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*“There hath no temptation taken you but  
such as is common to man; but God is  
faithful who will not suffer you to be  
tempted above that ye are able but will with  
the temptation also make a way to escape,  
that ye may be able to bear it.”*

*(1 Corinthians 10 Vs 13)*

## **MOTION**

1. Mr Speaker Sir, in terms of Section 103(1) of the Constitution of Zimbabwe, 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 the Financial Year January to December 2010 and to make Provisions for matters ancillary and incidental to this purpose.

## **INTRODUCTION**

2. Mr Speaker Sir, Honourable Members will recall that the main objective of the 2009 Budget presented on 17 March 2009 was to implement the Short Term Emergency Recovery Programme (STERP), whose main thrust was to restore macro-economic stability and growth as provided for in the Global Political Agreement (GPA).

3. Accordingly, the 2009 Budget proffered a number of policy measures complemented by resource allocations in support of strengthening the capacity of public institutions, restoring delivery of public services, rehabilitating infrastructure as well as cushioning vulnerable groups.
4. In my presentation of the 2009 Mid-Term Fiscal Review on 16 July 2009, I updated this August House on strides the Inclusive Government had made in implementing both the 2009 Budget and STERP.
5. These positive strides were particularly in the following areas, among others:
  - Macro-economic stabilisation particularly inflation containment;
  - Improved capacity utilisation in productive sectors of agriculture, mining and manufacturing, from below 10% to around 30% to 50%;
  - Removal of price distortions in both foreign exchange and goods markets;
  - Resuscitation of financial sector services;

- Some improvement in public service delivery, particularly in the areas of water and sanitation, transport, health and education sectors;
  - Improvement in social protection programmes for vulnerable groups;
  - Overall business confidence building;
  - Policy consistency and predictability on key policy fundamentals;
  - The enactment of key legislation dealing with credibility of public accounts; and
  - Re-engagement with the international community.
6. Then, I particularly alluded to the reality that the economy remained fragile, notwithstanding significant positive gains realised in areas of inflation reduction and improvement in the supply of goods and services.
7. I further pointed out that the major challenge constraining speedy recovery was the unfinished business of political integration and harmony. I highlighted the fact that the uncertainty and the inconsistency of message and the continuous attrition inside the Inclusive Government remain major eye sores in the country's anatomy.

8. I further underlined the total absence of fiscal space, the restricted domestic financial capacity, lack of foreign direct investment and the absence of tangible external support, as major emasculating factors in our recovery efforts.
9. Furthermore, during the second Ministerial Retreat on the review of the implementation of STERP's 100—Day Plan in Nyanga in August 2009, there was consensus in the major deficit areas associated with the implementation of STERP.
10. These areas ranged from political and governance issues to high debt overhang, resource constraints, institutional capacity limitations as well as slow adaptation by various public and private institutions to the new dispensation and its demands and opportunities.
11. In short, what was clear in Nyanga, as it is clear now, is the massive unfinished agenda than what has so far been accomplished in the implementation of STERP, which programme incidentally is coming to an end on 31st December 2009.

12. It was on the realisation of the huge task that the Government Work Programme instructed and directed that Macro-Economic Framework be developed.

### **The Three Year Macro-Economic Policy & Budget Framework: 2010-2012 (STERP II)**

13. In order to attend to a number of outstanding issues, targets, and commitments made under STERP, whilst embracing other necessary growth-oriented stabilisation measures, Government has come up with a successor to STERP – The Three Year Macro-Economic Policy and Budget Framework: 2010-2012 (STERP II).
14. This, therefore, anchors the 2010 National Budget and the subsequent 2011 and 2012 National Budgets.
15. In that regard, the 2010 Budget should be read together with the Framework 2010 – 2012, which contains detailed policy measures, programmes and projects planned to be implemented during the Framework period.

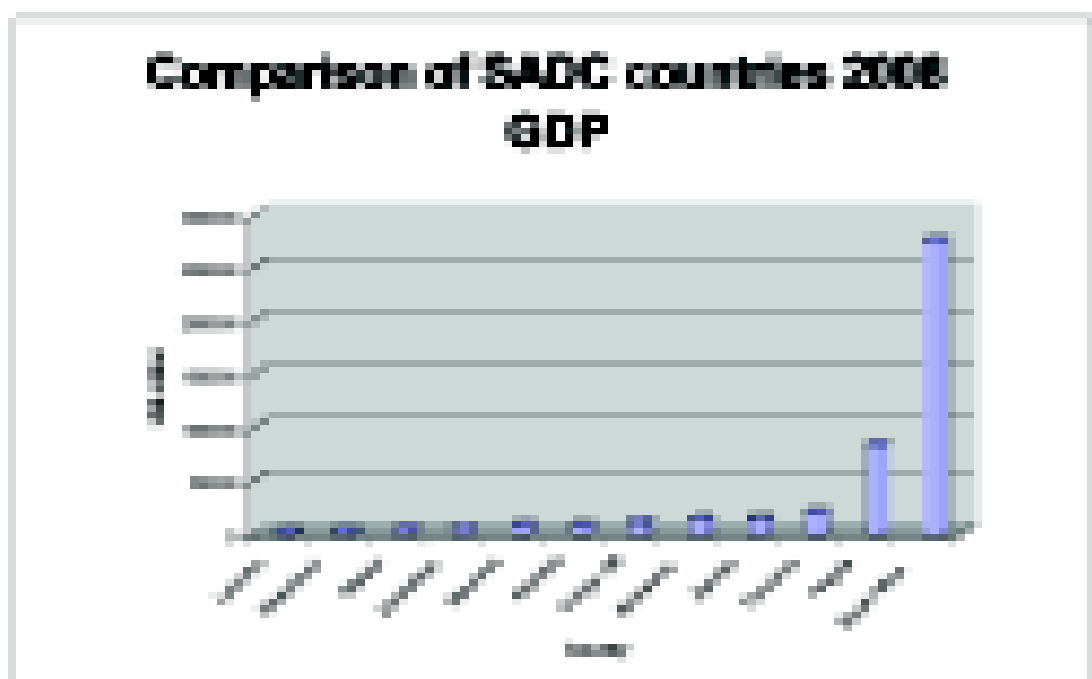
## **Vision**

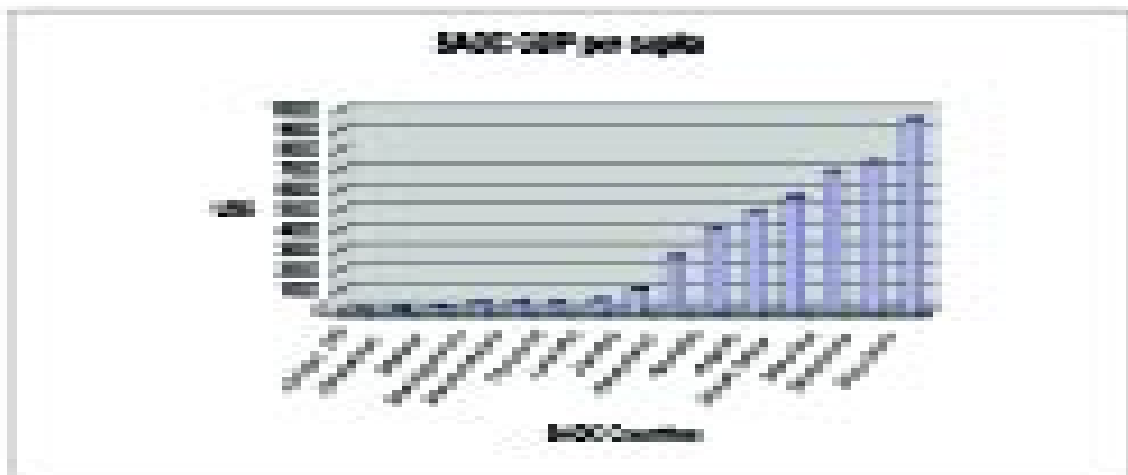
16. The Vision of STERP and its successor - The Three Year Macro-Economic Policy and Budget Framework: 2010-2012 (STERP II), is creating a functioning, democratic and viable economy.
17. In this regard, both STERP Programmes prioritise and pursue democratisation as well as socio-economic strategies that guarantee the integratability of the poor in the economic growth policy framework.
18. Such a broad based and inclusive strategy, particularly focusing on women and the youth, guarantees democratisation of the economy.
19. In short, both STERP and its successor, STERP II recognise the inextricable link between democratisation, Constitutional adherence to the rule of law.

### *Structural Challenges in the formulation of the 2010 Budget*

20. The Inclusive Government began work on the 16th of February 2009, in the face of huge demands, high expectations and limited capacity to deliver.

21. At the epicentre of the challenges facing the nascent Government were the legacy issues associated with years of economic attrition which continued to pose challenges for any recovery and stabilisation efforts.
22. These drawbacks included shrinkage of the economy by over 40%, a decade-long high inflation which spiralled out of control to unprecedented levels of over 231 million percent by July 2008, severe capacity underutilisation of below 10%, and subsequent shortage of basic commodities in the formal market.
23. As a result, Zimbabwe lagged behind most SADC countries in terms of GDP and GDP per capita growth as indicated below:





24. This was against a background of price distortions and misalignments that were counterproductive and promoting speculative activities in both foreign exchange and goods markets.
25. The erosion of the Central Government Budget also led to an almost complete collapse in the provision of public services, particularly in health, education, water and sanitation. Added to these challenges, was the huge corrosion of the capital base of the financial services sector.
26. Contributing to the above challenges **were structural development traps**, that arrested the economic liberation of this country and these included:

### ***The Conflict Trap***

27. For a long time this country has been caught up in vicious traps of conflict which manifested themselves in cataclysmic conflicts since 1980.
28. As a matter of fact, since 1890, this country has not enjoyed the peace it deserves as a result of conflicts associated with colonialism. Post independent Zimbabwe as well has had its own share of these conflicts particularly between the periods 1981 to 1987 and 2000 to 2008.
29. Since 2000, the country also experienced various areas of conflicts associated with political confrontations which led to the loss of value in the economy and subsequently gave rise to the Global Political Agreement and the Inclusive Government.

### ***The Resource Trap***

30. This demonstrates the typical African story of limited financial resources against huge natural resource endowments and yet the failure to articulate an alternative progressive development model less dependent on raw commodities and agriculture.

### ***The Debt Trap***

31. The debt trap is represented by an unsustainable debt and external arrears status quo that have eroded the country's credit worthiness.

### ***The Leakage Trap***

32. This has resulted in millions of dollars lost through corruption, arbitrage, and rent seeking activities, including the "burning of money". As a result, the country is ranked 122nd out of 128 countries covered by the 2007 Global Competitiveness Index.

### ***The Human Resources Trap***

33. Massive brain drain has resulted in more than 4 million Zimbabweans now residing in the diaspora.

### ***The Integration Trap***

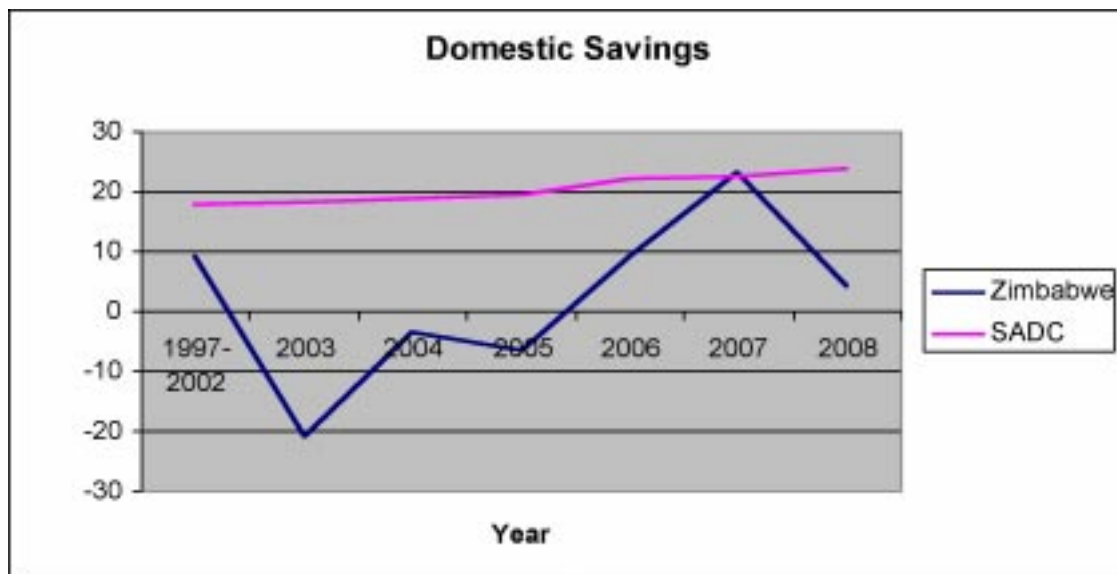
34. This is arising out of the absence of a common regional market and the synergies and economies of scale that come with horizontal and vertical integration of small economies. As a result, the country has lost out from regional and international groupings and initiatives.

