exchange by the Reserve Bank to buy spare parts for wagons, locomotives and re-equip the signalling and telecommunication network.

Hwange Colliery

199. Mr Speaker Sir, in order to reposition Hwange Colliery on a sustainable long term growth path, Government will work with stakeholders with a view of mobilising resources for the recapitalisation of the company.

200. The timeous review of coal prices to reflect production costs will support sustainable operations and the turnaround strategy.

Road Rehabilitation & Construction

201. The efficient provision of inputs to farmers and the marketing of their agricultural produce is dependent upon a road network that covers all corners of the country.

202. Hence, it is critical that the People's Budget gives urgent priority to the road construction and rehabilitation programmes, especially in the rural areas. Funding road works will promote productive activity especially agriculture and also alleviate transport challenges which our people are now experiencing.

203. I, therefore, propose to allocate \$50 trillion for routine maintenance of our trunk roads. Furthermore, I have set aside resources amounting to \$40 trillion for roads construction and rehabilitation, including bridges and tollgates. Tollgate points prioritised are at Snake Park, Beitbridge, Skyline and Chirundu with a provision of \$1.6 trillion in total.

Government Offices & Institutional Accommodation

204. Many of the Ministries and Government departments are constrained by the shortage of office accommodation. This has necessitated construction and rehabilitation of Government buildings, notable examples being Lupane, Mutoko and Wedza composite offices.

205. I, therefore, propose to allocate \$11.1 trillion for the support of on-going construction works of composite offices at Mutoko, Lupane, Murehwa, Siakobvu and Wedza.

206. Providing these facilities will bring services closer to the people, which is consistent with this People's Budget framework.

207. In addition, Government is also constructing institutional accommodation for public servants including the Defence Forces and the Police. I, therefore, propose to allocate \$34.3 trillion for institutional accommodation for the uniformed forces.

Beitbridge Redevelopment & Operation Garikayi

208. I propose to allocate \$25 trillion towards Operation Garikayi and \$42.4 trillion for the Beitbridge Redevelopment Programme, with priority towards completion of ongoing works.

Civil Servants Housing

209. Mr Speaker Sir, housing development has the potential to resuscitate capacity utilisation in the construction sector, as well as acting as an instrument for direct retention of manpower in the country across all sectors.

210. Hence, Government as an employer is coming up with an expanded housing provision programme for civil servants. Under this scheme, it is intended that all levels of employees facing accommodation challenges be catered for over the shortest possible time.

211. I, therefore, propose to allocate \$30 trillion towards the existing Civil Servants Housing Loan Scheme, as well as another \$35 trillion towards the Expanded Housing Delivery Programme.

212. These will be complemented by partnerships with financial and non-financial institutions including the

Infrastructure Development Bank and the National Social Security Authority as well as Local Authorities. A multi-pronged approach will be necessary, encompassing direct loans, land servicing and development as well as housing guarantee.

Social Infrastructure

213. The 2008 Budget will target the resuscitation and development of additional infrastructure at schools, hospitals and clinics as well as tertiary institutions. The objective is to promote access by our people to social services and amenities in order to improve their material well being. Quality of service provision had started to decline due to inadequate infrastructure rehabilitation and maintenance.

214. In addition to the above, the Budget seeks to address the equipment shortages in hospitals, clinics, schools and tertiary institutions which are presenting challenges to our health and education professionals in the delivery of services.

215. I, therefore, propose the provision of amounts of \$25 trillion, \$71.7 trillion and \$16 trillion for construction of schools, hospitals and clinics as well as procurement of hospital equipment, respectively.

216. Furthermore, an allocation of \$113.3 trillion is proposed for construction and rehabilitation as well as procurement of learning equipment for State Universities and Colleges.

