



# Budget Terms and Concepts

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# Introduction

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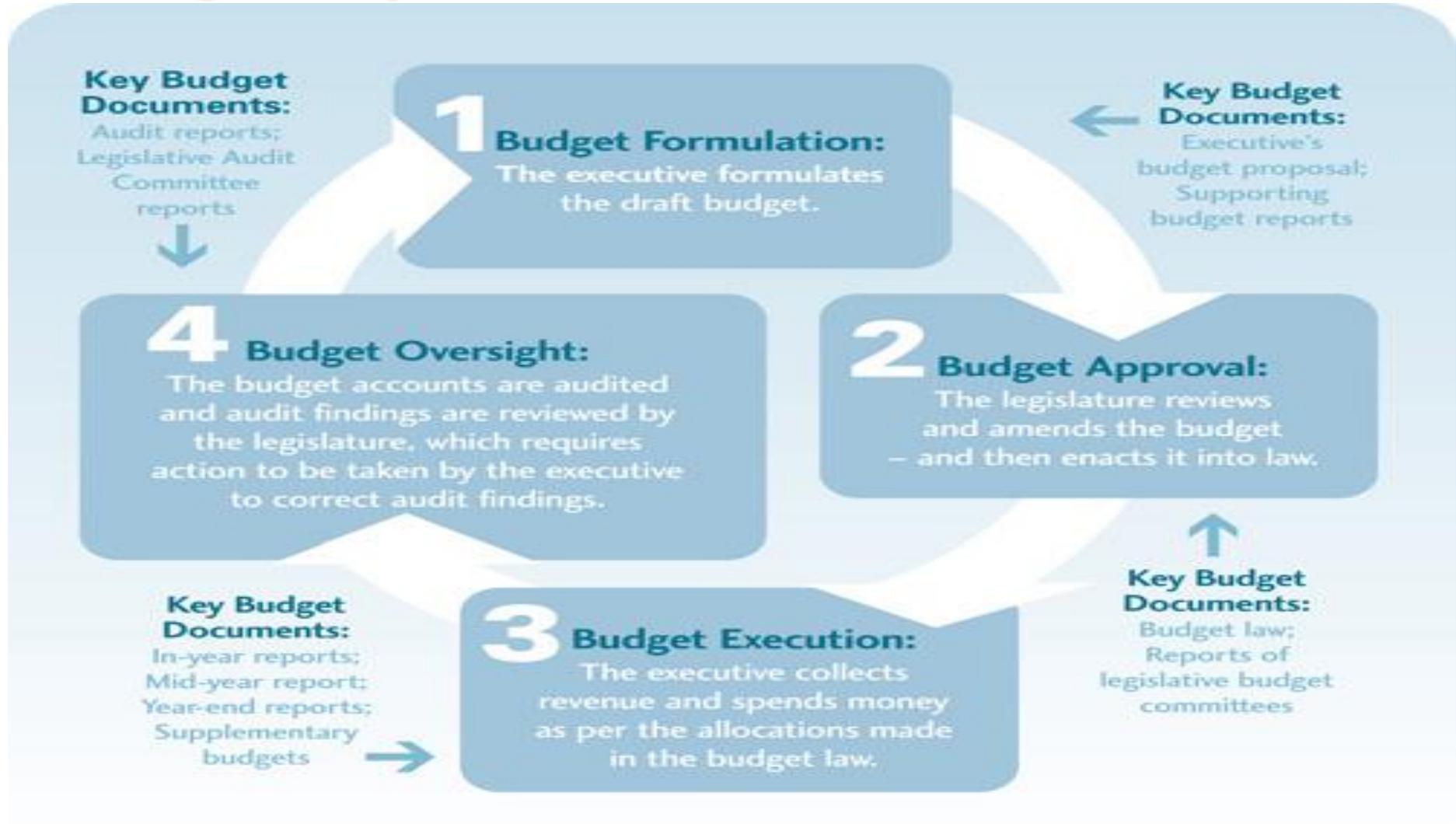
# What is a Budget?