### ***Gender Trap***

35. The gender trap manifests itself in the relatively small numbers of women taking up influential positions in political and economic institutional set up such as Parliament, Ministerial posts and managerial posts in both the public and private sectors. This is notwithstanding that women constitute 52% of the population.

### ***Savings Trap***

36. In the context of Zimbabwe, this manifests itself through low savings that have remained very low at below 10% of GDP against the desired 20% - 30% necessary for sustainable growth.



37. Uncertainties in the country, and the country's uncompetitiveness also constrained foreign direct investment inflows.
38. The overall effect of the above has been the reclassification of the country's population into three distinct classes – the **submerged** and **drowning-poor** representing 85% of the population, the 13% **floating or dog-paddling “middle class”**, and the 2% **prawn-eating free-stylers**.
39. The challenge of economic transformation in Zimbabwe is, therefore, a developmental challenge seeking to improve the lives of the 85% drowning poor and their cousins the dog-paddlers, that way giving them equal say and access to the wealth of the country.
40. This means transforming the lives of thousands of women and youths who form the bulk of this class.
41. This, in short, was the structural challenge in crafting the 2010 Budget.

## The 2010 Budget Theme

42. Mr. Speaker Sir, self evidently the strategic focus of the 2010 Budget is, therefore, to save the drowning vulnerable and poor groups by developing and creating a functional economy capable of consolidating STERP objectives, generating adequate investment in our productive sectors as well as infrastructure and guaranteeing improved delivery of public services.
43. Mr. Speaker Sir, the 2010 Budget will, therefore, deal with the above challenges through the vehicle of **Reconstruction with Equitable Growth and Stability**. In short a *“pro-poor, broad based and inclusive development framework”*.
44. It intends to confront head-on Africa’s developmental paradox by focusing on a growth target of 7% in 2010 largely driven by increased investment and production in agriculture, mining, and capital development programmes. A strong emphasis will be on the key issues of **education, health and social services** and the continuation of a strict and disciplined macro-economic stabilisation programme.
45. The 2010 Budget will, therefore, be consolidating what I called in my recent 2009 Medium Term Review - the ‘little green shoots’ evident in our economy and provide further support in nurturing

them to ensure that a broad based macro-economic recovery and growth is achieved.

46. Furthermore, the designing of specific interventions in the Budget also benefited from a comprehensive evaluation of the 2009 Global and Domestic Economic Developments and experiences from other countries.
47. Various stakeholders encompassing Government Departments, Business sector, Labour and Civic Organisations also provided valuable inputs which enriched the formulation of this Budget.
48. Mr Speaker Sir, allow me at this juncture to thank Honourable Members in this August House together with all other stakeholders for their continued active contribution and support to this and other processes aimed at transforming Zimbabwe into a prosperous, democratic and vibrant Nation.
49. Mr. Speaker Sir, allow me now to give a brief on the global economic developments.

## **GLOBAL ECONOMIC DEVELOPMENTS**

50. The global financial crisis, which emerged in 2007 and spiralled into an economic crisis, threatened to erode the remarkable economic achievements for many low income countries.

51. As a result, the world economic growth is now estimated to fall to 0.5% in 2009 from 3.4% recorded in 2008.
52. However, growth in emerging and developing economies is also expected to slowdown to only 3.5% in 2009 from 6.3% achieved in 2008.
53. The impact of the crisis has also severely affected African economies through sharp contraction of exports, falling prices for primary commodities, declining remittances, unpredictable aid flows and withdrawal or delayed private capital flows.
54. As a result, the continent is faced with shrinking growth now estimated at 3.4% in 2009 from a 5.2% recorded in 2008.

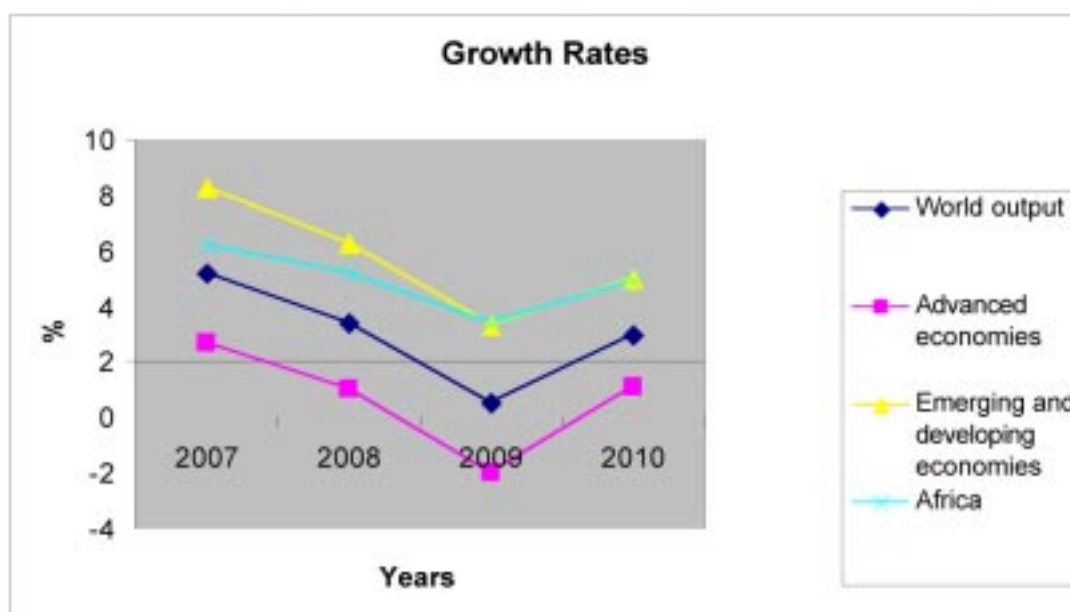
### ***Outlook***

55. Although the downturn in global growth has not yet been fully reversed, there is evidence that the anti-crisis policy efforts undertaken through international cooperation will produce substantial progress from 2010.
56. These policy efforts include strengthening regulation and supervision of the financial sector and substantial recapitalisation support to the financial and other key sectors

of the economy through easing of credit conditions as well as fiscal stimulus packages where there is fiscal space.

57. As a result, world economic growth is now projected to gradually recover, peaking up to 3% in 2010 with that of emerging and developing economies expected to improve to 5% in 2010.
58. For developing countries in Africa, growth is projected at about 5% in 2010, taking advantage of the continent's sound track record of macro-economic policy implementation, complemented by external assistance.

**Graph 3. Projected Growth Rates: 2010**



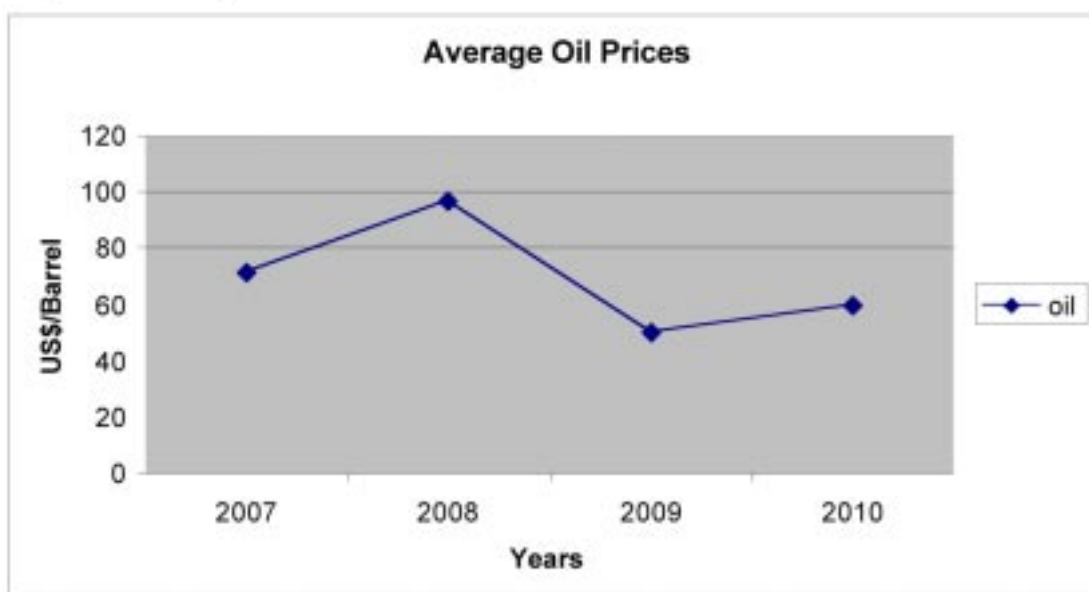
## ***Commodity Prices***

59. Commodity prices which had collapsed during the crisis period beginning 2007, have begun stabilising during the beginning of 2009, responding to global economic recovery expectations and the improvement in global demand.

### ***Oil***

60. Oil prices, which had peaked to over US\$147 per barrel in July 2008, declined to as low as US\$36 per barrel in February 2009 and have now firmed up to around US\$80 per barrel.

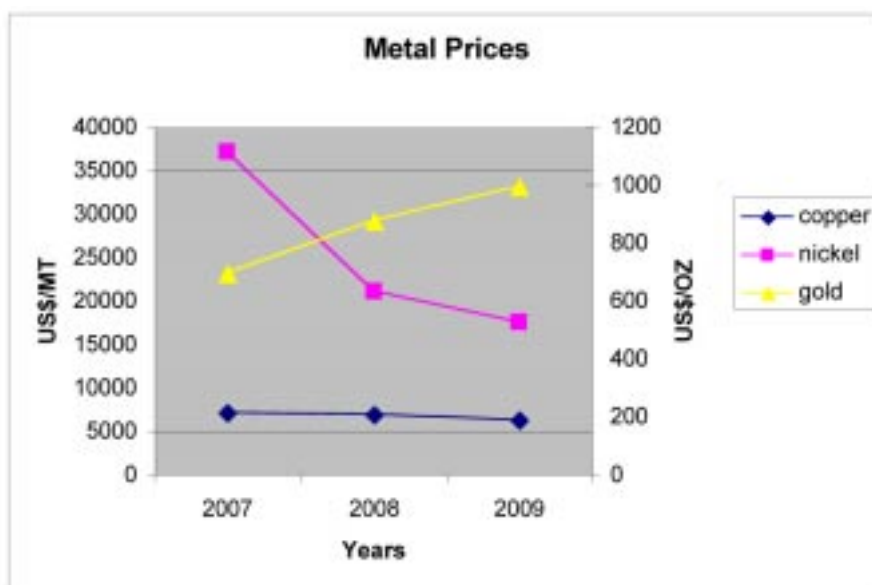
**Graph 4: Average Oil Prices 2007 - 2010**



## *Metals*

61. Metal producers responded to the global crisis by scaling down production and in some instances temporarily halting operations in order to save costs.
62. The rebound in industrial production associated with stimulus packages and the rising demand for metals, particularly in China, saw most metal prices strengthening in the second quarter of 2009.
63. As a result, the international prices of the country's major exports such as gold, platinum, nickel have started firming up, allowing most of our mining houses to resume and scale up production.

**Graph 5: Metal Prices 2007 - 2009**

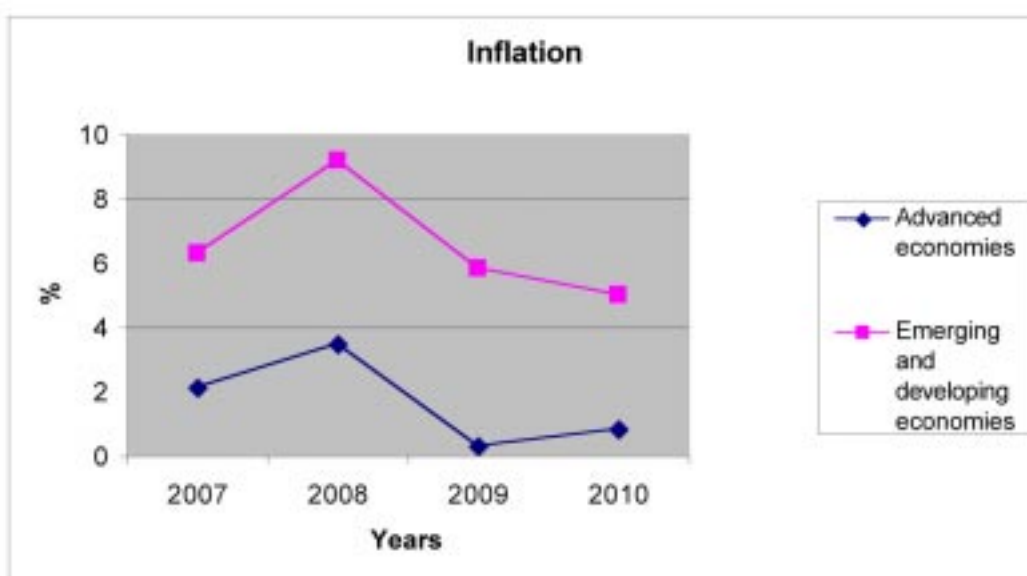


64. In the medium term, international metal prices are projected to strengthen along with the pace of global economic recovery.

