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2007

MID-TERM FISCAL POLICY REVIEW

Presented to the Parliament of Zimbabwe

by

The Hon. Senator Dr. S. C. Mumbengegwi

Minister of Finance

6 September 2007

INTRODUCTION

1. Mr Speaker Sir, the objective of this Mid Term Fiscal Policy Review is to update Honourable Members on the performance of the economy and the 2007 National Budget during the first half of the year.
2. I will also be making proposals for a Supplementary Budget to ensure efficient operations of the Government up to the end of the year. This will also allow for provision of additional resources for the completion of a number of capital development projects where progress was being hampered by escalating costs under the prevailing inflationary environment.
3. The Review also offers the opportunity for Government to outline some of the measures necessary to stabilise the economy, in line with the obligations that arise under the Social Contract by the Tripartite Negotiating Forum partners, that is, Government, Business and Labour.
4. I will, therefore, take advantage of this Mid-Term Fiscal Policy Review to propose various interventions drawing from developments during the first half of 2007.
5. As Honourable Members are aware, the Mid-Term Fiscal Policy Review is coming against a background of incessant price increases by most of the business community during the first half of this year.
6. This development had seen the unwarranted adjustment of prices, which in too many cases was on an hourly basis, with devastating effects on the ability of ordinary workers and consumers to plan and access basic goods and services.
7. Ironically, this was taking place soon after the signing of the three Protocols under the Social Contract obligating Labour, Government and Business to work together towards stabilising prices, promoting increased productivity and foreign exchange generation.
8. Attempts to effect 'regime change' by the former colonial powers through the use of prices instability, confirmed the fact that the hourly price adjustments by Business were

no longer a market phenomenon for their viability, but rather an instrument towards this political agenda.

9. In response to this 'economic carnage', Government was forced to intervene by instituting price monitoring and stabilisation measures for restoring sanity in the goods and services markets.

10. This saw clampdown on unscrupulous businesses engaged in such unethical behaviour, while at the same time engaging those with genuine commitment to work with Government in addressing the challenges facing our economy.

11. Mr Speaker Sir, now that the price stabilisation exercise has settled in, and that the business community has expressed its willingness to enter into a 'real' Social Contract, it is therefore, time to return to normalcy through the operationalisation of the National Incomes and Pricing Commission. This should contribute towards addressing other challenges facing the economy.

12. Mr Speaker Sir, given the declared and undeclared sanctions on our country by some of the Western countries, the policy imperatives for this Review, the forthcoming 2008 National Budget, and the Monetary Policy Statement will, therefore, strive to support increased economic activity, while at the same time cushioning the vulnerable groups in our society.

13. Mr Speaker Sir, before making proposals on the 2007 Supplementary Budget, allow me to first outline the economic and fiscal developments during the first half of 2007.

ECONOMIC DEVELOPMENTS

14. As a result of decreased agricultural output, overall economic performance remains depressed this year, also reflecting a number of challenges underpinned by declared and undeclared sanctions on the country.

15. In this environment, characterised by the absence of balance of payments support, withdrawal of lines of credit and disinvestment by foreign firms, foreign currency shortages for the importation of raw materials, equipment, fuel and electricity continue to affect the operations of the economy's key sectors.

16. This has perpetuated capacity under utilisation, leading to inflation, worsened by speculative behaviour by some businesses. The effect has been reduction in industrial competitiveness both in the domestic and export markets.

Agriculture

17. Mr Speaker Sir, food security and production of strategic crops has been adversely affected by yet another drought. Government support in this area remains critical.

18. Already, the 2007 Budget complemented the 2006 Budget support by allocating \$75.4 billion in support of the winter wheat crop, tobacco and other summer cropping and livestock development. A further \$32.1 billion was set aside for irrigation development.

19. The public and private sectors, including financial institutions, also provided support through contract farming arrangements, extension of concessionary financing, and facilitation in the procurement of inputs and equipment, amongst other interventions.

20. Agriculture, benefiting from this support and other factors, is projected to grow by 7.3% in 2007, with the tobacco crop registering growth of 45.5% from 55 000 tonnes to 80 000 tonnes. Other positive performance was related to beef, up 5.6%, horticulture, 3.1%, and an average growth of 0.2% for small grains.

21. With regard to maize, output declined from 1.5 million tonnes to 953 000 tonnes in 2007, largely owing to the erratic rainfall pattern during the cropping season, and inadequate supply of inputs especially fertiliser, amongst other factors.

22. However, much progress had been realised with regard to the early preparations for this year's winter wheat programme. Most of the input requirements such as seed, fertilisers and chemicals were supplied on time. Unfortunately, inadequate water in our dams for irrigation has affected the wheat hectareage.

