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**ZIMBABWE**

## **THE 2019 BUDGET SPEECH**

By

Hon. Prof. Mthuli Ncube

Minister of Finance & Economic Development

***“Austerity for Prosperity”***

**22 November 2018**



## **MOTION**

1. Mr Speaker Sir, I move that leave be granted to present a Statement of the Estimated Revenues and Expenditures of the Republic of Zimbabwe for the 2019 Financial Year and to make Provisions for matters ancillary and incidental to this purpose.

## **INTRODUCTION**

2. Mr Speaker Sir, I feel honoured to present my maiden Budget Statement to this August House.
3. As we are all aware, Government, under the New Dispensation set out a long term goal of transforming the country into an Upper Middle Income Society – Vision 2030.
4. To achieve this Vision, Government developed a short term stabilisation strategy – the Transitional Stabilisation Programme (October 2018 – December 2020), which is already under implementation.
5. The Transitional Stabilisation Programme`s immediate objective is macro and fiscal stabilisation and laying a solid foundation for attaining the triple ‘S’ growth - strong, sustainable and shared.

6. Such growth will be anchored on good governance and promotion of democratic principles, equitable access to means and outcomes of production, as well as modern infrastructure that supports day to day socio-economic activities.
7. Further, strong, sustainable and shared growth will enable us to achieve efficient delivery of public services and the restoration of Zimbabwe's rightful place in the region and global economy.
8. The 2019 Budget, therefore, constitutes an initial policy and financial instrument for implementing the Transitional Stabilisation Programme by powering the respective drivers for change and development.
9. Specific interventions in the Budget were informed by various contributions received through stakeholder consultations, including through social media platforms.
10. I am sincerely grateful for all the inputs that I received.
11. Broadly, key objectives and priorities from consultations revolve around the following:
  - Decisively dealing with fiscal indiscipline through use of austerity measures;
  - Removal of pricing and policy distortions;

- Improving foreign currency generation and establishing efficient and optimal mechanisms for its allocation;
  - Jobs creation, particularly for the youths, being the new entrants into the labour market;
  - Promotion of productivity and export growth through incentives;
  - Efficient public service delivery and not just input;
  - Parastatals reforms and privatisation for a private sector led economy;
  - International re-engagement, clearance of debt arrears and investment promotion;
  - Investing in research and development;
  - Empowerment of Provinces and Districts;
  - Gender equity promotion;
  - Promotion of good governance;
  - Fighting corruption; and
  - Turn Zimbabwe into the gateway for investment into Africa.
12. In the same vein, stakeholders emphasised on the importance of co-ordinated, predictable and consistent policies, void of reversals, in order to support forward planning and business confidence building on the part of the various economic agencies.
13. These issues are at the core of a progressive economy and, precisely, the 2019 Budget seeks to address these challenges.

14. However, in view of fiscal capacity limitations under the Transitional Stabilisation Programme, the 2019 and subsequent Budgets, will have to make choices against high demands.
15. Therefore, the 2019 Budget, primarily targets macro-economic and fiscal stabilisation and implementation of high impact projects and programmes, which lay a solid foundation for a private sector led growth. The desired triple 'S' growth should also maximise productivity and jobs creation.
16. Realising the above requires unity of purpose, high level of competencies, as well as commitment and full participation of all stakeholders during implementation of the Transitional Stabilisation Programme and the 2019 Budget.
17. The Budget, therefore, will prioritise strengthening of institutional capacity in terms of planning, implementation, monitoring and evaluation to ensure that the TSP remains on track, attaining planned measurable results that are aligned to targets and objectives.
18. I, therefore, appeal to all implementing agencies to apply themselves diligently for the success of this Budget and the Transitional Stabilisation Programme, as we move a step towards attaining an 'Upper Middle Income Society by 2030'.

## **POLICY THRUST**

19. The primary objective of the 2019 Budget is to stabilise the economy by targeting the “twin deficits” of fiscal and current account, which have become major sources of overall economic vulnerabilities, including inflation, sharp rise in indebtedness, accumulation of arrears and foreign currency shortages.
20. Correspondingly, the 2019 Budget recognises the current constraints of limited fiscal space against high demands. Therefore, it initially focuses on quick-win flagship projects and programmes across key sectors of the economy, with a view of stimulating inclusive growth with jobs.
21. Consequently, the 2019 Budget prioritises infrastructure rehabilitation and development which ordinarily supports our productive sectors besides other social-economic activities.
22. Sustainable growth hinges on prudent exploitation of natural resources and hence, the Budget pays more attention to promotion of good practices in environmental management.
23. In the same vein, the value addition and beneficiation strategy is being advanced in order to maximise benefits in terms of employment and incomes.

24. Furthermore, the Budget seeks to improve confidence by removing various policy and price distortions, which penalise efficiency and promotes corrupt and rent seeking practices.
25. Mr Speaker Sir, measures on reducing expenditures and mobilising more resources through taxes, ordinarily entail foregoing certain benefits and opportunities, and therefore, sacrifice.
26. However, the objective is to build the basis for a prosperous economy, in line with our Vision 2030. And precisely, this Budget under the theme '***Austerity for Prosperity***' promises a better future by doing the right things henceforth.
27. Mr Speaker Sir, reference to austerity for a better future, reminds us of a quote from the 19th Century Philosopher, John Stuart Mill that, "*I have learned to seek my happiness by limiting my desires, rather than in attempting to satisfy them*".
28. This should spur us towards realisation of Vision 2030.

## **STATE OF THE ECONOMY AND OUTLOOK**

29. In contextualising the 2019 Budget, this Statement provides recent global economic developments and outlook which have a bearing on our economy.

## GLOBAL ECONOMY

30. Global growth is projected at 3.9 % for both 2018 and 2019 from 3.8% in 2017, driven by both industrialised and emerging economies. The partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve.

	2015	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.
<b>World Output</b>	3.2	3.2	3.6	3.9	3.9
<b>Advanced Economies</b>	2.1	1.7	2.2	2.4	2.2
<i>US</i>	2.6	1.5	2.2	2.9	2.7
<i>Euro Area</i>	2.0	1.8	2.1	2.2	1.9
<i>Japan</i>	1.2	1.0	1.5	1.0	0.9
<b>Emerging Market &amp; Developing Economies</b>	4.1	4.3	4.6	4.9	5.1
<i>China</i>	6.9	6.7	6.8	6.6	6.4
<i>India</i>	7.6	7.1	6.7	7.3	7.5
<b>Sub-Saharan Africa</b>	3.4	1.4	2.6	3.4	3.8
<i>Zimbabwe*</i>	1.7	0.6	4.7	4.0	3.1
<b>Latin America &amp; the Caribbean</b>	0.1	-0.9	1.2	1.6	2.6

Source: IMF World Economic Outlook, \*Ministry of Finance and Economic Development and RBZ projections

## Regional Economy

31. Growth for Sub-Saharan Africa is projected to rise from 2.6% in 2017 to 3.4% in 2018 and 3.8% in 2019. Factors driving this growth are stronger global growth, higher commodity prices, and improved market access.
32. Key issues in most economies remain external imbalances and fiscal mismatches. About 40% of low-income countries in the region are now saddled with unsustainable debts.

## Domestic Economy

33. Regarding the domestic economy, it is important to note that the transitory shock experienced as we entered the 3rd quarter of 2018, served to confirm the cumulative impact imbalances, particularly the “twin deficit” that had gone far too long without corrective measures.
34. This notwithstanding, the economy currently remains resilient, with performance exceeding expectations. Government policy initiatives will see solid growth of 4% in 2018, that way sustaining revenue and exports performance above targets.
35. As a result, there is marked improvement in employment, with statistics from the National Social Security Authority showing a workforce of more than one million registered employees, as noted by His Excellency, the President in his weekly column.
36. The re-engagement efforts are also raising investors’ interest with more than **US\$15 billion** worth of projects being negotiated.

## GDP Rebasing

37. The resilience of the economy has been buttressed by the results of the recently published GDP rebasing.

38. Gross Domestic Product was rebased in line with international norms, as a result, the economy is deemed to be 40% bigger.
39. The 2018 nominal GDP is now **US\$24.6 billion**, from a previous level of **US\$21 billion**.
40. Following rebasing, per capita GDP for 2017 rose from **US\$1 235** to **US\$1 508**, and is being projected to reach **US\$1 642** by end of 2018, placing Zimbabwe in lower middle income status.

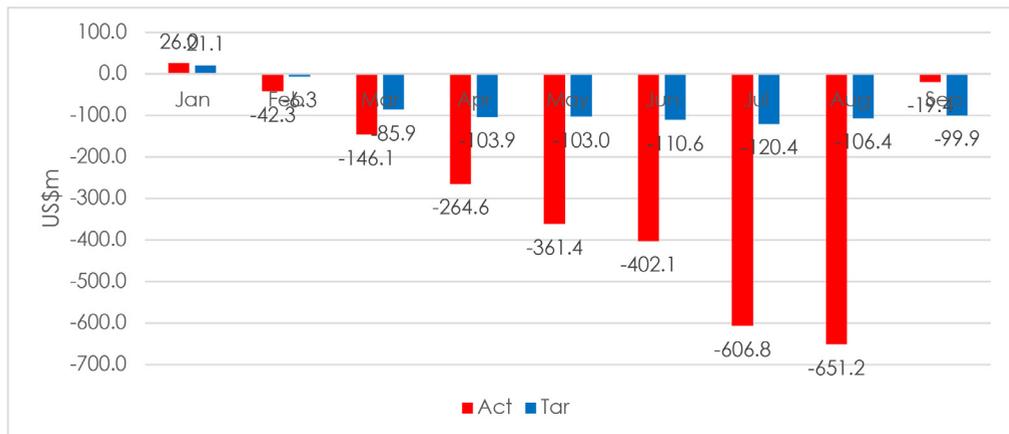
### **Economic Growth**

41. Since 2016, the country's growth rate has been trending upwards.
42. Capacity utilisation levels have been improving even under investments constraints due to limited access to international financing and financial dis-intermediation by local banks.
43. Mr Speaker Sir, concern also remains on the quality of growth and its implications on inclusivity, jobs, and poverty levels.
44. As Jack Kemp, an American Politician once remarked "*economic growth doesn't mean anything if it leaves people out*".

45. Hence, the Transitional Stabilisation Programme's thrust towards macro-economic stabilisation for the attainment of the triple S growth - *Strong, Sustainable and Shared*.