### ***Global Inflation***

65. The decline in economic activity and subsequent aggregate demand dampened inflationary pressures in 2009. Consequently, inflation in developed economies is expected to decline from 3.5% in 2008 to a record low of 0.3% in 2009, before slightly peaking to around 0.8% in 2010.
66. Similarly, in emerging and developing economies, inflation is expected to fall from 9.5% in 2008 to 5.8% in 2009 and is projected to further decline to 5% in 2010.

***Graph 7: Inflation Developments: 2007 - 2010***



67. Mr Speaker Sir, I now turn to domestic economic developments during 2009. Details on this are contained in the finalised Three Year Macro-Economic Policy and Budget Framework to be launched in the next few days.

## **DOMESTIC ECONOMIC DEVELOPMENTS: 2009**

### **Real Sector Developments**

68. The relative macro-economic stability achieved under STERP translated into unexpectedly significant improvement in capacity utilisation in almost all sectors of the economy and hence marked the beginning of economic recovery and growth in the country.
69. Consequently, the economy which was initially projected to grow for the first time in ten years by 3.7 % in 2009, is now expected to register a higher growth rate of 4.7% compared to a decline of more than -10% registered in 2008.
70. This positive growth is largely underpinned by improved performance in sectors of agriculture (10%), mining (2%), manufacturing (8%) and tourism (6.5%), which previously recorded persistent decline in growth rates during 2000 – 2008.

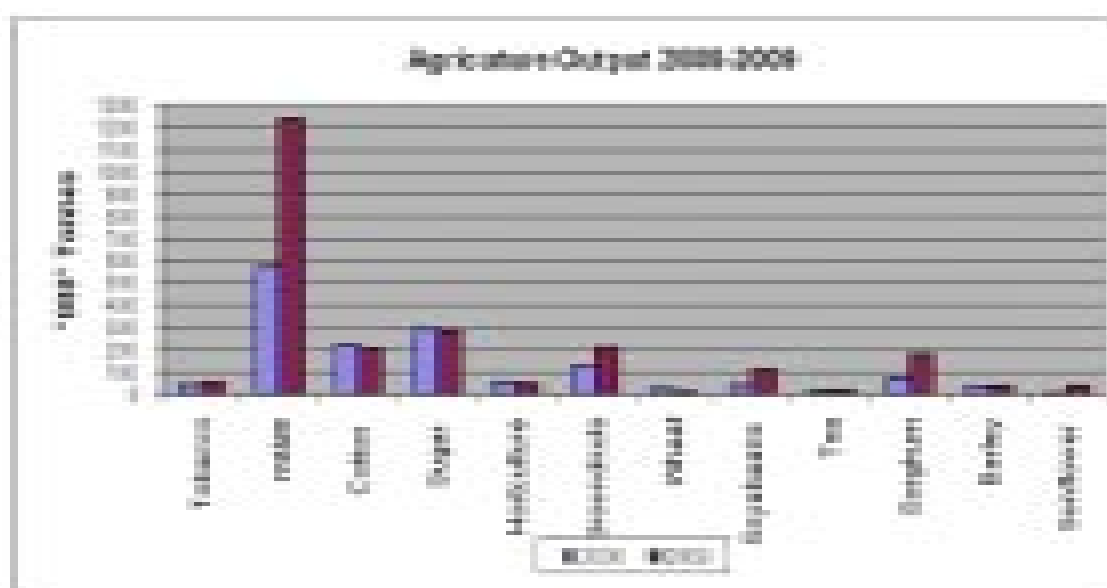
**Table 1: Real Sector GDP: 2008 - 2010**

| Sector        | 2008 | 2009 | 2010 |
|---------------|------|------|------|
| Agriculture   | -36% | 10%  | 10%  |
| Mining        | -30% | 2%   | 40%  |
| Manufacturing | -12% | 8%   | 10%  |
| Tourism       | 9%   | 6.5% | 10%  |

### ***Agriculture***

71. The estimated 10% growth in the agricultural sector follows registered sustained cumulative declines of 85.7% since 2002.

**Graph 7: Agriculture Output: 2008 vs 2009**



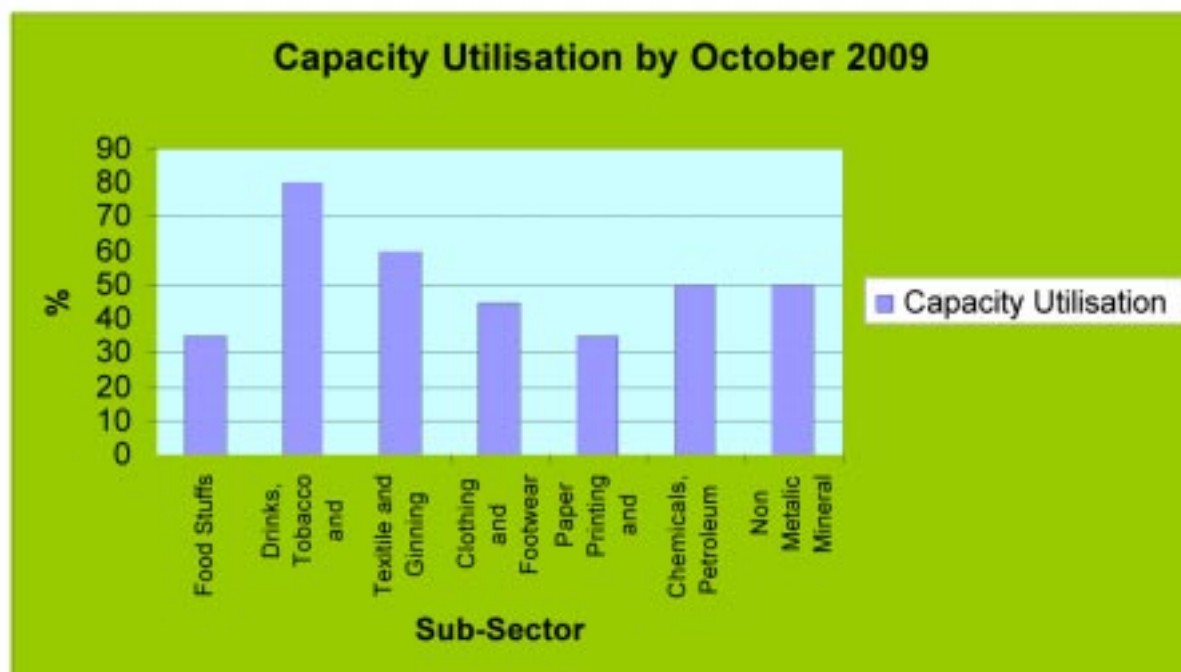
72. This is underpinned by improved performance of tobacco, maize, groundnuts, soyabeans, sorghum and tea. The improved yields are on account of a normal rainfall season and financial support from Government, contract farming arrangements as well as that of cooperating partners including SADC.
73. However, production for cotton, wheat, sugar, dairy and horticulture decreased slightly as a result of financial constraints.
74. In 2010, agriculture is projected to grow by a further 10%, benefiting from improved financing and the current marketing arrangements which are enhancing viability of farming and, hence, incentivising farmers.

### ***Manufacturing***

75. The manufacturing sector, which recorded a cumulative decline of -91.1% between 2000 and 2008, is now on a recovery path and is estimated to register a positive growth of 8% in 2009.
76. This successful turnaround is a result of the implementation of market friendly and stabilisation policies provided for under STERP.

77. These policies include the adoption of stable multiple currencies, liberalisation of the current account and the removal of price controls and distortions, as well as surrender requirements on exporters' foreign exchange earnings.
78. Furthermore, the increase in bank deposits from US\$475 million by April to US\$1 billion in October 2009, allowed banks to begin lending, also targeting the manufacturing sector, whose share of loans and advances constituted about 22.3% of total loans by 31st October 2009.
79. Additional external lines of credit amounting to US\$753 million, of which US\$72 million was for the manufacturing sector complemented the above lending.
80. Accordingly, capacity utilisation in different sub-sectors of the manufacturing sector has increased from below 10% in 2008 to current levels of between 30% and 50% and in some few cases above 50% in 2009.

**Graph 17: Capacity Utilisation by October 2009**



81. The manufacturing sector is projected to record a further 10% growth rate in 2010.

### ***Mining***

82. The mining sector which had most mines either closed or operating well below capacity at the beginning of 2009, is showing signs of recovery after having taken advantage of positive policy measures under STERP, such as removal of forced foreign exchange surrender requirements and full retention of marketing proceeds.

83. The sector is, therefore, expected to grow by 2% in 2009 compared to a decline of -22.1% in 2008. This turnaround is attributed to positive performance in gold (14.6%), platinum (0.1%) and production of coal (1%) as indicated below:

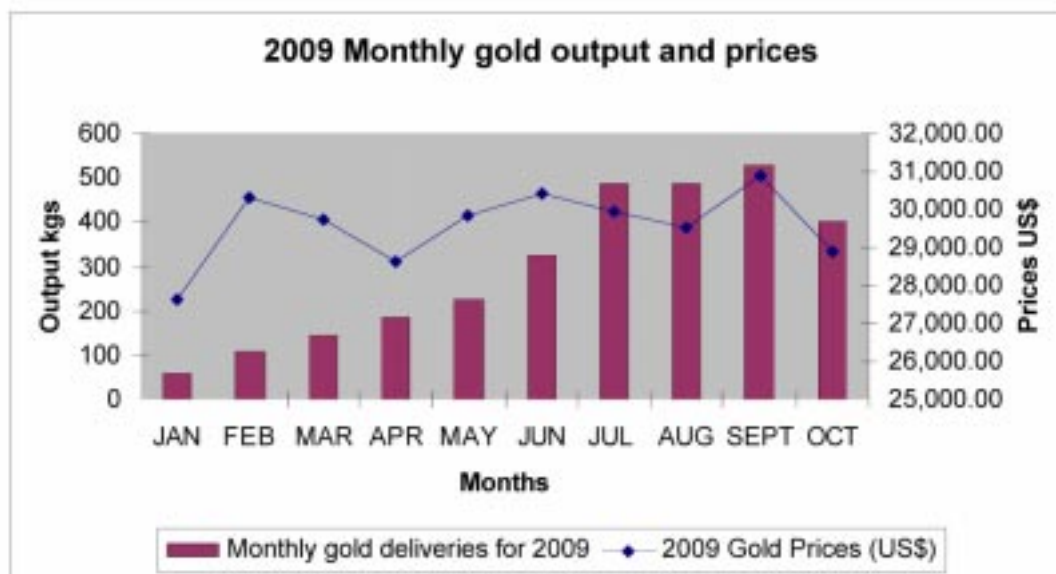
#### **Mining Sector Growth Rates**

| <b>Mineral</b> | <b>2009</b> | <b>2010</b> |
|----------------|-------------|-------------|
| Gold           | 14.6%       | 24.6%       |
| Nickel         | -4%         | 5.7%        |
| Coal           | 1%          | 3.9%        |
| Asbestos       | -5%         | 0%          |
| Chrome         | -2%         | 6%          |
| Platinum       | 0.1%        | 1.2%        |
| Palladium      | 0.01%       | 0.2%        |
| Black Granite  | -1.4%       | 1.6%        |
| All Minerals   | 2%          | 40%         |

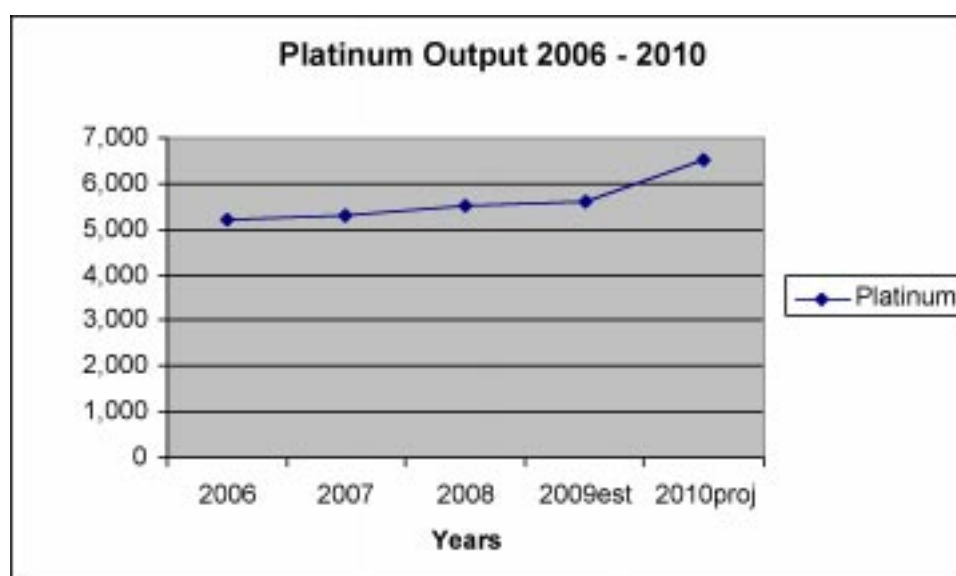
84. Performance for the rest of other minerals, which include asbestos, chrome and nickel, were subdued owing to working capital constraints and depressed demand on the global market.

