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SM/84/198
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

September 10, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Zimbabwe - Staff Report for the 1984 Article IV Consultation

The attached supplement to the staff report for the 1984 Article IV consultation with Zimbabwe has been prepared on the basis of additional information.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion on Wednesday, September 12, 1984, they should contact Mr. Edo (ext. (5)8750).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 1984 Article IV Consultation
Supplementary Information

Prepared by the Staff Representatives for the 1984
Consultation with Zimbabwe

Approved by J.B. Zulu and E. H. Brau

September 7, 1984

The staff has received the budget documents presented to Parliament on July 26, 1984. The available information for the 1984/85 budget relates to the Consolidated Revenue Fund and does not include other information required to present the fiscal data on the same broad basis as in SM/84/198 or SM/84/208. The attached fiscal table presents the data for 1982/83 through 1984/85 consistently on the narrow basis of the Consolidated Revenue Fund alone. The broader basis tends to reduce the size of the overall deficit in any year by Z\$10-40 million.

1. 1984/85 budget

The 1984/85 budget includes an estimated deficit of Z\$648 million (10.5 percent of GDP). Thus, only limited improvement in the overall fiscal situation is evident in comparison with the large deterioration in 1983/84. Revenue is forecast to increase by 8 percent and expenditure plus net lending by 7 percent over the 1983/84 outturn figures. Net foreign financing is expected by the authorities to amount to Z\$126 million, more than double the outturn in 1983/84; the remaining financing is to be provided by domestic nonbank institutions (Z\$315 million) and the banking system (Z\$207 million). The staff does not yet have details on the budget projections for foreign financing.

A number of tax changes were announced in the budget. A drought relief surcharge is to be imposed on income tax for a twelve-month period, raising individual income tax rates by 5 percent and company tax rates by 10 percent. The rates of the retail sales tax have been reduced from 18 percent to 15 percent on general goods and from 23 percent to 20 percent on the list of higher rated goods. At the same time, beer, tobacco, and aerated beverages, which had previously been subject to the 23 percent rate of sales tax, have been exempted from sales tax and subjected instead to an equivalent higher rate of excise duty; the authorities believe that an improved rate of revenue collection will result from this conversion.

The duty on motor spirit has been increased from Z\$0.55 per liter to Z\$0.625 per liter. Other tax measures include an airport departure fee, a tax on foreign exchange allocations for holiday purposes, a new non-residents' tax on royalties, and increases in company registration fees and stamp duties.

The expenditure estimates provide for substantial increases in interest payments (from Z\$271 million in 1983/84 to Z\$372 million in 1984/85), in budget subsidies (from Z\$237 million to Z\$290 million), in short-term lending to farmers through the Agricultural Finance Corporation (from Z\$26 million to Z\$65 million), and in capital expenditure (from Z\$208 million to Z\$241 million). Reductions in recurrent expenditure in nominal terms are budgeted in the areas of defense, education, health, and in the payment of demobilization gratuities.

The major contributors to the increase in budget subsidies are the subsidies to the railways, airline, and steel company. Despite this increased provision, the Minister of Finance indicated that there remains at least Z\$125 million of uncovered losses of public enterprises. The Minister announced that further efforts would be made to correct this situation through price adjustments, improved efficiency, restructuring, and a search for savings elsewhere in the budget.

2. Wage and price measures

On July 20, 1984 price increases were announced for a number of basic items. The price of maize meal was increased by 20 percent, and bread, cooking oil, and fats by about 10 percent. These increases reflected higher selling prices approved for the Grain Marketing Board and also some reduction in subsidies. At the same time, a wage increase of Z\$10 per month for all workers earning less than Z\$300 per month was announced, and, in addition, approval was given for negotiated wage increases not exceeding 10 percent to be paid out in certain cases where an industrial council or board recognizes an employer's ability to pay.

Zimbabwe: Summary of the Fiscal Operations of the
Central Government, 1982/83-1984/85 1/

(In millions of Zimbabwe dollars)

	Actual 1982/83	Budget 1983/84	Actual 1983/84	Budget 1984/85
Total revenue and grants	<u>1,789.1</u>	<u>2,111.0</u>	<u>1,997.2</u>	<u>2,163.3</u>
Revenue	<u>1,764.9</u>	<u>2,079.0</u>	<u>1,940.2</u>	<u>2,100.0</u>
Grants	24.2	32.0	57.0	63.3
Expenditure and net lending	<u>2,246.4</u>	<u>2,561.0</u>	<u>2,627.2</u>	<u>2,810.8</u>
Current	<u>1,820.0</u>	<u>2,031.3</u>	<u>2,232.7</u>	<u>2,323.3</u>
Capital	191.9	251.3	208.0	241.1
Net lending	234.5	278.3	186.5	246.3
Overall deficit	<u>-457.3</u>	<u>-450.0</u>	<u>-630.0</u>	<u>-647.5</u>
Financing	<u>457.3</u>	<u>450.0</u>	<u>630.0</u>	<u>647.5</u>
Foreign (net)	<u>49.9</u>	<u>216.6</u>	<u>50.8</u>	<u>126.0</u>
Domestic (net)	<u>407.4</u>	<u>233.4</u>	<u>579.2</u>	<u>521.5</u>
Nonbank	(301.1)	(...)	(373.5)	(315.0)
Bank	(106.3)	(...)	(205.7)	(206.5)
Overall deficit as percentage of GDP	9.8	8.5	12.0	10.5

Source: Financial Statements.

1/ This table covers only the operations of the Consolidated Revenue Fund and is therefore not fully comparable with Table 1 of SM/84/198. A more comprehensive coverage tends to reduce the size of the annual overall deficit by Z\$10-40 million.