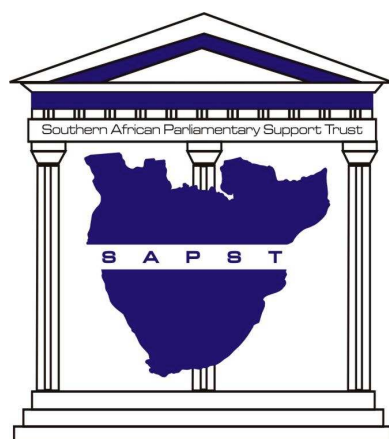




PARLIAMENTARY

ROUND UP: BULLETIN NO. 27 - 2010

Highlights of 2011 Budget Presentation on Thursday 25 November 2010

INTRODUCTION

The 2011 National Budget was presented in Parliament by the Honourable Tendai Biti, Minister of Finance, on 25 November 2010. It is important to note that this is the first budget statement which has benefited from country-wide consultations by both the Executive and Parliament through the Budget, Finance and Investment Promotion Portfolio Committee. We also note that the Minister has considered some of the proposals that were put forward by the citizens during Public Hearings on budget proposals,

particularly the need to increase civil servants' salaries as well as increasing tax-free threshold. Below are the general highlights of the 2011 budget.

2011 NATIONAL BUDGET HIGHLIGHTS

- ✓ Month-on-month inflation decreased from 0.7% in January 2010 to 0.2% in October 2010.
- ✓ Year-on-year inflation was 3.6% in October 2010 and is expected to end the year at 4.8% which is way below the SADC average of 7.5%.
- ✓ GDP growth expected to increase to 8.1% in 2010 from 5.7% in 2009 on the backdrop of a 47% growth in mining and quarrying as well as a 33.9% growth in agriculture.
- ✓ The services sectors have emerged as great contributors to the GDP, particularly Transport and Communication services whose contribution increased to 15.2% of GDP in 2009 from 8% in 2000.
- ✓ Agriculture contributed 15.5% of GDP in 2009, Manufacturing 14.7% while mining contributed just 4.9% over the same period.
- ✓ Maize production in 2010 increased by 34%, Tobacco by 110% and Cotton by 23%. However the Strategic Grain Reserves of 220 910 tons as at 19 November 2010 represented 73.6% of the national requirement of 300 000 tons.
- ✓ Manufacturing sector capacity utilization averaged 35.72% by October 2010.
- ✓ A total of US\$41.94 million was received by Treasury from the sale of Diamonds while US\$8.03 million has not yet been remitted.
- ✓ Out of a total commitment of US\$735 million from Lines of Credit only US\$273.6 million has been received.
- ✓ Exports earnings expected to increase by 25% from US\$2 billion in 2009 to US\$2.5 billion by 2010.
- ✓ The Capital Account is expected to improve from a deficit of US\$556.5 million in 2009 to a surplus of US\$578.5 million in 2010. This is expected to improve the Balance of Payment deficit from US\$1.9 billion in 2009 to US\$462 million in 2010.
- ✓ External debt is now US\$6.9 billion which is 103% of GDP.
- ✓ Total revenue collection exceeded the target of US\$1 561 million by 15% to US\$1 793 billion collected by October 2010.
- ✓ VAT contributed the biggest share to total revenue with 37%, indicating that the tax system disadvantages the bottom poor 85% of the population.
- ✓ Out of a total of US\$810 million expected from VOC only US\$360.2 million was received in 2010.
- ✓ Total expenditure as at end of October 2010 was US\$1.46 billion and is expected to reach US\$2 billion by December 2010.
- ✓ Current expenditure continues to consume the bulk of government expenditure at 82% while the remaining 18% is attributed to capital development expenditure. Employment costs represented 46.3% of total expenditure.
- ✓ Tax free threshold increased from US\$175 to US\$225 per month, thus putting US\$600 per annum into the pocket of low wage earner.
- ✓ The highest marginal tax rate maintained at 35% for individuals.
- ✓ Non-payment of customs duty on basic commodities maintained up to 30 June 2011 with exception soap.

MACROECONOMIC PERFORMANCE

The major macroeconomic indicators of the 2011 National Budget are as shown below. Of great note is the decrease in the deficit on the Balance of Payments due to improved export performance.

Variable	Original Budget 2010	Revised Budget 2010	2011 Budget
Real GDP (% Growth)	7%	8.1%	9.3%
Inflation (Annual Average)	5.1%	4%	4.5%
Nominal GDP	US\$5.561 billion	US\$6.72 billion	US\$8.07 billion
Revenues	US\$1.44 billion	US\$2.2 billion	US\$2.75 billion
Revenues (% of GDP)	26%	32.8%	34%
Expenditures	US\$ 2.25 billion	US\$ 2 billion	US\$2.75 billion
Expenditures (% of GDP)	40.5%	29.8%	34%
Overall balance	(US\$ 810 million)	US\$200 million	US\$0
Vote of Credit/ Grants	US\$810 million	US\$500 million	US\$500 million
Vote of Credit as % of GDP	14.6%	7.4%	6.2%
External Sector			
Exports of goods and Services	US\$2.018 billion	US\$2.54 billion	US\$2.79 billion
Exports as % of GDP	36.3%	31.1%	29.2%
Import of goods and services	US\$3.498 billion	US\$4.04 billion	US\$4.04 billion
Imports as % of GDP	62.9%	52.9%	43.9%
Overall Balance of Payments		-US\$463 million	-US\$388 million

While the budget statement is generally welcome, its biggest disappointment is a further reduction in the import duties on footwear, and clothing and textile products which is detrimental to the resuscitation of domestic industries and employment creation. A more comprehensive analysis will be circulated later.

Motion on the Welfare of Civil Servants, MPs and Government Ministers

Soon after the presentation of the 2011 Budget Statement by the Minister of Finance, Hon. Tendai Biti, the House debated and adopted a motion calling government to allocate more resources for the welfare of civil servants and other government employees, including Members of Parliament and Ministers. The motion was introduced in the House by Hon. Kudakwashe Bhasikiti (ZANU PF) and Hon. Lucia Matibenga (MDC-T).

In moving his motion, Hon. Bhasikiti noted that the poor welfare of civil servants, MPs and Ministers was not in keeping with their status in society.

He argued that poor salaries for government officials provided a fertile ground for corruption and underperformance. He cited the example of MPs and said that because of their poor remuneration, they dedicated most of their time on income generating initiatives as a way of supplementing their meager salaries, at the expense of their constituency duties.

Hon. Matibenga said constituents expected MPs to assist with financial resources for such social issues as funeral, school fees, health etc costs yet the MPs were not in a position to do so. She urged government to allocate more resources in order to improve the welfare of civil servants, MPs and other government officials. Hon. Matibenga argued that there was a correlation between disposable incomes and economic growth.

Hon. Paddy Zhanda noted that it was ironic for parliament to allocate resources to non-performing parastatals instead of civil servants and MPs.

Forthcoming Events

Portfolio Committees will be meeting as from next week on Monday 29 November 2010 to analyze the 2011 Budget as it relates to their specific sectors. A schedule of the meetings will be circulated later.

Adjournment

The House of Assembly adjourned to Tuesday 7 December 2010, to give committees time to analyze budget allocations to their specific sectors. It is expected that the House of Assembly will pass the budget during the week of 7 December when it resumes its business. There is a high likelihood that the Senate would be recalled a week later to pass the budget Bills earlier than 8 February 2011 otherwise government will find itself in a quandary.