23. Frequent interruptions to power supplies also affected irrigation operations resulting in poor germination, which will adversely affect some of the germinated crop, and the anticipated yields.

24. In line with Government's thrust to support food security and the production of strategic crops, significant progress is also being made on the preparations for the coming summer cropping programme.

25. Farmers have benefited much from Government's Agricultural Mechanisation Programme, which is being financed through a combination of own resources and facilities with co-operating partners in China and other friendly countries.

26. Under these facilities, an assortment of agricultural implements consisting of tractors and ploughs, tobacco ridgers, irrigation pumps, fertilisers, chemicals, sprinklers and various other implements were procured. This is capacitating farmers throughout the country, with many already beginning to receive extensive training in equipment operations, repairs and maintenance.

27. In order to complement these positive initiatives, I will be indicating some support for agriculture as part of the Supplementary Budget.

28. This, as I have already alluded to, would also require that the private sector plays its part in supporting farmers, taking advantage of the tenure security under the lease and offer letter arrangements.

Mining

29. Mr Speaker Sir, Government recognises the importance of the mining sector as a major source of inputs for our manufacturing sector and a major foreign currency earner.

30. Mining, however, continues to be plagued by a number of challenges which include limited investment into expansion and exploration programmes, interruptions to energy supplies, as well as leakages stemming from rampant smuggling. Currently, an estimated US\$50 million worth of precious minerals is lost to smuggling activities every month.

31. These challenges have limited the capacity of the mining sector to benefit from firming international commodity prices and, hence, undermine its contribution to the efforts to turnaround the economy.

32. However, Government has been collaborating with its cooperating partners to support capitalisation programmes into existing mining companies as well as the expansion of various other mineral operations.

33. These initiatives should see the restoration of the role of the mining sector in foreign exchange generation and employment creation. Major beneficiaries of these initiatives include platinum, asbestos, coal and nickel, among others.

34. Platinum output for the year is expected to register positive growth of 8% from 4 998 kgs to 5 388 kgs, owing to the increased investment and firming international prices. Asbestos output is also expected to register positive growth of 2% from 96 956 tonnes recorded last year to 98 652 tonnes this year.

35. Notwithstanding periodic interruptions to production, coal mining continues to benefit from the recapitalisation of Hwange Colliery undertaken in 2006. Output for the year is expected to grow by 16% from 2.1 million tonnes last year to 2.4 million tonnes this year.

36. Positive growth is also expected in nickel production, by 8% from 8 825 tonnes to 9 520 tonnes. This performance is benefiting from strong and growing demand from key nickel markets, coupled with firming international prices. 37. Other minerals expected to record positive growth are copper (8%), cobalt (19%) and palladium (5%). 38. On the down side, high carbon ferrochrome is expected to record a marginal decline of 3% from 200 673 tonnes last year to 194 729 tonnes this year. Other minerals not expected to register significant growth in output are iron, phosphate and chrome.

Manufacturing

39. Mr Speaker Sir, manufacturing has great potential in generating employment and foreign exchange as well as enhancing support services to the other sectors of the economy.

40. Government is, therefore, working with the private sector to address issues of capacity utilisation and viability in the context of the Social Contract. Already, the initiative to relate reviews of prices of goods to changes in production costs should benefit improved capacity utilisation, and assist reverse the anticipated underperformance during 2007.

Tourism

41. Mr Speaker Sir, efforts aimed at countering the negative publicity in overseas markets and intensifying marketing campaigns targeted at opening new markets in Asia and the Far East, as well as revamping traditional source markets, like Europe, America, Australia and South Africa, are witnessing increased tourist arrivals in the country.

42. During the first half of 2007, the number of tourists arriving in the country is estimated to have grown by 34% from 1.1 million to 1.4 million as compared to the same period last year.

43. It is expected that this positive trend will continue throughout 2007, benefiting from the improving visibility of the country's tourist destinations in both traditional and non-traditional markets. Tourist arrivals are, therefore, estimated to grow by 55% in 2007 with growing numbers coming from other African countries and the Far East.

Inflation

44. Mr Speaker Sir, I have already referred to the effects of speculative business pricing practices, which were threatening social stability. This situation also forced the public sector to undertake three wage adjustments in the first half of 2007.

45. The impact of this, coupled with declining industrial capacity utilisation levels, had seen inflation rise to levels where ordinary Zimbabweans could no longer afford basic goods and services.

46. Mr Speaker Sir, I am however confident that the measures being taken by Government under the auspices of the Price Monitoring and Stabilisation Taskforce to restore sanity in pricing, coupled with those being instituted in partnership with Business to boost domestic production, should see us making some progress towards lowering of inflation.