Support to Grassroots Economic Programmes & Projects

217. Over the years, the fiscus has been actively supporting community-based programmes as part of measures to address rising unemployment.
218. Given that community based programmes are the hub of employment creation, the 2008 People's Budget will avail direct budgetary support towards women and youth development programmes and projects.
219. This will achieve the twin objectives of employment creation and poverty alleviation initiatives consistent with the Millennium Development Goals.
220. The support to this development thrust will be done through funding of selected high priority projects in all the Districts of the country. The selection of these projects will be based on the following criteria: -
- i) impact and employment creation for women and youths;
 - ii) potential to generate income in the short to medium term.
221. The People's Budget will thus avail adequate resources through the Youth Development and Employment Creation Fund, and the Women and Community Development Fund towards the realisation of this empowerment and poverty alleviation thrust in the areas of poultry, market gardening, welding and carpentry, bakeries, cassava and jatropha farming and processing.
222. I am proposing allocating an amount of \$11.5 trillion under the Youth Development and Employment Creation Fund.
223. I further propose the provision of \$26.6 trillion under the Women and Community Development Fund.

Small and Medium Enterprises

224. The Budget will boost support to SMEs through the provision of factory shells, and support for business linkages as well as loan financing.
225. It will also be critical to capacitate micro-finance institutions to be able to work within the grassroots.
226. Mr Speaker Sir, I propose to allocate resources amounting to \$21.4 trillion for on-lending to Small and Medium Enterprises Development through SEDCO.

Rural Capital Development Fund

227. Mr Speaker Sir, the provision of basic infrastructure facilities in the rural areas is necessary for supporting various income generating and other socio-economic projects and programmes in the rural areas.
228. Under the 2008 People's Budget, I propose to allocate \$8 trillion under the Rural Capital Development Fund for implementation of community based infrastructure projects.

Water and Sanitation

229. To improve access to clean water and sanitation, the Budget will continue with its thrust on the provision of water and sewer services.
230. Through the Peoples' Budget, I propose to allocate a sum of \$3.6 trillion, being further funding for water and sewer reticulation in rural local authorities and service centres, including development of boreholes and deep wells in rural areas.

Infrastructure Maintenance & Development

231. Consistent with our policy, the 2008 Budget seeks to prioritise the maintenance of existing infrastructure and completion of on-going works in order to support current development initiatives.
232. Outlays on maintenance, like those on construction, help in capacitating the construction industry, which also draws large inputs from all other sectors and provides employment to large numbers.
233. I am, therefore, proposing an allocation of \$195 trillion for the maintenance of Government buildings and facilities.

Recurrent Expenditure

Employment Costs & Skills Retention

234. The Nation continues to lose manpower, which is required to drive our economic turnaround efforts.
235. The 2008 Budget, therefore, targets the retention and attraction of skills, through a package of incentives.
236. Pursuant to Government commitment to retain skills in the public sector, further funding is required under the skills retention scheme. As already indicated above, the other strategy is an expanded housing delivery programme.
237. I propose that the 2008 Budget avails adequate resource allocation towards wage increases. The allocation will afford liveable wages to employees while at the same time keeping down inflationary pressures.

Pensions

238. Mr Speaker Sir, recognising the need to protect the welfare of our pensioners, I propose to allocate \$249.7 trillion towards pensions.

Operations & Other Maintenance

239. Mr Speaker Sir, I have made adequate provision to cater for operational and maintenance budgets of line Ministries. This is necessary in order to ensure efficient and improved public service delivery.

240. I am proposing an allocation \$1 306 trillion for the overall operations of line Ministries.

Improving Delivery of Social Services

241. Social service delivery takes priority in the National Budget. To this end, the 2008 People's Budget will have to deal with funding requirements under education and health care to improve access of these critical services.

242. I have, therefore, provided resources amounting to \$914.9 trillion in support of the delivery of social services through the Ministries responsible for Health, Education and Social Welfare.

Current Transfers

243. Mr Speaker Sir, for operations and staff costs for institutions supported by Government grants, I propose a total allocation of \$1 074 trillion.

The 2008 General Elections

244. Mr Speaker Sir, under the 2007 Budget, Government has already availed resources for mobile registration, voters' roll inspection as well as for the delimitation exercise.