- National Budget is a financial expression of the government's priorities, policies, and plans.
- Public budgets are more than a collection of numbers, they are a declaration of a community's or nation's priorities (Streak, 2003)\*.
- Most important fiscal policy tool where the government raises and allocate the financial resources of the state for the delivery of public services.
- Fiscal Policy refers to government policy actions that impact overall revenues and spending, and the resulting surpluses or deficits.
- It is the primary means by which the government influences the economy.

# Purpose and Functions of the Budget

- Political process - competition among various groups for limited resources (balancing competing demands for scarce resources).
- Economic process - resource allocation (priorities and political commitments are translated into expenditures).
- Administrative process - planning, coordinating, control and evaluation.
- Human rights process - allocation of funds in compliance with State obligations towards the full realisation of constitutional rights.
- Distribution of income and wealth - redress inequalities in income and wealth distribution.
- Stabilisation of the economy (Employment creation, price stability, economic growth, environmental sustainability and external balance).

# Budget Cycle



# Budget Documents

- State of the Nation Address (SONA): President of Zimbabwe reports on the status of the nation, during a joint sitting of Parliament
- Development Plan (Transitional Stabilisation Plan)
- Ministry and Departments Strategic Plan
- Budget Strategy paper - presents proposals on key policies and priorities, with a view of facilitating discussions for budget.
- Budget call circular - document/memorandum issued by the ministry of to guide line ministries/agencies in the preparation of their initial budget proposals/budget estimates.
- Budget Statement/Speech – Explanation of the budget showing major policy shifts, or shifts in funding priorities, and any changes that may have been made in compiling the new budget.

# Budget Documents

- Budget Estimates (Government Finances, Estimates of Expenditure and Public Debt Charges and Repayments)
- Government Finances – Consolidated Revenue Fund, Retention Fund & Statutory Funds
- Estimates of Expenditure – Constitutional and Statutory Appropriations & Vote Appropriations
- Public Debt Charges and Repayments & Inter- Governmental Fiscal Transfers
- Budget Implementation Reports (Monthly, Quarterly and Annual Reports)
- Audit Reports (Financial, Special or Value for Money etc)

# Revenue

- **Income** – or revenue – determines how much is available to spend on the implementation of policies (where the money comes from).
- Governments gather revenue primarily through taxes and levies.
- Tax Revenue - Income Tax (individual, companies, capital gains taxes etc), Taxes on Goods and Services (VAT, Customs Duty, Excise Duty) & Miscellaneous taxes (Intermediated Money Transfer, Royalties, Stamp Duty and Fees etc).
- Non Tax Revenue - Revenue from Investments and Property (Rent, Interest and Dividends), Fees (health, education, Road User Levy etc), Other (Pension contributions, Sale of State Properties, Judicial Fines etc).
- International Aid Grants.

# Revenue Contd

- Consolidated Revenue Fund - There is a Consolidated Revenue Fund into which must be paid all fees, taxes and borrowings and all other revenues of the Government, whatever their source, unless an Act of Parliament;
- a) requires or permits them to be paid into some other fund established for a specific purpose; or
- (b) permits the authority that received them to retain them, or part of them, in order to meet the authority's expenses (s302 of Constitution).
- Statutory Funds - established by a specific Act for a specific purpose (District Development Fund Act [Chapter 29:06], Road Fund –ZINARA etc)
- Retention Funds – Establishment of other public funds under Section 18 of the PFMA (Chapter 22:19) - (Special Gold Unit Fund, or Agriculture Revolving Fund etc)

# Expenditure

- Plan for how the revenue or income generated by government from various sources will be apportioned to the competing needs/priorities (Recurrent and Capital)
- **Recurrent expenditure** - Day-to-day spending on goods and services for current use or to directly satisfy an immediate need (e.g. Employment costs, goods and services, maintenance & current transfers etc).
- **Capital/Development/Investment expenditure** - Expenditure on capital items that are projected to generate income in the future or bring about some kind of future benefit (e.g. Acquisition of Fixed Capital Assets, Capital Transfers, & Lending and Equity Participation).
- **Transfers** - These are transactions in which a department passes funds to another institution or to an individual for final spending e.g. grants to universities.