Financial Sector

47. Mr Speaker Sir, the financial sector plays a central role in mobilising and allocating resources for investment, thereby promoting overall economic growth. Therefore, effective regulation of this sector is an essential component of our macroeconomic stabilisation and economic turnaround efforts.

48. The Central Bank will continue to strengthen its regulatory and supervisory arms, pursuing banking sector prudence and insisting on sound risk management and good corporate governance practices in the financial system.

49. The Reserve Bank will provide updates on developments in the sector in its Monetary Policy Review.

Balance of Payments

50. Mr Speaker Sir, in light of the existence of sanctions imposed on the country by some Western countries, traditional lenders to Zimbabwe such as the Bretton Woods institutions have ceased to provide balance of payments for our economy.

51. Government has, therefore, undertaken initiatives to mitigate the adverse impact on our balance of payments arising from these sanctions. Such financing initiatives have helped support infrastructural projects in agriculture and mining, just to name a few.

External Payments

52. Mr Speaker Sir, while Zimbabwe remains committed to honouring its external obligations, the difficult foreign currency situation arising under the declared and undeclared sanctions limits the ability to timely meet our external obligations.

53. Government will continue to meet our external obligations according to the level of inflows of foreign exchange into our economy.

FISCAL DEVELOPMENTS

54. Mr Speaker Sir, in the 2007 Budget, Government presented a 2007 Budget framework premised on expenditures of \$6.2 trillion, against projected revenues of \$3 trillion.

55. Expenditure performance to June 2007 amounted to \$5.8 trillion, of which \$4.3 trillion was incurred on recurrent and \$1.5 trillion for capital development programmes.

Recurrent Expenditures

Wage Bill

56. Cumulative employment costs for the first half of the year amounted to \$2.6 trillion, against a total Budget of \$1.4 trillion.

57. The higher than expected expenditure was on account of the cushioning of public servants against the high cost of living that was prevailing during the first half of the year, prompting Government to review salaries and allowances in January, February and May 2007.

Pensions

58. Mr Speaker Sir, reviews meant to cushion the incomes of pensioners from rising inflation also necessitated review of pension levels. In this regard, expenditures on pensions amounted to \$336.4 billion for the first half of the year against a Budget provision of \$224.8 billion.

Operations and Maintenance

59. Expenditures on operations and maintenance amounted to \$652 billion during the same period under review, against a provision of \$374 billion.

60. The high operational expenses were on account of frequent adjustment of prices by service providers which weighed heavily on Ministries' allocations.

Grants and Transfers

61. Mr Speaker Sir, support to grant aided institutions such as Universities and Mission hospitals amounted to \$741 billion, against an original budget allocation of \$688 billion. Additional resources had to be availed in order to cater for salary adjustments as well as other demands arising from speculative price hikes that obtained during the first half of the year.

Capital Expenditures

62. Mr Speaker Sir, in order to ensure that capital development projects are completed, the 2007 Budget prioritised ongoing projects which had the potential to be completed during the course of the year.

63. In this regard, a total of \$1.44 trillion was allocated towards the Public Sector Investment Programme. By June 2007, cumulative capital expenditures amounted to \$1.46 trillion, with escalating costs of materials and other inputs experienced during the first half of the year undermining projects' implementation.

64. Hence, it is of great concern that despite the high level of capital expenditure, actual physical project implementation remains largely unsatisfactory.

65. Cost escalations have also distorted project implementation plans and budgets leading to overall sluggish implementation

This has undermined the pace at which projects are implemented and completed even where adequate funding has been availed.

66. Allow me, Mr Speaker Sir, to now give an overview of performance on some of the major projects.

Dam Construction

67. Mr Speaker Sir, in order to improve the provision of water for industrial and domestic use, and in support of irrigation programmes, the 2007 Budget had allocated \$127.1 billion for the Bindura, Marovanyati, Bubi-Lupane, Matezva, Mutange and Shave dams among others.

68. Inflation has slowed down progress on dam construction, but additional resources will be provided for in the Supplementary Budget.

Urban Water Supply

69. Mr Speaker Sir, Government is concerned about the water and sanitation challenges facing residents within our urban areas. This has been due to ageing water reticulation infrastructure. Adequate resources will be made available to correct the situation.

Roads and Bridges

70. Mr Speaker Sir, a total of \$194 billion was allocated in the 2007 Budget for the construction and rehabilitation of roads and bridges.

71. By the end of June 2007, only \$69 billion had been spent on various projects. It is, therefore, critical that Government prioritises its projects to levels consistent with available capacity and resources.

Airport Upgrading

72. Mr Speaker Sir, tourism is one of the sectors with a quick turnaround potential. This potential however, can only be realised if the sector is capacitated with the requisite infrastructure and other supportive facilities.