245. In addition, funding requirements, including foreign currency, for election materials such ballot boxes, indelible ink, tents and other equipment have been met.

246. In the 2008 Budget, funding requirements include personnel costs, vehicle procurement and other election related costs in order to ensure efficient conduct of the 2008 harmonised elections. I, therefore, propose to allocate \$209 trillion to cater for the 2008 Election costs.

Management of Public Resources

247. The incidence of abuse and lack of accountability in the management of public of resources remain a cause for concern as pronounced in various reports of the Comptroller and Audit General.

248. There are even incidences where Ministries are committing Government outside the Public Finance Management System, which makes it difficult to manage our cash flow requirements and the Budget in general.

249. I, therefore, propose in the 2008 Budget to tighten accountability mechanisms over the use of public resources. Parliament should also play its role in this regard.

REVENUE PROPOSALS

250. Mr. Speaker Sir, the revenue proposals I will be presenting are premised on supportive measures to stimulate economic activity through incentives and tax relief measures for the productive sectors.

251. I also propose to protect the tax revenue base, critical for financing Government programmes and projects, by reviewing tax levels in line with expected economic performance. It will also be necessary that we bring into the tax net all the potential taxpayers who are currently in the informal sector and are not paying tax.

252. Furthermore, consistent with the objectives of empowering the people under *the People's Budget*, I also propose to provide tax relief to taxpayers through increasing tax free thresholds and bands, in order to increase disposable incomes of individuals.

Tax Incentives

Capital Allowances on Passenger Motor Vehicles

253. The value of capital allowance on motor vehicles is currently pegged at \$10 million. The value of this allowance is no longer an incentive to companies.

254. I, therefore, propose to peg the limit on capital allowance on passenger motor vehicles to cover 50% of the cost of acquisition up to a maximum of \$100 billion, with effect from 1 January 2008.

Capital Allowances on Staff Housing

255. In support of housing delivery, I propose to review the capital allowance on staff housing from the current \$16 million to 50% of the cost of constructing staff houses up to a maximum of \$100 billion.

256. This measure takes effect from 1 January 2008.

Withholding Tax on Interest

257. The current computation of withholding tax on interest adversely affects payments being made to exporters by the Reserve Bank.
258. I, therefore, propose to exempt from withholding tax, payments to exporters by the Reserve Bank upon surrender of foreign currency by exporters.
259. This measure takes effect from 1 January 2008.

Valuation of Imports for Duty Purposes

260. Mr Speaker Sir, full restoration of the role of customs duty in revenue collection and trade facilitation will require regular review in line with general movement in other domestic prices.
261. I have already alluded to the revenue benefits accruing from the review of the exchange rate from \$250 to \$30 000 during the August 2007 Mid Term Fiscal Policy Review.
262. In order to maintain the role of customs duty in total revenue collection and the protection of domestic industry, I propose that the valuation factor for duty purposes be related to the rate at which exporters are paid by Reserve Bank upon surrender of export proceeds.
263. This measure takes effect from 3 December 2007.
264. This will include duty on single cab utility trucks, thereby protecting local motor industry.

Alternative Energy/Energy Saving Equipment

265. Mr Speaker Sir, it is important that we support strategies to conserve energy as well as encourage use of alternative energy sources.

266. In support of projects to conserve energy, Government will avail the necessary incentives for promoting use of alternative sources of energy, as well as energy saving equipment.

Value Added Tax

Zero Rated and Exempt List

267. Currently, beef and poultry are zero rated for VAT purposes so as to minimise costs to consumers.

268. I, therefore, propose to extend the list of zero rated goods to cover pork, with effect from 1 January 2008.

Tax Relief Measures

Donations to Schools, Hospitals and Clinics, and Research and Development

269. A deduction of up to \$25 million per annum is currently allowed on donations to schools, hospitals and clinics, and research and development institutions.