85. Performances of mineral production are indicated below:

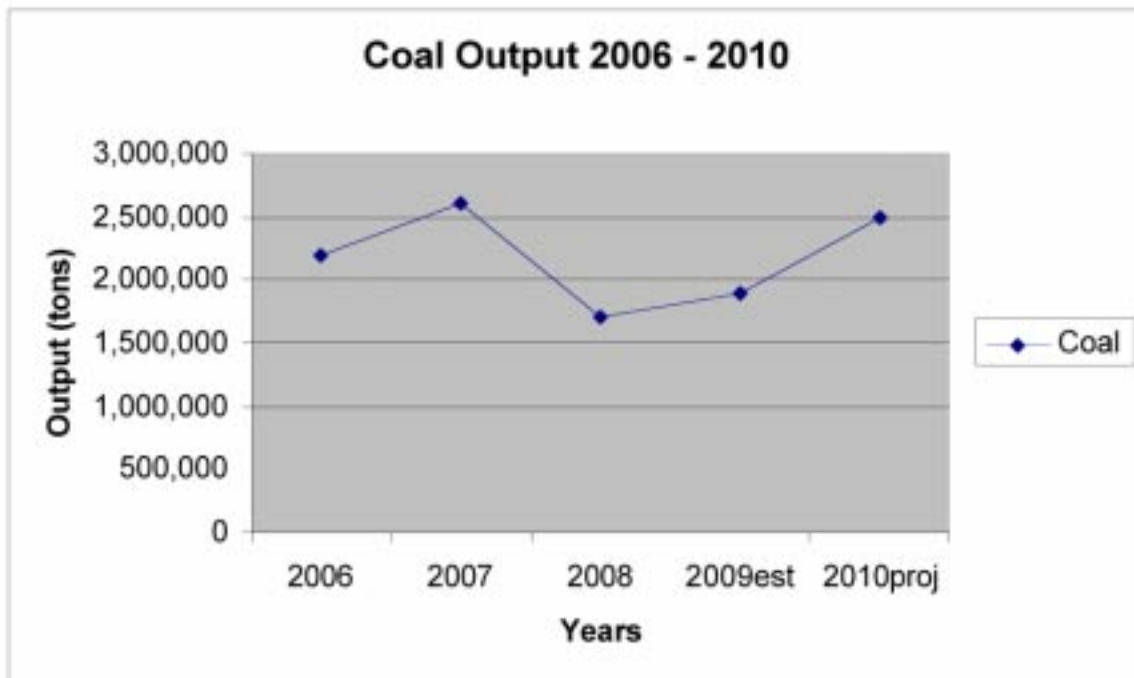
**Graph 18: Monthly Gold Output and Prices: January – October 2009**



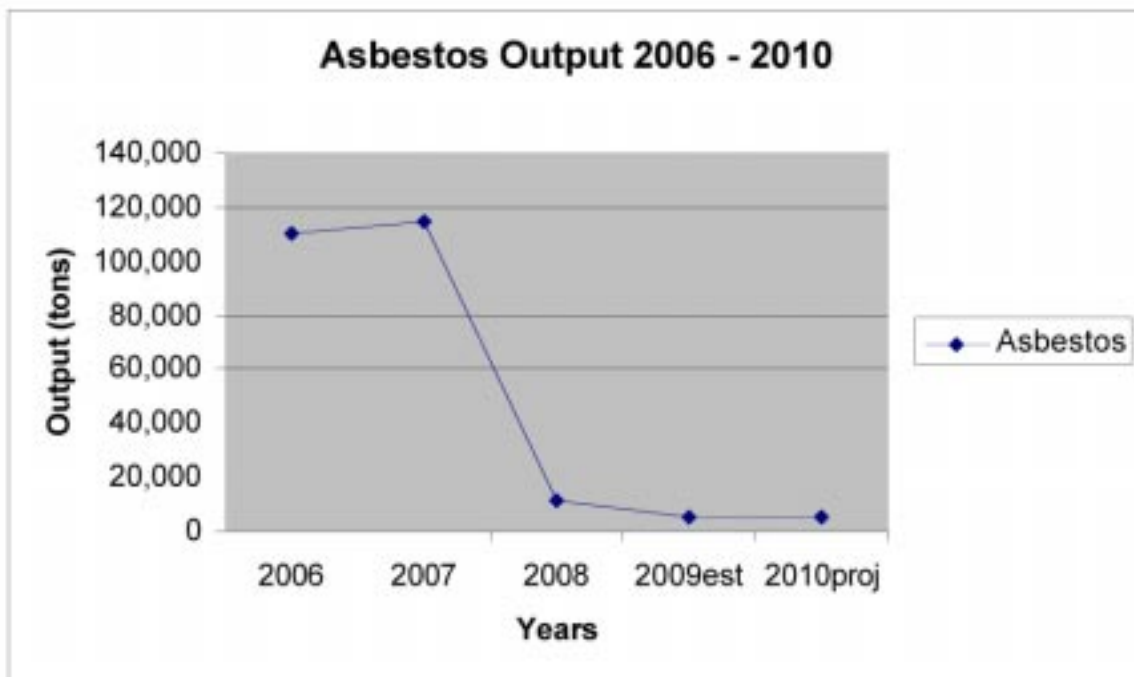
**Graph 19: Platinum**



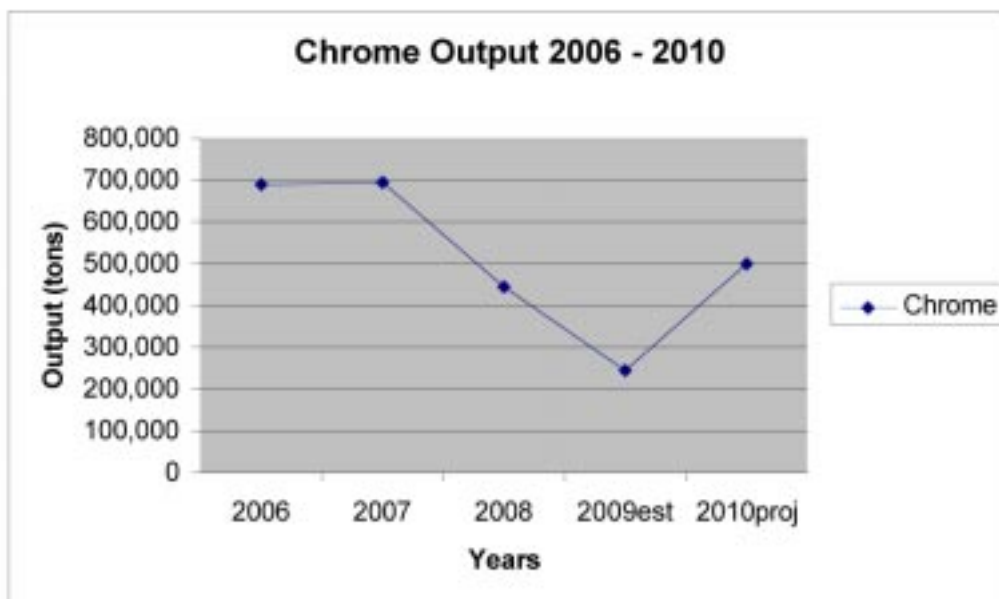
**Graph 20: Coal**



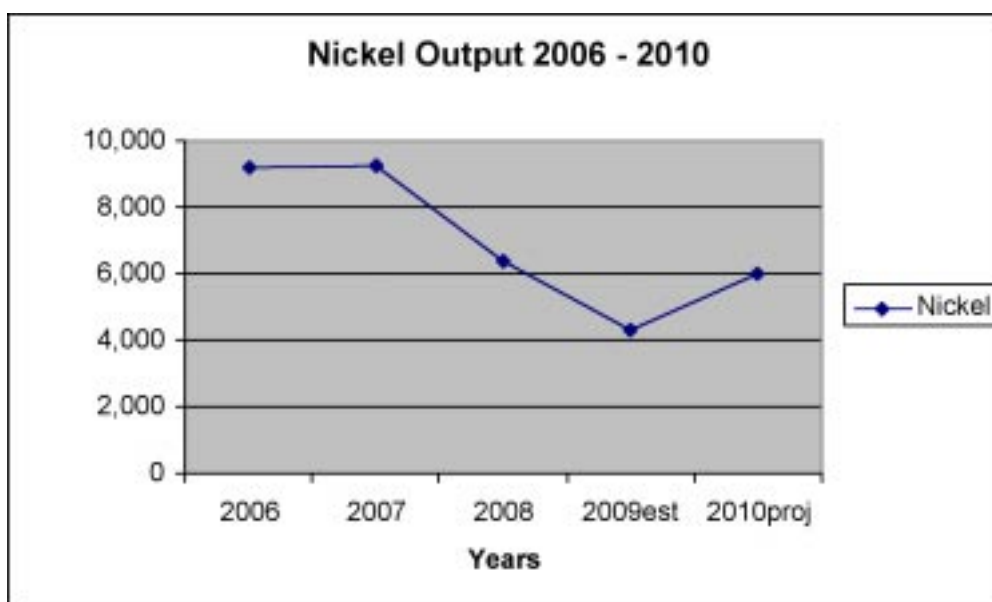
**Graph 21: Asbestos**



**Graph 22: Chrome**



**Graph 23: Nickel**

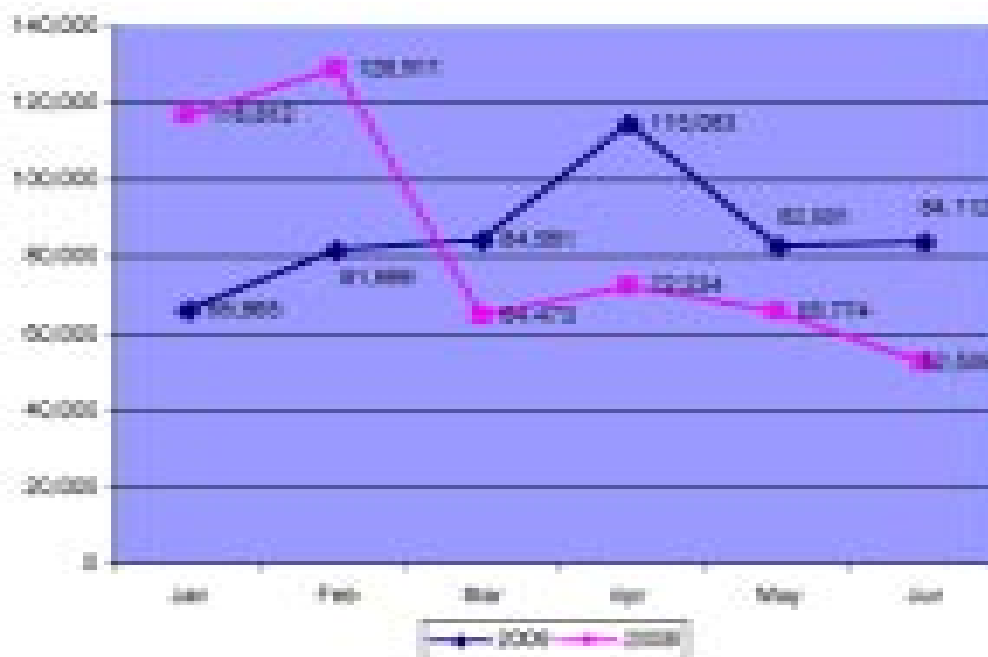


86. In 2010, mining is projected to grow by 40%, reflecting a drastic output increase for platinum and gold, with moderate performance for the other minerals.