73. In this regard, Government allocated \$13.5 billion towards the rehabilitation of Harare, Victoria Falls and J.M Nkomo airports, as well as upgrading the Buffalo Range airport. Additional resources will be provided to complete these projects.

Border Posts

74. Mr Speaker Sir, \$50 billion was spent on the development of border posts, including redevelopment of Beitbridge. More resources for these projects will be in the Supplementary Budget.

Infrastructure Development Bank Capitalisation

75. Capitalisation of the Infrastructure Development Bank enhances its capacity to finance infrastructure projects. Government has therefore, disbursed \$8 billion to the Bank as part of its capitalisation, bringing total injection by Government to \$14.2 billion. To date the Bank has supported implementation of a number of projects, including dams, housing schemes and mining projects.

Health and Education Facilities

76. Mr Speaker Sir, Government is committed to improving access to social services such as health and education, especially in the newly resettlement areas. During the first half of 2007, Government disbursed \$65.7 billion towards rehabilitation of the six central hospitals, construction of a provincial and district hospitals and construction of new schools in resettlement areas as well as additional classroom blocks.

77. However, foreign currency shortages for the procurement of hospital and educational equipment continue to delay utilisation of some facilities.

Rural Electrification

78. Honourable Members will be aware of Government efforts to improve the standard of living of the majority of our people by embarking on the expanded rural electrification programme which commenced in 2001.

79. During the first half of 2007, significant progress was made from the \$57 billion disbursed in various provinces of the country. This allowed the Agency to electrify twelve rural primary schools, four secondary schools, two rural health centres, one Government office complex, business centres as well as several homesteads.

80. In addition, sixty eight projects are under implementation, with progress at various stages. Under the End Use Infrastructure Programme, twenty one grinding mills and six dehaullers were procured, while designs for four schools' irrigation schemes and thirty two solar projects for schools and clinics are also underway.

Capital Transfers

81. Mr Speaker Sir, disbursements to parastatals and other quasi-Government institutions amounted to \$503.7 billion. This was in support of major projects under the Grain Marketing Board, Agribank and Universities.

Lending

82. To meet water and sewer upgrading works, Government had in the 2007 Budget made provision of \$133 billion for lending to local authorities. The amount disbursed as at 30 June 2007 for this purpose stands at \$83.3 billion.

83. In addition, Government has disbursed, through ZINWA, an amount of \$44 billion, towards rehabilitation of water works at Morton Jaffrey and Warren Control, as well as repair of the water conveyance system in Harare during the period ended June 2007.

Revenue

84. Mr Speaker Sir, the 2007 revenue mobilisation thrust targeted consumptive activities, widening of the tax base through introduction of presumptive tax on those outside the tax net and also tightening the tax loopholes. The focus was also on extending tax relief and incentives, in support of the productive and export sectors of the economy.

85. As at June 2007, cumulative revenue collections were \$3.4 trillion, significantly higher than the original 2007 Budget estimate of \$743 billion, largely reflecting the impact of higher than anticipated inflation as I have already alluded to.

86. This revenue performance was on account of the following subheads:

Value Added Tax

87. Value Added Tax (VAT), which is ad valorem, contributed \$1.03 trillion or 30.3% of total revenue – benefiting from the frequent price adjustments for goods and services and tax audits undertaken by ZIMRA. The original estimate for the first half of the year was \$232 billion.

88. VAT on domestic goods and services contributed the larger part, with collections of \$970 billion, whilst imported goods and services and VAT on motor vehicles contributed \$33.5 billion and \$26 billion, respectively.

Pay As You Earn (PAYE)

89. Pay As You Earn also surpassed the original 2007 Budget estimate of \$170 billion during the first half the year, with collections amounting to \$849.8 billion. This was attributable to frequent salary and wage reviews in both public and private sectors in line with the rising costs of living.

Corporate Tax

90. Corporate tax collections were \$961.9 billion for the period under review against an estimate of \$176 billion. This was on account of additional revenue coming from higher than anticipated quarterly corporate tax payments.

Customs Duty

91. Collections under this revenue head amounted to \$81.7 billion, representing 2% of total revenue collected during the first half of the year.

Excise Duty

92. Revenue collections from excise duty amounted to \$126.9 billion, with beer and tobacco the major contributors. These brought in some 76% of the revenue from excise duty.

Presumptive Tax

93. The widening of the tax net ensures that all potential taxpayers make their contributions to Budget revenue. As a result, presumptive tax was introduced to such service providers as driving schools, haulage trucks, commuter omnibus and taxi cab operators, among others.

94. In the 2007 Budget, the rates were reviewed upwards in line with inflation developments and in order to complement Government efforts in the maintenance of roads.

95. Consequently, total revenue raised during the first half of the year from presumptive tax amounted to \$258 million against projections of \$332 million.