270. In order to incentivise corporates and individuals to make donations, I propose to review the allowable deduction on schools, hospitals, clinics, and research and development institutions to \$20 billion with effect from 1 January 2008.

Attendance to Conventions

271. I further propose to increase allowable deductions for attending conventions or trade missions to \$7.5 billion.
272. These measures will take effect from 1 January 2008.

Individuals

Pay As You Earn (PAYE)

273. Mr Speaker Sir, Honourable Members will be aware that in order to enhance disposable incomes and cushion workers from the rising cost of living, I reviewed upwards the tax-free threshold from \$1.5 million to \$4 million per month during August Mid-Term Fiscal Policy Review.
274. I further propose to review the tax free threshold from \$4 million to \$30 million per month, and also to widen the tax bands to end at \$500 million per month, above which income is taxed at 47.5% with effect from 1 January 2008.

Bonus/Performance Related Award

275. Bonus and performance related awards are a once off annual payment that taxpayers look forward to spend, especially during the festive season.
276. In order to support households during the festive season and their preparations for other expenditures such as new term schools fees, I propose to increase the tax free bonus and performance related awards to \$75 million with effect from 1 November 2007.

Retrenchment/Severance Packages

277. In order to promote optimal use of retrenchment packages, through investing in meaningful income generating projects, it is necessary that the real value of the non-taxable portion of retrenchment packages be maintained.

278. I, therefore, propose to review the non-taxable threshold of retrenchment packages to \$1 billion or one third of the retrenchment package, with an upper limit of \$10 billion, whichever is greater.

279. This measure takes effect from 1 January 2008.

Tax Credits

280. Tax credits reduce the tax obligations of the blind and physically challenged persons in order to increase their disposable incomes.

281. I, therefore, propose to increase tax credits for the blind and physically challenged persons to \$25 million per month, with effect from 1 January 2008.

Rental and Investment Income Earned by Elderly Taxpayers

282. A significant number of elderly taxpayers sustain themselves through income earned from rental and investment income.

283. In order to cushion elderly taxpayers' income from the rising costs of living, I propose to increase the tax free portion of such income to \$250 million per month, with effect from 1 January 2008.

Employee Share Option Schemes

284. Share ownership schemes play a significant role of empowering employees to achieve indigenisation of companies.
285. The benefit derived from disposal of shares is currently deemed to be employment income and is, thus, taxed accordingly.
286. ZIMRA is finalising on the measures to preserve the deemed benefit arising on the exercise of share options.

Estate Duty

287. Deceased estates are entitled to a duty exemption on the principal residential property. Over and above this concession, the estate is subject to a tax free threshold of \$100 million above which 5% is levied on additional property.
288. I propose to extend duty exemption to cover one family vehicle and also to review the tax free threshold to \$25 billion with effect from 1 January 2008.

Revenue Enhancing Measures

Withholding Tax on Commercial Imports by Unregistered Traders

289. Mr Speaker Sir, commercial imports by unregistered traders are only liable to customs duties at the port of entry. All other taxes that are liable after resale of such commercial imports, such as tax on realised profits, VAT and other related taxes, currently remain outside the tax net.

290. I, therefore, propose to levy a 10% withholding tax on the value of all commercial consignments imported by traders who are not registered with ZIMRA. Upon registration of the business with ZIMRA, withholding tax paid will be credited against tax payable, on submission of an income tax return.

291. This measure takes effect from 1 January 2008.

Income Tax

Motoring Benefits

292. Motoring benefits granted to employees are an additional deemed income that should be grossed to their salaries for purposes of taxation, in line with the principle of equity and fairness.

293. I, therefore, propose to review upwards the deemed motoring benefits with effect from 1 January 2008 as follows:

Engine Capacity	Current per month	Proposed per month
Up to 1500cc	\$600 000	\$40 million
Over 1500cc but not exceeding 2000cc	\$1 million	\$60 million
Over 2000cc but not exceeding 3000cc	\$1.25 million	\$75 million
Over 3000cc	\$1.6 million	\$100 million

VAT Registration Threshold

294. A low registration threshold strains the capacity of the tax administration, since small scale enterprises will be compelled to register for VAT purposes.