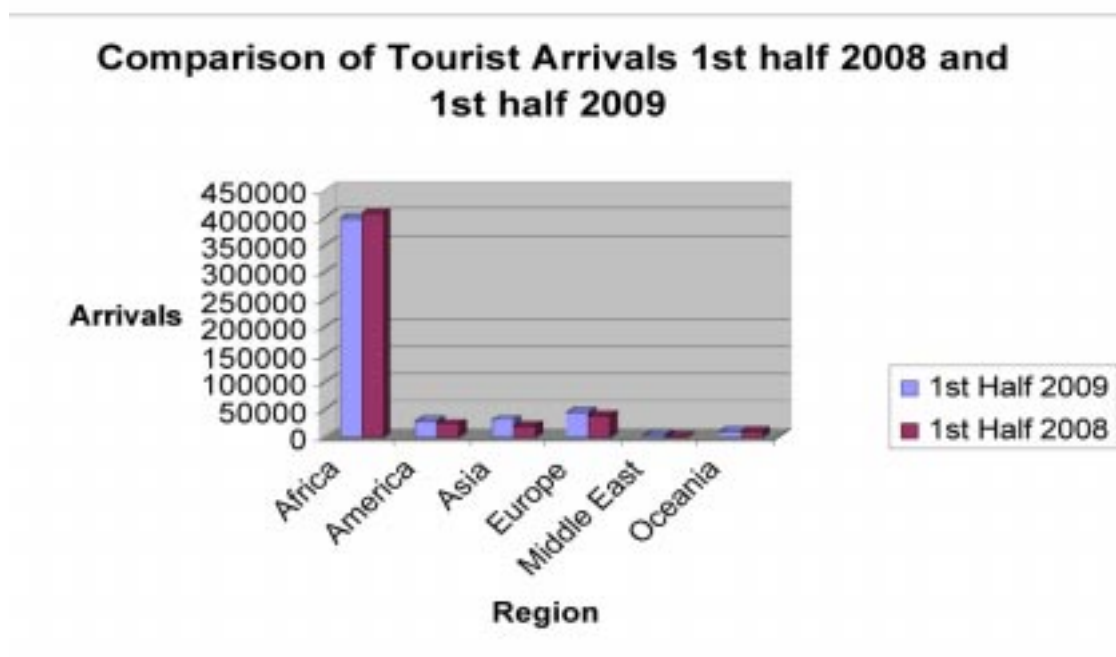
## ***Tourism***

87. While the global recession has led to a general decline in global tourist arrivals by about -6% in 2009, tourist arrivals to Zimbabwe are expected to ride on the positive effects of the formation of the Inclusive Government.
88. As a result, countries such as the USA, Sweden and German, among others, have lifted travel warnings against visiting Zimbabwe.
89. Therefore, tourism is expected to grow by 6.5% in 2009 compared to -9% in 2008.

### **Monthly Arrival Statistics January – June 2009 vs 2008**



## Foreign Tourist Arrivals by Region 2009 vs 2008

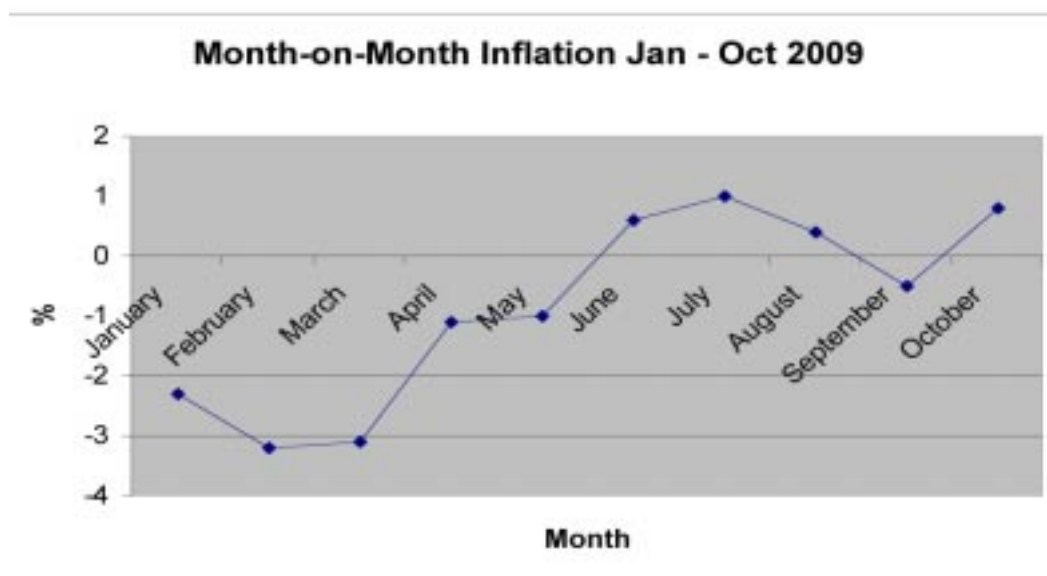


90. In line with increased tourist arrivals, tourist expenditures rose from US\$38.7 million in January to US\$56.3 million in June this year.
91. Overall, the tourism sector is projected to further grow by 10% in 2010.

### ***Prices***

92. Since the introduction of stable multiple currencies and supportive measures such as Cash Budgeting, prices of goods and services have relatively stabilised.

93. From January to October 2009, month-on-month inflation have been oscillating between -3.1% and 1%, with annual average for the year projected at -5.5%.



94. Inflation for 2010 is projected to remain stable within single digit levels, subject to resolute adherence to sound macro-economic management measures.

### ***Financial Sector***

#### *Central Bank Reforms*

95. Government initiated reforms targeted at refocusing the Reserve Bank of Zimbabwe's institutional framework to its core business of financial sector supervision, monetary policy and ensuring efficient payment system.

96. The Bill which seeks to give effect to these proposed reforms is currently undergoing Parliamentary approval processes and is expected to be enacted before the end of the year.

### *Bank Capitalisation*

97. The recapitalisation process by the country's financial institutions continues in order to guarantee safe and sound conditions for the sector and also to ensure sustainable participation of banks in the mobilisation of savings.
98. Under the first phase of recapitalisation, 23 out of 26 banking institutions had complied with the prescribed minimum capital requirements.
99. Those that failed submitted recapitalisation plans, which included identification of strategic partnerships and the Reserve Bank will monitor and work closely with these institutions.

### *Deposits*

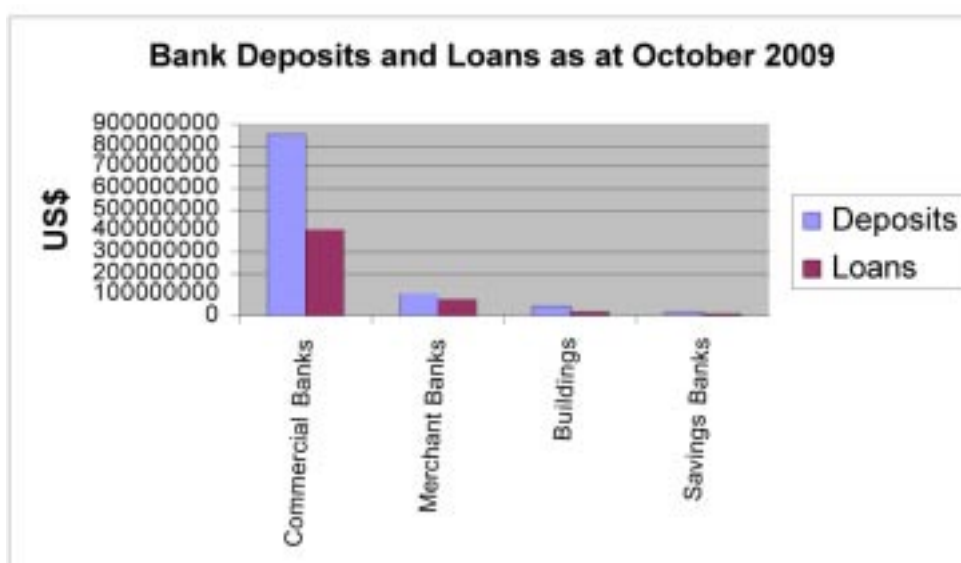
100. Banks' deposit base has been gradually increasing from US\$475.4 million in April 2009 to over US\$1 billion as of October

2009. Out of these total deposits, long term deposits accounted for about US\$15.8 million, with the balance in short term deposits.

101. This coupled with the low interest rates on savings deposits ranging between 0.25% - 1% per annum is militating against preferred long term savings deposits, which are crucial for investment.

### *Lending*

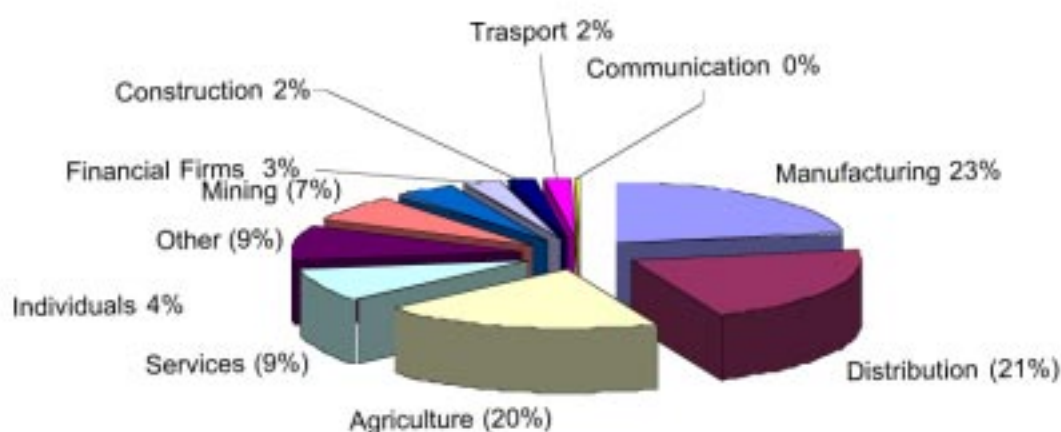
102. In line with the increase in banks' deposit base, loan advances have risen from US\$157.9 million in April to US\$501 million as of 31 October 2009, giving an increase in the loan - deposit ratio from 30% to 50% over the same period.



103. However, given the short term nature of deposits, financial institutions were forced to structure their lending in short term credit financing largely comprising of 90 days at effective annualised lending rates ranging from 8% to 16%, which remains too expensive compared to the regional average lending rate of 7%.
104. Of the total lending, the distribution, manufacturing and agriculture sectors collectively received about 70.6% of total loans and advances as at 30 October 2009.

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**Distribution of Loans and Advances as at 31 October 2009**



### *National Payments System*

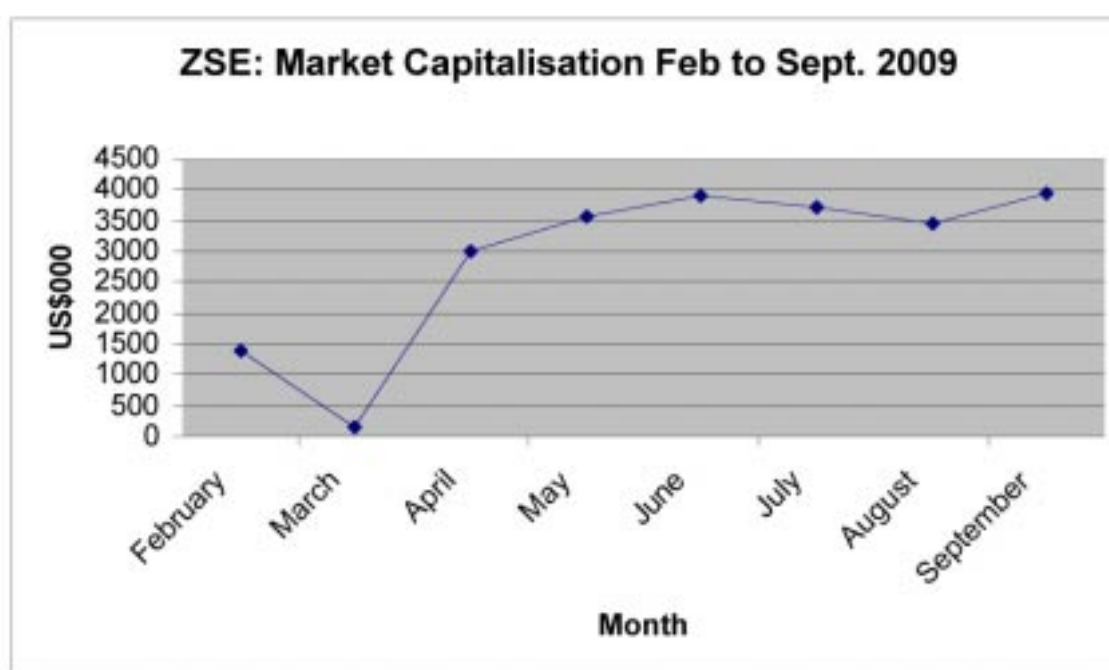
105. The national payment system which was resuscitated in March 2009 under the new dispensation of multiple currencies is gradually being modernised and diversified through collaborative efforts of the banking industry and other relevant partners.
106. To date the Real Time Gross Settlement System (RTGS), Automated Teller Machines (ATMs), Cheque Payment Systems and Points of Sale have been operationalised.
107. These are being complemented by the use of plastic money such as the use of debit cards, credit cards and other transfer methods as a way of facilitating transactions without necessarily resorting to cash, which is imported from outside countries.
108. This is considerably easing the huge appetite for cash from the market as well as providing much relief on the need for small change.