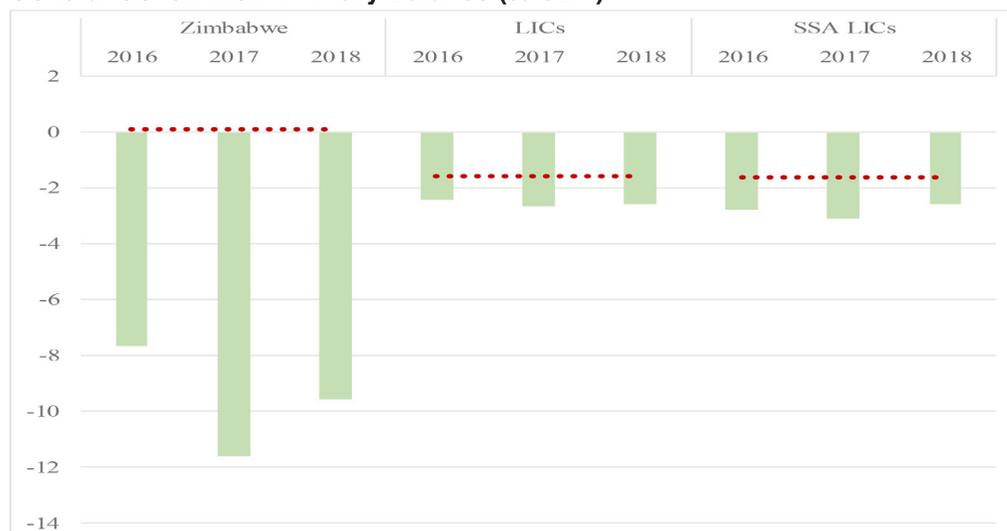
## **Public Finances**

46. Revenue collections for the nine months to September 2018 amounted to **US\$3.8 billion**, against a target of **US\$3.4 billion**, and by year end, collections of **US\$5.5 billion** are anticipated.
47. On the other hand, total expenditures during the same period stood at **US\$6.5 billion**, against a target of **US\$4.1 billion**.
48. Accordingly, expenditure outturn to year end is estimated at **US\$8.2 billion** against a budget of **US\$5.3 billion**, implying an expenditure overrun of **US\$2.8 billion**.
49. The 2018 Budget Deficit is projected at **US\$2.86 billion** (11.7% of GDP), against a target of **US\$793 million**.
50. The month on month deficit developments, however, confirmed that for the month of September 2018, the deficit level narrowed sharply. Hence, confirming that a balanced Budget position is achievable.



51. The large cumulative deficit is on account of unbudgeted expenditures relating to employment costs, support to agriculture, as well as some capital expenditure and net lending items.
52. The Budget deficit level has outstripped market sustainable levels, such that Government has increasingly relied on the overdraft facility with the Central Bank, which has spiked upwards.
53. The following graph gives a comparison of Zimbabwe and other Low Income Countries (LICs) and sub-Saharan African Low Income Countries (SSA LICs) in terms of the Primary Deficit.

### General Government Primary Balance (% GDP)



The dotted lines represent the average of the fiscal indicator during the period 2000-15. Source: IMF – Fiscal Monitor, October 2018

54. Regrettably, for Zimbabwe, the overdraft window increased by **US\$1.11 billion** for the period January to September 2018 and is projected to close the year at **US\$2.5 billion**, which is well above the stipulated statutory limit.
55. Government has been issuing Treasury bills and bonds for the financing of the budget deficit, capitalisation of public entities, payment for past Government Debt as well as funding Government programmes, including “*Command Agriculture*”.
56. During the period January to August 2018 alone, Government issued Treasury bills and bonds worth **US\$2.5 billion**.

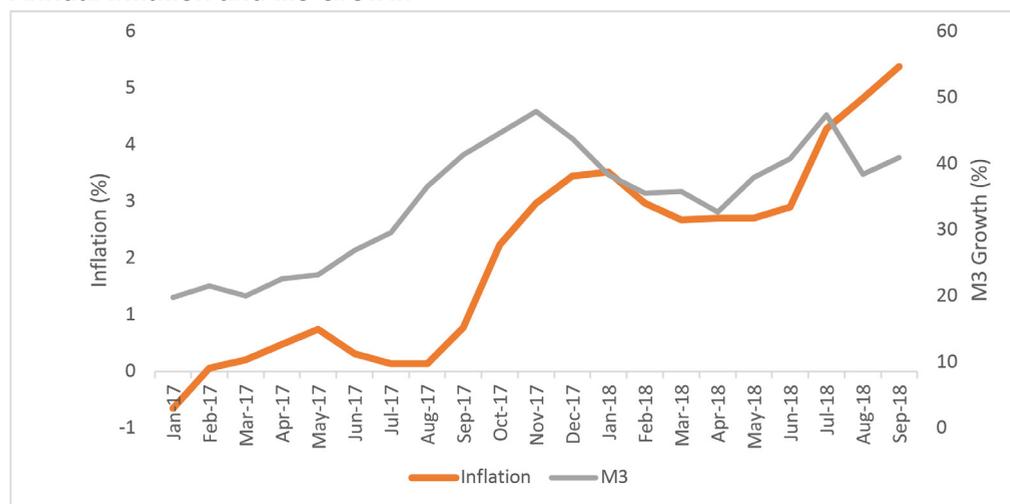
57. Resultantly, outstanding Government Securities stood at **US\$6.2 billion** as at end of August 2018.

58. Mr Speaker Sir, the lesson to learn from careful analysis of the nature of the quasi fiscal expenditures over a decade reminds us of Peter Drucker, an American Management Consultant and renowned Strategist who concluded that “*nothing is less productive than to make more efficient what should not be done at all.....*”

## Inflation

59. The upsurge in inflation is a phenomenon arising from fiscal imbalances through high growth in money supply, as reflected in the graph below.

Annual Inflation and M3 Growth



Source: Reserve Bank & ZIMSTAT

60. Annual inflation gained 0.56 percentage points to reach 5.39% by September 2018, from the August rate of 4.83%.
61. Inflation figures for October 2018, released by Zimstat show that annual inflation has gained 15.46 percentage points to reach 20.85%. Month on month rate for October 2018 is at 16.44%, representing a 15.52 percentage points increase on the September level.
62. The upsurge in annual inflation rate is mainly driven by food and non-food items such as transport services.
63. The spike in prices of goods and services appears to have receded, confirming that the main price hikes were a spontaneous response to uncertainty and confidence issues.
64. The measures taken by Government, which include moral suasion, temporary suspension of Statutory Instrument 122 of 2017 and efforts to direct foreign currency cover to essential areas, are also beginning to yield positive results.
65. Mr. Speaker Sir, monthly inflation will fall, going forward.

## Public Debt

66. Total public debt continues to grow driven by rising domestic debt.
67. As at end of August 2018, public debt stood at **US\$17.69 billion**, of which domestic debt accounted for 54% up from 49%, while external debt moved down from 51% to 46%.

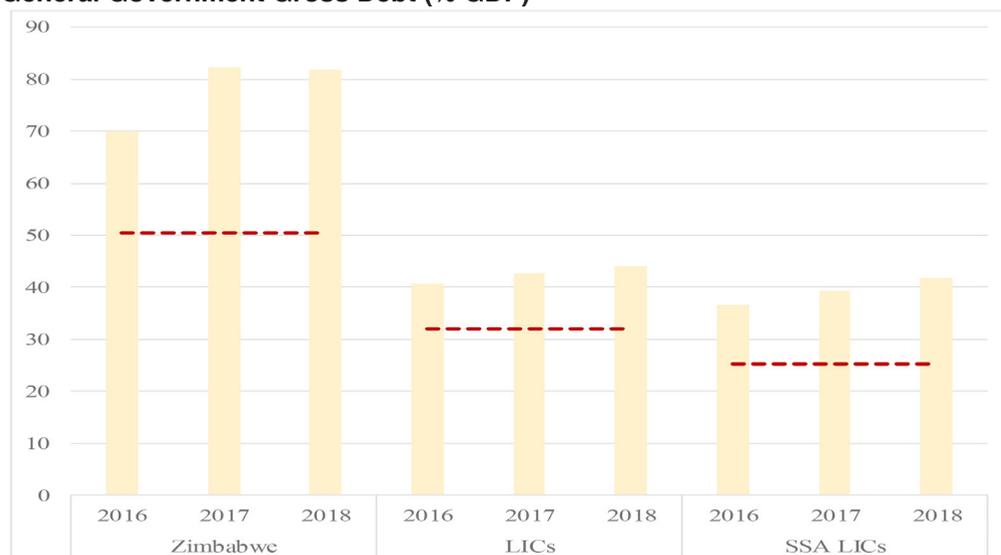
### Public Debt

	As at December 2017	As at August 2018	Projection to December 2018
<b>TOTAL DEBT (US\$ m)</b>	14,641.7	17,685.8	18,076
<i>% of GDP</i>	81.4	71.9	73.5
<b>Domestic Debt (US\$ m)</b>	7,133.6	9,544.2	9,571.1
<b>External Debt (US\$ m)</b>	7,508.1	8,141.6	8,505.9
<i>Bilateral</i>	3,589.3	4,314.3	
<i>Multilateral (IFIs)</i>	2,006.0	2,606.6	

Source: Ministry of Finance & Economic Development

68. By end of 2018, it is estimated that the public debt statutory limit of 70% is likely to be breached. This underpins the urgency for containing our fiscal deficit.
69. The following graph gives a comparison of Zimbabwe and other Low Income Countries (LICs) and sub-Saharan African Low Income Countries (SSA LICs) in terms of the Gross Public Debt.

### General Government Gross Debt (% GDP)



Note: The dotted lines represent the average of the fiscal indicator during the period 2000-15. Source: IMF – Fiscal Monitor, October 2018

## THE 2019 MACRO-FISCAL FRAMEWORK

70. On account of changes to the GDP following rebasing, as well as the inflation profile, especially arising from the October spike, the growth rate projections for 2018 through to 2021 have been revised downwards from those in the Transitional Stabilisation Programme.
71. Growth projection in 2019 is anticipated at about 3.1%, which is slightly lower than the 2018 expected growth of 4%, reflecting the impact of unfavourable weather on agriculture and macro-fiscal vulnerabilities from previous unsustainable fiscal and current account deficits.

72. Fiscal consolidation measures beginning 2019 are, however, expected to give a strong rebound in growth to above 7% from 2020 – in keeping with the theme ‘*Austerity for Prosperity*’.

### 2019 Macro and Fiscal Framework

	2018 Prj	2019 Prj	2020 Prj	2021 Prj
<b>National Accounts</b>				
Nominal GDP at market prices (US\$M)	24582.2	31558.9	35961.1	42757.7
Real GDP Growth (%)	4.0	3.1	7.5	7.7
Inflation (End Period) %	25.9	5.0	5.5	5.8
<b>Fiscal Account</b>				
<b>Total Revenue Incl Retained Revenue</b>	<b>5296.8</b>	<b>6598.2</b>	<b>7493.9</b>	<b>8562.7</b>
<b>Total Revenue (US\$M)</b>	<b>5296.8</b>	<b>6199.3</b>	<b>6944.6</b>	<b>8002.4</b>
<b>Total Revenue (% of GDP)</b>	<b>21.5</b>	<b>19.6</b>	<b>19.3</b>	<b>18.7</b>
Tax Revenue (US\$M)	5017.0	6037.1	6761.3	7815.5
Corporate Income Tax (US\$M)	754.0	783.8	885.7	903.4
Personal Income Tax (US\$M)	851.0	971.0	1097.2	1319.1
Other Direct Taxes (US\$M)	271.0	294.7	333.0	369.7
Customs Duties (US\$M)	438.0	484.7	527.7	588.3
Excise Duties (US\$M)	894.0	943.8	1066.5	1287.8
Value Added Tax (US\$M)	1501.0	1696.8	1817.4	1953.8
Other Indirect Taxes (US\$M)	308.0	862.3	1033.8	1393.4
Non-Tax Revenue (US\$M)	279.8	162.2	183.3	186.9
<b>Total Expenditure Incl Retentions</b>	<b>8161.4</b>	<b>8,164.3</b>	<b>8,977.8</b>	<b>9,822.5</b>
<b>Total Expenditure (US\$M)</b>	<b>8161.4</b>	<b>7765.3</b>	<b>8428.5</b>	<b>9262.2</b>
<b>Total Expenditure (% of GDP)</b>	<b>33.2</b>	<b>24.6</b>	<b>23.4</b>	<b>21.7</b>
Employment costs (US\$M)	3854.5	4050.1	4365.4	4674.0
Employment costs (% of GDP)	15.7	12.8	12.1	10.9
Use of goods and services (US\$M)	869.0	1036.0	1010.1	1168.1
Interest (US\$M)	675.0	673.3	982.0	900.1
Domestic (US\$M)	359.0	351.1	511.5	469.9
Foreign (US\$M)	316.0	322.2	470.5	430.2
Provincial Councils and Local Authorities (US\$M)	-	310.0	347.2	400.0
Capital Expenditure and net Lending (US\$M)	3087.9	2018.2	2194.3	2550.2
Capital Expenditure and net Lending (% of Total Expenditure)	37.8	27.1	27.2	28.8
<b>Overall balance (US\$M)</b>	<b>-2,864.6</b>	<b>-1,566.1</b>	<b>-1,483.9</b>	<b>-1,259.8</b>
<b>Financing (US\$M)</b>	<b>2865.4</b>	<b>1566.1</b>	<b>1483.9</b>	<b>1259.8</b>
Domestic (US\$M)	2239.5	822.3	1059.5	931.2
Bank Financing (US\$M)	2537.0	417.1	623.1	59.0
Non-bank domestic financing (US\$M)	-297.5	405.2	436.4	872.2
External (US\$M)	-14.8	-172.6	-175.6	-171.5
Financing to be arranged (US\$M)	-	916.4	600	500
<b>Total Financing Requirement</b>	<b>6,122.9</b>	<b>6,469.3</b>	<b>2,677.4</b>	<b>2,018.8</b>