295. I propose to adjust upwards the threshold for VAT registration to \$120 billion per annum with effect from 1 January 2008.

296. The proposed threshold will not apply to registered VAT operators.

VAT on Sales through Auctions

297. Individuals and companies use the services of registered auctioneers to dispose their assets through public auctions. The current legislation provides that where goods disposed through an auction sale belong to a registered vendor for VAT purposes, the auctioneer is obliged to collect VAT. However, where an unregistered company or individual owns the goods disposed, the auctioneer has no obligation to collect VAT.

298. I propose that VAT be levied on all goods disposed of through a registered auctioneer, regardless of whether they belong to a registered or unregistered company or individual, with effect from 1 January 2008.

Withholding Taxes

Remittance Period of Capital Gains On Disposal of Property

299. The current Capital Gains tax legislation allows a conveyancer to give an undertaking that capital gains tax will be paid to ZIMRA after transfer of the property. There is, however, no time frame within which capital gains tax paid should be remitted to ZIMRA. The time lag before remittance is in most circumstances too long, hence the tax collected loses value.

300. I propose that remittance of capital gains tax be made to the tax authority within 30 days after transfer of

the property. Provision for penalty and interest for failure to pay tax or delayed payments will also be put in place to enforce compliance.

301. This measure is with effect from 1 January 2008.

Customs Duty on Fuel

302. Customs duty on fuel was pegged at \$5 000 per litre of diesel or petrol or 5% of the cost insurance freight value, whichever is greater, during the August 2007 Mid-Term Fiscal Policy Review.

303. In view of the current level of fuel prices, I propose to charge 5% of the cost insurance freight value or \$100 000 per litre of both diesel and petrol, whichever is higher.

304. This measure, which takes effect from 1 December 2007, should restore the contribution of fuel taxes to tax revenue.

Excise Duty

305. Mr Speaker Sir, the current relatively low prices of beer and cigarettes are adversely impacting on excise duty collections.

306. I, therefore, propose to introduce a specific rate of duty over and above the existing ad-valorem rate of excise duty as follows:

Product	Current Excise Duty Rate	Proposed Excise Duty Rate
Clear Beer	40%	40% + \$500 000 per litre
Beer made from Sorghum	15%	15% + \$250 000 per litre

Cigarettes Tobacco	and	60%	60% + \$1 000 000 per 100
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307. This measure is with effect from 1 December 2007, and will be reviewed quarterly.

Tenders, Consultancy and Other Services

308. A withholding tax of 10% is levied on tenders and other consultancy services on trade of goods and services between registered and unregistered businesses, where the value exceeds \$500 000.

309. I propose to increase the threshold to \$500 million per transaction with effect from 1 January 2008, for ease of ZIMRA administration.

Presumptive Tax

310. Presumptive tax was introduced a few years ago on driving schools, haulage trucks, commuter omnibuses, taxi-cabs and small scale miners. An increasing number of small scale enterprises remain outside the tax net.

311. In order to enhance revenue generation, I propose to extend presumptive tax to hair saloons at a rate of \$50 million or 10% of gross income per quarter whichever is greater, with effect from 1 January 2008.

312. I further propose to review the following tax levels on existing presumptive taxes on driving schools, haulage trucks, commuter omnibuses and taxi cab with effect from 1 January 2008 and, to be reviewed quarterly.

Driving Schools

- Vehicles used for class four training - \$150 million per quarter.
- Vehicles used for classes 1 and 2 training - \$200 million per quarter.

Haulage Trucks

- Of carrying capacity of less than 20 tonnes - \$200 million per quarter.
- Of carrying capacity of more than 20 tonnes - \$400 million per quarter.

Commuter Transport Operators

- Of carrying capacity of 15-24 passengers - \$75 million per quarter.
- Of carrying capacity of 25-36 passengers - \$150 million per quarter.
- Of carrying capacity of 37 passengers and above - \$200 million per quarter.