### *Zimbabwe Stock Exchange*

109. The Zimbabwe Stock Exchange (ZSE) which is a vehicle for

attracting investment resources to the productive sectors resumed operating on 19 February 2009.

110. Performance has been encouraging, with market capitalisation rising from US\$1.6 billion in March to US\$3.7 billion in October 2009.



## External Sector

111. The country's exports shipments over the period January to October 2009 are expected to decline by 17.7% from US\$1.2 billion to US\$1 billion, primarily reflecting a decline in agricultural exports.

112. Imports are expected to decline by 15% from US\$1.5 billion to US\$1.3 billion over the same period.
113. Major imports are food, electricity and fuels, chemicals, manufactured goods and machinery.

### External Debt and Arrears

114. The country's total debt including arrears as at 31 October 2009 was US\$5.417 billion. Of this amount external payment arrears were US\$3.839 billion. Government arrears alone are US\$2.340 billion whilst parastatals, Reserve Bank and private sector arrears accounted for US\$895.7 million, US\$568.8 million and US\$34.4 million, respectively as indicated below:

### External Debt Including Arrears as at October 2009 (US\$ millions)

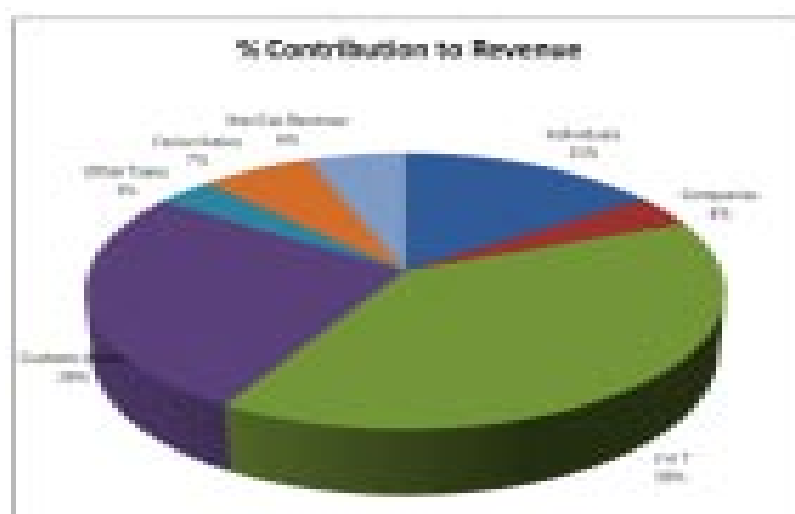
| DOD                      |         | Arrears | Principal<br>Arrears | Interest<br>Arrears |
|--------------------------|---------|---------|----------------------|---------------------|
| Total External Debt      | 5,417.0 | 3,838.8 | 3,115.7              | 723.1               |
| Government Long Term     | 3,604.4 | 2,339.9 | 1,773.9              | 566                 |
| Parastatal Long Term     | 1,001.9 | 895.7   | 740                  | 155.7               |
| Private Sector Long Term | 56      | 34.4    | 33                   | 1.4                 |
| Short Term Debt          | 754.8   | 568.8   | 568.8                | 0                   |

## Fiscal Developments: 2009

- 115. Implementation of the Budget continues to be guided by the Cash Budgeting principle as enunciated in STERP.
- 116. Budget performance to October 2009 has remained on course with cumulative revenues of US\$685.0 million against total expenditures and net lending of US\$640.7 million.

## Revenue Performance: January – October 2009

- 117. Cumulative tax revenue collections for the period January to October 2009 amounted to US\$685.0 million, against a target of US\$789.8 million.
- 118. Value Added Tax (VAT), Customs duty and Pay As You Earn (PAYE) contributed significantly to total revenue.



### *Value Added Tax (VAT)*

119. VAT contributed US\$268.9 million or 39% of total revenue against a target of US\$270.9 million. VAT on domestic and imported goods and services accounted for US\$121.9 million and US\$147.0 million, respectively.
120. Collections under this revenue head have been on the upward trend since the adoption of the use of multicurrency in February 2009.

### *Customs Duty*

121. Cumulative revenue collections from customs duty for the period under review amounted to US\$179.2 million or 26% of total revenue, against a target of US\$211.4 million.
122. Customs duties on raw materials, intermediate and capital goods were progressively reduced during the 2009 Budget and the Mid Term Fiscal Policy Review, hence this contributed to low performance on this revenue head.

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

123. PAYE collections for the period January to October 2009 amounted to US\$ 104.4 million or 15% of total revenue against a target of US\$117.8 million.
124. PAYE performance has been improving at a modest pace due to the low reviews of remuneration packages in both the public and private sectors. This trend is reflective of the limited improvements in capacity utilisation of companies that are re-engaging employees.

### *Corporate Tax*

125. Corporate tax contributed US\$25.6 million or 4% to total revenue, against a target of US\$61.1 million. The sluggish performance of this revenue head is mainly on account of low industry capacity utilisation of about 10% during the first quarter of the year.
126. Capacity utilisation had, however, gradually improved to about 30% by September 2009, hence collections from this head are expected to improve.

### *Excise Duty*

127. Excise duty collections amounted to US\$44.6 million against a target of US\$42.6 million. Major contributors to this revenue head include fuel, beer, wines and spirits which accounted for US\$37.5 million.
128. The bulk of excise duty collection was contributed from fuel and growth in volumes of beer, as a result of increased capacity utilisation from 25% in January to about 75% by September 2009 for these sub-sectors.

### *Other Taxes*

129. Revenue collections from other taxes for the period under review amounted to US\$23.5 million or 3% of total revenue, against a cumulative target of US\$30.2 million.
130. Collections from carbon tax and indirect taxes contributed the bulk of revenue amounting to US\$8.7 million and US\$8.5 million, respectively.

### *Non-Tax Revenue*

131. Non-Tax revenue is comprised of fees, charges and fines, pension contributions and revenue from investment and property.
132. Collections from Non-Tax Revenue during the period January to October 2009 amounted to US\$38.9 million or 6% of total revenue against a target of US\$55.9 million.
133. The negative variance is attributed to low collections from fees and charges which amounted to US\$8.8 million against a target of US\$36.8 million.

### **Expenditure Performance: January – October 2009**

134. Cumulative expenditure to October amounted to \$640.8 million, representing 46.1% of the 2009 Revised Budget of \$1.391 billion.
135. The breakdown of the cumulative expenditure to October 2009 by economic classification is given in the table below.

## Breakdown of Expenditure to October 2009

| Item                                                   | Cumulative expenditure<br>US\$ million |
|--------------------------------------------------------|----------------------------------------|
| <b>Employment costs</b>                                | <b>385.7</b>                           |
| Civil service wage bill                                | 276.9                                  |
| Staff in grant aided institutions                      | 29.1                                   |
| Pension                                                | 74.5                                   |
| Other                                                  | 5.1                                    |
| <b>Operations and maintenance</b>                      | <b>126.4</b>                           |
| <b>Current transfers, excl. salaries &amp; pension</b> | <b>31.5</b>                            |
| Interest                                               | 13.6                                   |
| <b>Capital expenditure</b>                             | <b>28.4</b>                            |
| <b>Vote of Credit</b>                                  | <b>14.2</b>                            |
| <b>ZIMRA</b>                                           | <b>41.0</b>                            |
| <b>Total</b>                                           | <b>640.8</b>                           |

### *Current Expenditures*

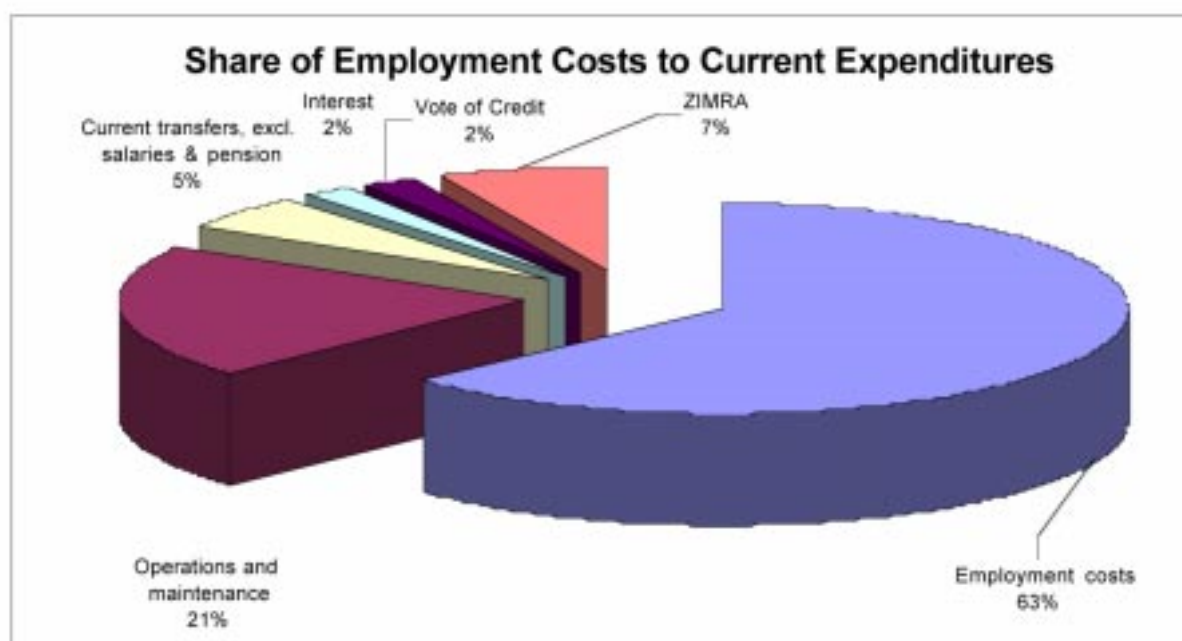
136. Up to October 2009, current expenditures were US\$608.7 million or 95% of the total expenditures. Current expenditures were on account of employment costs (63%), operations and

maintenance (21%), Zimra grant (7%) current transfers (5%) and foreign travel (4%).

137. Notwithstanding the necessity to meet non-discretionary expenditures and capacitating new Ministries, the above situation is unsustainable and crowds out the capital development budget, which only accounted for about 5% of the total expenditures by the end of October 2009.