Non Tax Revenue

96. In line with the Government policy on cost recovery, fees and charges for Government services were reviewed in March and June 2007. Collections during the first half of the year amounted to \$71.4 billion against an original 2007 Budget estimate of \$21.3 billion.

Payment of Duty in Foreign Currency

97. Mr Speaker Sir, in order to allow for fair competition between imports and locally produced goods, and also deal with increasing demand for non-essential imports in an environment of foreign currency constraints, Government in April 2007, introduced payment of duty in foreign currency.

98. As a result of this measure, individuals and corporates are now beginning to redirect their foreign currency resources towards local productive activities.

99. Already, Willowvale Mazda Motor Industry, previously on the brink of collapse, has since recorded improved capacity utilisation and is now assembling about 261 motor vehicles per month compared to the previous level of 86 before the new measure came into effect.

100. Furthermore, Quest Motor Industries, which had produced only 41 units between January and March 2007, raised production to 181 units over the period April to June 2007.

101. Mr Speaker Sir, to date, duty collections in foreign currency have cumulatively raised some US\$9.6 million for the Exchequer over the months April to August 2007. Of this, US\$8.7 million was collected in US dollar terms, while other payments were in South African rands, British pounds, Botswana pula and the euro.

Domestic Debt

102. In order to finance the 2007 Budget deficit, in the environment of limited external support, Government borrowings increasingly relied on the domestic market. 103. Hence, total domestic borrowings to June 2007 amounted to \$1.96 trillion. This raised the domestic debt stock to \$8.1 trillion, of which \$6.1 trillion was related to interest.

104. Of the \$8.1 trillion, about 99.4% comprise short term Treasury bills, as the prevailing hyper-inflationary environment continued to undermine Government's efforts to restructure public domestic debt towards longer term maturities.

BUDGET CHALLENGES

105. Mr Speaker Sir, the above economic and fiscal developments, largely linked to high levels of inflation, shortage of foreign exchange and speculative behaviour pose challenges for the Budget.

106. Increasing levels of inflation since the beginning of the year have rendered Budgetary allocations to line Ministries inadequate.

107. Hence, line Ministries, Departments and grant aided institutions have continued to submit additional financial expenditure requests in order to meet their operational expenses, cost of on-going projects to the end of 2007, as well as support for agricultural production requirements.

108. These additional expenditure submissions now stand at over \$255 trillion. This level of Supplementary Budget bids is beyond our domestic financing capacity.

109. This, Mr Speaker Sir, would not be in line with our obligations to reduce the Budget deficit to around 10% of GDP by year end.

110. In this regard, both the Reserve Bank Monetary Policy Statement and the Supplementary Budget present for implementation of fiscal and monetary policies consistent with reducing inflation to the targeted levels.

111. Hence, I have had to rationalise the additional budget expenditure requests in line with revenues and the capacity of the economy to support the borrowing requirement.

112. I am, therefore, proposing a Supplementary Budget which is consistent with the macro-economic stabilisation challenges recognised in the various Protocol Principles that Government has gone into with Business and Labour under the framework of the Tripartite Negotiating Forum (TNF) Social Contract. This will be complemented by monetary policy measures to be announced as part of the Reserve Bank Monetary Policy Review Statement.

SUPPLEMENTARY BUDGET PROVISIONS

113. Mr Speaker Sir, given projected additional budget revenues of \$26.4 trillion, abiding by these obligations will require that we limit the 2007 Supplementary Budget expenditures to \$37.1 trillion.

114. This is to maintain Government operations and service delivery for the remaining four months of the year, and allow for continuation of development projects, where progress has reached critical stages.

115. Mr Speaker Sir, I therefore seek the indulgence of the august House to give details of the proposed 2007 Supplementary Budget.

116. Of the \$37.1 trillion total allocation to year end, \$25.5 trillion is for recurrent expenditure, while the balance of \$11.6 trillion for capital expenditure constitutes 31% of the Supplementary Budget.

Recurrent Expenditure

Employment Costs

117. The high inflationary environment prevailing for the greater part of the year necessitated Government to cushion public servants against the high cost of living.

118. The three reviews awarded in January, February and May 2007 to Government employees, reflecting the rising cost of living experienced during the first half of the year will cost an additional \$11.8 trillion to December 2007. This includes the additional cost arising from reviews in Pension and other employer contributions.

119. Staff Associations have submitted proposals for further salary reviews to cushion public servants as we go into the last quarter of the year. The way forward in this regard will be guided by measures evoked by Government since June 2007 and the relevant Statutory Provisions instituted thereafter.

Skills Retention Fund

120. Mr Speaker Sir, Government has since put in place the Skills Retention Fund. This has targeted professional grades of the civil service with the objective of retaining critical skills. I am happy to announce that payments to identified personnel commenced in July 2007.