Tax Cab Operators

- \$75 million per quarter.

Carbon Tax

313. Carbon tax is charged on the pump price of fuel at \$5 000 per litre.

314. I propose to increase the rate of carbon tax to \$100 000 per litre, with effect from 1 January 2008.

NOCZIM Redemption Levy

315. In order to assist the National Oil Company of Zimbabwe (NOCZIM) to amortise its debt, I propose to review the NOCZIM redemption levy from \$2 500 per litre of both petrol and diesel to \$25 000 per litre.

316. This measure takes effect from 1 January 2008.

Stamp Duty

317. Electronic transfer and settlement systems such as Automated Teller Machine (ATM) attract stamp duty of \$2 500 per transaction, while use of cheques attracts Stamp duty of \$5 000 per transaction.

318. I propose to review upwards stamp duty on cheques and use of Automated Teller Machines (ATM) to \$50 000 and \$25 000 per transaction, respectively.

319. These measures take effect from 1 January 2008.

Other Measures

Non-Tax Revenue

Rental Fees for A2 Farmers

320. In order to maintain the real value of rental fees for A2 farmers which Government introduced from 1 October 2007 during the Mid-Term Fiscal Policy Review, I propose to review their current levels as follows:

Region	Proposed Rental Fee Per Ha/Annum
1	\$380 000
2	\$360 000
2a	\$340 000

2b	\$320 000
3	\$300 000
4	\$280 000
5	\$260 000

321. This takes effect from 1 January 2008
322. Furthermore, farmers will be required to show proof of payment of rental fees in order to be eligible to participate in Government assisted programmes.
323. The Zimbabwe Revenue Authority has been designated to collect rental fees by A2 farmers.

Standard Scale of Fines

324. Government has made significant progress in reviewing fees and charges to economic levels on a quarterly basis, with the revenue generated facilitating the effective operation of a number of departments.
325. I, therefore, propose similar treatment for the review of the Standard Scale of Fines administered by the Ministry of Justice, Legal and Parliamentary Affairs and approved by Parliament, to allow for timely review of fines. Currently, such offences as commuter omnibus overloading, unroadworthy vehicles etc, which are classified as level 3 on the Standard Scale of Fines remain as low as \$40 000.

Housing Delivery

Index Linked Mortgage Bonds

326. In a bid to improve funding for housing programmes for workers in the public and private sectors, the introduction of a wage indexed mortgage bond was found

feasible and affordable to workers in terms of servicing their loans in line with their incomes.

327. In order to incentivise the institutional investors such as Pension funds and Insurance companies to inject funds into indexed bonds, I propose that such bonds qualify for prescribed asset status up to a maximum of 10% of their respective prescribed asset ratio requirement.

Loan as a Proportion of the Property Value

328. The Building Society Act requires that a Society may not make an advance exceeding 85% of the value of mortgage property.

329. I, therefore, propose that the percentage be increased to 95% to ensure that low income workers are able to raise the required deposit.

CONCLUSION

330. Mr Speaker Sir, the challenges of reducing inflation and restoring increased production necessary for economic recovery are enormous but surmountable.

331. They require our urgent, committed and determined implementation of agreed policies and measures as enunciated in this People's Budget.

332. Mr Speaker Sir, the reality of being under sanctions is that we are on our own, hence, the need for increased self reliance on our own initiatives and resources. Under these conditions, realising our quest for rapid economic recovery and poverty reduction will entail pain. Enduring this will require that as Zimbabweans we be guided by a common vision.

333. Mr Speaker Sir, it is, therefore, opportune that we take advantage of the opportunities arising out of our land reform programme, which has empowered the majority of our people to participate in increased economic activity.

334. Mr Speaker Sir, I now place the Budget Estimates and Taxation Proposals for the 2008 Financial Year before the House.

I THANK YOU!

Hon. Senator Dr S.C. Mumbegwegwi

MINISTER OF FINANCE

29 November 2007