#### *Employment costs*

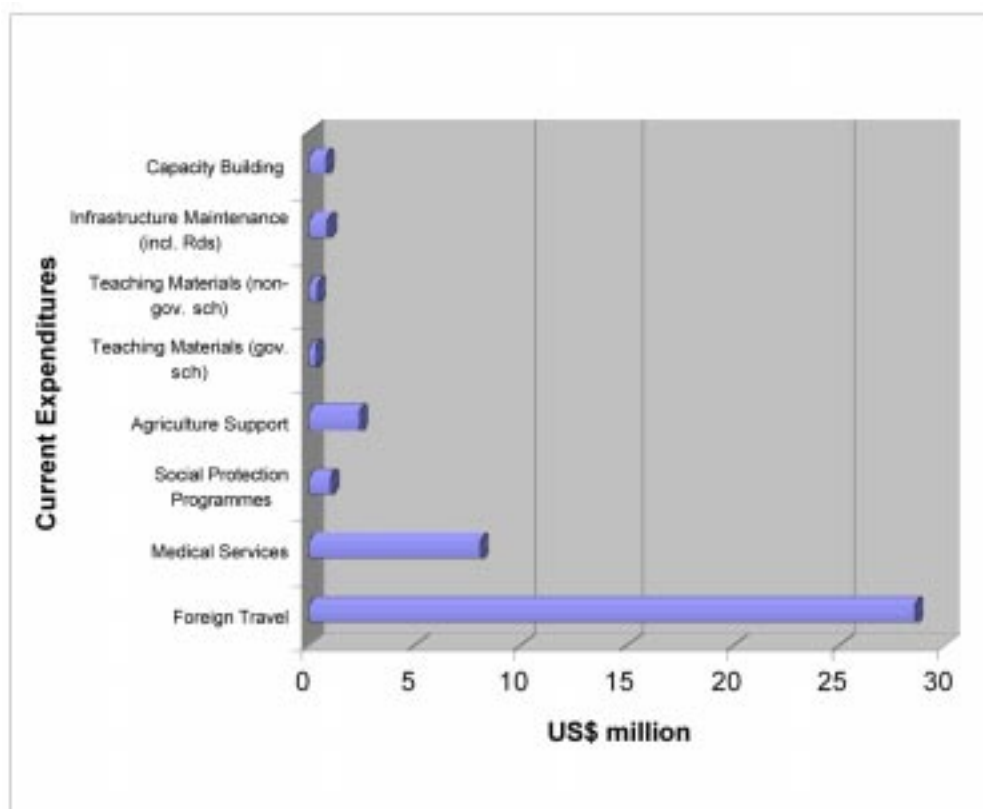
138. Total expenditures on employment costs, encompassing pay for Public Servants, including staff under grant aided institutions, as well as pension payments, stood at \$385.7 million as at October 2009. This accounts for 60% of total expenditures and about 63% of total current expenditures.



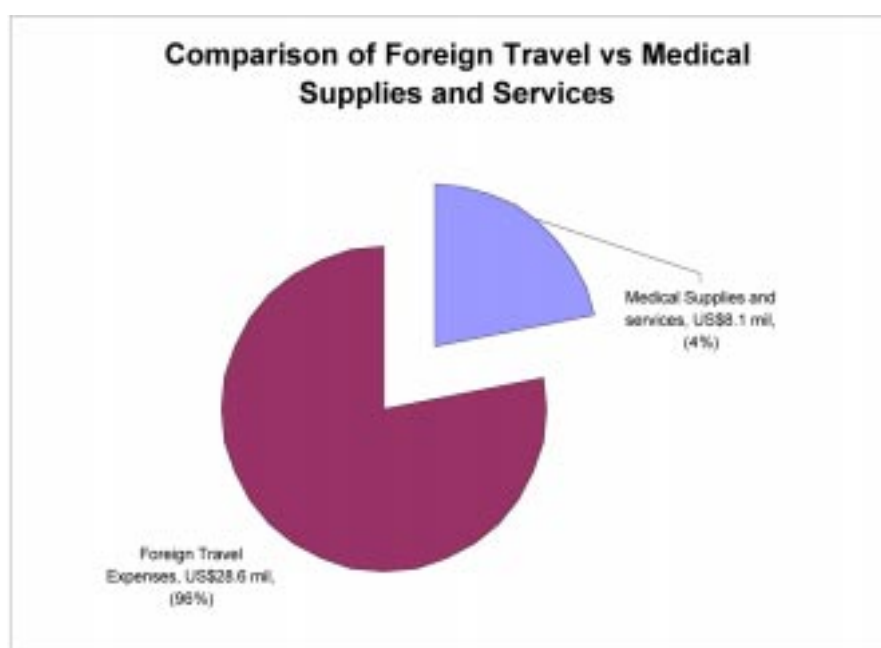
139. However, there is still pressure for higher wages notwithstanding prevailing resource constraints. Mindful of the difficult challenges facing public servants, all Government workers are being paid bonuses staggered over the months of November and December 2009.

*Operations and Maintenance*

140. Cumulative expenditure to October for operations and maintenance amounted to \$126.4 million.
141. The constraint being faced on the revenue front continues to restrict expenditures, particularly operations and maintenance.
142. Major expenditures under operations and maintenance include rental and hire expenses (\$39 million), foreign travel (\$28.4 million), domestic travel (\$3.7 million), Ministries' programmes and institutional expenses (\$19.9 million), maintenance (\$13 million) and other operational expenses (\$5.3 million).



143. The above levels of funding for operations and maintenance are skewed towards foreign travel and, hence, crowding out other essential public services.



144. Teaching materials only accounted for US\$0.7 million, while social protection programmes got only US\$1 million. Similarly, agriculture support had US\$2.4 million, while infrastructure maintenance had only US\$0.9 million.

#### *Grants and Transfers*

145. A total amount of \$31.5 million was expended under this item. Of this amount, \$26.1 million relates to operational expenses for grant aided institutions. The support to grant aided institutions was mainly targeted at Universities and local and foreign based students (\$7.1 million) and ZIMSEC (\$3.8 million) to cater for their examination requirements.

#### *Membership Contributions*

146. Contributions to regional and international organisations such as SADC, COMESA and others accounted for the balance of \$5.4 million.

#### *Zimbabwe Revenue Authority (ZIMRA)*

147. The amount of **\$41 million** under ZIMRA relates to expenditures of US\$32 million for its operations and US\$9 million for capital related expenses.

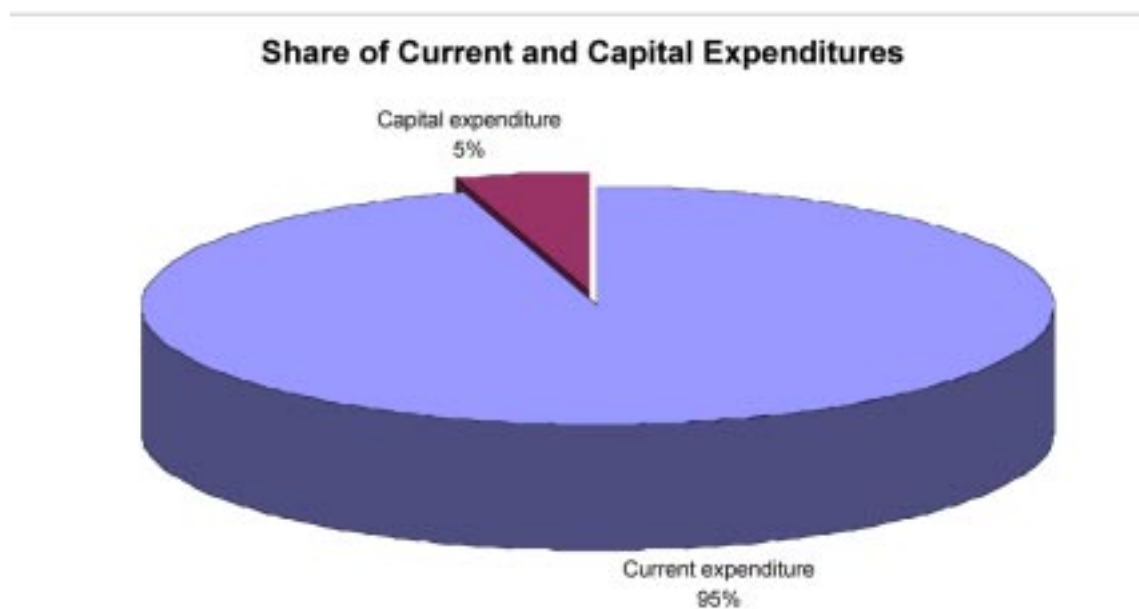
148. The relatively high expenditure was reflective of Government efforts to strengthen revenue collection. This should decline relatively, especially as the necessary revenue collection capacity is restored.

*Arrears on Services*

149. An unhealthy development has been the accumulation of outstanding payments to suppliers and service providers. This is true of areas such as vehicle hire, office rentals, water and other utilities, including telecommunications where upfront cash payment is not often demanded.
150. As at October 2009, Government Ministries' arrears on payments for services stood at **US\$31 million**.
151. Accumulation of arrears for services provided to Government by our public enterprises and local authorities compromise operations of the service providers.
152. It is, therefore, imperative that measures are put in place to clear the arrears and prevent their further accumulation.

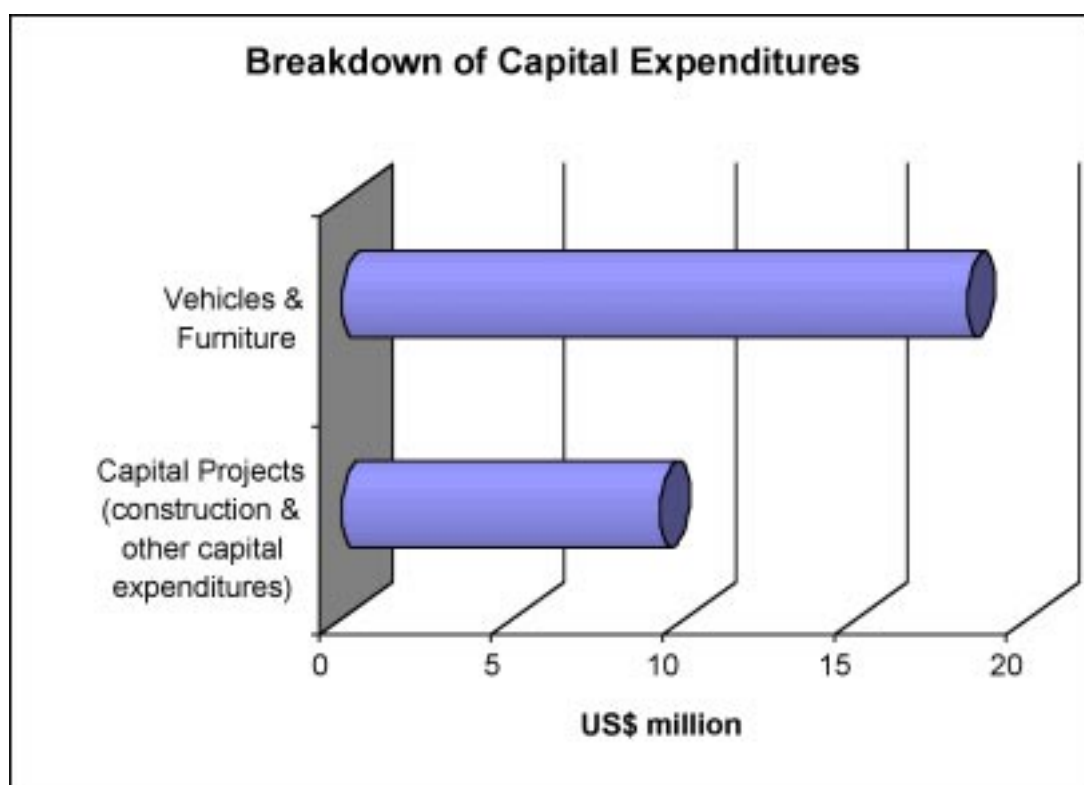
### ***Capital Expenditures***

153. Support for capital development has been very limited on account of the constrained revenues. Capital expenditure for the period to October 2009 amounted to US\$28.4 million against an overall Budget provision of US\$178.1 million.



154. However, notwithstanding the necessity for essential items such as furniture and vehicles for facilitating Ministries operations, a significant proportion of capital expenditure ended up meeting the above items, with very little left for other developmental programmes.

155. Out of a total of US\$28.4 million, developmental programmes only got US\$9.3 million against US\$18.2 million for vehicles and furniture.
156. The relatively lower level of developmental expenditures is also against the background of low implementation capacities across expenditure line Ministries. Often, availed resources have remained idle as projects took longer to be implemented.



157. In the coming year 2010, it will be necessary to gradually increase the share of public sector investment programmes, whilst containing non-essential current expenditures. This will

have to be complemented by enhancement of project implementation capacity.

### **Vote of Credit**

158. From the total budgeted Vote of Credit amounting to US\$391 million from co-operating partners, only **US\$35 million** as at 30 October 2009 supported the health sector and water and sanitation programmes. The balance was disbursed directly to programmes and projects outside of Government budget expenditure frameworks.

### **THE 2010 BUDGET THRUST**

159. Mr Speaker Sir, as restated above, our Vision is that of **transforming** Zimbabwe into a vibrant, democratic, prosperous and functional Nation underpinned by the values of social justice and equality.
160. Further, given our humongous problems and the structural development traps outlined above, the 2010 National Budget intends to oversee the mutation of the country's economy through the vehicle of **Reconstruction with Equitable Growth and Stability**.