121. I propose an allocation of \$650 billion to meet payments to end of the year.

2008 Election Preparations

122. To facilitate preparations for the conduct of the 2008 harmonised Parliamentary and Presidential elections, I propose to set aside \$735 billion. This provision, which includes preparations for Local Government elections, will cater for voter registration and education, delimitation of constituencies and inspection of the voters roll.

Drought Relief

123. The poor 2006/7 agricultural season has led to food insecurity for some households. In this regard, the Zimbabwe Vulnerability Assessment Committee has estimated that 600 000 households require food assistance.

124. I am therefore, proposing to allocate \$347 billion for this purpose.

Extension Services

125. Provision of extension services is critical for increased agricultural productivity and output, especially with regards to the new farmer.

126. Therefore, I have allocated \$21.9 billion to support the operations and accessibility of agricultural extension services as the summer cropping season begins. I will be providing more resources for this in the 2008 Budget.

National Incomes and Pricing Commission

127. Mr Speaker Sir, Honourable Members will be aware that the initial work of monitoring the stabilisation of prices fell under the auspices of the Cabinet Task Force on Price Monitoring and Stabilisation.

128. Having intervened to put a stop to irresponsible and speculative pricing through the Task Force, Government is now operationalising the National Incomes and Pricing Commission.

129. Pursuant to this, the Presidential Powers (Temporary Measures) (Amendment of National Incomes and Pricing Commission Act and Education Act) Regulations now empower the Commission to assume full responsibility for stabilising prices in the economy.

130. I, therefore, propose to set aside an amount of \$36 billion to fund the operations of the National Incomes and Pricing Commission.

Education

131. Significant progress has been made in the education system since our Independence, as reflected by the high demand for our skills in the region and beyond.

132. To maintain the quality of our education system, I have made provision of \$225.1 billion for the procurement of teaching and learning materials as well as \$613.6 billion for the conduct of public examinations by ZIMSEC.

133. Furthermore, to improve the teaching and learning environment at our institutions of higher learning, I propose to allocate an amount of \$1.6 trillion for state universities.

This amount includes \$350 billion for support to students under the National Education Training Fund.

Health

134. Mr Speaker Sir, in order to improve service delivery in the health sector, I propose to allocate an amount of \$1.2 trillion to cover procurement of drugs and other medical supplies, as well as meeting running expenses of health institutions.

Other Operations and Maintenance

135. Other line Ministries and Departments as well as Grant Aided Institutions require additional funding to support the provision of services up to the end of the year. I am therefore proposing to allocate \$3.9 trillion for this purpose.

Capital Expenditure

136. Mr Speaker Sir, I propose to redress some of the infrastructure challenges in the areas of roads, dams and water provision, among others, where allocations for most projects had been exhausted at critical stages of implementation.

137. I, therefore, propose to allocate \$11.6 trillion to enable works to continue. The provision of these resources will have to be complemented by adoption of measures by line Ministries necessary to address some of the challenges undermining project implementation.

Agriculture

138. Mr Speaker Sir, it is necessary that Government targets some budgetary support towards the 2007/08 summer crop to allow farmers to fully take advantage of the Agricultural Mechanisation Programme.

139. Cognisant of the need for private sector financial support to agriculture, and also that further funding will be provided through the 2008 Budget, I propose to allocate \$1.3 trillion towards meeting some of the requirements for the summer crop.

Grain Procurement

140. I also propose to allocate \$800 billion to cover purchasing of grain from farmers by the GMB, as well as maize imports.

Dam Construction

141. Mr Speaker Sir, I am proposing to allocate an amount of \$1.6 trillion towards continuation of on-going dam construction in various provinces.

Urban Water Supply

142. Mr Speaker Sir, due to inability by urban local authorities to maintain urban water works and reticulation, and sewer upgrading, they became increasingly dependent on Central Government loans. This has meant that the level of funding required by ZINWA for the rehabilitation of the water and sewer works in the urban areas is considerably high.

143. I am, therefore, proposing an allocation of \$1.4 trillion to restore water supplies in Harare, Marondera, Bulawayo and Beitbridge.

144. Mr Speaker Sir, given that Government cannot perpetually assume direct responsibility for the financial requirements of ZINWA's long term water and sewer programmes, it is necessary that the Authority's water and sewer tariffs reflect economic levels that sustain treatment and pumping of water.

Rural Roads

145. The poor state of our road infrastructure remains a challenge with most of the roads, especially those in rural areas, being in need of rehabilitation. This necessitates that we take steps to address this challenge to ameliorate the transport hardships our people are facing.