# Expenditure contd

- Estimates of National Expenditure - This document sets out the detailed spending plans of each government department for the coming year.
- The document serves as background to the Appropriation Act that makes these spending plans legally binding.
- An Appropriation Bill is a legislative Act proposing to authorise expenditure of public funds for a specified purpose.
- Estimates of Expenditure also include performance information, with the purpose of increasing the transparency of government spending in relation to performance in the attainment of objectives.

# Budget Performance – Outcomes Approach



- Resources dedicated to or consumed by the project
- Usually a NOUN  
staff, facilities, money, time...

- What the project does with inputs to fulfill its mission
- Usually a GERUND  
a verb in its “-ing” form, such as assessing, enabling, reviewing...

- The volume of work accomplished by the project
- Usually a QUANTITY  
the number of projects, the number of case studies...

- Benefits or changes for participants during or after project activities
- Usually a CHANGE  
better projects, increased skills...

- The long term consequences of the intervention
- A fundamental CHANGE intended or unintended in a system or society

Your Planned Work

Your Intended Results

# Fiscal Balance

- Balance – The difference between total outflows (expenditure) and total inflows (revenue).
- Balanced Budget – A balanced budget is one in which cash outflow does not exceed cash inflow.
- Budget Surplus is when revenue is greater than expenditure
- Deficit– Refers to total outflow exceeding total inflow. If a deficit is incurred, government generally incurs expenditures that are in excess of revenues.
- Generally financed by borrowed funds (Treasury Bills, Treasury bills, overdraft with the Central Bank, arrears and loans from the private sector).
- Treasury Bills as “a short dated government security, yielding no interest but issued at a discount on its redemption price”.

# Public Debt

- Public Borrowings/Debt – Proceeds of repayable obligations, generally with interest, from domestic and foreign creditors of the government.
- These generally refer to authorised and negotiated loans secured by the government from internal and external financial institutions and other sources.
- Crowding out effect- Reduction in private investment as government takes up the scarce resources available for borrowing.

# External Sector

- Exports – Sending of goods or services produced in Zimbabwe to other countries
- Imports - Foreign goods and services bought by residents of a country
- Trade Balance – Difference between exports and imports
- Current Account - The current account records a nation's transactions with the rest of the world – specifically its net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments – over a defined period of time, such as a year or a quarter.
- Balance of Payment - the difference in total value between payments into and out of a country over a period (exports, imports, FDI, remittances etc).
- Foreign Direct Investment - investment made by a firm or individual in one country into business interests located in another country.

# Other Budget Terms Concepts

- Inflation - Inflation is broadly used to mean a rise in the general level of prices of goods and services over a period of time ( Annual/Year on Year and Monthly).
- Gross Domestic Product (Gross Domestic Product) is the total value of final goods and services produced in a country during a year.
- Real GDP values are adjusted for inflation/difference in price level, while nominal values are not.
- As a result, nominal GDP will often appear higher than real GDP
- Economic growth is measured by the change in GDP from year to year.
- GDP per capita is the GDP divided by the number of people in the country.

# Other Budget Terms contd

- Money is the circulating medium of exchange (legal tender) as defined by a government (Broad and Narrow Money).
- Narrow money refers to the most liquid assets, cash, and checkable deposits.
- Broad Money – totality of assets that households and businesses can use to make payments or to hold as short-term investments such as currency, funds in bank accounts and anything of value resembling money.
- Currency is a generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy.
- Used as a medium of exchange for goods and services, currency is the basis for trade.
- Foreign exchange is the exchange of one currency for another or the conversion of one currency into another currency.

# Conclusion

- Become familiar with terms used in the budget
- Learn the process by which the budget is prepared (Legal and Policy Framework) and the Role of Parliament
- Learn how to read the budget
- Familiarise yourself with all budget documents including the government's development plans