73. With nominal GDP projected at **US\$31.6 billion** in 2019, the economy can generate revenues amounting to **US\$6.6 billion** for 2019, including retentions (**US\$400 million**), taxes (**US\$6.037 billion**), and non-tax (**US\$162 million**).
74. Expenditures are projected at **US\$8.2 billion**, out of which capital expenditures are estimated at **US\$2.018 billion**, leaving a balance of **US\$6.1 billion** for current expenditures.
75. Consequently, a deficit of **US\$1.6 billion** or 5% of GDP is projected, in line with a sustainable financing capacity of the domestic market.

### **Development Partners Support**

76. Development Partners continue to play a complementary role in supporting targeted projects and programmes in health, humanitarian care, agriculture, capacity building, governance, water supply & sanitation, education and basic social services.
77. In 2019, a total of **US\$606.7 million** is expected, of which **US\$453.4 million** will be from bilateral partners and **US\$153.3 million** from multilateral partners.

### **THE 2019 BUDGET DRIVERS FOR TRANSFORMATION**

78. Mr. Speaker Sir, consistent with the Transitional Stabilisation

Programme, Government's preoccupation is to stabilise the macro-economy in the shortest possible period.

79. Accordingly, the 2019 Budget seeks to positively contribute towards realisation of transformation and development. All stakeholders agree that the 2019 Budget ought to give focus and prominence to the drivers of this transformation which the country critically requires.
80. In my capacity as Minister of Finance and Economic Development, I subscribe to the call that I facilitate, with the support of the rest of Government, that the 2019 and future Budgets achieve distributive efficiency of scarce public resources towards strategic public service delivery, including promotion of production.
81. **It is now a fundamental principle that our Budget turns away from being input driven and focus more on output, results, and impact which invariably mean maximum service delivery and accountability.**
82. Mr Speaker Sir, in light of the foregoing, the 2019 Budget allocations pay maximum attention to the drivers of the transformation and development which are as follows:

- Macro-economic Stabilisation;
- Investment for jobs and inclusive growth;
- Food security and social protection;
- Infrastructure Development;
- Human capital development;
- Natural Resource Management;
- Institutions and governance;
- Voice and accountability;
- Globalisation;
- Privatisation of parastatals; and
- Peace and security.

## **MACRO-ECONOMIC STABILISATION**

83. Upper most on the agenda to restore confidence of citizens, industry, the financial sector, as well as investors is dealing with risks imposed by the twin deficits, namely the fiscal and current deficits.
84. These have been at the core of money creation hence, resulting in inflationary pressures and currency instability.

### ***Fiscal Objectives***

85. Containment of the fiscal deficit will allow the Budget to focus more resources towards infrastructure development

programmes as opposed to consumptive spending, as well as cushioning vulnerable groups, especially as we implement austerity measures.

86. Furthermore, reducing the Budget deficit and, therefore, limiting borrowing to sustainable levels, will allow channeling of more resources to the private sector and hence, supporting our overall strategy for a private sector led growth.
87. In an effort to address the risk of a higher Budget deficit for 2018 and 2019, Government took decisive action to introduce the 2% intermediated money transfer tax, effective 13 October 2018.
88. The cooperation by our citizenry on this measure is quite profound and well appreciated.

### ***Fiscal Targets***

89. To achieve the fiscal objectives, and consistent with the Transitional Stabilisation Programme, the 2019 Budget adheres to the Public Finance Management Act [*Chapter 22:19*], the Reserve Bank Act [*Chapter 22:15*], as well as the Public Debt Management Act [*Chapter 22:21*] with regard to fiscal targets on level of budget deficit, Central Bank lending to Government and Public Debt.

90. The measures proposed above for restructuring financing and limiting commitments under the 2019 Budget, are targeted at attaining these fiscal objectives.

#### *Budget Deficit Containment*

91. Government has henceforth embarked on a policy stance to gradually reduce the Budget deficit to single digit level, hence, targeting 5% of GDP for 2019 and 4.1% in 2020, and to 3% in 2021.

#### *Treasury Bill Issuance Framework*

92. The continued issuance of Government securities has resulted in the flooding of Government securities into the market, posing risks to macro-economic stability as a result of money supply growth.
93. In order to manage maturities of the current stock of Treasury bills, Treasury is exploring options for restructuring the Treasury bills to longer tenure in consultations with market players.
94. Going forward, we are moving away from the practice of incurring extra budgetary expenditure on the back of Treasury bill issuances.

95. Treasury bill issuances will only be confined to the traditional role of mobilising resources to finance the budgeted financing gap, with such issuances triggered by a formal Note from the Accountant General.
96. Furthermore, Government has taken the position that there will be no further acquisitions of non-performing loans by Zimbabwe Asset Management Company (ZAMCO).
97. The PFM Act is, therefore, being amended to penalise any Treasury bill issuances outside this framework.

#### *Treasury Bill Auction System*

98. Consistent with the Transitional Stabilisation Programme, Government will move away from the private placement to the auction based system of issuing Treasury bills and bonds in order to improve transparency, better price discovery, enhance confidence and allow market determined interest rates, thereby building up the yield curve.
99. Government will also revive the issuance of bonds, through the development of a secondary bond market with effect from 2019, as well as explore the possibility of listing such bonds on the stock market.

### *Overdraft with the Central Bank*

100. All Reserve Bank quasi fiscal activities, which have ended up imposing extra budgetary commitments, hence worsening the financing gap, are being discontinued.
101. Public expenditures will have to be confined to the Budgetary framework.
102. Accordingly, Government is reducing recourse to Central Bank lending from the 20% of previous year's revenues statutory limit, to a maximum of 5% confined for purposes of smoothing cash flow mismatches.
103. The above is in conformity with good economic management and governance.

### ***Expenditure Containment***

104. The 2019 Budget, consistent with the Transitional Stabilisation Programme, places emphasis on living within our means by instilling fiscal discipline and rationalising expenditures in order to create additional financial capacity for funding developmental expenditures and enhancing delivery of public services.

105. Accordingly, the following package of wage and non-wage expenditure rationalisation measures are now being implemented.

### *Salary Cut*

106. Mr Speaker Sir, it is critical that we reduce public spending on employment costs. As a first step, Government has decided that effective 1 January 2019, a 5% cut on basic salary, be effected for all senior positions from Principal Directors, Permanent Secretaries and their equivalents up to Deputy Ministers, Ministers and the Presidium.

107. This is also extended to basic salaries of those in designated posts in State Owned Enterprises (CEOs, Executive Directors and equivalent grades), including Constitutional Commissions and grant aided institutions.

108. A standardisation/alignment exercise in remuneration including benefits for Constitutional Commissions, will also be undertaken to remove inequity and disparities.

### *13th Cheque*

109. With regard to the 13th Cheque payment, Government recognises that this is an integral component of the Remuneration Framework.

110. Government appreciates the hard work its employees render in their various portfolios and services. For 2018 in particular, we close the year at a time when employees face a number of hardships.
111. Accordingly, Government has taken the position that bonus be payable for 2018, with commitment that these payments be processed before year end.
112. Traditionally, payment of the 13th Cheque is computed as the sum of Basic Salary, Housing and Transport allowances. Previously, the Budget incurred expenditure of around **US\$174.6 million** in bonus payment.
113. In light of the resolve to ensure that expenditure commitments do not further worsen challenges associated with deficit financing that have placed us in the prevailing difficult situation that we find ourselves in, the 13th Cheque is, henceforth, computed based on Basic Salary only (excluding housing and transport allowances).

*Rationalisation of Foreign Service Missions*

114. Currently, Zimbabwe has diplomatic presence at 46 Embassies and Consulates, staffed by around 581 home based and locally recruited staff.

115. The above diplomatic presence is currently imposing annual budgetary support levels of around **US\$65 million**, which is above available 2018 Budget capacity of **US\$50 million**.
116. Government has resolved to reduce the number of Foreign Missions, thereby optimising the utility value realised from the remaining missions as well as avoiding accumulation of arrears and embarrassing evictions of our diplomats.

*Retirement of Youth Officers*

117. At its 38th Meeting of 5 December 2017, Cabinet re-affirmed its decision to terminate employment contracts of 3 188 Youth Officers as previously resolved.
118. Drawing from the above Cabinet Resolutions and guidance of the Public Service Commission, Treasury proceeded to mobilise in the first instance, **US\$5.2 million** in December 2017 towards three months' Cash In-Lieu of Retirement Notices and in the second instance, **US\$17.7 million** on 16 February 2018 towards the officers' Pension benefits.
119. Mr Speaker Sir, the **2 917** Youth Officers who still remain on the payroll, are being retired and the posts removed from the establishment, by end of December 2018.

### *Public Service Retirements*

120. The 2019 National Budget is further operationalising the policy stance of retiring Government officials above the age of 65.
121. Mr Speaker Sir, the responsible departments are being directed to process and finalise all due retirements.

### *Payroll and Pension Administration*

122. Cabinet at its 38th Meeting of 5 December 2017, approved that the administration of the Public Service Payroll and Pension becomes a Treasury responsibility, with effect from 1 January 2018.
123. Mr Speaker Sir, Section 6 of the Public Finance Management Act confers the Paymaster General function on Treasury, whilst Section 203 of the Constitution of Zimbabwe and Section 8 of the Public Service Act, confer the role of the Paymaster on the Public Service Commission.
124. Government is reviewing the above position in order to come up with an arrangement that facilitates fiscal consolidation, given that employment costs account for the largest non-discretionary expenditures.

*Biometric Register for Civil Servants in 2019*

125. Mr Speaker, Sir, previous Civil Service Audits undertaken by Government in 2011 and 2015, respectively, point to possible existence of ghost workers in the service, who are contributing to the burgeoning public service wage bill which accounts for over 90% of total revenues.
126. Clearly, this goes against the thrust of re-orienting Budget expenditures towards growth enhancing and poverty reducing developmental programmes and projects through rationalisation of the Public Service Wage Bill.
127. Mr Speaker Sir, to weed out these ghost workers, I propose to introduce a biometric registration of all civil servants, with effect from 1 January 2019.
128. The registration process will be rigorous and will involve capturing data on Letter of Appointment, Academic and Professional Qualifications, National Identification Documents, Employment Code Numbers, and Biometric Data.
129. Biometric data will involve capturing of one's unique physical attributes such as fingerprints, DNA, iris and retina pattern, using ICT.

130. The above system will ensure that every person being paid by Government for services rendered is properly accounted for.