146. I am proposing to allocate \$1.4 trillion from the Supplementary Budget to cover the rehabilitation and re-gravelling of our rural roads before the onset of the rainy season.

Trunk Road Network

147. I further propose to allocate an additional \$1.1 trillion in support of on-going construction works on our major road network, including maintenance of the highways.

148. The above provision of additional Supplementary Budget resources should also speed up the implementation of the dualisation of the Harare-Masvingo, Harare-Gweru and Beitbridge Roads, where progress has been painstakingly slow.

Border Posts

149. I am proposing an allocation of \$327 billion for construction and upgrading works at border posts being undertaken by ZIMRA, the Department of Immigration and the Zimbabwe Republic Police.

Airports

150. The ongoing rehabilitation of Harare, Victoria Falls and J.M. Nkomo Airports, as well as upgrading the Buffalo Range airport are critical, also in light of the region's preparations for the 2010 World Cup in South Africa.

151. Notable works have been undertaken at some of these airports, with some outstanding certificates awaiting payment. I, therefore, propose to allocate a further \$500 billion for ongoing works under these airport projects.

Rural Electrification

152. The Rural Electrification Agency has targeted the installation of 21 grinding mills, 8 micro irrigation schemes, and 32 solar systems at various schools and clinics throughout the country before the end of the year.

153. It is important that the momentum gathered in the implementation of the programme is maintained by electrifying more rural schools, clinics, business centres as well as homesteads.

154. I propose to allocate an amount of \$300 billion for grid extension, and \$200 billion for end use infrastructure so that the local communities can make productive use of the electricity.

Health Centres and Education Facilities

155. Mr Speaker Sir, the combined proposed allocation for the construction and rehabilitation of health centres, and schools amounts to \$402 billion. The objective of Government remains that of improvement in quality and access to health and education.

156. The provision covers ongoing works at Lupane, Gokwe and Marondera provincial hospitals, as well as construction of 11 schools throughout the country.

157. In addition, infrastructure at our institutions of higher learning has become inadequate in the face of increased enrolment, hence I am allocating an amount of \$612 billion for ongoing works at these institutions.

Revenue

158. Mr Speaker Sir, I have already highlighted the need for us to get our economy to begin realising its full production potential, hence, some of the proposed Supplementary Budget expenditure measures are being targeted at supporting the productive sectors, including public service delivery.

159. Tax policy can also be utilised as an instrument of promoting increased economic activity. I, therefore, propose some tax measures in support of the productive sectors.

Incentives for Production

Duty in Foreign Currency

160. Since 2005, the contribution of Customs duty to total revenue has declined from 10% to current levels of below 1%. 161. The decline in the effective level of Customs Duty levels has not only undermined their contribution to total Budget revenue, but also its role in levelling the playing field between domestic industry and external producers.

162. I, therefore, propose to broaden the list of luxury goods which attract duty in foreign currency with effect from 7 September, 2007.

VAT Refunds

163. Longer VAT refund periods tie up tax-payers' funds which are part of their working capital, forcing businesses to borrow.

164. I, therefore, propose to reduce the VAT refund period from 40 days to 30 days with effect from 1 October, 2007.

VAT Registration Threshold

165. In order to reduce the cost on small to medium enterprises of complying with VAT administration procedures, and also allow ZIMRA to concentrate on larger tax-payers, I propose to raise the VAT threshold from \$60 million to \$2.4 billion per annum with effect from 1 October, 2007.

Tax Relief

166. Mr Speaker Sir, a fundamental principle of taxation is that incomes below the minimum income required for socially defined necessities should be tax free. It is thus important to align basic income to the tax free threshold, to the extent possible.

167. In the prevailing inflationary environment, an increasing number of tax payers are now being pushed into high income tax brackets, notwithstanding that in real terms such incomes should be taxed at lower tax thresholds.

Pay As You Earn

168. I, therefore, propose to adjust the tax-free threshold to \$4 million per month and also widen the tax bands to end at \$70 million per month, above which income is taxed at 47.5%.

169. This measure takes effect from 1 September, 2007.

170. The consequence of this measure is that a significant number of taxpayers will be released from the tax net and disposable incomes will be enhanced, thereby availing more resources to meet tax-payers' needs.

Revenue Enhancing Measures

171. Mr Speaker Sir, while acknowledging that high inflation resulted in more revenues being collected, the proposed Supplementary Budget of \$37.1 trillion that I am presenting cannot all be funded from these revenue streams.

172. It will, therefore, be necessary that I institute some additional revenue enhancing collection measures, in the areas of customs duty, VAT, carbon tax, farm rentals, among others.

Exchange Rate Management

173. Mr Speaker Sir, in line with Section 47 of the Reserve Bank of Zimbabwe Act, the Minister of Finance will determine the country's exchange rate policy, which the Central Bank implements.

