

# Ministry of Finance and Economic Development



ZIMBABWE

## 2019 MID YEAR BUDGET REVIEW AND SUPPLEMENTARY BUDGET HIGHLIGHTS

### BUDGET THEME

**“Building a Strong Foundation for Future Prosperity”**

### TRANSITIONAL STABILISATION PROGRAMME IMPLEMENTATION PROGRESS

- Fiscal and monetary policy successfully shifted to a disciplined and sustainable regime.
- The ‘twin-deficit’ was successfully tackled, and 2019 has so far seen consistent fiscal surpluses and a substantial improvement in the current account balance.
- The current account, for the first time since 2009, registered a surplus in the first quarter of 2019.
- Monthly revenue collections for the first six months amounted to ZWL\$5.0 billion, against expenditures of ZWL\$4.2 billion.
- A cumulative budget surplus of ZWL\$803.6 million was therefore realised in the first half of 2019.
- Domestic debt declined from ZWL\$9.5 to ZWL\$8.8 billion - a reduction of 7.4%.
- Comprehensive currency reforms are being implemented to restore independent monetary policy and to create further scope for enhanced competitiveness of exports and import substitution.
- Month-on-month inflation averaged 12.4% in the first half of 2019 against 6.4% recorded in the last half of 2018.
- Given substantial headwinds including damages caused by a major drought and cyclone Idai, the initially projected GDP growth is likely unattainable.

- In order to build a track record of sound economic policies, Government has signed off on a Staff Monitored Programme with the International Monetary Fund to run from March 2019 to March 2020.

## **REVISED FISCAL FRAMEWORK**

- Total revenues for 2019 are projected at ZWL\$14.06 billion comprised of:
- Tax revenue amounting ZWL\$12.75 billion;
- Non-tax revenues of ZWL\$1.312 billion;
- Total expenditures for 2019 are projected at ZWL\$18.62 billion comprising of: -
- Employment Cost ZWL\$5.56 billion;
- Capital expenditure ZWL\$7.08 billion;
- The revised 2019 Budget Framework will result in a reduced budget deficit of 4% of GDP

## **2019 SUPPLEMENTARY BUDGET**

The 2019 Supplementary Budget proposes additional provisions and reforms mainly related to the following priority areas:

- Stimulation of production, targeting agriculture, industry and other productive sectors;
- Food security including;
- Grain procurement to mitigate the effect of drought conditions;
- Funding for the 2019/20 Summer Cropping Programme
- Welfare of civil servants and pensioners;
- Social services delivery and social protection;
- Infrastructure and utilities;
- Constitutional requirements including transfers to provincial councils and local authorities and support for governance institutions;
- Supporting structural and governance reforms; and
- Support for Government operations.

## **ADDITIONAL PROPOSALS FOR MAJOR SPENDING PROGRAMMES**

- Agriculture-\$3.2 billion
- Social Protection- \$1 billion
- Health- \$0.352 billion
- Education-\$0.106 billion
- Service Providers- \$0.120
- Transport projects- \$0.528 billion
- Water and Sanitation- \$0.168 billion
- Institutional Housing- \$0.222 billion

<b>2019 REVISED BUDGET FRAMEWORK</b>	
	<b>ZWLS\$ million</b>
<b>Total Revenue</b>	<b>14,060</b>
<b>Tax Revenue</b>	<b>12,748</b>
<b>Tax on Income and Profits</b>	<b>3,574</b>
Individuals	1,562
Companies	1,393
Other income taxes	618
<b>Taxes on Products</b>	<b>9,174</b>
Customs duties	978
Excise duties	2,726
Value Added Tax (VAT)	3,476
Other Indirect Taxes	1,995
Other	244
IMTT	1,751
<b>Non-tax Revenue</b>	<b>1,312</b>
Other Non Tax Revenue	754
Sale of Maize	558
<b>Expenditure and net lending</b>	<b>18,620</b>
<b>Current expenditure</b>	<b>11,552</b>
Employment costs	5,556
Interest payments	511
Domestic	281
Foreign	230
<b>Goods &amp; services</b>	<b>4,459</b>
Current transfers	<b>1,026</b>
O/w Transfers to Provincial Councils and Local Authorities	703
<b>Capital expenditure and net lending</b>	<b>7,068</b>
Infrastructure	2,813
Agriculture Expenditures	3,837
Capitalisation of SOEs	169
Other Capital Items	249
<b>Overall balance (cash basis)</b>	<b>-4,560</b>
% of GDP	-4.0%
<b>Primary balance</b>	<b>-4,049</b>
% of GDP	-3.6%
<b>Financing</b>	<b>4,560</b>
Domestic financing (net)	5,849
Bank	1,214
Non-bank	4,635
Foreign financing (net)	-1,289
<b>GDP</b>	<b>113,900</b>