*Management of the Government Vehicle Fleet*

131. Government is improving the management system of the Government fleet as another avenue for improving efficiency and making savings.

132. Mr. Speaker Sir, some Public Officers tend to use Government operational or pool vehicles after working hours, during weekends and on public holidays, which practice contributes to unsustainable build-up of outstanding payment arrears to service providers related to maintenance and fuel bills.

133. Against this background, an austerity measure that leads to all Government pool/project vehicles being parked at the work stations or the nearest police station after designated working hours, during weekends and public holidays becomes inescapable.

134. Similarly, all Government pool vehicles will be transferred and centrally managed through CMED Pvt Ltd. Entities with capacity to maintain their fleet will be excluded from this directive.

### *Condition of Service Vehicles*

135. With regards to replacement of vehicles, adherence to the measures enunciated in the Transition Stabilisation Programme will be enforced.
136. This framework will be cascaded to other categories of the Public Service such as Independent Commissions, Parliament, Judiciary and State entities.

### *Utility Bills*

137. Line Ministries are now expected to institute further demand management measures for reducing utility bills by adopting cost effective delivery platforms which are ICT based.
138. Heads of Ministries are better placed to identify most practical and effective cost containment measures under their portfolios.
139. In support of expenditure containment measures, the Budget is also introducing measures on improving expenditure controls, fiscal transparency, and reporting.

### ***Revenue Retention Policy***

140. Mr Speaker Sir, Section 302 of the Constitution provides that all fees, taxes, borrowings and other revenues of Government,

whatever their source, should be remitted into the *Consolidated Revenue Fund*.

141. Whereas Retention Funds have contributed significantly towards complementing Budget resources, the accountability arrangements have exhibited fundamental weaknesses which undermine efficient utilisation of public resources.
142. In order to uphold the principle of transparency and accountability in the utilisation of public resources, Government Ministries and Departments will be required to remit all revenue collected into the *Consolidated Revenue Fund*, with immediate effect.
143. Outstanding balances should, thus, be deposited into the *Consolidated Revenue Fund* by 23 November 2018.
144. Treasury will, however, ring-fence such revenues in line with the current approved retention levels. Disbursement will, thus, be through the Public Funds Management System.
145. Government will also undertake a comprehensive review of retention levels, with a view to remove or reduce revenue retentions which are no longer in line with current policy priorities.

### ***Penalties under the Public Finance Management Act***

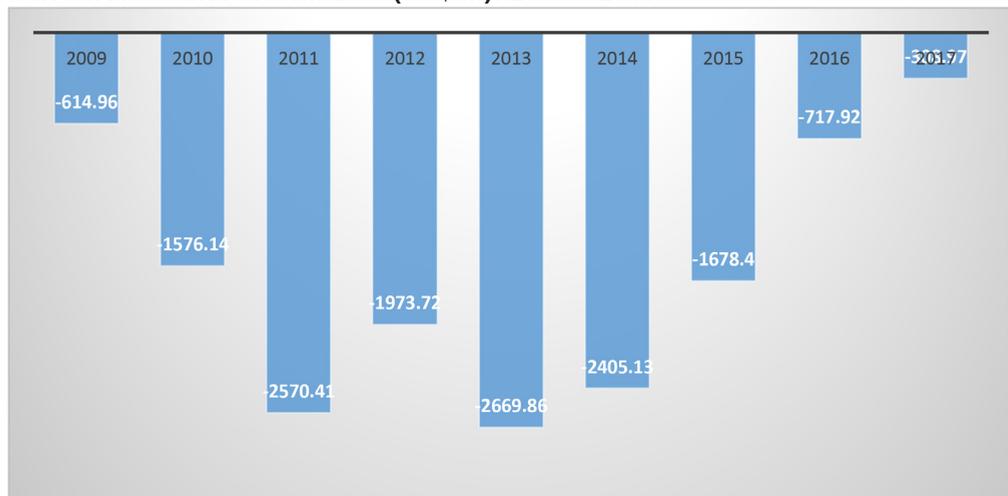
146. Mr. Speaker Sir, in the context of amending the Public Finance Management Act, Treasury will propose measures that enhance the enforcement of approved penalties for cases of non-compliance with requirements of the Act, to achieve improved accountability in the management of public resources.

### ***Current Account Deficit***

147. The 2019 Budget also needs to address the “twin deficit” by implementing measures which contain the persistent and unsustainable current account deficit.

148. The graph below depicts the persistent of the current account deficit, meaning that more foreign currency flows out of the country than receipts.

**Current Account Performance (US\$ m): 2009 – 2017**



149. Our exports are largely uncompetitive due to cost and inefficient production. In addition, our reliance on primary commodity exports means less value compared to high value processed goods.
150. The import bill has been dominated by a wide range of imports, some of which are not critical or strategic.
151. Going forward, measures to address the current account deficit include the following:
- Supporting export oriented production e.g. horticulture;
  - Strategically manage available foreign currency by prioritising import substitution production e.g. retooling and raw materials;
  - Decisive action on revival of ZISCO Steel and Cold Storage Commission, local drug manufacturing etc. to boost exports while limiting on import demand;
  - Value addition and beneficiation in mining and agriculture;
  - Review import duty dispensation for some of the projects and programmes, e.g. National Project Status.

### **Monetary Policy Supportive Measures**

152. Addressing the current macro-economic vulnerabilities requires well-coordinated fiscal and monetary policies that reinforce each other in the quest for macro-economic stabilisation.

153. Accordingly, Treasury and the Central Bank will have to work more closely to ensure that this policy reinforcement is achieved.
154. It is critical that monetary policy promotes sustainable money supply growth, in line with desired inflation levels. Instruments, such as savings bonds, which are already being utilised for mopping up excess liquidity will be appropriate for this purpose.
155. In this regard, the operationalisation of the Monetary Policy Committee remains urgent and needs to be implemented by the first quarter of 2019.

#### *Multi-Currency System*

156. Mr. Speaker Sir, the multi-currency system remains in place, with the US dollar being the currency of reference, out of the currency basket.
157. Government is mindful of the need for preservation of value, hence, the move taken to decisively implement measures, focusing on addressing the budget deficit, money supply growth, current account deficit and inflationary pressures.
158. It is important to note that, apart from prudent fiscal and monetary policy measures, disciplined market conduct by all economic agents is also key in preservation of value.

### *Foreign Currency Allocation*

159. Going forward, there will be gradual movement towards a more efficient and optimal foreign currency allocation system. Indeed, this Budget is consolidating the value preservation roadmap through macro-fiscal consolidation measures.
160. In the interim, steps are being taken to establish a Foreign Currency Allocation Committee to promote efficient management of our foreign currency inflows.

### *Building Reserves*

161. Mr Speaker Sir, the stability we have set to achieve over the immediate future will require that we build adequate foreign currency reserves, including gold reserves, that way providing anchor for preservation of exchange value.

### *Sovereign Wealth Fund*

162. In addition, the 2019 Budget will also dedicate resources towards operationalising the Sovereign Wealth Fund, which is an instrument for building reserves for the country.

## **Investment for Jobs and Inclusive Growth**

163. Mr. Speaker Sir, investment is equally a key driver in the transformation and development of our country. Therefore, we desire to raise the levels of investment.
164. Mr. Speaker Sir, investment is critical not only for production of goods and services and infrastructure development, but also as a conduit for jobs creation, as well as skills and technological transfer.
165. Further to our mantra, “Zimbabwe is Open for Business”, the measures we have kept sharpening for attracting, promoting and nurturing both local and foreign investment, are proving effective, as demonstrated by the value of projects negotiated standing at more than **US\$15 billion**.

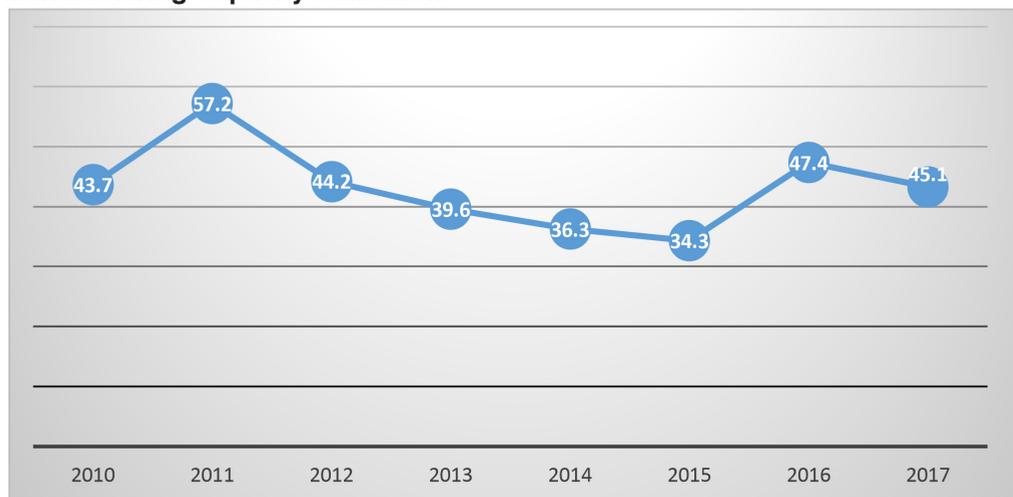
### ***Tax for Jobs***

166. Government has opened up consultations with the private sector, with a view of identifying strategies for promoting job creation in the economy.
167. For its part, Treasury stands ready to put in place a taxation regime targeting job creation, especially incentivising investors, corporates and entrepreneurs.

## ***Manufacturing***

168. The Manufacturing sector is a major source for job creation and foreign currency earnings. It also provides scope for diversification, that way cushioning the economy from various market risks.

### **Manufacturing Capacity Utilisation**



*Source: Confederation of Zimbabwe Industries*

169. Mr. Speaker Sir, while industrial capacity utilisation has averaged around 40%, the 2019 Budget proposes implementation of measures to address the challenges faced by the manufacturing sector, and help raise capacity utilisation further.
170. It is imperative that we revive, transform, and grow the existing industry, that way, pushing up productive capacity utilisation.

171. Specific measures proposed through the Transitional Stabilisation Programme and this Budget are as follows:

- Negotiation for affordable medium and long-term lines of credit;
- Promoting and strengthening value chains and linkages;
- Export promotion;
- Level playing field through removing distortions and promotion of competitiveness; and
- Establishment of a Venture Fund for retooling industry.

172. Critically, this Budget lays the foundation for the resuscitation of our local industry, including ZISCO STEEL, and the Cold Storage Company (CSC), largely through the much needed fiscal incentives and policy prescription.

173. Mr. Speaker Sir, I propose an allocation of **US\$47.6 million** for the 2019 financial year for the Ministry of Industry and Commerce.

### ***Small, Medium Enterprises (SMEs)***

174. In addition to macroeconomic consolidation, the TSP gives emphasis to investment and support to the SMEs sector, which absorbs a growing number of our people as entrepreneurs and workers. Investment includes infrastructure for use by SMEs.

175. This Budget seeks to contribute towards the establishment of Venture Funds, targeting the game changing SMEs sectors. The Venture Funds will augment the role of the Empower bank and Women's bank.
176. Mr. Speaker Sir, inclusive growth presupposes support towards establishment of companies and viable income generating projects, not only in cities and towns, but in our Districts and Growth Points.

#### *Gender Mainstreaming*

177. The 2019 Budget will prioritise integration of gender across all sectors of the economy critical for achieving equitable, sustainable and inclusive social economic development.
178. This is in line with Government's commitment under the Gender Responsive Budgeting Strategy and the National Gender Policy.
179. Line Ministries are required to ensure that all developmental progress under their purview and the ecosystems thereof give equal opportunity to women as well as youths.
180. I, therefore, propose to allocate **US\$381 million** for the Ministry of Women Affairs, Community, Small and Medium Enterprises Development for the 2019 financial year.