174. The Reserve Bank of Zimbabwe will, therefore, adjust the exchange rate applicable to all purchases and sales of foreign exchange in the market from \$250 per US dollar to \$30 000 per US dollar with immediate effect.

175. This new rate shall apply to all ZIMRA customs and income tax valuations with immediate effect.

Specific Levies

176. Mr Speaker Sir, the Finance Act provides for levying of specific rates of tax, duties and other charges that need to be reviewed frequently, in line with market developments.

177. I, therefore, propose that specific rates of tax, duties and other charges reviewed through the Finance Act be capable of being fixed in advance through subsidiary legislation with effect from 1 October, 2007.

Customs Duty on Fuel

178. I propose to levy specific duty of \$5 000 per litre of diesel or petrol or 5% of the Cost Insurance Freight value, whichever is greater, with effect from 10 September, 2007.

NOCZIM Debt Redemption Levy

179. The current NOCZIM debt redemption levy of \$60 per litre is limiting NOCZIM's capacity to liquidate its debt obligations.

180. I, therefore, propose to increase the NOCZIM debt redemption levy from \$60 to \$2 500 per litre of petrol and diesel with effect from 10 September, 2007.

Carbon Tax

181. I propose to review the carbon tax levy from \$100 per litre to \$5 000 per litre, with effect from 10 September 2007, in line with the current market price of fuel.

Deemed Benefits on Motor Vehicles

182. The current value of deemed benefits on motor vehicles has been eroded by inflation.

183. I, therefore, propose to increase the deemed motoring benefit in line with market developments with effect from 1 September 2007, as follows:-

| <i>Engine Capacity</i> | <i>Current rate \$</i> | <i>Proposed rates \$/per annum</i> |
|------------------------|------------------------|------------------------------------|
| Up to 1500cc | 100 000 | 7 200 000 |
| 1501 to 2000cc | 160 000 | 12 000 000 |
| 2001 to 3000cc | 200 000 | 15 000 000 |
| Over 3000cc | 260 000 | 20 000 000 |

Stamp Duty

184. Stamp duty on cheques and automated financial transactions is based on specific values, which are lagging behind market developments, hence no longer serve the intended purpose.

185. I therefore propose to review upwards the current stamp duty charges as follows: -

- Automated financial transaction tax from \$50 to \$2 500 per transaction.
- Cheques from \$100 to \$5 000 per cheque.

186. These measures take effect from 1 October, 2007.

Presumptive tax

187. The base for presumptive tax which was reviewed during the 2007 Budget no longer reflects the current market developments.

188. I, therefore, propose to review presumptive tax for the following:

Driving Schools

- Vehicles used for class four training – from \$120 000 to \$18 000 000 per quarter; and
- Vehicles used for classes 1 and 2 training – from \$180 000 to \$24 000 000 per quarter.

Haulage Trucks

- Of carrying capacity of less than 20 tonnes – from \$180 000 to \$24 000 000 per quarter; and
- Of carrying capacity of more than 20 tonnes – from \$300 000 to \$48 000 000 per quarter.

Taxi-Cab Operators

- From \$90 000 to \$9 000 000 per quarter.

189. This measure is with effect from 1 October, 2007.

Rental Fees for A2 Farmers

190. Following the successful completion of the agrarian reform programme, there now exists a large number of potential taxpayers involved in farming business. It is, therefore, essential that the current farming taxation regime be reviewed, with the objective of encouraging full utilisation of the allocated land.

191. Government has considered introduction of lease rentals in order to enforce maximum utilisation of productive land and also to raise revenue. The tax is based on land size, and ecological region and is pegged at a level that does not threaten the viability of farming.

192. I propose to introduce common rental fees on A2 farmers who have been issued with Lease Agreements and Offer letters.

193. This measure will take effect from 1 October, 2007.

CONCLUSION

194. Mr Speaker Sir, the success of the measures and Supplementary Budget I have outlined above will depend on all social partners subscribing to a common and shared vision, underpinned by the Zimbabwe First Philosophy espoused under the Social Contract.

195. Mr Speaker Sir, it is therefore now important that the respective stakeholders honour their obligations as contained in the three protocols of Prices and Incomes Stabilisation, Restoration of Production Viability and Foreign Exchange Mobilisation.

196. I, therefore, recommend the approval and adoption of the 2007 proposed Supplementary Budget and the necessary support policy measures, which will be complemented by the Monetary Policy Statement measures to be announced by the Reserve Bank.

197. Mr Speaker Sir, I now lay the Supplementary Estimates of Expenditure for 2007 on the Table.

Hon. Senator Dr. S.C. Mumbengegwi

MINISTER OF FINANCE

6 September 2007