Source: Ministry of Finance and Economic Development

Vote Appropriations	2019 Estimates		
	Original Estimates	Additional Estimates	Revised Estimates
		ZWL\$	ZWL\$
Office of the President and Cabinet	294,700,000	499,565,000	794,265,000
Parliament of Zimbabwe	145,000,000	98,937,000	243,937,000
Labour and Social Welfare	81,201,000	1,083,995,000	1,165,196,000
Defence, Security and War Veterans	546,939,000	551,201,000	1,098,140,000
Finance and Economic Development	273,593,000	1,204,884,000	1,478,477,000
Audit Office	7,763,000	7,140,000	14,903,000
Industry and Commerce	47,055,000	47,093,000	94,148,000
Lands, Agriculture and Rural Resettlement	989,298,000	3,392,970,000	4,382,268,000
Mines & Mining Development	15,445,000	9,600,000	25,045,000
Environment, Tourism and Hospitality Industry	38,136,000	81,270,000	119,406,000
Transport and Infrastructural Development	399,182,000	761,295,000	1,160,477,000
Foreign Affairs	56,090,000	260,075,000	316,165,000
Local Government, Rural Development and National Housing	179,886,000	278,749,000	458,635,000
Health and Child Care	694,467,000	507,061,000	1,201,528,000
Primary and Secondary Education	1,132,322,000	362,205,000	1,494,527,000
Higher & Tertiary Education, Science and Technology Development	380,842,000	107,346,000	488,188,000
Women Affairs, Community, Small and Medium Enterprises Development	44,771,000	29,036,000	73,807,000
Home Affairs and Cultural Heritage	517,822,000	356,541,000	874,363,000
Justice, Legal & Parliamentary Affairs	155,608,000	129,380,000	284,988,000
Information, Publicity and Broadcasting Services	45,192,000	13,442,000	58,634,000
Youth, Sport, Arts and Recreation	53,495,000	31,806,000	85,301,000
Energy & Power Development	16,011,000	78,887,000	94,898,000
Information Communication Technology and Courier Services	17,912,000	18,100,000	36,012,000
Judicial Services Commission	27,638,000	32,911,000	60,549,000
Public Service Commission	279,278,000	34,244,000	313,522,000
Council of Chiefs	5,202,000	6,470,000	11,672,000
Human Rights Commission	3,335,000	2,565,000	5,900,000
National Peace and Reconciliation Commission	2,463,000	4,370,000	6,833,000
National Prosecuting Authority	8,089,000	14,959,000	23,048,000
Zimbabwe Anti-Corruption Commission	6,403,000	36,752,000	43,155,000
Zimbabwe Electoral Commission	14,321,000	10,833,000	25,154,000
Zimbabwe Gender Commission	2,000,000	2,533,000	4,533,000
Zimbabwe Land Commission	10,488,000	19,004,000	29,492,000
Zimbabwe Media Commission	2,000,000	1,616,000	3,616,000
<b>TOTAL</b>	<b>6,493,947,000</b>	<b>10,076,835,000</b>	<b>16,570,782,000</b>
Debt Service: Interest Bill	351,114,000	159,886,000	511,000,000
Pension	594,100,000	223,486,000	817,586,000
Other Constitutional & Statutory Appropriations	326,200,000	394,432,000	720,632,000
<b>Total Expenditure &amp; Net Lending</b>	<b>7,765,361,000</b>	<b>10,854,639,000</b>	<b>18,620,000,000</b>
Repayment of Loans	<b>2,550,300,000</b>	<b>0</b>	<b>2,550,300,000</b>
<b>Total Expenditure &amp; Net Lending including Loan Repayment</b>	<b>10,315,661,000</b>	<b>10,854,639,000</b>	<b>21,170,300,000</b>

## **ADDITIONAL PROPOSALS FOR MAJOR SPENDING PROGRAMMES**

### ***Support to Industry***

- Clothing Manufacturers Rebate - close loopholes observed in the utilisation of the Clothing Manufacturers Rebate
- Suspension of Duty on Commercial Tyres - ring-fence importation of 100 000 commercial tyres at a lower duty rate of 15% for a period of twelve months
- Electrical Manufacturers Rebate - provide for additional inputs to the list of components that can be imported duty free under the Electrical Manufacturers Rebate.
- Customs Duty on Motor Vehicle Filters - ring-fence importation of 100 000 commercial tyres at a lower duty rate of 15% for a period of twelve months

### ***Revenue Enhancing Measures***

- Taxation of E-Commerce Transactions - reduce the customs duty on selected raw materials used in the manufacture of motor vehicle filters.
- Excise Tax - adopt an optimal policy mix between specific and ad valorem excise taxes
- Fuel - Ad Valorem excise duty of 45% and 40% per litre on the CIF value of petrol and diesel respectively
- Alcoholic Beverages - adopt an optimal policy mix between specific and ad valorem excise taxes
- Tobacco - A combination Excise Duty of ZWL\$50 per 1 000 cigarettes plus 20% Ad valorem on the ex-factory price
- Taxation of Direct Fuel Imports - levy excise duty on Direct Fuel Imports in foreign currency.

### ***Tax Relief Measures***

- Employees' Tax - revision of the tax-free threshold from the current ZW\$350 to ZW\$700 and widen the tax bands to a maximum of ZW\$30 000, above which income is taxed at the marginal tax rate of 40%
- Intermediated Money Transfer Tax - review the tax-free threshold from the current ZW\$10 to ZW\$20 and the maximum tax payable per transaction by corporates from the current ZW\$10 000 to ZW\$15 000 for transactions with value exceeding ZW\$750 000.

- Deductibility of Mineral Royalties - allow mining royalties as a deductible expense in the determination of taxable income.
- Mining Levies and Charges - finalise and implement agreed positions relating to streamlining fees and charges levied on mining operations.
- Mineral Royalties: Gold - review the royalty regime for primary gold producers from a two tier system to a sliding scale royalty regime that is based on gold prices
- Review the royalty rate on gold produced by small scale miners from the current rate of 1% to 2% of the gross fair market value
- Alignment of the Definition of Mineral - to align the definition of mineral in the Income Tax Act to that in the Mines and Minerals Act
- Removal of Duty on Solar Batteries - remove duty on lithium-ion solar batteries.
- Suspension of Duty on Motor Vehicles Imported for use by Physically Handicapped Persons - waive payment of duty

### ***Fees and Charges***

- Review of Fees, Levies and Charges - review fees, levies and charges on Government services, in line with economic developments

### ***Tax Administration***

- Review of Monetary Amounts in Tax Statutes - upward review of monetary amounts in tax legislation
- Rate of Interest on Outstanding Tax Debts - to review the interest rate paid on outstanding debts from the current 5% plus Libor, to 25%.
- Capital Gains Tax Computation: Specified Assets - charge a flat capital gains tax rate of 5% on the gross capital amount

## ***Legislative Amendments***

### *Income Tax*

- Relaxation of Thin Capitalisation Rules - to exempt from tax, deemed dividends accrued on account of debt contracted through Government facilities by SOEs
- Capital Gains - exempt gains accruing from the transfer or disposal of shares to the Sovereign Wealth Fund from capital gains tax.

### ***Value Added Tax***

- Provision of Back-Up Services on Fiscalised Devices by Approved Suppliers - allow existing licenced vendors to provide back-up service to devices supplied by operators that would have ceased operations.
- Zero-Rating of Exports of Exempt Supplies to zero-rate exports of exempt fruits, vegetables and unmanufactured tobacco.
- Exemption from VAT: Tobacco not sold on the auction floors - specify the types of tobacco that are exempt from VAT and are also not sold on the auction floors.
- Interest on Delayed VAT Refunds - align to the prescribed period within which interest is payable to the 30-day limit.

### ***Customs Duty***

#### *Manufacturers Rebate*

- Food, Soap and Cosmetic - provide for a Rebate of Duty, where duty is entirely suspended.
- Payment of Levies by Foreign Visitors- continuation of payment of the above levies in foreign currency, in order to ensure convenience for such travellers.
- Payment of Tax, Fees and Charges in Foreign Currency - taxes shall also be payable in foreign currency.