### ***Youth, Sport, Arts & Recreation***

181. Inclusivity is further going to be enhanced through refocusing ourselves to the area of sports, arts and recreation, which is a strong tool for supporting our citizens whether youths, women and the elderly.
182. Sport also benefits the country through the health dividend, as well as employment creation.

### ***Youths Empowerment***

183. Youth empowerment initiatives are being prioritised under the Transitional Stabilisation Programme, in recognition that young people must be an integral part of the mainstream economy.
184. As such, the 2019 Budget will support various youth empowerment interventions aimed at unlocking entrepreneurial value of youths as a strategy for employment creation and income generation.
185. Of critical importance is the recognition that the emerging digital economy which cannot be ignored is a key sector for youth empowerment.

186. Accordingly, the 2019 Budget proposes an allocation of **US\$53.5 million** for the Ministry of Youth, Sport, Arts and Recreation, prioritising infrastructure development, National teams, and operations of institutions under the Ministry.

### ***Ease of Doing Business***

187. Mr. Speaker Sir, the 2019 Budget proposes speeding up of ease of doing business reforms, including the long awaited operationalisation of the Zimbabwe Investment and Development Agency, ZIDA.

188. I particularly urge line ministries and local authorities to take decisive measures to achieve ease of doing business in their respective areas.

189. I believe the respective Parliamentary Portfolio Committees also need to play their oversight role in order to ensure that, as a Nation, we do not pay lip service to the ease of doing business, as we are in competition for investment with other investment destinations.

190. Mr. Speaker Sir, I want to put on record that Government stands ready to explore opportunities and measures for facilitating entrepreneurship as it is through entrepreneurship that we

can realise our goal of increasing production as well as job creation, buttressing a private sector led economy.

### ***Public Enterprise Reforms***

191. Government is going ahead to implement the long delayed parastatal reforms as these institutions ought to play a key role in transforming the economy, among the several drivers we need to embrace.
192. Mr. Speaker Sir, following consultations, I place it on record that we are forging ahead with rolling out our parastatal reforms on a roll out template which categorises the entities under the following:
- State Owned Enterprises to be partially privatised through JVs and/or listing;
  - State Owned Enterprises to be fully privatised; and
  - State Owned Enterprises facing liquidation.

## Parastatal Reform Roll Out

CATEGORY/ENTITY		TIMEFRAME in Months
<b>Parastatals to be Partially Privatised through JVs and/or Listing</b>		
1	Tel-One, Net-One and Telecel	12
2	Petrotrade	24
3	ZIMPOST	12
4	POSB	12
5	17 ZMDC Subsidiary Mines: Jena, Sabi, Elvington, Golden Kopje, Alaska Mine, Mhangura, Sanyati, Kamativi, Lutope, Kapata, Sandawana, Lynx, Mumburume, Shabanie, Gaths Mine, Mbungu and Gwayi	18
6	Infrastructure Development Bank of Zimbabwe (IDBZ)	12
7	Road Motor Services (RMS)	24
<b>State Owned Enterprises to be Privatised</b>		
1	Allied Insurance	18
2	Surface Investment	18
3	Zimbabwe Grain Bag	18
4	Ginhole Investments	18
5	Willowvale Mazda Motor Industry	18
6	Chemplex Corporation	18
7	Deven Engineering	18
8	G & W Minerals	18
<b>State owned enterprises facing liquidation</b>		
1	Chitungwiza Garment Factory	12
2	National Glass Industries	12
3	Motira	12
4	Zimglass	12
5	Kingstons (Pvt) Ltd	12

193. The 2019 Budget proposes the privatisation of at least 5 public enterprises, namely Tel-One/Net-One/Telecel, ZIMPOST and POSB.
194. The 2019 Budget assumes proceeds of at least **US\$350 million** being raised from privatisation.
195. Mr Speaker Sir, Government will, however, refrain from taking over all or part of the debts that these entities have accrued, as not all debt is risky to potential investors.

## ***Agriculture & Food Security***

196. Mr. Speaker Sir, development and transformation of the country is, to a larger extent dependent on our capacity and ability to produce and attain food security.
197. Furthermore, agriculture is a critical sector which sustains the rest of industry and contributes significantly to livelihoods, employment and export earnings for the country.
198. Therefore, the 2019 Budget prioritises support through facilitation of partnership with financial institutions in credit financing to our farmers under government schemes and contract farming as well as support to vulnerable households.
199. Furthermore, the Budget supports irrigation development, mechanisation and subsidy arrangements in grain marketing.
200. The other specific measures are as follows:
- Roll out the revised 99 Year lease to facilitate private sector financing to the rest of the farmers;
  - Adopt measures that address low productivity in agriculture, including addressing land utilisation;
  - Dealing with price distortions by benchmarking to import parity;

- Finalise setting up of a Commodities Exchange, hence opening up space to private sector players, thus shifting the burden from fiscus;
- Implement a robust loan recovery system to promote roll over of financing;
- Restructure the Grain Marketing Board and separate accounts between Strategic Grain Reserve and commercial activities, while safeguarding food security and price stability;
- Observance of the rule of law, property rights and BIPPAs;
- Promoting out grower schemes by the private sector; and
- “Crowding in” financial institutions.

201. Mr Speaker Sir, I propose an allocation of **US\$989.3 million** to the Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement.

*Compensation of Former White Farm Owners*

202. Government is committed to finalising the issue of compensation to former white farm owners who were affected by the Land Reform Programme, in accordance with the country’s law and commitments under the various bilateral agreements and the Constitution.

203. Government has put in place structures to determine the extent of Government's obligations. This work is on-going and will be finalised in the next few months.
204. Cognisance is being given to the fact that the resources required to compensate and put closure to this important issue, are obviously beyond the capacity of the fiscus.
205. In this regard, various mobilisation strategies and finance mechanisms are being explored in consultation with all stakeholders.
206. In the interim, the 2019 Budget proposes to avail **US\$53 million** towards payment of compensation to former white farm owners, whose disbursement will be targeted.

### **Infrastructure Development**

207. A key driver for economic transformation is infrastructure development. Accordingly, it is critical that more resources are re-oriented towards infrastructure development programmes.
208. Mr Speaker Sir, to put it in Margaret Thatcher, former British Prime Minister's words, "*you and I come by road or rail, but economists travel on infrastructure*".

209. Therefore, the 2019 Budget seeks to address infrastructure gaps and give support to key enablers for transformation which are critical for reducing cost of doing business and supportive of industry and commerce.
210. The target is to allocate 12.6% of the total budget to infrastructure development programmes (excluding agriculture), up from 10.2% of the previous year's Budget.
211. Drawing from the Transitional Stabilisation Programme, the following projects will be accorded high priority, with their execution being tracked by Cabinet under the 100 Day Programme cycle.
- Dualisation and upgrading of Harare-Beitbridge road - "A road is an economy";
  - Expansion of Hwange 7 & 8;
  - Expansion of Robert Gabriel Mugabe International Airport;
  - Upgrading and Modernisation of Beitbridge Boarder Post;
  - Kunzvi Dam & Conveyancing Infrastructure;
  - Gwayi Shangani Dam and Conveyancing Infrastructure;
  - and
  - Lupane Provincial Hospital.

212. Mr. Speaker Sir, I propose to allocate the following resources under the 2019 Budget to the respective infrastructure Ministries of:

- Energy and Power Development, **US\$16 million**,
- Transport and Infrastructural Development, **US\$399 million**; and
- Information Communication Technology and Cyber Security, **US\$17.9 million**.

213. Focus is also being given to addressing existing and emerging infrastructure gaps, which have put the lives of the public at risk, particularly in the areas of water & sanitation (**US\$214.5 million**) and road network rehabilitation (**US\$396.3 million**).

214. Government will employ a deliberate thrust to leverage and crowd in private sector participation in the financing and implementation of projects.

215. Government has adopted PPP models for infrastructure development and other turnaround strategies for tertiary institutions into self-sustaining centres of excellence, with potential to “export” education.

216. Key initiatives include the following:

- Setting up industrial parks;
- Establishment of innovation hubs and spin off industries;
- Incubation of science and technology based industries; and
- Promote research and development for modernisation and industrialisation.

**217. Mr Speaker Sir, Treasury has prepared the 2019 Infrastructure Investment Plan as part of the 2019 Budget documents package.**

### **Devolution**

218. The 2019 National Budget seeks to operationalise support to Provinces on the basis of Section 264 of the Constitution pertaining to provision of 5% of Government revenues to Provincial Councils.

219. An estimated **US\$310 million** in fiscal transfers is earmarked for support to Provincial Councils for 2019.

220. As spelt out in the Transitional Stabilisation Programme, decentralisation is a key strategy for fair and just governance.

221. All provinces should be able to plan and implement their economic growth and development using their factor endowments, with Central Government contributing through the 5% allocation annually.

222. For the 2019 Financial Year, and in order to distribute the amount among Provinces, an interim formula will be used, which is simplistic and objective comprising the following components:-
- Population profile;
  - Poverty profile; and
  - Infrastructure quality and deficit.
223. To operationalise Devolution, Government has already approved the Principles of the Provincial Councils and Administration Amendment Bill, which spells out the mechanisms of decentralisation and devolution.
224. Actual allocations for 2019 will require Cabinet approval at the beginning of the financial year, ensuring that the allocations target addressing pockets of marginalisation in Provinces and Districts.
225. Mr. Speaker Sir, Government is cognisant of the urgent need to develop urban infrastructure, especially water & sanitation and roads.
226. Therefore, Government will facilitate stronger partnership among relevant departments, respective local authorities and

development partners in addressing infrastructure deficiency in urban areas.

227. Treasury, is also embarking on a programme to enhance financial and accounting capacity of local authorities and the Provincial Councils, to ensure transparency and accountability in the management of the public resources.
228. The Devolution strategy also embraces initiatives to facilitate establishment of companies in various districts, in line with the thrust to enhance production in respective provinces, with the long established Growth Points being epicentres of this developmental thrust.
229. As per the undertaking in the Transitional Stabilisation Programme, ZIMSTAT will be seized with production of socio economic statistics that will underpin assessment of the various Provinces' and Local Authorities' contribution to the overall GDP, including spatial GDP figures.
230. Mr Speaker Sir, I propose to allocate **US\$179.9 million** to the Ministry of Local Government, Public Works and National Housing.

231. This allocation is over and above the **US\$310 million** targeted under the fiscal transfer to Provincial Councils and Local Authorities, I indicated earlier.

## **Human Capital Development**

232. Mr Speaker Sir, human capital development is at the centre of economic transformation. Rapid technical change, globalisation and economic liberalisation in recent years requires us to prioritise skills development on health care, as a key strategy for economic competitiveness and growth.

233. The focus should, therefore, extend beyond education career prospects to skills development, that way tackling inequality and promoting social mobility and growth.

### ***Education***

234. Mr Speaker Sir, education provision remains key in driving the economy's future.

235. The Education Sector Strategy Plan (2016-2020), which is in support of SDG goal 4 and the aspiration of the Paris Declaration on Education, which targets allocation of 20% of the National Budget, inform the 2019 Budget proposed allocation of **US\$1.51 billion** broken down as follows:

- Ministry of Primary and Secondary Education, **US\$1.132 billion**; and
- Ministry of Higher and Tertiary Education, Science and Technology Development, **US\$380.8 million**.

236. The priority areas under higher and tertiary education include the following:

- Provision for construction of student accommodation and faculty blocks at Marondera, Manicaland and Gwanda State Universities;
- Embracing joint venture initiatives for provision of decent accommodation at other institutions of higher learning;
- Support towards disadvantaged students who are unable to access funding under the Student Loan Facility - ‘Edu Loan’;
- Provision for construction and equipping of laboratories at Masvingo and Mkoba Teachers Colleges, as well as Joshua Mqabuko Nkomo Polytechnic College;
- Support towards research and development; and
- Provision for addressing Cadetship Programme arrears.

237. Government will support the Ministry of Primary and Secondary education in raising additional sources from third parties for infrastructure development.

### ***Health Care***

238. With regards to health care, the goal is to ensure that the four levels of care (primary, secondary, tertiary, and quaternary), are supported with respect to infrastructure, equipment and health supplies.
239. Focus will also be on ensuring that the referral system is re-established in order to reduce bottlenecks being experienced at tertiary and central hospitals.
240. Support to the health sector will be complemented by the other interventions Government is making in roads, water and sanitation provision and food security, among others, which have a bearing on the health status of citizens.
241. In general, Government is desirous to see the development of a medical tourism industry in the country.
242. Mr Speaker Sir, I propose an overall allocation of **US\$694.5 million** to the Ministry of Health and Child Care.

### ***Demographic Dividend***

243. Economic transformation the world over, now strategically puts ahead programmes geared towards embracing the youths in

order to harness the demographic dividend arising from the educated, trained and qualified youth.

244. This is also getting credence from the upper hand, now associated with the digital economy, anchored by the ICTs. We draw pride and hope on the massive growth potential to be attained through the demographic dividend and digital economy.
245. Mr Speaker Sir, in essence, the vision 2030 aspiration stands to benefit more our youths of today.

### ***Social Protection***

246. Mr. Speaker Sir, our reform programme necessitate that we give attention to social safety nets for vulnerable members of our society who end up being negatively affected as a result of implementation of austerity measures and other risks that they may encounter.
247. The 2019 Budget gives cognisance to the need for Government to render redistributive justice by availing support to members of society deemed to be in need or deserving, consistent with John Rawls, a Political Philosopher's book titled, 'Theory of Justice', in particular the quote, "*the expectations of those with same abilities and aspirations should not be affected by their social class*".

248. Furthermore, I propose to allocate **US\$81.2 million** for the Ministry of Public Service, Labour and Social Services, inclusive of **US\$65.2 million** towards provision of social safety nets.

## **Natural Resource Management**

249. In order to attain economic transformation, it is critical that we manage the exploitation of the country's mineral and natural resources in a sustainable and beneficial manner.

250. Responsible ministries are expected to play guardian and oversight role to ensure that the country derives maximum benefit without compromising availability of the resources to future generations.

251. Mr. Speaker Sir, the 2019 Budget proposes to prioritise allocation of resources, as well as implementation of appropriate measures under the respective sectors of mining, wild life management, tourism, as follows:

### ***Mining***

252. For improved performance of the mining sector, the Transitional Stabilisation Programme and this Budget propose the following deliberate policies across the sector:

- Review surrender requirements to ensure continued production across all key minerals;
- Dealing with mining claims that are held for speculative purposes;
- Facilitating and incentivising exploration;
- Automated Mining Cadastre Information System;
- Resuscitate closed and opening of new mines with potential;
- Action and roll out plan for 22 assets under ZMDC;
- Efficient and competitive mining tax regime;
- Development of Artisanal and Small-Scale Miners;
- Expedite transparent marketing of diamond stock pile under the Zimbabwe Consolidated Diamond Company (ZCDC); and
- Plugging leakages in the marketing of gold, including implementation of a robust monitoring framework.

### *Value Addition and Beneficiation*

253. The thrust is to add value and beneficiate more through processing and refining of minerals and link processed and refined minerals to the manufacturing sector in order to industrialise.

254. In this regard, Government is finalising the Mineral Value Addition and Beneficiation Policy to improve domestic smelting

and refining, to take advantage of the immediate scope for income and exports generation offered by minerals such as platinum, chrome, lithium, nickel, diamond, copper, gold and coal.

### *Surrender Requirements*

255. Mr Speaker Sir, the Reserve Bank has responded to the foreign currency supply challenges that had hard hit mining operations by reviewing downward the foreign currency surrender requirements thresholds for large scale gold miners to 45%, from the 70% which will see the miners retaining 55% of forex earned.
256. Government will continue to monitor developments in the sector.

### *Mining Cadastre Information System*

257. Mr. Speaker Sir, under the 2018 Budget, an allocation of **US\$1.7 million** was made towards the automation the Mining Cadastre Information System in order to ensure implementation of this.
258. The requisite foreign currency required will be prioritised.

### *Resuscitation of Closed Mines*

259. Mr Speaker Sir, in 2019, it will be critical that closed mines such as Shabanie, Mashaba Mines (SMM), Elvington Gold Mine, Chegutu, Jena Gold Mine and other ZMDC mines are targeted for reopening.
260. The resuscitation programme will involve own resources for some of the entities, while for others joint venture partnership arrangements will be pursued.

### *Mining Transparency*

261. In order to move along with international best practices on achieving transparency in management of natural resources, Government would want to be a member of the Extractive Industries Transparency Initiative (EITI) as soon as possible.
262. Membership is critical in order for the country to benefit from strengthened public and corporate governance, promote understanding of natural resource management, and provide the data that guide reforms for greater transparency and accountability in the extractives sector.
263. Mr. Speaker Sir, it is critical that we move along with other countries in this agenda, and hence I propose to allocate

**US\$15.4 million** to the Ministry of Mines and Mining Development.

## **Environment and Tourism**

### ***Environment***

264. The thrust with regard to environmental management is to deal with, rampant deforestation, with an estimated loss of 100 000 – 320 000 hectares of forests per year, solid waste management confronting urban authorities throughout the country, destruction of wetlands and many other risks to our environment.
265. The Budget, therefore, continues to capacitate local authorities and the Environmental Management Agency (EMA) to manage pollution, waste and deforestation.
266. Mr Speaker Sir, the Forestry Commission will now de-centralise issuance of tree cutting permits, while EMA will work closely with traditional leaders to enforce the proper management of forests and pasture lands countrywide.
267. With regards to proceeds from the Tobacco Levy, the decision is that this be shared equally between the TIMB and the Forestry Commission, with effect from 1 January 2019.

268. These are to be re-invested in afforestation programmes in the tobacco growing areas.
269. Government will also revitalise the Environment Fund which can be used to contain water pollution and solid waste management. To avert outbreaks like cholera and typhoid in the future the Environment Fund will act as an early warning signal and assist local authorities and communities in disaster management.

*Small Scale and Artisanal Miners Activities*

270. Unsustainable mining methods that are used by small scale and artisanal miners also cause damage to public infrastructure and in some cases violates rights of other land holders such as farmers.
271. Without criminalising the small scale and artisanal miners, the 2019 Budget seeks to embrace interventions to reduce environmental, social and health impact that arise from artisanal and small scale mining operations.
272. As such, the Mining Loan Fund, as a key funding tool to primary and small scale producers, will embrace a component for a better and sustainable mining methods.

273. In addition, Government is engaging Fidelity Printers and Refiners to come up with a mechanism that compels recipients of other loans to rehabilitate the environment.

### ***Tourism***

274. As the country transforms into an upper middle income economy as espoused in Vision 2030, the contribution of service sectors to GDP will increase more than the traditional sectors, in line with global trends.

275. According to a report by the World Travel and Tourism Council (WTTC), Travel and Tourism Economic Impact 2018, the sector accounted for 10.4% of global GDP and 313 million jobs, or 9.9% of total employment in 2017.

276. Some of the measures relevant for improved performance of the sector include the following:

- Review of the current fiscal incentive framework to derive maximum benefit from the sector;
- Prioritise payment plan towards obligations to the International Air Transport Association (IATA);
- Conclusion of the Tourism Satellite Account in order to accurately account for tourism's contribution to GDP;

- Improve air connectivity to all tourist destinations around the country;
  - Removal of Visa requirements on key source markets;
  - Enhanced destination branding and marketing; and
  - Setting up of a Tourism Revolving Fund.
277. In this regard, I propose to allocate **US\$38.1 million** to the Ministry of Environment, Tourism and Hospitality Industry.

### **Wildlife Management**

278. Poaching and loss of habitat remain the greatest threat to the country's wildlife resources. Government is, therefore, strengthening institutions related to the wildlife industry such as Zim Parks, to deal with rogue operators who continue to bring the industry into disrepute internationally.
279. Individual farmers with low capacity for cropping especially in the southern regions can engage in wildfire ranching. These farmers will be assisted by Government to form joint ventures with private sector on wildlife projects.

### **Institutions and Governance**

280. Mr Speaker Sir, Government is committed to promoting good governance based on the rule of law and respect for human rights, as well as accountability and transparency.

281. Upholding good governance and democracy, as enshrined in our Constitution will facilitate our transformation to the desired Upper Middle Income status.
282. We need to agree that, the largely peaceful conduct of the 30 July Harmonised Elections sowed a good seed for deepening our democracy.
283. Accordingly, the alignment of the Public Order and Security Act and the Access to Information and Protection of Privacy Act to the Constitution, is work in progress, with responsible the Ministry currently seized with the matter for deliberation through due process.
284. Mr Speaker Sir, I propose to allocate **US\$294.7 million** in support of the Office of the President and Cabinet.
285. I also propose to allocate **US\$155 million** for the Ministry of Justice, Legal and Parliamentary Affairs.
286. Mr Speaker Sir, for the seven Constitutional Commissions, namely, Human Rights, Judiciary Service, National Peace and Reconciliation, Anti-Corruption, Electoral, Gender, Land and Media, the proposed allocation amounts to **US\$38.5 million**.

287. I am also proposing to allocate resources to cater for the Judiciary Service Commission (**US\$27.6 million**), Public Service Commission (**US\$279.3 million**), as well as the National Prosecuting Authority (**US\$8.1 million**).
288. For the Ministry of Information, Publicity and Broadcasting Services, I propose to allocate **US\$17.9 million**.
289. Furthermore, I propose to allocate **US\$330.5 million** to the Ministry of Finance and Economic Development, of which **US\$70.5 million** is committed under the Unallocated Reserve.

### **Globalisation and Foreign Relations**

290. Mr. Speaker Sir, Government has consistently proclaimed its resolve to re-engage and integrate into the global village, hence, the interest to re-engage.
291. This is out of the realisation that through international isolation, we have lost immensely as a Nation, particularly through deprivation of access to international capital markets, technology, trade, among others, resulting in low economic growth.
292. In order to catch up globally, we have as His Excellency the President, has repeatedly advocated to leap frog and double

our efforts towards reapprochement and re-engagement through normalising the country's relations with all countries, including the West.

293. We look forward to rejoining the Commonwealth and we have initiated this process.
294. Most important is the ongoing re-orientation of our Diplomatic Missions towards economic and trade diplomacy. The Budget proposes rationalisation of some of the Missions in pursuit of this objective.

*Bilateral Investment Promotion and Protection Agreements (BIPPAs)*

295. Government remains committed to protecting investments that fall under Bilateral Investment Promotion and Protection Agreements (BIPPAs), as it forges ahead on protection of property rights.
296. Consequently, the two BIPPAs awaiting signature and twenty two BIPPAs under negotiation will go through both the approval and ratification processes in 2019.

### *Diaspora Engagement*

297. The diaspora present a significant opportunity for contributing to the development of the economy. This, however, requires a clear policy that serves interests of both diasporans and Government.
298. The Diaspora Policy is in its implementation phase and an implementation matrix is in place which states clearly the responsibilities of the different line Ministries and agencies in order to support the diaspora and tap into the opportunities they present.
299. Diaspora engagement programs are ongoing through scheduled external visits to ensure that the Diaspora's needs and expectations are known and embraced in the country's economic development agenda.
300. Therefore, I propose to allocate **US\$56.1 million** to the Ministry of Foreign Affairs and International Trade.

### **Peace and Security**

301. Of the key drivers for economic transformation in pursuit of our Vision 2030, peace and security take centre stage.

302. The economic challenges that have been with us over the past few years, have, without exaggeration, taken a toll on the state of our defence and law and order sectors.
303. Mr Speaker Sir, I propose that through the 2019 Budget, we extend support towards the Ministries of Defence & War Veterans Affairs and Home Affairs & Cultural Heritage in the following respects:
- Maintenance of existing equipment and facilities;
  - Training and development;
  - Re-equipment, refurbishment and upgrading of facilities;
  - Research and development;
  - Limited recruitment against natural attrition;
  - War Veterans welfare as per the relevant Act; and
  - Rations and medical supplies.
304. In light of this, Treasury, therefore, allocates **US\$546.9 million** for the Ministry of Defence and War Veterans.
305. Similarly, a total of **US\$517.8 million** is allocated for the Ministry of Home Affairs and Cultural Heritage.

## Voice and Accountability

306. The 2019 Budget prioritises voice and accountability as embodied in our Legislature as a strong driver for economic transformation for strong, sustained and shared growth.
307. In the course of implementation of reforms, Governments rely on oversight by its citizenry through their elected representatives.
308. It is on account of the foregoing that I propose to allocate **US\$89.1 million** under Parliament.
309. I believe this allocation will strengthen the activities of Parliament as an institution and the individual Honourable Members.
310. I particularly make provision for capitalising the Parliamentary Vehicle Loan Scheme under which all Members of Parliament will access loan financing vehicles to enhance their roles.
311. I further commit funding of **US\$3.8 million** under the 2019 Budget for enabling works for commencement of the construction of the new Parliament building which will be cited in Mount Hampden.
312. For the Audit Office, an allocation of **US\$6.9 million** is proposed.

## REVENUE MEASURES AND INCENTIVES

313. Mr. Speaker Sir, the revenue measures that I am proposing seek to consolidate gains realised by the productive sectors through extension of existing support facilities, increase productive capacity, exports and import substitution levels, provide relief to taxpayers, as well as enhance revenue through efficiency in tax administration.
314. The proposals further seek to institute demand management measures, with a view to redirect use of the scarce foreign currency to productive industries.

### **Support to Industry**

315. In order to consolidate the gains realised by local industry, Government will renew facilities that have expired, subject to set conditions and, in some cases, expand the list of inputs and beneficiaries of Rebate Facilities as follows

#### ***Clothing Manufactures Rebate***

##### *Large Scale Manufacturers*

316. Include additional fabrics that are not locally produced, under the *Clothing Manufacturers Rebate*, with effect from 1 January 2019.

### *Micro, Small and Medium Enterprises*

317. In line with the *Transitional Stabilisation Programme* thrust of supporting sustainable micro, small and medium enterprises growth and development, I propose to avail a *Ring-Fenced Manufacturer's Rebate Facility*, subject to meeting prescribed conditions, with effect from 1 January 2019.

### ***Dairy Industry***

318. Domestic production of raw milk remains lower than the requirements of the local dairy industry, hence I propose to increase the ring-fenced milk powder requirements for 2019, with effect from 1 January 2019.

### ***Baking Industry***

319. In order to reduce the cost of production, thereby minimising price escalation, particularly on bread, which is a basic household commodity, I propose to introduce duty free importation of raw materials under a *Manufacturers Rebate*, with effect from 1 January 2019.

## ***Agriculture Industry***

### *Customs Duty on Fertilized Eggs*

320. In order to mitigate against potential shortage of poultry products as a result of the Avian Influenza and restore viability of the industry, I propose to ring-fence duty free importation of fertilized eggs for the year 2019, with effect from 1 January 2019.

## ***Motor Industry***

321. In support of initiatives to improve the condition of cross border luxury buses, I propose to extend the ring-fenced suspension of duty on the outstanding quota of luxury buses by a further 1 year.
322. Furthermore, in order to ease the transport challenges, I propose to ring-fence importation of 100 public service buses of a sitting capacity of at least 60 passengers at a reduced customs duty rate of 5%.
323. These measures takes effect from 1 January 2019.

### ***Wine Manufacturing Industry***

324. In order to supplement supply of locally produced raw wine, I propose to increase the excise duty free ring-fenced import quota from 90 000 litres to 175 000 litres for a period of 12 months beginning 1 January 2019.

### ***Fertilizer Manufacturing Industry***

325. In order to enhance competitiveness of locally manufactured fertilizer, I propose to ring-fence duty free importation of raw materials, with effect from 1 January 2019, for a period of twelve months.

### ***Customs Duty on Ammonium Nitrate Fuel Oil Fertilizer***

326. I, further, propose to ring-fence importation of 10 000 tons of *Ammonium Nitrate Fuel Oil fertilizer* under suspension of duty for a period of twelve months beginning 1 January 2019, in order to reduce the cost of inputs into production.

### ***Furniture Manufacturers***

327. Mr. Speaker Sir, the *Furniture Manufacturers Rebate Facility* support has attracted investment from the region, hence, I propose to include additional beneficiaries under the Facility.

328. Furthermore, in view of the increase in the product range, I propose to include additional raw material, with effect from 1 January 2019.

### ***Pharmaceutical Manufacturers***

329. Mr. Speaker Sir, in recognition of the significance of the pharmaceutical manufacturing industry, Government has already provided for a rebate of duty facility on essential raw materials imported for manufacture by the industry.

330. The Facility has, thus, assisted in the promotion of linkages with the packaging, distribution and marketing industries, thereby boosting employment.

331. The industry is in the process of registering new products, hence, I propose to expand the list of essential raw materials for manufacture under rebate of duty, with effect from 1 January 2019.

332. Notwithstanding assistance availed to the industry, retail prices of pharmaceutical products, in particular, drugs for treatment of chronic ailments, have increased and are either quoted in United States Dollars, or four times the same amount, if payment is through electronic funds transfer or bond notes.

333. The unscrupulous profiteering at the expense of patients who cannot afford is inhumane, catastrophic and deprives citizens of basic human rights as enshrined in the Constitution.
334. Government will, thus, continue to prioritise allocation of foreign currency for purchase of raw materials, in order to ensure availability of critical drugs.
335. As a *quid pro quo*, pharmaceutical manufacturers shall be required to publish the *Maximum Recommended Retail Price* agreed among manufacturers, wholesalers and retailers.
336. Whilst this measure is intended to provide transparency in the pricing of essential drugs, it should, thus, not be misconstrued as price control.
337. Government will, however, provide an oversight role, in order to ensure that the above conditions are adhered to.

*Transparency and Accountability in Utilisation of Rebate Facilities*

338. Beneficiaries of the Rebate Facilities availed by Government will be required to present an annual report on the benefits achieved including but not limited to the following parameters:

- Incremental employment levels;
  - Capacity utilisation levels;
  - Value of new investment;
  - Growth in output; and,
  - Research and Development initiatives.
339. Failure to comply with the above will result in the immediate withdrawal of the Facility, and the rebated duty becomes due and payable.

### ***Tourism Industry***

#### *Suspension of Customs Duty on Specified Buses: Tour Operators*

340. In order to assist *Tour Operators* capitalise their fleets, I propose to extend suspension of duty on 75 new buses of a carrying capacity of 8 to 55 passengers, including the driver.
341. The *Facility* will be availed for a period of twelve months beginning 1 January 2019.

## Revenue Enhancing Measures

### *Excise Duty on Cigarettes*

342. The specific rate of excise duty does not relate to market developments, since the price of cigarettes has, in some cases, increased by about 30%.
343. I, therefore, propose to review excise duty on cigarettes to US\$25 per 1000 sticks, with effect from 1 December 2018.

### *Customs Duty on Motor Vehicles*

344. Honourable Members will be aware that Government has, over the years, implemented demand management measures with a view to redirect usage of the scarce foreign currency to productive industries. Such measures include adjustments to the customs duty regime and control of imported goods through the licensing system.
345. Despite some success, Government has, during the course of 2017 and 2018, witnessed a surge in the importation of non-productive goods, particularly motor vehicles.
346. In order to redirect use of scarce foreign currency to the productive sectors of the economy, I propose that customs duty on motor vehicles be levied in foreign currency acceptable as legal tender, with effect from 23 November 2018.

347. This measure will, however, not apply on imports of commercial motor vehicles and vehicles for use by the physically challenged.
348. Furthermore, payment of customs duty in foreign currency will also apply on Selected Goods.
349. This measure will also apply on all import VAT and Surtax.

### ***Payment of Tax in the Currency of Trade***

350. Mr. Speaker Sir, notwithstanding that companies are appointed as agents that collect revenue on behalf of Government, some companies are not remitting VAT in the currency of trade, taking advantage of the arbitrage opportunities on the informal market.
351. In order to contain such practices, I propose to compel companies that collect VAT in United States dollars or any other currency to remit VAT using the same mode of payment.
352. This measure will apply on all other taxes.

### ***Excise Duty on Fuel***

353. Mr. Speaker Sir, current market developments have also distorted the fuel market. The country's fuel has become relatively cheaper compared to prices obtaining in the region,

creating an arbitrage opportunity for local consumers and transiting vehicles.

354. This arbitrage opportunity has partly contributed to the increase in consumption of fuel products, with volumes for the period January to October 2018, amounting to US\$1.29 billion.
355. The increase in consumption is clearly unsustainable, considering that the available foreign currency reserves have to be shared among other critical priorities.
356. I, therefore, propose to increase excise duty by 7 cents per litre on diesel and paraffin and 6.5 cents on petrol to reduce the arbitrage opportunities.
357. This measure takes effect from 1 December 2018.

### ***Tax Debts of Voluntarily Wound Up Companies***

358. While some taxpayers have been constrained by economic challenges, others have deliberately chosen to evade or defer payment of taxes. In some cases, taxpayers have voluntarily wound up companies and registered new establishments, in order to avoid settling the outstanding tax obligations.

359. Company directors are, thus, deliberately violating their fiduciary responsibility, hence are contributing to the accumulation of unpaid tax obligations. Such actions constitute negligence, fraud and abuse of authority.
360. I, therefore, propose that directors or shareholders of a company that wound up voluntarily in order to avoid payment of the taxes be jointly and severally liable for the tax liability.

***Deemed Income Provision: Satellite Broadcasting Services***

361. Mr Speaker Sir, technological advancements have enabled foreign companies, particularly satellite broadcasters and e-commerce platforms to provide local residents with services from offshore sources.
362. This income is subject to tax and the activity generating the income is actually paid from a source within Zimbabwe.
363. For the avoidance of doubt and in order to broaden the tax base, I propose to deem income earned by such non-resident service providers to be from a source within the country and liable to tax.

## **Tax Relief Measures**

### ***Personal Income Tax***

364. In order to attract and retain skilled human capital and also cushion low income taxpayers against rising prices of basic goods, I propose to review the tax-free threshold from the current US\$300 to US\$350 and further widen the tax bands from US\$351 to US\$20,000, above which income is taxed at the highest marginal tax rate of 45%, down from 50%.

### ***Intermediated Money Transfer Tax***

365. Mr Speaker Sir, consultations made with stakeholders indicate the need to fine tune the transaction tax, with a view to ease the *Cost of Doing Business*.
366. In this regard, I propose to provide for further exemptions, with effect from 1 January 2018.

### ***Export Tax on Un-Beneficiated Platinum***

367. Government introduced a 15% tax on the exportation of un-beneficiated platinum, with a view to compel mining companies to expeditiously transition towards beneficiation of the mineral.

368. In view of the progress and commitments made by PGM producers towards beneficiation, I propose to postpone export tax to 1 January 2022.

***Export Tax on Raw Hides***

369. In order to generate foreign currency from the prevailing global export market opportunities, thereby maximising the value of excess raw hides, I propose to exempt from export tax, the sale of projected excess raw hides on a bi-annual basis, with effect from 1 January 2019.

***Customs Duty on Sanitary Wear***

370. Mr Speaker Sir, in order to cushion underprivileged women and girls in the interim, whilst the local supply of sanitary wear improves, I propose to suspend customs duty for a period of 12 months beginning 1 December 2018.

371. Furthermore, I propose to further exempt imports of sanitary wear from Value Added Tax.

***Suspension of Duty on Goods for use by Physically Challenged Persons***

372. In line with the United Nations Convention on the Rights of Persons with Disabilities (UN CRPD) of 2008, which promotes

decent and dignified lives for such persons to achieve their full potential, I propose to suspend customs duty on goods used by the physically challenged persons.

373. Such goods include wheel chairs, talking calculators, mobility white canes and contact lenses.
374. Government has already provided duty free importation of sunscreen lotions, hearing aids, braille computers and embossers and also VAT zero rated wheel chairs, literature products, braille computers, and braille watches, among others.

***Value Added Tax on Statutory Medical Regulatory Authorities***

375. I propose to exempt *Medical Statutory Bodies* from the requirement to charge and remit *Value Added Tax* for the period 2009 to 30 November 2018.
376. *Medical Statutory Bodies* would, however, be required to adhere with current legislative provisions, with effect from 1 December 2018.

### ***Withholding Tax on Contracts***

377. In order to provide relief to schools that have accumulated tax arrears from failure to withhold tax, I propose to provide an exemption from withholding Tax on Contracts in retrospect for a period of six years ending 31 December 2017.
378. I, further, propose to exempt the Reserve Bank of Zimbabwe from the requirement to withhold 10% of amounts payable in cases where the recipient of interest accruing from Treasury Bills failed to produce a tax clearance certificate during the period 1 February 2009 to 30 November 2018.

### ***Exemption of Non-Residents from Withholding Tax on Contracts***

379. I propose to exempt payments to non-residents individuals from the 10% withholding tax on contracts since non-resident persons are not compelled to file returns.

### ***Road Accident Levy***

380. Mr Speaker Sir, whereas the minimum requirement is that all motor vehicles should be covered under a Third Party Insurance, the benefits are, however, restricted to compensation of the third party's vehicle, hence remain obscure with a relatively low claims ratio.

381. Consequently, premiums have largely been retained for the benefit of insurance companies, hence an opportunity for Third Party Insurance to also contribute towards expenses for accident victims, thus, exists.

382. I, therefore, propose to redirect 5% of Third Party Insurance Cover to an Accident Compensation Fund, with effect from 1 December 2018.

### ***Standard Scale of Fines***

383. Mr Speaker Sir, road traffic offenses are classified under levels 1 to 3 of the Standard Scale of Fines, with a maximum monetary value of US\$30. The current fines, which should act as a deterrent to criminal behavior, have not assisted in reducing such malpractices, mainly due to the low monetary values.

384. In order to promote road safety culture by adhering to road traffic regulations, I propose that any person who commits such offenses be liable to fines of levels 8 to 10, which attract a maximum fine of US\$700 and imprisonment for a period not exceeding 12 months, with effect from 1 January 2019.

## Legislative Amendments

### ***Sequencing of VAT Payments***

385. In order to reduce the burden of perpetual interest charges on taxpayers, I propose to amend the order of liquidation of VAT debts so that priority is given towards settlement of the principal tax liability followed by penalty and interest, with effect from 1 January 2019.

### ***Transfer Pricing***

386. In order to promote compliance with the *Transfer Pricing* legislative requirements, I propose to introduce the following measures:

- Amend legislation to provide for penalties, on a graduating scale, for failure to adhere to stipulated requirements;
- Require taxpayers to submit annual returns showing transactions entered between controlled and/or associated enterprises;
- Provide for Transfer Pricing Documentary Requirements, which will act as a guide to associated enterprises in the recording of transactions, in compliance with the Arm's Length Principle; and,

- Provide for Transfer Pricing Guidelines which will assist in the application, interpretation and simplification of transfer pricing legislation.

387. These measures take effect from 1 January 2019.

***Payment Basis for Value Added Tax***

388. Mr. Speaker Sir, the Value Added Tax legislation compels registered operators to account for tax on an invoice or payment basis.

389. Registered operators that account for tax on an invoice basis are required to account for VAT accruing from both cash and credit sales after an invoice, which indicates time of supply, has been issued.

390. In order to delay accounting for VAT on credit sales, some registered operators deliver goods or perform services without issuing an invoice, thereby circumventing the fact that a supply has been made.

391. Registered operators, thus, deliver goods on the basis of delivery notes, thereby avoiding payment of output tax, notwithstanding that the same can be used to claim input tax.

392. In order to facilitate accounting for VAT at the time of delivery of goods or services, I propose to amend the definition of time of supply to include the time goods or services are made available to the recipient.

### ***Additional Routes for Electronic Cargo Tracking***

393. Honourable Members would be aware that Government implemented an electronic cargo tracking system that uses electronic seals and transmitters to monitor transit cargo, in order to mitigate the adverse effects of transit fraud.

394. I, therefore, propose to gazette the additional routes, in order to facilitate movement of petroleum products.

### ***Maximum Transit Period***

395. The Customs and Excise legislation provides that goods cleared for transit purposes should exit the country within 3 days from the date of entry for removal.

396. Trucks carrying abnormal loads, however, are, in most cases, not able to transit within the given timeframes, due to low speed and other regulations that restrict the movement of trucks carrying abnormal loads during the night.

397. I, therefore, propose to extend the transit timeline for trucks carrying abnormal loads from 3 to 5 days from date of arrival at the port of entry, with effect from 1 December 2018.

***Penalty for Failure to Pre-clear Goods***

398. Notwithstanding the introduction of pre-clearance of commercial cargo transported by road with effect from 1 February 2018, commercial cargo transporters and agents have, however, not been complying, hence some ports of entry have faced serious traffic congestion.

399. I, therefore, propose to levy a fine equivalent to level 12 of the *Standard Scale of Fines* on importers or agents that fail to pre-clear goods transported by road, with effect from 1 December 2018.

***Power of Customs Officers to Inspect Residential Property***

400. I propose to amend legislation to authorise officers to access residential property for purposes of undertaking searches, where there is reasonable grounds to believe that a residential property is utilised for business purposes, with effect from 1 January 2019.

## **Tax Administration**

### ***Whistle Blower Facility***

401. Mr Speaker Sir, Government in 2001 introduced the Whistle Blower Facility to enable informants to share information on such practices as tax avoidance and evasion by individuals and companies that compromised tax revenue collections.
402. I propose to review the Whistle Blower Facility to provide, among other measures, clarity on the nature of information that informants must supply before being entitled to a reward.

### ***Penalty Loading Model***

403. In order to promote transparency in the administration of penalties for non-compliance, I propose to publish a Penalty Loading Model which informs taxpayers on the level of penalties, with effect from 1 January 2019.

### ***Permissible Deductions in Respect of Input Tax***

404. The VAT legislation compels VAT registered operators to obtain and retain any of the documentary proof listed on the schedule of appropriate documentation as confirmation that they are entitled to zero rate supplies of goods and services, in order to facilitate refund of VAT input tax.

405. The discretion has created an opportunity whereby registered operators, particularly those in the export business, submit stamped Bills of Entry, and some of the documents listed as proof of export, despite overwhelming evidence that the goods were not exported.
406. In order to minimise abuse of the VAT system, I propose to compel registered operators to obtain and retain all the documentary proof prescribed in the regulations as confirmation that they are entitled to zero rate their supplies.

### ***Tax Administration Assessment Tool***

407. As part of the reform process, the International Monetary Fund, through the IMF Tax Administration Assessment Tool (TADAT) initiative, conducted an assessment of the Tax Administration system with a view to identify its strengths and weaknesses.
408. In order to address the weaknesses unearthed by an assessment of the Tax Administration system through the IMF Tax Administration Assessment Tool (TADAT), thereby enhancing efficiency in tax administration, the Zimbabwe Revenue Authority will be required to undertake the following initiatives:

- Enhance ZIMRA Information Technology Systems to ensure that information held in the taxpayer registration database is accurate, adequate and reliable;
- In order to ensure accuracy, reliability and traceability of taxpayers, by the first half of 2019, the ZIMRA systems should be linked to the National Registration Database, Company Registration Database, Deeds Office, ZIMSTAT, National Social Security Authority, Investment Agency and ZIMDEF, among others;
- Put in place a Compliance Risk Management Framework to enable the detection of sectors of the economy with greatest risk of non-compliance, in order to ensure that commensurate tax administration effort is applied; and
- Carryout routine activities to identify unregistered tax payers; and,
- Develop a tax incentives monitoring and evaluation framework to facilitate the management of timed tax expenditures as well as to inform Cost Benefit Analysis of tax expenditures by Treasury, on an annual basis, with effect from 1 January 2019.

## **RE-ENGAGEMENT AND DEBT RESOLUTION**

409. A crucial meeting with co-operating partners and International Financial Institutions was held on 10 October 2018 in Bali, Indonesia, over the country's debt and arrears strategy. A

follow up meeting was held in Livingstone on 13 – 14 November 2018, in addition to bilateral meetings.

### **Arrears Clearance**

410. The debt and arrears clearance roadmap will entail clearing arrears to the African Development Bank (AfDB), US\$680 million, the World Bank (WB), more than US\$1.4 billion and the European Investment Bank (EIB), US\$308 million.
411. Besides debt and arrears clearance, the international community expects to see Zimbabwe judiciously implement its Transitional Stabilisation Programme as well, in order to move on a path for sustainable and inclusive growth and development.
412. To facilitate gravitating towards normalising relations with the IMF and indeed other International Financial Institutions, we are in discussions with the IMF about intensifying our re-engagement with them.
413. Mr. Speaker Sir, Government would want the Nation to appreciate that re-engagement with the international financial institutions is key for unlocking of new developmental financing.

## **International Relations**

414. Government is stepping up outreach and engagement with the international community, with the objective of normalising and strengthening relations and taking the rightful place in the community of nations.
415. The 2019 Budget is providing support to capacitate the Ministry of Foreign Affairs and International Trade in this endeavour.

## **Aid Coordination Architecture**

416. As highlighted in the Transitional Stabilisation Programme, Treasury is in the process of reviewing and realigning the aid coordination architecture in order to improve development cooperation effectiveness.
417. Hence, going forward, development cooperation will be anchored upon four mutually supportive pillars:
- Zimbabwe Development Cooperation Policy;
  - Development Cooperation Strategy and Procedures Manual;
  - Joint Performance Assessment Framework; and
  - Development Cooperation Management Information System.

## CONCLUSION

418. Mr Speaker Sir, in conclusion, this Budget should mark a turning point towards realising the country's Vision 2030, as austerity will lead us to prosperity.
419. To quote the Philosopher, Immanuel Kant, "*We are not rich by what we possess, but by what we can do without*".
420. I now commend the 2019 National Budget as detailed in the accompanying Budget Statement to this August House and lay on the table the Estimates of Expenditure (Blue Book).

**I THANK YOU**