161. Executing the above agenda will also entail implementing and completing the unfinished business of STERP during the Framework period 2010 - 2012. The detailed programme for this period is set out in the Three Year Macro-Economic Policy and Budget Framework 2010 – 2012 (STERP II).
162. This Framework also incorporates a Three Year Rolling Budget for the same period. The rolling Budget 2010 – 2012, has become possible and necessary given the stability obtaining in the market and the need to foster medium-term planning and budgeting, thus enabling Government to focus beyond short term deliverables.

### ***The 2010 Budget Objectives and Priorities***

163. In line with the above 2010 Budget Thrust, specific objectives and priorities are:

#### ***Reconstruction***

- Infrastructure rehabilitation and development in areas of power, roads, rail, aviation, water and sanitation, and Information Communication Technology (ICT). This is to ensure that these utilities underpin overall economic performance across the entirety of the productive sectors;

### ***Equitable Growth***

- Improving delivery of public services in sectors of water and sanitation, transport, health and education;
- Enhancing social protection programmes to cushion vulnerable groups;
- Ensuring that women are an equal and legitimate player and shareholder in the development processes of the country and therefore providing a framework for gender affirmative programmes as permitted by Section 23 of the Constitution of Zimbabwe.

### ***Stabilisation***

- Consolidating macroeconomic stability focusing on containing inflation within single digit levels consistent with the SADC macro-economic convergence criteria achieved under STERP;
- Intensive and extensive investment promotion drive, necessary for supporting productive sectors particularly in

agriculture, mining and manufacturing as well as infrastructure development;

- Supporting implementation and completion of STERP and the GPA unfinished programmes such as the legislative reforms including the Constitution making process, land audit, National Healing, freeing of the media and removal of sanctions. Finalisation of these programmes will open up opportunities and enhance peace and confidence in the country;
- Strengthening the accountability over the use of public resources;
- Strengthening of public institutions through capacity building, adequately resourcing and incentivising workers and enforcement of accountability.

164. In this regard, the 2010 Budget is designed based on the following macro-economic targets:

## 2010 Budget Framework

|                                           | 2009 (March<br>Orig. Est.) | 2009 (OCT.<br>Rev. Est.) | 2010 (Proj.)          |
|-------------------------------------------|----------------------------|--------------------------|-----------------------|
| Real GDP (% Growth)                       | 3.7%                       | 4.7%                     | 7.0%                  |
| Annual Average Inflation (%)              | 6.4%                       | -5.5%                    | 5.1%                  |
| Nominal GDP                               | US\$3.462 billion          | US\$5.179 billion        | US\$5.561 billion     |
| Revenues                                  | US\$970 million            | US\$1.040 billion        | US\$1.440 billion     |
| Revenues (% of GDP)                       | 28%                        | 20%                      | 26%                   |
| Expenditures                              | US\$1.361 billion          | US\$1.431 billion        | US\$2.250 billion     |
| Expenditures (% of GDP)                   | 38.9%                      | 28%                      | 40.5%                 |
| Overall Balance                           | (US\$391 million)          | (US\$391 million)        | (US\$810 million)     |
| Vote of Credit                            | US\$391 billion            | US\$391 million          | US\$810 million       |
| Vote of Credit (% of GDP)                 | 11.2%                      | 7.5%                     | 14.6%                 |
| <b>Investment &amp; Savings</b>           |                            |                          |                       |
| Total Investment                          | 4                          | 10.3                     | 14.3                  |
| Total Savings                             | 4                          | 10.3                     | 14.3                  |
| <b>External Sector</b>                    |                            |                          |                       |
| Exports of goods and services<br>% of GDP | 1.519 billion<br>43.8      | 1.813 billion<br>35.0    | 2.018 billion<br>36.3 |
| Imports of goods and services<br>% of GDP | 2.510 billion<br>72.5      | 3.313 billion<br>64.0    | 3.498 billion<br>62.9 |

### *Assumptions*

165. The above projections and targets have taken cognisance of downside risks and are informed by the following assumptions:
166. The 2010 projected positive real GDP growth rate of 7% is highly dependent on a sustained accelerated recovery of agriculture and mining sectors. Less favourable weather conditions for agriculture will consequentially affect the performance of manufacturing, and exports of agriculture manufactured products, and hence revenues in support of the Budget.

### **Real Sector Growth Rates**

| <b>Sector</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> |
|---------------|-------------|-------------|-------------|
| Agriculture   | -36%        | 10%         | 10%         |
| Mining        | -30%        | 2%          | 40%         |
| Manufacturing | -12%        | 8%          | 10%         |
| Tourism       | 9%          | 6.5%        | 10%         |

167. Projected economic growth rate is also dependent on higher investment to GDP ratios. These, in turn, are a function of recovery of public investment, financing from FDI and project

grants from cooperating partners, imports of capital goods and a conducive business environment for private investors.

- 168 . The Framework projection for the average annual inflation of about 3% to 5.1% takes account of the reality that, in the multiple currency environment, domestic price developments are mainly determined exogenously.
169. Growth in the ratio of Tax Revenue to GDP from 19.1% in 2009 to about 29.3% in 2010 will determine growth in Government expenditure and public investment, given the vulnerable availability of compensatory external financing inflows that would help provide for the more conservative projected growth of tax revenue and grants.
170. The projected higher levels of imports and hence the current account deficit during 2010 and beyond imply growing needs for external resources to finance the fast growth of total investment necessary to sustain the projected GDP growth, given the low levels of domestic national savings.
171. Exports growth is dependent on the projected fast growth of agriculture and mining. Factors reducing the output growth in

these sectors would also affect negatively the projected growth rates of exports during 2010 and beyond.

172. Rapid substitution of domestically produced goods and services for imports will be necessary for decline in the overall ratio of imports to GDP.
173. The projections are also based on a gradual improvement in the political stability of the country as this is a major factor affecting investor sentiment and external financing.
174. Finally, central to realising the projected macro-economic fundamentals will be the consistent and timely implementation of agreed measures.

### *Policy Implications*

175. The above mentioned assumptions on the 2010 Budget Framework poses a number of key policy implications which include the following:
176. Scope for reducing expenditure is limited given the low levels of wages and salaries and the need to improve the provision of Government services.

177. Similarly, failure to support the capital expenditure budget would undermine the scope for recovery and sustainable economic growth.
178. Hence efforts will be required to raise additional revenues through either increasing some specific taxes and/or improving tax administration, whose estimated potential is an additional 2% per year.
179. This would, however, not be adequate to meet the various Budget pressure areas and hence additional measures will be necessary to improve tax revenue collections, especially against the background of the large informalisation of the economy.
180. In order to complement domestic revenue mobilisation efforts, pursuing external budgetary assistance will also be beneficial to the Government's economic recovery efforts.

## **THE 2010 BUDGET**

### **THE 2010 EXPENDITURE BIDS**

181. Line Ministries, departments and parastatals bids amounted to **US\$12 billion**. Clearly, there is limited capacity to finance such high magnitudes of expenditure demands.

182. As can be deduced from the Macro-economic Policy Framework, the maximum tax revenue collections will be around **US\$1.4 billion**. This figure is therefore 733% less than the bid of US\$12 billion. This illustrates the huge gap between **demand, expectations** and the **inelastic fiscal space**.

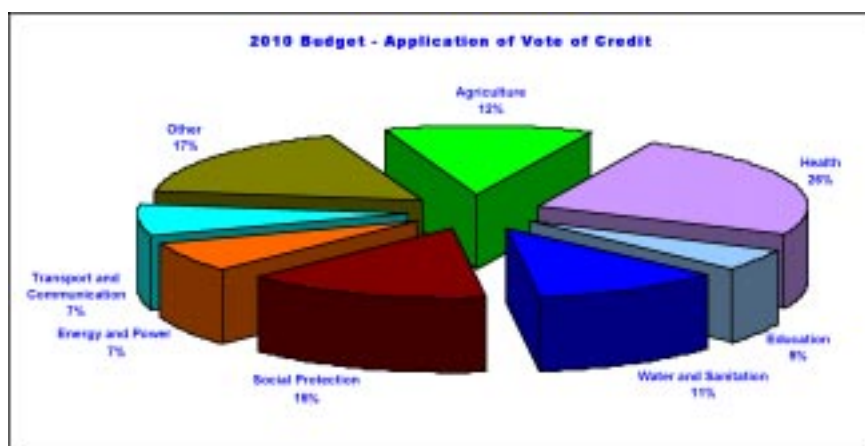
183. I therefore, had no choice but to scale the requirements down to within manageable levels whilst ensuring that resources are directed to those areas of immediate priority, in some cases consistent with SADC, UNDP and other international standards which stipulate sectoral expenditure targets expressed against total expenditures as follows:

- Education allocation of 22%,
- Wage bill of below 30%,
- Health allocation of 15%,
- Agriculture allocation of 10%,
- Capital development allocation of 30%,
- Research, Science and Development 1% of GDP,

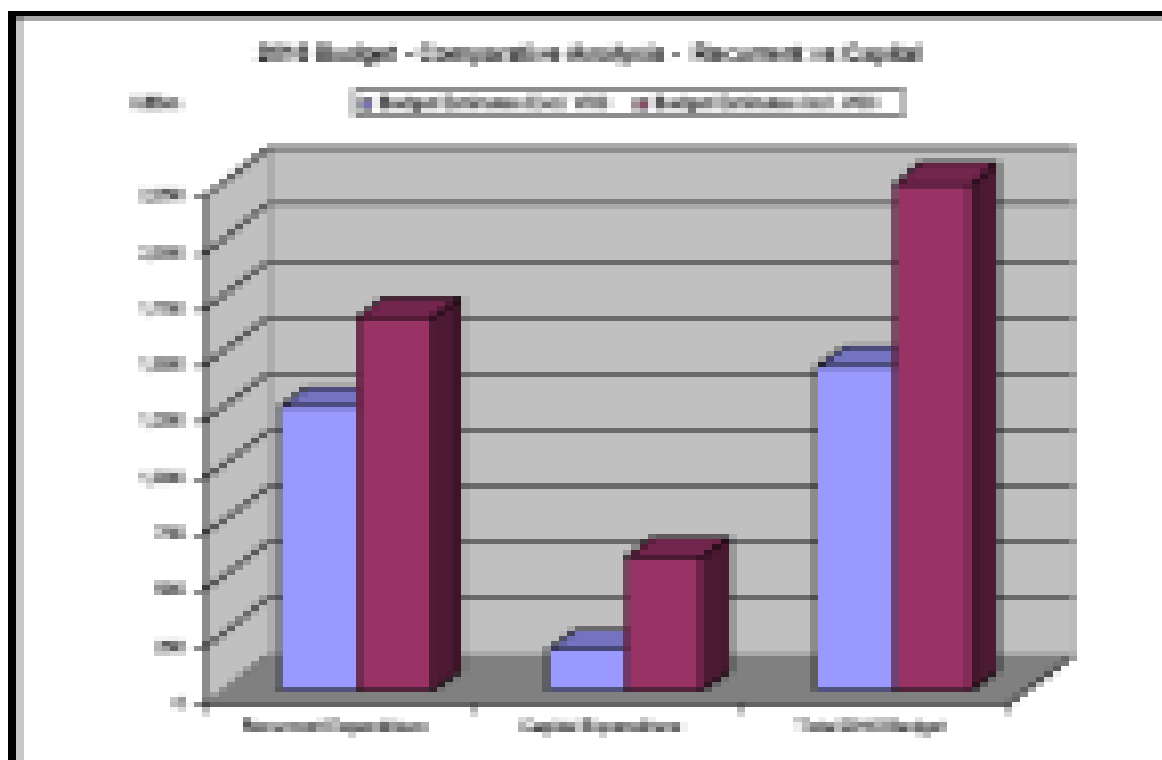
184. However, given Zimbabwe's challenges and a fragile economy, the proposals in the 2010 Budget may not meet the above targets.

## THE 2010 EXPENDITURE PROPOSALS

185. Mr Speaker Sir, Expenditure proposals and supportive measures are in line with the 2010 Budget Thrust which prioritises **Reconstruction, Equitable growth and Stabilisation**.
186. Mr Speaker Sir, based on the 2010 Budget Framework, available resources translate to **US\$2.250 billion**, inclusive of the Vote of Credit of **US\$810 million**.
187. The understanding reached with cooperating partners is that their resources will be directed to the programmes and projects prioritised by Government and included in the Budget.
188. I have accordingly ensured that in the 2010 Budget the Vote 7 – Vote of Credit provides full details on the priority areas relating to the US\$810 million.



189. In this regard, I propose to allocate US\$1 678.2 million for recurrent expenditure and US\$571.8 million for capital expenditure made up of Government revenue and Vote of Credit.



190. Mr Speaker Sir, allow me to now highlight components of the 2010 Expenditure Proposals, as illustrated in the following graph: