THE 2005 POST-ELECTION AND DROUGHT MITIGATION MONETARY POLICY FRAMEWORK

Issued

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

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19 MAY 2005

In Terms of the Reserve Bank of Zimbabwe Act, the Monetary Policy Statement is issued bi-annually, in December/January and June/July of each year. The unfolding drought situation has made it necessary that the Bank re-invigorates its Monetary Policy framework by reverting back to quarterly reviews. This Statement, which reviews the economy's performance over the period January to April, 2005, therefore, lays the additional pillars of Monetary Policy programs that seek to buttress measures already under implementation.

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PART I:

1. FINANCIAL SECTOR STABILITY
2. PRICE STABILITY
3. EXCHANGE RATE MANAGEMENT
4. FOREIGN EXCHANGE GENERATION
5. NATIONAL PAYMENTS SYSTEM

1. INTRODUCTION AND BACKGROUND

1.1 At the beginning of our turnaround program in December, 2003, I alluded to a host of challenges, trials and tribulations that lay ahead as we move to regain our economic glory of yester-year.

1.2 I also alluded to the limited strategy choices before us and the need for creativity in tackling those challenges, as well as for unity of purpose among Zimbabweans across the board in order to make our turnaround journey less painful than when we are divided.

1.3 As I make my presentation today, I will cut across the entire spectrum of our economy, giving brief reminders that should help us to appreciate where we have come from, where we are today and the challenges that still lie ahead as we try to bring about a stable macro-economic environment in which the economic prosperity and security of all Zimbabweans wishing to make an honest living and those non-Zimbabweans wishing to invest in our country, is assured.

1.4 Fellow Zimbabweans, turnaround assignments, are by their very nature complex undertakings, requiring steadfast determination, unflinching commitment, individual and collective sacrifices and thoughtful flexibility on the part of all those involved in the process. **Ladies and gentlemen, it cannot be business as usual.**

1.5 We began the turnaround program in December 2003 by identifying among the many challenges, **inflation as our biggest challenge.** We have produced a dedicated write-up to this Statement, Supplement No. 1, entitled "Inflation Drivers in Zimbabwe", which goes into details about this scourge, what drives it and what intervention measures we have in mind for each drive of the scourge.

1.6 We also identified indiscipline, unbridled economic selfishness, corruption in its various forms and outlook, poor corporate, public and civil society sector governance, lack of accountability, moral and corporate decadence, declared and undeclared economic sanctions against our country, bureaucratic sloth and inertia, policy inconsistencies, uncertainty and diminished commitment by individuals and corporates alike to their mother country, as some of the forces behind our economic difficulties.

1.7 For the guidance of fellow Zimbabweans, we have prepared a Supplement on corruption, which accompanies this Statement, detailing its forms and character, by sector in Zimbabwe today.

1.8 While the Supplement may not be exhaustive in its coverage, it is a useful guideline and a starting pointer of what does and what does not constitute corruption. Zimbabweans are, therefore, welcome to make contributions in regard to some other forms of corrupt practices we may have inadvertently left out in the Supplement.

1.9 We also, at the beginning of our turnaround, recognized the adverse impact of natural disasters such as droughts and floods in negating delivery of economic progress and stability.

NATION AT CROSS-ROADS…

1.10 Today the Nation is at cross-roads, not knowing whether to turn back or continue with the turnaround sacrifices. **The spirit seems to be willing but the flesh is getting weaker by the day in the face of all the shortages we have been**

witnessing and the inconveniences associated with some of the service delivery shortcomings.

1.11 Like the Israelites in the Bible, many are now tempted to call for a return to the Biblical Egypt of yesteryear.

ACKNOWLEDGEMENT…

1.12 Well, as Monetary Authorities, we acknowledge that some of the measures we put in place were tough and resulted in a number of casualties, at both the institutional as well as personal levels; depositors lost money as shareholders fled the country or stepped down from their commanding positions. **Workers lost jobs over crimes they never knew were taking place.**

1.13 Yesterday, it was the financial sector in the forefront of illegalities. Today it is individuals, especially those in high places, and their corporates who are in the forefront of parallel market dealings and other economic crimes.

1.14 Today, it is the parastatals, it is the local authorities, it is in the tourism sector, manufacturing, mining, telecoms, aviation, transport, fuel and the agricultural sectors, among others, where the rot needs thorough cleansing along the same lines that we did with the financial sector. Let there be no outcry when the long arm of the law extends itself to these sectors, as indeed we believe, it will soon do.

1.15 Like the de-stigmatization of HIV/AIDS, as a country, we must admit the existence of corruption in our midst and take decisive and sustained actions to deal with it, because it has adverse economic consequences, such as, for instance, driving up inflation and exacerbating foreign currency shortages.

TO BE FOREWARNED IS TO BE FOREARMED…

1.16 **Fellow Zimbabweans, lest I am misunderstood, both in motivation and character**, no one knows the intensity of the war we are fighting against, and its fatal dangers, to the flesh (not soul) and to the institution, and no one has been more distraught about the closure of each bank put under curatorship over the last 17 months than your Governor here standing before you and his team.

1.17 No other heart has ached more than that of your Governor and his team as we have tried to reach out to the victims of this turnaround program in the vain search of less fatal solutions to individual bank crises that characterized our economy last year.

1.18 I have personally asked individual bankers who fled the country to come back home, for Zimbabwe is their only home, so we can discuss their predicament as Zimbabweans but they have asked your Governor to give them impossible assurances that are outside the competence of my office.

1.19 They have asked the Governor to repeal some laws passed by our Parliament, such as the 21 day detention law. Clearly, they forget that I am not a Member of Parliament, and that they should approach their constituent Members of Parliament and lobby from there.

1.20 They have asked that the Governor declares an Amnesty for all economic crimes committed before the turnaround. Again, they have forgotten that the prerogative of such declarations and clemency resides outside the Governor's office.

1.21 They have asked for assurances that should they return, they will not be arrested. My simple response has been that the Governor is neither the Commissioner of Police nor the Attorney General, but depending on each case, the Attorney General and the Commissioner may, in their wisdom, decide to proceed by way of Summons instead of custody, but these are not matters for the Governor to deal with.

1.22 So there you are, fellow bankers outside our borders, come home and assist in the resolution of the challenges some of you left behind and those bankers wishing to be assisted in their return should contact either the Governor, Attorney General or Police Commissioner for facilitation.

1.23 On our part, as is the case in any war, we have, however, had to accept that while the war lasts, some battles and rescue missions would be lost but what we are determined never to do, though, is to retreat in surrender, to put down our turnaround weapons in capitulation or to shrink our determination to win the economic turnaround war. **That option is not in our books.**

2. PROGRESS MADE TO DATE…

2.1 Over the last seventeen (17) months to end of April, 2005, the annual inflation rate tumbled beyond even our most optimistic forecasts of the initial projection of 200% to December, 2004.

2.2 Indeed the progress made during the first ten months of 2004 prompted us to revise downwards the rate from 200% to about 150% which again we collectively surpassed before the dragon (inflation) began to show signs of renewed resistance to the onslaught it had been under.

2.3 Our performance on the inflation front over the first four (4) months of this year, however, has been less than satisfactory and that performance cannot be allowed to continue unchecked.

2.4 Interest rates which stood at over 800% p.a. in January 2004 closed the year at levels below 150% p.a. in tandem with inflation trends.

2.5 Foreign currency inflows into the formal market which had dwindled to US$300 million in 2003 surged to US$1,7 billion in 2004 and all signals appeared positive for our economy.

2.6 On the international front, we made a good start towards normalizing our relations with the international community, especially our financing partners of yesteryear, the IMF, World Bank, AfDB and Afreximbank.

2.7 Where we did not do as well as we would have wanted is with our bilateral creditors and those within the Paris Club of lenders. We pledge to look after our outstandings with them as soon as it is practical to do so. I wish to thank all our international creditors individually and collectively for their understanding of our situation and support. We will not let them down.

2.8 Although, as is the case with any army scoring small victories in a bigger war, we did, at times, engage in modest bouts of self praise and congratulations, we have never lost sight or under-estimated the immense task and challenges that still lie ahead. Everyone needs encouragement, especially when facing major challenges such as we have.

2.9 After consultations with various stakeholders, we decided as Monetary Authorities, that perhaps, in the spirit of the new year, and indeed to welcome the silver jubilee, the time was ripe to reward Zimbabweans for their tremendous efforts and sacrifices in the proceeding twelve months with some relaxation.

2.10 Consequently, in my last Monetary Policy Statement delivered on 26 January, 2005, we deemed it appropriate to moderate our policies and take a more ACCOMMODATIVE stance.

2.11 That was the mistake we made and we are not ashamed to admit it and we have learnt our lesson from that.

2.12 Interest rates were eased to below 100% in the hope that this would encourage investment and move our recovery program to the next level. We believed, perhaps naively, that Zimbabweans would use this opportunity to continue the tremendous efforts of the preceding year, 2004 without a push from Monetary Authorities.

2.13 We even scaled down our communication style from the intensive mode to the moderate type, assuming that the economy needed less guidance and shouting from us.

2.14 Admittedly, economics not being an exact science as such, the results have not been as had been anticipated.

2.15 **Regrettably, ladies and gentlemen, that spirit of greed and the demon of indiscipline has just shown that it is not dead amongst us; that the temptation of and gravitation towards corruption in its various forms is still strong in the economy.**

2.16 That the disunity among us as Zimbabweans, especially among those in positions of influence within and outside Government, parastatals, industry and commerce, still colors purple the waters that are otherwise supposed to be clear, given the current set of economic difficulties and challenges facing us as a Nation.

2.17 We are aware of the iniquitous parallel market rates for foreign currency and goods in short supply currently prevailing in **this market and find it ludicrous that Zimbabweans are being forced by circumstances to trade their toil, sweat and blood at these ridiculous levels.**

2.18 **Those behind these ridiculous exchange rates expect Monetary Authorities to legalize such trading or worse still, agree to index the Zimbabwean currency and economic activities on the back of such shadowy figures, most of which are being set and determined in some dark alleys and street corners of our cities.**

2.19 The activities of this grey market pose the single largest threat to our battle against inflation and the turnaround program. **This will not be tolerated,** more so as some of the purveyors of this trade are non-Zimbabweans who have come all the way from their mother countries in the region, some from West Africa, South East Asia, and beyond, under the banner of the friendly relations existing and being forged between Zimbabwe and their countries.

2.20 The Reserve Bank, as well as Government are passionately committed to the success of the turnaround program and **let no one take the civility of our silence, the cordiality of relations forged or being forged between our countries, and relaxation of the past three months as a sign of weakness, despair, surrender or capitulation to the less than honorable intensions of just a few members of these societies working in collaboration with, similarly, a few Zimbabweans.**

2.21 **We cannot, and will NOT, allow any shadow forces to interfere with, or derail our turnaround program, which we are putting back on the rails with immediate effect.**

2.22 Furthermore, in the spirit of contributing to the global fight against terrorism and anti-money laundering activities, we will never permit grey market forces to take root and lay eggs in our backyards.

2.23 To allow that would be to let the whole of humanity down, as the world knows only too well that grey markets are fertile conditions for moving dirty money into the hands of potential terrorists and saboteurs.

2.24 The sad memories of September 11, 2001 are still too fresh in our minds for some people to play cheap politics and whip up emotions around value and exchange rate disequilibrium while deliberately or inadvertently disguising their real motives of greed for wealth and instant riches.

2.25 The safety of mankind must also count in economic transactions.

2.26 Small and poor as we may be as a country, we must never gamble with the unknown, which is what grey market traders are doing.

2.27 Zimbabwean Monetary Authorities are mandated by Government to cooperate with the rest of the progressive world in the promotion of the concept of **“clean money, clean transfer systems”**, hence all the work that has gone into the development of the Homelink brand of money transfer system.

2.28 We are aware that some less informed Zimbabweans have sought to discredit the Homelink money transfer system as a political ploy to raise funds for the Ruling Party.

2.29 We have ignored and continue to ignore such intellectual dishonesty, however motivated and urge Zimbabweans all over the world to contribute to their own safety and that of others through the use of clean, safe, transparent and accountable funds transfer systems in what ever they do.

2.30 Despite the unanticipated drought that is going to slow-down our turnaround program, **let me assure the Nation, ladies and gentlemen, that as Monetary Authorities, we have the will power, the passion for the job, the monetary instruments, legislative ammunition and regulatory artillery to carry out our job and execute the mission towards the Vision.**

2.31 **We enjoy the support of all the law enforcement arms of the State and Government itself to win the battle against indiscipline**, corruption, illegality and the sheer madness that we have been witnessing on the streets, at airports and border posts, in corporate boardrooms as well as at offshore centers.

And win we are determined to, win we shall, and win we will!

2.32 Some of the measures to be taken from a Monetary, legislative, regulatory and instrument point of view will be unveiled either in this Statement or in due course through action rather than talking.

GENERAL ELECTIONS AND THE DROUGHT…

2.33 The **peace and tranquility** that characterized the just ended General Elections, marks a significant turning point that enhances the overall potential of the country's road towards economic turnaround and prosperity.

2.34 We must, however, now move to realize and turn that potential into reality by reaching out to one another so that we can move in one progressive direction with one voice, purpose and determination.

2.35 The unfolding drought situation in Zimbabwe and the region as a whole, also demands that we urgently put in place **mitigating measures,** not only to ensure food security in the immediate future, but also, to lay a robust foundation upon which Zimbabwe can produce its **minimum food requirements under irrigation** for years to come.

2.36 It is an indisputable fact that Zimbabwe's economy, **being agriculturally based and import-dependant, catches a cold when there is a drought, or when there is shortage of foreign exchange, with all economic variables aligning themselves negatively to the hardships associated with the developments.**

2.37 Whenever Zimbabwe has experienced drought, the following negatives, among many others, have followed:

(a). Exogenous inflationary pressures;

(b). Increased pressure in the foreign exchange market, arising out of the combined effects of low exports and high import demand.

(c). Increase in unemployment, particularly in agriculture and agro-based industries;

(d). Drying up of some inland water bodies, effectively constraining irrigation capacity; and

(e). Strain on the country's livestock herd.

(f). Drought situations have always tended to weaken our spirits and resolve as a people, allowing ourselves to engage in the game of finger-pointing and blame apportionment.

(g). Drought situations in Zimbabwe have also tended to increase opportunities for rent-seeking behavior, outright corruption and indiscipline of all kinds and manner. We saw this in 1982/83, 1992/93, 2002/3 and we are beginning to witness the same in 2005. **While we can not stop the droughts, it is time to stop the blame-game and indiscipline.**

3. FINANCIAL SECTOR STABILITY

3.1 The maintenance of **a stable, dependable and development-oriented financial sector** remains one of the pre-dominant objectives of the Reserve Bank's Monetary Policy framework.

3.2 Against the background of a drought situation, it is critical that the financial sector adjusts and gears itself for the inevitably tough times ahead,… times when we do not expect them to remove the umbrella from those who need it, while at the same time, continuing to manage their affairs in a manner that does not endanger depositors' funds.

3.3 Innumerable research work has been carried out, which corroborates the positive correlation between financial sector stability and economic growth and development.

STATUS OF THE FINANCIAL SECTOR

3.4 Notwithstanding the tumultuous experiences in the banking sector in 2004, as Monetary Authorities, we wish to assure the public that the financial sector, as at 30 April, 2005, remained generally sound and ready to support the banking public, as well as the productive sectors of the economy.

3.5 In the past, our stated clean bill of health in the financial sector at any given position has been mistaken to imply or confer banks' financial health status into perpetuity.

3.6 As Monetary Authorities, we will continue to remain vigilant in promoting the stability of our financial system, as a necessary condition for economic growth and development.

Banking Sector …

3.7 As at 30 April 2005, the total number of banking institutions were twenty-eight (28), comprising of twelve commercial banks, four merchant banks, five discount houses, four finance houses and three building societies.

Asset Management Companies …

3.8 As at 30 April, 2005 twenty-six (26) licensed asset management companies were in operation, down from the thirty one (31) originally registered in 2004.

3.9 The Reserve Bank has noted with great concern that some asset management companies have relapsed into engaging in non-permissible activities in violation of the Asset Management Act [Chapter 24:26].

3.10 These institutions have been issued with corrective orders directing them to cease and desist from engaging in their illegal, usurious moneylending activities, in parallel gold, diamond and fuel market dealings and facilitations, among other wayward behaviors inconsistent with their core businesses.

3.11 Failure to comply within the time frames stipulated in the Corrective Orders will leave Monetary Authorities with no option but to take appropriate stern action against the institutions.

3.12 Over the period January to April, 2005, four (4) Asset Management Companies have been closed and are currently under liquidation, whilst one was placed under curatorship due to liquidity and solvency problems, as well as other transgressions.

3.13 As Monetary Authorities, we wish to advise Asset Management companies that upon expiration of current licenses, **a much tighter license renewal framework will apply**, such that those with unclean track-records will be compelled to wind down their operations.

Microfinance Institutions & Moneylenders…

3.14 As at 30 April 2005, 260 applications for micro-finance institutions and moneylenders had been processed by the Reserve Bank, following its assumption of the regulatory responsibility for the sector in January 2004. Of these, 133 (or 50%) have been duly licensed, with the balance still at various stages of the rigorous screening process.

3.15 Due to observed instances of microfinance institutions and moneylenders going astray off their statutory fields of operation, the licensing framework has been markedly tightened, as well as the follow-up supervision and surveillance systems.

3.16 To this end, we wish to advise the Nation that our surveillance capabilities from a logistical, mobility, systems and manning levels have been considerably strengthened.

3.17 As Money Authorities, we also wish to once again strongly warn those institutions operating without licenses that such breach of the law will be met with unrelenting regulatory enforcement.

ENHANCEMENT OF FINANCIAL STABILITY

3.18 In recognition of the central role played by efficient financial intermediation in promoting economic prosperity, the Reserve Bank continues to take various initiatives to enhance financial stability in the economy.

Initiatives to date…

3.19 Some of the initiatives to date include:

(a). full implementation of risk-focused supervision which emphasizes the assessment of the adequacy of a bank's risk management systems, among other things;

(b). the requirement for banks to allocate capital for market risk and operational risk with effect from January last year;

(c). subjection of banks that are part of financial groups to consolidated supervision, together with the associate companies and holding companies;

(d). subjection of all banking institutions to ratings by accredited credit rating agencies, beginning in the first quarter of 2005.

(e). issuance of various guidelines, in order to enhance good corporate governance practices and risk management systems as well as to instill market discipline; and

(f). formulation of a comprehensive troubled bank resolution framework, the implementation of which resulted in some of the troubled institutions that were under curatorship being amalgamated into the Zimbabwe Allied Banking Group.

Financial Stability Committee…

3.20 To discharge its mandate of promoting financial stability, the Central Bank recognizes the need to actively engage other financial sector regulators to ensure that all systemically linked institutions, including insurance companies; pension and provident funds; the stock exchange; as well as capital market players are subjected to formalized reporting and prudential oversight.

3.21 Efforts are already underway for the establishment of a Financial Stability Committee, whose role would be to lay the foundation for comprehensive pro-active and preventative responses to hedge against market-wide systemic risks in the broader financial sector.

REGULATORY REFORMS

3.22 Consistent with Monetary Authorities' announcement in January 2005, on the need for constant realignment of the regulatory framework to suit changing conditions in the environment, the application of provisions of the Banking Act were extended to the following statutes:

(a). Asset Management Act [Chapter 24:26];
(b). People's Own Savings Bank Act [Chapter 24:22];
(c). Collective Investment Schemes Act [Chapter 24:19];
Building Societies Act [Chapter 24:02];

(d). Moneylending and Rates of Interest Act, [Chapter 14:14].

3.23 This extension, as enunciated in Government Notice 101 of 2005, published on 11 March 2005, means that building societies, asset management companies, the POSB, collective investment schemes, microfinance and money lending institutions are now subjected to the same strict Supervision and Surveillance standards as is the case with all other banking institutions.

3.24 As Monetary Authorities, we therefore call upon players in these sectors to familiarize themselves with the supervisory and surveillance standards as laid out in the Banking Act, as well as the various Guidelines issued by the Reserve Bank, and ensure total compliance.

Corporate Governance…

3.25 As Monetary Authorities, we wish to re-commit that **"the adoption of sound corporate governance systems and practices in the financial sector is a non-negotiable requirement for every institution."**

3.26 Against this background, we call upon boards and management of financial institutions to adhere to the various Guidelines issued by the Reserve Bank over the past 15 months.

3.27 In line with this thrust to enhance corporate governance practices and standards in the financial sector, the Reserve Bank has, beginning the first quarter of 2005, introduced mandatory annual board and director evaluations which will be meticulously followed through.

ZIMBABWE ALLIED BANKING GROUP (ZABG)

3.28 While it is not our intention to single out one market participant among others for praise or otherwise, it is pertinent that we make special mention of ZABG.

3.29 As part of the comprehensive framework to stabilize the financial sector, the Reserve Bank announced, on 28 October 2004, plans to create the Zimbabwe Allied Banking Group (ZABG), putting together qualifying troubled banks, whose capital positions had been impaired beyond individual chances of survival.

3.30 This was done to protect depositors by giving them hope that one day, they will get their money back, as opposed to the route of immediate liquidation and getting minimal value out of the process.

3.31 Monetary Authorities are pleased to report that the ZABG was launched on schedule in January 2005, and is now fully operational, notwithstanding the transitory hurdles experienced during the formative days, as is typical with any ground-breaking and pioneering initiative.

3.32 **Our resolve to defend and protect the banking public from the claws of deceitful players has grown stronger with experience than before, as doing otherwise will be an unforgivable let-down on our part to the people of Zimbabwe.**

3.33 We will not hesitate to close any bank, big or small, local or foreign, however and by whomever owned and managed, if that bank or institution strays from the norm.

3.34 We will not waste our time engaging in episodes of hesitation or delayed decisions which characterized some situations last year in the sincere hope that managers and owners of these institutions will come up with “own” programs of resuscitation.

3.35 Policy decisions at the Reserve Bank are apolitical and are guided by clear lines of demarcation between personalities and the institutional decisions we take.

3.36 Our brief and legal mandate is to make and take National positions in all our decisions that are beneficial to the economy as a whole.

3.37 Accordingly, as a Supplement to this Monetary Policy Statement, we have prepared guidelines which discuss CURATORSHIPS and situations giving rise to such situations, so that shareholders, depositors and the public can appreciate the process that the Reserve Bank goes through before finally reaching that dreaded decision to place a sick institution under curatorship.

STRENGTHENING THE SUPERVISORY FRAMEWORK

Forensic audit and audit trail…

3.38 As advised in the 2004 Fourth Quarter Monetary Policy Review Statement, the Reserve Bank has embarked on comprehensive and systematic training programs on computer based auditing techniques for its supervisory arm, and the banking sector is, once again called upon to gear up their internal controls and audit systems.

Information Technology (IT) Systems Audits…

3.39 As at 30 April, 2005, all banking institutions, except one which delayed, submitted their financial results accompanied by IT audit certificates. The certificates generally showed that the institutions concerned were compliant.

3.40 The thrust on IT-based audits will continue to be enhanced to forestall instances of creative accounting in our banking system.

4. INFLATION DEVELOPMENTS

What is inflation?...

4.1 As Monetary Authorities it is imperative that we constantly remind ourselves and the general public on the meaning and interpretation of inflation developments, as often, there have been instances of misleading views on the country's recent experiences on the inflation front.

4.2 Simply defined, inflation is the sustained increase in the general level of prices of goods and services, over a defined period of time, which can be weekly, monthly, quarterly or annually.

4.3 This seemingly trivial "back to basics" definition is important, as repeatedly some economic players, have misinterpreted the sustained decline in the country's inflation since January 2004 to mean that shelf prices ought to have been declining as well, in absolute terms.

4.4 **It is important to note that as long as an economy has positive inflation, which may be declining, prices of goods**

and services would, on average, still be rising, though at a decelerating or slower pace than before.

4.5 It is for this reason that as Monetary Authorities we have singled out inflation as the biggest threat to economic prosperity and the single most important challenge faced by all Monetary Authorities.

4.6 In my first Monetary Policy Statement in December, 2003, I indicated that we had a colossal task ahead of us and that the economic future of the country depended on winning the war on inflation.

4.7 No other country in recent history has had to endure the challenges that Zimbabwe faced at the beginning of 2004, namely rampant inflation at 623% annually, rampant year on year money supply growth at 490.9%, persistent shortage of basic commodities and a rapidly contracting economy.

4.8 Tough measures had to be put in place to arrest this decline. This was done, but as is inevitable in any war, **at a great cost.** I stated at the beginning of our turnaround in December, 2003, that "if we, as Zimbabweans in our collectivity, not as individuals, wanted honey, we had to be prepared to be stung by the bees, and be prepared to subordinate the economic welfare of a group of individuals to the collective economic wellbeing and welfare of the whole Nation." We were stung.

4.9 Non-performing, and/or delinquent financial institutions collapsed, resulting in members of the public losing their hard-earned savings. This was one of the prices we had to pay and must still be prepared to pay as we steer the economy back on course.

4.10 As Zimbabweans, we were and are paying "our dues" for past delinquencies; we are paying for our past errors of commission and omission. Twelve months later, in our last Monetary Policy Statement on January 26, 2005, I stated that we were on track to recovery.

4.11 **We expressed a cautious level of satisfaction with the progress we had collectively achieved in our war against our declared enemy number one – inflation. We believed that we were well on our way to winning this battle and that the light at the end of the tunnel was shining ever more brightly.**

4.12 We even went to the extent of revising down our inflation targets in the belief that we would achieve these sooner than had originally been anticipated.

4.13 In December 2004/January, 2005, consumer confidence was at its highest level in five years. Wage and salary negotiations in the private sector were being amicably primed and negotiated on the back of the tremendous progress we had made on the inflation front and, indeed, we began the year with smiling faces and glitter in the eyes of many Zimbabweans, **until the drought beckoned our way, and with it, indiscipline in the economy.**

A BIT OF BASIC ECONOMICS ON INFLATION…

4.14 Most high-school economic students will point out that inflation has two principal causes, namely demand-pull factors resulting in the classic definition of “too much money chasing too few goods” (supply-demand inequalities) and cost-push factors arising from higher input costs, local and/or imported factors.

4.15 Our economy is **import-dependant** and, therefore, currency depreciation translates itself immediately into cost-push inflation, while currency shortages cause demand/supply inequalities.

4.16 This is basic economics ladies and gentlemen. Our inflationary environment has a combination of both inflationary types.

4.17 The contracting economy of the last few years resulted in falling productivity levels across the board. The resultant shortage of foreign currency has led to greater levels of currency speculation which, as stated above, has created cost-push inflation and put pressure on Monetary Authorities to depreciate our currency continuously in order to generate the survival and viability of our exporters.

4.18 Inevitably, devaluation, which can happen at the stroke of a pen, does not only bring with it a sensation of mixed emotions, but we firmly believe it is not the "be it all" answer to our challenges. Foreign exchange inflows are not as elastic to devaluation as some would want us to believe.

4.19 We have strongly resisted this approach for the simple reason that to depreciate our currency, without other supportive preconditions in the economy, will be to invite further cost-push or import-cost inflation.

4.20 **At the same time, we firmly agree that our exporters must operate viably and must be encouraged to grow but this is a classic chicken and egg situation, particularly in a drought situation.**

4.21 We believe that inspite of the distortionary effects of compensatory non-devaluation incentives that will be creatively put in place, the consequential economy-wide effects of the devaluation to levels being advocated by some economic commentators and players would be catastrophic to our situation in terms of landed or import cost of our food, fuel, electricity, raw materials, medicines and spare parts.

4.22 The measures to be unveiled in this Statement will reveal how we intend to approach the delicate balancing act between inflation fighting and export encouragement.

4.23 **In simple terms, any excessive weakening of the local currency will result in higher production costs, which in turn would lead to higher levels of inflation, which in turn would result in a further weakening of the currency and higher inflation. The question then is: where do we stop?**

4.24 Attainment of the twin objectives of inflation reduction to targeted levels, while at the same time, maintaining exporter viability, particularly in a hyperinflation environment is not an arm-chair or a simple text-book type assignment and very few countries and people, Zimbabweans included, have gone through what we are experiencing.

4.25 Whether some of these challenges are from natural causes, or are self-inflicted mistakes of judgment and whether the challenges are externally induced is not the issue. Rather, the issue is that these challenges are a reality which we must deal with, and deal with, some through orthodox and others through unorthodox means.

4.26 There is no need to turn back the hands of time, and what is critical now is how we can move forward and the initiatives have to come from us Zimbabweans, to fit the Zimbabwean situation.

Monthly Inflation

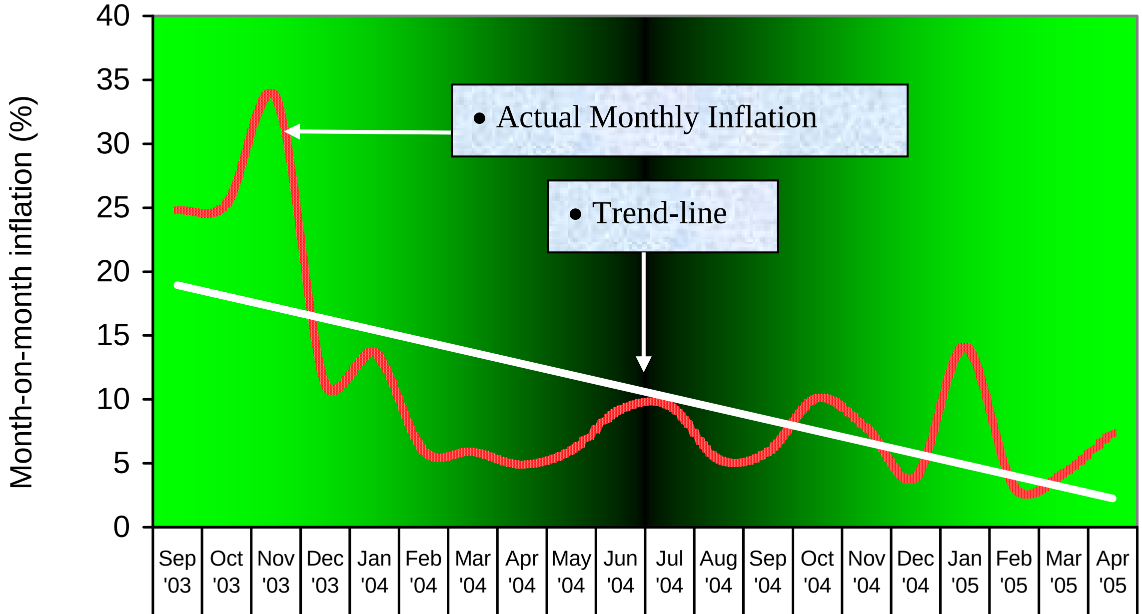
4.27 Month-on-moth, headline inflation, which relapsed to 14.1% in January, 2005, declined to 3.1%, and 4.2% in February, and March, 2005, respectively.

4.28 Reflecting the resurging inflationary pressures in the economy, and hence, the need for more aggressive anti-inflationary measures, monthly inflation rose to 7.4% in April, 2005.

4.29 As is further expanded later in the Statement, the unfolding drought situation is expected to exert a considerable degree of exogenous shocks on the economy's inflation outlook.

4.30 This inevitable development, thus, requires that more anti-inflation measures be put in place, so as to ensure that we steer the country's enemy number one (inflation) to sustainable low levels much quicker.

Month on Month Inflation Profile: September 2003 to April 2005



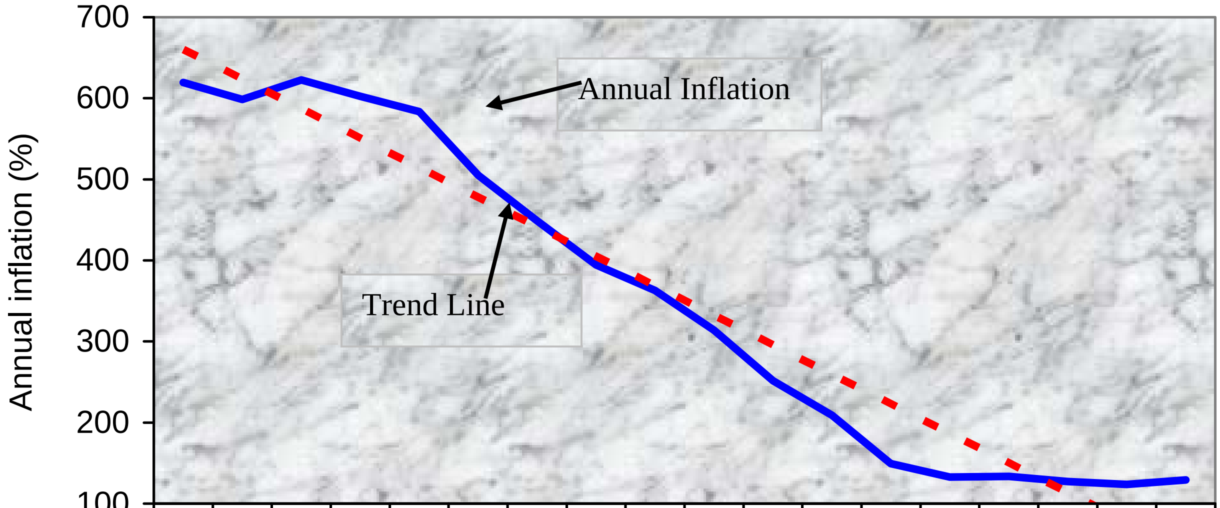
	Sep '03	Oct '03	Nov '03	Dec '03	Jan '04	Feb '04	Mar '04	Apr '04	May '04	Jun '04	Jul '04	Aug '04	Sep '04	Oct '04	Nov '04	Dec '04	Jan '05	Feb '05	Mar '05	Apr '05
M-O-M	24.8	25.3	33.6	11.2	13.7	6	5.9	4.9	6	9.2	9.5	5.3	5.9	10.1	7.75	3.9	14.1	3.13	4.2	7.4

Annual Inflation

4.31 Reflecting the combined effects of the demand management, as well as the supply side interventions which have been put in place since December 2003, the annual rate of inflation has been declining progressively from 622.8% in January, 2004, to 123.7% in March, 2005.

4.32 This downward trend, however, reversed in April, 2005, with the annual rate of inflation resurging up to 129.1%.

Annual Inflation Profile: November 2003-March 2005



	Nov '03	Dec '03	Jan '04	Feb '04	Mar '04	Apr '04	May '04	Jun '04	Jul '04	Aug '04	Sep '04	Oct '04	Nov '04	Dec '04	Jan '05	Feb '05	Mar '05	Apr '05
Annual	620	599	623	603	584	505	449	395	363	314	251.	209	149	133	134	127	124	129

Inflation Targets

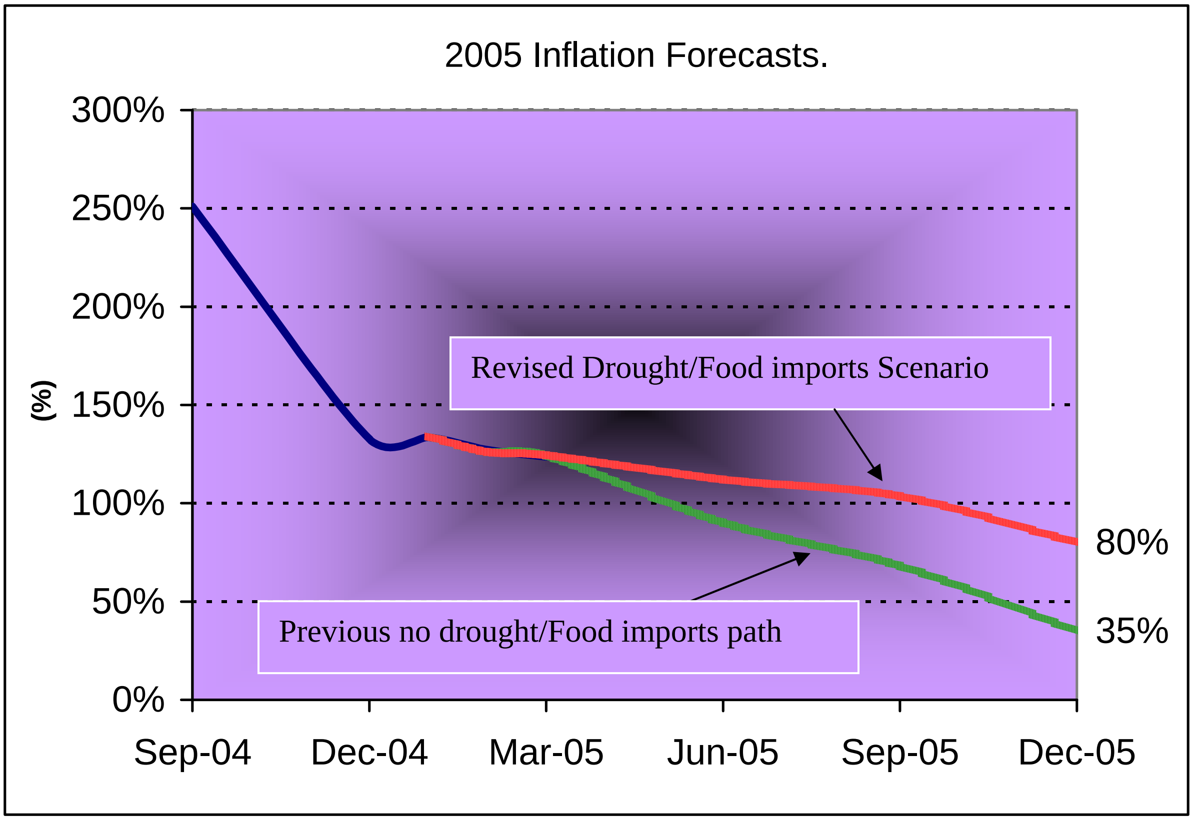
4.33 As has been intimated earlier, the unfolding drought situation, brought about by the sparse rainfall received in the 2004/2005 season, is **expected to moderate the pace of disinflation**, relative to the previously programmed course.

4.34 Ordinarily, however, any Central Bank Governor, the world over, when confronted with a significant exogenous supply-side shock, such as a drought, has one of two options to follow and that is to either accommodate the shock, through measured monetary austerity measures or rigorously tighten the vice to achieve set inflation targets at **any cost to the livelihoods of households and corporates.**

4.35 Each of these alternatives has its own merits and demerits, but as a Central Bank with developmental thrust in an agro-based economy prone to droughts, **we will not pursue policies that unduly undermine people's livelihoods to second place.**

4.36 At the same time, we will not sit back and surrender our fight against inflation and other economic ills to unpredictable and uncontrollable measures.

4.37 The unfolding drought situation has, therefore, made it necessary that as Monetary Authorities we revise our annual inflation rate target from the previous 20-35% to 50-80% by December, 2005.



Other Exogenous Drivers of Inflation

4.38 Over the past few months, the Reserve Bank has put in place Sub-Teams to scrutinize in detail all other exogenous, non-monetary drivers of inflation in our economy, especially those that can be tamed through better policy coordination among stakeholders and responsible business practices in the economy.

4.39 Identified through this focused research work were the following major drivers;

(a). Food

(b). Rent and rates

(c). Education

(d). Energy

4.40 A separate handout entitled, **"Inflation Drivers in Zimbabwe",** which is part of this Monetary Policy Statement devotes considerable space on inflation drivers in our economy.

NATIONAL INCOMES AND PRICING COMMISSION

4.41 As Monetary Authorities, we once again call upon the relevant authorities, especially the Ministry of Industry and International Trade, as well as the National Economic Consultative Forum (NECF), and the Tripartite Negotiating Forum (TNF), to urgently coordinate and formalize the formation and operationalization of an independent National Incomes and Pricing Commission whose main functions would include, among other roles:

(a). Maintain a comprehensive nationwide database on pricing and production across all major sectors of the economy;

(b). Carryout comprehensive surveys and inspections on pricing and incomes policies; and

(c). Initiate corrective measures in cases of unscrupulous business practices on the country's pricing and incomes system.

4.42 As Monetary Authorities, we also wish to urge Government, Labor and Business to renew the spirit of cooperation towards the establishment of a **Social Contract**, under the auspices of the Tripartite Negotiation Forum (TNF), which is an absolute imperative in managing diverse interests in a sustainable manner, particularly in hyper-inflationary environments.

4.43 I also wish, at this point to thank all the members of the Reserve Bank's Foreign Exchange Advisory Board, whose tireless commitment continues to be a source of inspiration and guidance to your Governor in the quest for policy alternatives to stabilize the economic environment

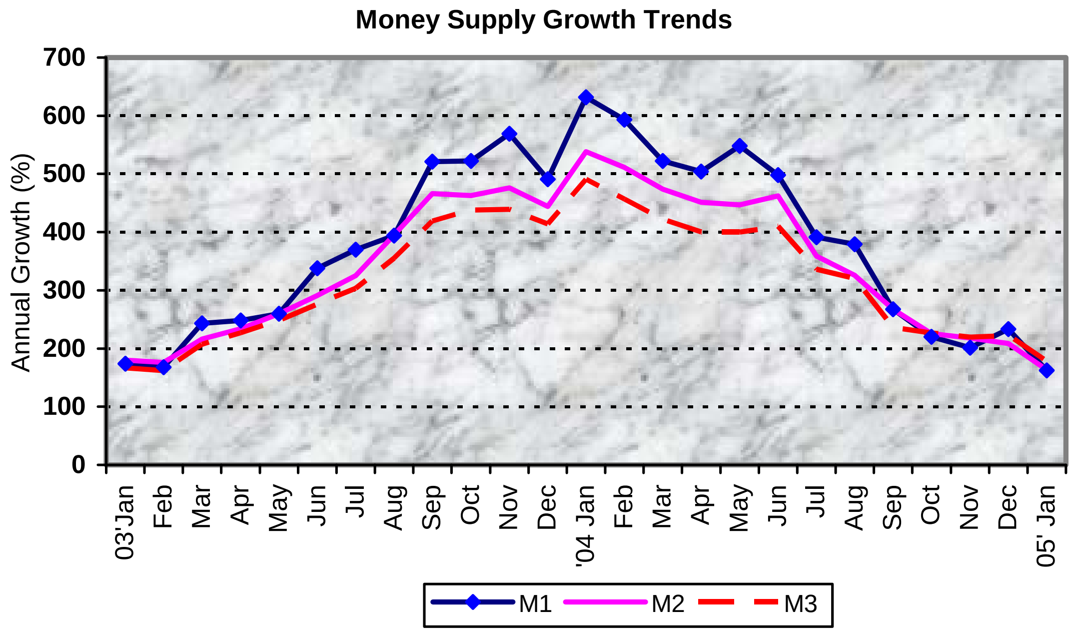
4.44 The same appreciation also goes to all members of the public, here at home and Zimbabweans in the diaspora, who also continue to contribute positively to the turnaround agenda.

5. MONETARY AGGREGATES

Money Supply Developments and Projections

5.1 Tight monetary control remains a major objective of the Central Bank, underpinned by the determination to break the backbone of high inflation in the economy.

5.2 Consistent with the anti-inflation drive, annual broad money supply (M3) growth has trended downwards from **490.9%** in January 2004, to **177.6%** in January 2005. The major monetary aggregates – M1, M2 and M3 have trended downwards since the beginning of 2004.



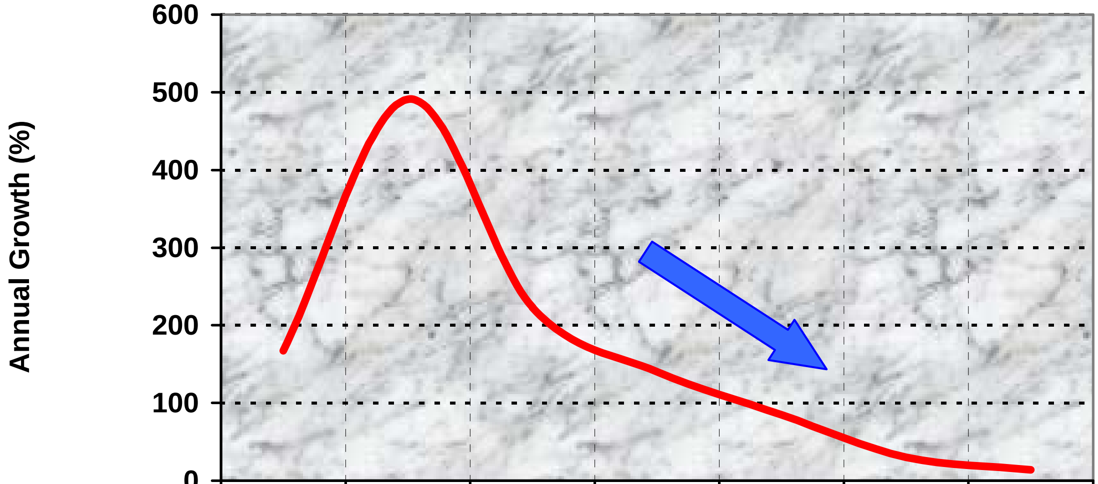
Monetary targets

5.3 Successful reduction of inflation to low and stable levels demands that, over the medium to long-term, the country's money supply aggregates grow at levels that are consistent with real economic activity.

5.4 Consistent with this, the following stringent targets for containment of money supply growth, necessary to support the disinflation program will be pursued, significantly reducing annual broad money supply growth to below 90% by end of 2005, and 14% by the end of 2006.

5.5 The revised target takes cognizance of the anticipated pressures emanating from the inevitable drought mitigation measures envisaged over the outlook period.

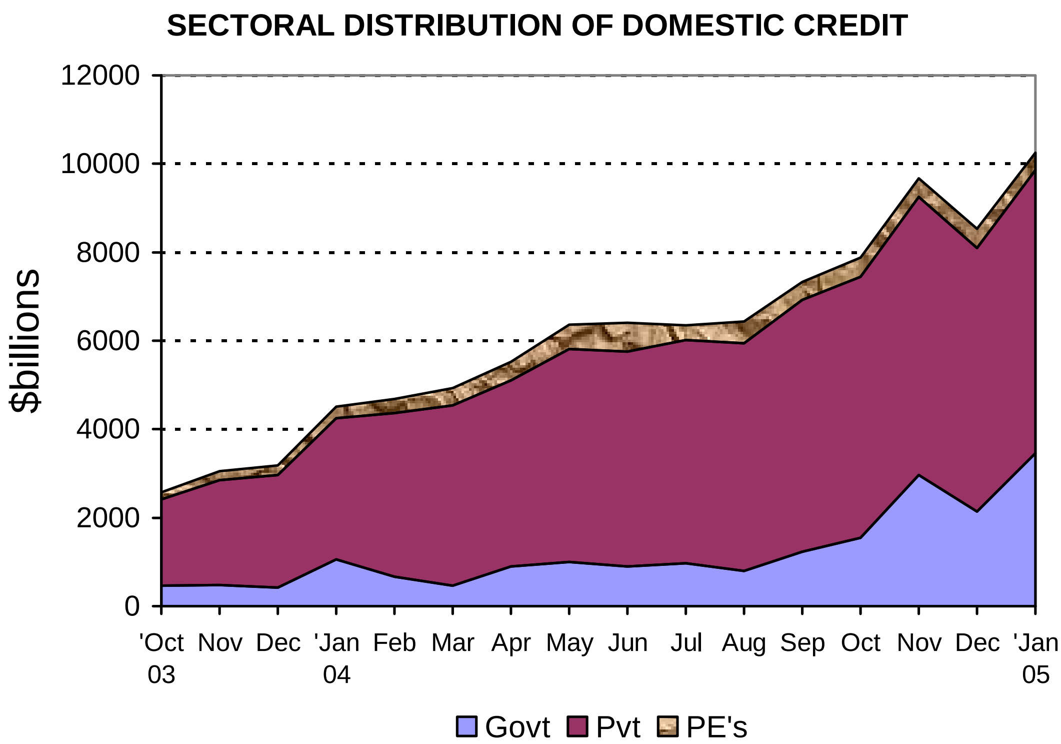
M3 Annual Growth Targets



	Jan'04	Jan'04	Dec'04	Jun'05	Dec'05	Jun'6	Dec'06
M3 growth	167	490.9	222.6	140	85	30	14

Domestic Credit Allocation

5.6 As Monetary Authorities, we are pleased to report that the private sector remains the main recipient of domestic credit in the economy, accounting for 63% of domestic credit, ahead of the Government, 34% and Public Enterprise sectors, 3% as of January, 2005.



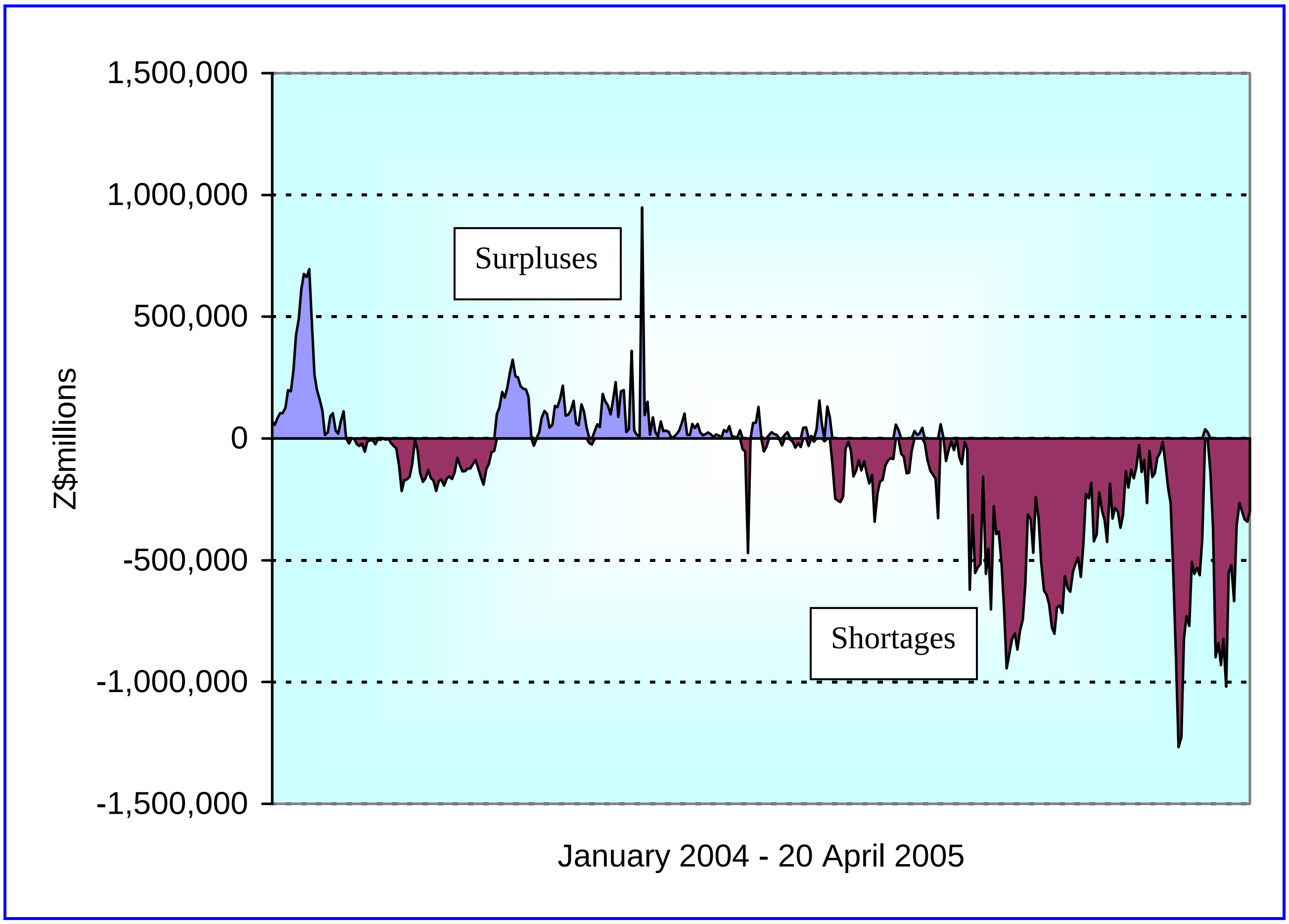
6. LIQUIDITY MANAGEMENT

Money Market Position

6.1 Consistent with the Bank's targeted disinflation program, and in line with monetary policy pronouncements over the past months, the Bank's liquidity management program has been, and will continue to target maintenance of tight market positions.

6.2 During the first quarter of 2005, average daily market shortages ranged between $381.3 billion and $700 billion, effectively leveraging against speculative and non-productive borrowing from the money market.

Daily Money Market Positions



Market Accommodation

6.3 The Reserve Bank's accommodation policy continues to be strictly guided by **the lender-of-last-resort objective**, so as to promote both sound financial management practices by banks and, steer monetary aggregates towards targeted levels.

6.4 Monetary Authorities, therefore, once again call upon players in the banking system to adeptly manage their funding positions, as well as increase inter-bank trading among themselves.

7. INTEREST RATE POLICY

7.1 Under the Reserve Bank's dual interest rates policy which has been in operation since January 2004, the major thrust was to uplift capacity utilization in the productive sectors, at the same time, curbing speculative demand for credit by maintaining positive real interest rates on non-productive borrowing.

7.2 Whilst this approach gave impetus to the productive sectors, the growing speculative tendencies in the economy, particularly through misdirection of the concessional finances into non-productive stock market and parallel foreign exchange dealing, undermined the intended objective of reviving economic productivity through the interest rate instrument.

7.3 This, coupled with the unfolding drought, is fomenting a measurable build-up in the inflationary pressures which in turn threaten to reverse the turnaround gains registered to date.

7.4 Inflation stabilization, as the primary objective of the Central Bank, has, thus got to continue guiding and determining the course and priorities of monetary policy interventions that as Monetary Authorities we have to implement.

7.5 The past 17 months have taught us that at the center of economic viability of the productive sectors aught to be the following factors:

(a). Discipline in whatever we do as individuals or institutions of Government, parastatals or the private sector, and adoption of good corporate governance, transparency and accountability.

(b). Innovation in cost-saving, technological enhancements, re-alignment of production systems, supply chain logistics and partnerships, marketing arrangements, quality and reliability in whatever we prime ourselves to do.

(c). Forward-looking and a never say die attitude to the many challenges we may face at the workplaces.

7.6 Under this second phase of the turnaround program, greater focus is now being placed on motivating our producers to adopt efficiency norms to be part of their everyday corporate and public sector existence, with the interest rates instrument being elevated more as a tool to stabilize inflation.

THE NEW INTEREST RATE REGIME AND ITS RATIONALE IN THE FIGHT AGAINST INFLATION AND THE ENHANCEMENT OF EXPORT VIABILITY.

7.7 In my January 2005 Monetary Policy Review Statement, we decided to take a gamble and adopted a more accommodative Monetary Policy stance.

7.8 We expressed a desire to see lower interest rates with three objectives in mind namely:

(a) To encourage the mobilization of resources into investment, thus enhancing productivity in all sectors of the economy

(b) To assist new farmers in obtaining inputs to enhance agricultural output.

(c) To reward Zimbabweans for their contribution to beating our inflation targets and bringing in more foreign currency into the official markets.

7.9 A year-end inflation rate of 132.9% against the initial target of 200% and foreign exchange inflows of US$1,7 billion against US$300 million achieved the previous year were no mean achievements. We justified ourselves and put our foot off the paddle a little bit.

7.10 Regrettably, as stated earlier, this policy did not achieve the desired objectives as we all know. Instead, speculative activity increased significantly in various sectors of the economy and the inflation dragon almost became immune to our medicine.

7.11 I have already indicated that the illegal “parallel” market for foreign currency has surfaced again, and that measures are being put in place to curb the activities of this market “decisively.”

7.12 I have also already indicated that whilst we accept that there will always be unscrupulous elements in every society, we will not allow these elements to dominate our sphere, sabotage our turnaround and derail what has already been an extremely difficult journey.

STOCK EXCHANGE ACTIVITIES

7.13 The Stock Market has trebled in a space of four months on the back of what Allan Greenspan, Chairman of the US Federal Bank referred to as “irrational exuberance”.

7.14 I am not attacking the Stock Market as I believe that is an important vehicle in the economic well-being of the country. However we are convinced as Monetary Authorities that a large percentage of this “gain” is a result of the speculation arising from the misdirection of cheap money made available through our accommodation policy.

7.15 Some dually listed counters on the Zimbabwe Stock Exchange have become conduits for externalization of foreign currency and parallel market dealings relating to proceeds of ill-gotten wealth, property sales and company profits.

7.16 These counters will, with immediate effect, attract our appetite for continued scrutiny.

7.17 I am aware that we should have foreseen this scenario through the abuse we had witnessed in the disbursement and utilization of the Productive Sector Facility (PSF) which comes to the end of its tenure on 30 June, 2005, as well as the property boom in sales, proceeds of which were directed to Asset Management Companies, Banks and other financial institutions.

7.18 The activities of Estate Agents and Rental Agencies will, from now onwards, also come under the scrutiny of the

Central Bank, as these have been used as conduits for parallel market dealings, rate distortions, externalization, and unscrupulous rental agreements.

7.19 The crowding out of local tenants and entrepreneurs in favor of those who agree to pay in foreign currency, which foreign currency is then either externalized or converted into local currency at parallel market rates is of interest to us.

7.20 Airline bookings and travel agents have also been a major source of interest and exchange rate distortions in our system. These too will, with immediate effect, attract our appetite for scrutiny.

7.21 The Reserve Bank Exchange Control teams, together with their counterparts in the Bank Use Promotion and Anti-money Laundering Division, assisted by the National Economic Conduct Inspectorate (NECI), the Anti-Corruption Department teams, will be having regular “cups of tea” with players in the above sectors to “better understand” those operations and to take corrective measures in cases needing correctional assistance to discourage them from continuing with their economic waywardness.

7.22 Through the PSF, companies were allowed to borrow at subsidized interest rates to finance increased productivity. We discovered, as reported to the Nation before, instances of companies accessing this cheap finance, yet paying fat dividends to their shareholders or putting the funds into either the parallel market or in cross-company holding ventures disguised as group treasury functions or investments. **How much policing are we expected to do?**

7.23 **This was not part of the equation.** We expected Zimbabweans to behave more honorably than that. We feel let down. We expected our gestures and incentives to enhance productivity, to ameliorate the hardships that borrowers had earlier on reported with hysterical voices, to be suffering.

7.24 **We did not expect our incentives and subsidies to fuel speculation and reverse the gains we had achieved with so much pain.**

7.25 As I have stated over and over again, all turnarounds are burdened with pitfalls. Success depends on identifying these pitfalls and steering the ship back on course. We have two choices:

- Either we can sit back and hope the problem goes away, which is not a viable option or,
- we tackle the challenge head-on, which is our only viable option.

7.26 Maintaining the status-quo **WILL** result in a return to runaway inflation which is unacceptable. Our march toward low inflation has stalled as both the month-on-month and year-on-year figures for the month of April, 2005 have shown.

7.27 The only option available is to take a double-dose of medicine and embark on another round of belt tightening.

7.28 Whilst this is regrettable, the harsh reality is that failure to **ACT** now may result in the country seeing 200% inflation soon before it sees the 50 – 80% we are now projecting for this year.

7.29 A combination of efforts from the fiscal side, monetary, law enforcement agents, the judiciary, employers, workers, the media and the population in general is required and required yesterday. That is the urgency with which we want to approach the backlog in our performance.

7.30 We all have a part to play in the catch-up and correctional work and it is not the Reserve Bank or the Governor's assignment alone.

7.31 **We have made too much progress to accept defeat and defeat we cannot accept.**

SELF-FULFILLING PROPHESY…

7.32 As if to fulfill our own prophecy, at the last Monetary Policy presentation in January 2005, we implored on the Nation not to forget the painful lessons of past recklessness and indiscipline.

7.33 We begged the Nation not to get complacent too soon and think that we are fully out of the "woods". Paragraph 29.1 to 29.13 on pages 68 and 69 of the January 26, 2005 Monetary Policy Statement could prove refreshing to many who are tempted to forget the past.

7.34 I alluded to the painful memory of prices doubling every month, to the inconvenience and frustrations associated with shortages of basic commodities, fuel queues, electricity blackouts, backlogs at mortuaries, the plight of school going children, the plight of the elderly and the unborn; all of which we warned could easily return to haunt us if we did not take seriously the collective task and medicine required to sustain the turnaround of our economy. These sad episodes of economic relapse are too recent and too painful to ever accept again.

7.35 Economic turnarounds can not be casual assignments left to after-thoughts, to one institution, individual or team. We thus note with concern the irrational exuberance on the part of some players in society and the economy who seem to forget that the job is not yet done to completion.

7.36 The paint is still "too wet" for us to begin to lean against the wall, without our shirts or dresses being soiled or lifting off the paint, a mistake which would require that the job be redone. Turnarounds are tortuous journeys with no shortcuts.

THE CASE FOR INTEREST RATE POLICY REVIEW…

7.37 The core questions confronting us on the interest rate front is the harsh decision of whether to go for cheap consumptive financing obtainable without difficulty but which would result in hyper-inflationary pressures or **opt for an expensive and responsible financing regime, but one that would result in stable input costs and low inflation.**

7.38 Input costs, or raw materials, **ladies and gentlemen**, form the largest expense heading in any average Zimbabwean company's operations.

7.39 An analysis of recent financial statements from many of these companies reveals that there is a **direct inverse relationship between the costs of inputs and the level of interest or financing costs.**

7.40 The lower the interest rate, the higher the cost of other inputs. **Business has to accept that cheap credit from banks is simply not the answer to their viability challenges.**

7.41 We have a vibrant, though sometimes irrational, Stock Market which is ready to be used as a vehicle for sourcing cheap finance in the form of equity.

7.42 As part of broadening and indigenizing the ownership of businesses, especially in the manufacturing sector, **owners and shareholders of businesses should be prepared to relinquish a portion of their shareholdings to access cheap funds in the form of interest free, equity finance.**

7.43 **We encourage them to go into joint ventures technologically, market or production-wise in order to survive and succeed in a sustainable way.**

7.44 The country cannot afford to continue paying for their inability or refusal to structure their organizations ownership structures appropriately or worse still, for their greed because they do not wish to share ownership of their business with some other interested parties with the capital to inject or other enabling success factors.

7.45 **We have seen too many companies benefiting from low interest rates, yet they are owned by a handful of**

individuals. This is not our idea of broad-based empowerment or indigenization. This is not our idea of subsidization.

7.46 We thus, believe that genuine shortages of working capital can be corrected by widening ownership either through the Zimbabwe Stock Exchange, through private placements or through disposal of non-core assets and activities which are plenty in most of the companies that have borrowed from the PSF. The banking sector is geared to offer technical and advisory assistance to help in the restructuring of company balance sheets.

7.47 We also have companies and individuals who are on an “acquisition-spree” using cross-holdings in companies which borrowed from PSF.

7.48 Instead of applying the profits generated by the business to enhance their capacity or get rid of debt, the low interest rate is making borrowing more attractive while the shareholders are stashing profits into non-core, stock market acquisitions, playing the parallel markets, or real estate markets.

7.49 Some are applying those profits towards the importation of luxury vehicles, whiskies, toys and electrical gadgets with no conscience whatsoever. The same unbridled greed which had gripped the financial sector in 2003 and led to their difficulties in 2004 is what we are observing in the wider economy.

7.50 The following industry cost structures serve to illustrate the fact that financing costs or interest rates are not the real causes of company difficulties but cost of raw materials or primary inputs which are being driven by parallel market activities that are in turn being driven by a few individuals, some exporters and retailers.

7.51 The result is that the whole economy is being indexed to the activities of these few illegal dealers! **That we cannot allow to continue unchecked.**

Major Cost Drivers

Cost-Line	**Average Proportion**		
	Agriculture	Mining	Manufacturing
Raw Materials	51%	34%	47%
Wages/Salaries	23%	13%	10%
Finance Charges	7%	11%	6%
Fuel	1%	6%	4%
Electricity	1%	3%	2%
Other	16%	33%	31%
TOTAL	**100%**	**100%**	**100%**

7.52 **It is against this background that we have reviewed our policy of low interest rates, reverting to much tighter control of money supply.**

8. TIGHTER, SELECTIVE AND TARGETED SUBSIDISED BORROWING

8.1 **Whilst we accept that there may be casualties in the non-targeted support sectors and groups, especially to those who do not wish to heed our advice to recapitalize their operations with equity-type finance, we believe that the**

benefit to the economy as a whole far outweighs the cost in terms of these unintended casualties.

8.2 Inflation might go up initially, but will come down as the economy adjusts to the new policies and, thus, we forewarn Zimbabweans not to panic when we experience further difficulties in the initial stages of implementing these new policies.

AGRICULTURE… OUR TARGET SECTOR

8.3 We also accept, however, that the financing of certain sectors of the economy, particularly the agriculture sector, will have to remain **subsidized but this time round, tighter structures and monitoring frameworks will be put in place to guard against abuse.**

8.4 **Exporters too, in the wider economy, with confirmed and irrevocable orders will also be subsidized in a more direct and targeted way than has ever been the case before.**

8.5 The idea behind these structures and policy frameworks is to curb speculative activity with positive results accruing to the fight against inflation, while bolstering performance in the export and agriculture sectors of the economy.

8.6 Against this background, the following interest rates regime has been introduced, with immediate effect:

Accommodation rates

8.7 On the back of the high upside risk on inflation envisaged over the outlook period, the following accommodation interest rates would apply, with immediate effect:

(a). Secured lending rate: 160%.per annum, daily compound.
(b). Unsecured lending, strictly on exceptional cases: 170%.per annum, daily compound.

8.8 All market rates on both the assets and liabilities sides are expected to reflect this underlying policy thrust, which is expected to have the following transmission mechanisms:

(a). Constrict inflationary demand for credit, particularly that for consumptive expenditure, which would further propel the disinflation program towards its objective.

(b). Uplift aggregate savings levels, which would have the dual desirable effects of mopping up excess liquidity from the market. **This should also uplift the welfare of our pensioners.**

(c). Build capacity to support domestic investment outlays, underpinned by savings growth.

(d). Redirect the Zimbabwe Stock Exchange to be more supportive of the productive sectors of the economy, as opposed to being a hub for speculative trading of stocks, which creates inflationary nominal wealth.

(e). Create opportunities for the Zimbabwe Stock Exchange to create a market for secondary listings.

(f). Encourage new listings on the Zimbabwe Stock Exchange as companies seek to restructure their balance sheets with equity-type finance.

8.9 Against the background of the unfolding drought situation, and the need to promote exports, as well as growth in national housing as part of the developmental agenda, a new support framework for agriculture, exports and the housing sector has been introduced, with immediate effect.

DROUGHT MITIGATION AND PRODUCTIVITY ENHANCEMENT FACILITY

8.10 In order to mitigate the unfolding drought, as well as setting the foundation of lasting revival of the country’s agricultural sector, a **$5 trillion Agricultural Sector Productivity Enhancement Facility (ASPEF), has been put in place to support agriculture in its totality, under the following general conditions:**

(a). The applicable interest rate to all farmers shall be **20% per annum.**

(b). Funds will be for **both working capital and expansion outlays.**

(c). Applicants will be processed through farmers’ bankers.

(d). The tenor of facilities will be flexible, to take into account the nature of the underlying project being financed.

(e). To minimize diversion of funds into non-productive applications by farmers, a significant component of the funds will be disbursed directly to input or service providers, with checks and balances which guard against fake invoices and collusion between suppliers and beneficiaries in the form of order cancellation or transfers after we have disbursed the funds and/or over-invoicing with compensatory refunds being cooked between supplier and customer at later stages. We are aware of this cheating method and are prepared to deal with it.

8.11 The sources of funding for this facility would be:

(a). Statutory reserves levied on bank deposits.

(b). Repayments of PSF loans terminating on 30 June, 2005.

(c). Part of the Parastatals and Local Authorities Reorientation Program (PLARP) funds, **which would be part re-channeled, on a targeted basis, to agricultural activities**

which have a quick turnaround cycle in generating foreign exchange. The foreign exchange so generated will then be earmarked for parastatals and local authorities to fund their turnaround outlays that require hard currency.

8.12 Parastatals and Local Authorities must realize that production comes before consumption, hence, our decision to redirect some of their local currency allocations under the PLARP program to activities that generate foreign currency first, then on the back of this approach, avail foreign currency to them for those revival activities of their program in need of foreign exchange.

8.13 Depending on assessed needs, a blanket 40% of the initial local currency PLARP allocation to each parastatal or local authority beneficiary will be re-channeled into export generation capacity build-up and support, and from the foreign exchange generated, recoup the hard currency amounts needed to finance their external payments needs under PLARP.

8.14 The balance of 60% of the allocation is what will continue to be availed to beneficiaries who would have complied fully with all the preconditions of PLARP disbursements.

Is Zimbabwe the only country to give special support (subsidies) to agriculture?

8.15 As Monetary Authorities, we derive confidence on the sustainability of this new thrust on agriculture from the observed empirical use of targeted support to agriculture as a strategic sector in other economies all over the world.

8.16 Across Asia, Europe, the Americas and elsewhere in the world, agricultural producers receive direct and indirect special support from their Governments, as part of deliberate policies to guarantee food security, as well as job creation by those countries.

8.17 Indeed, it is on the back of the centrality of agriculture in world economies that there has been considerable controversy and division within the World Trade Organization (WTO) circles. There exists polarization of opinion between developed and developing countries over the issue of subsidies to agriculture.

8.18 This is particularly so on such matters as subsidies to agriculture, tariff and non-tariff barriers, as well as the debate on trading rules on genetically modified organisms (GMO), among other focal areas.

8.19 We believe that as Monetary Authorities, we have taken the correct approach.

EXPORT SUPPORTIVE INTEREST RATES

8.20 All exporters, **including those in agriculture**, shall access funds for working capital and verifiable expansion programs at **a concessional rate of 5% per annum.**

8.21 This **5% export support window, which will also apply to tobacco, cotton and wheat growers who are not direct exporters but have a critical role in generating/saving foreign exchange**, will apply **strictly** under the following conditions:

(a). Where producers have confirmed export orders on the back of which they need pre-shipment finance. **The funding will be done on strict covenants that bind the exporters to deliver the attendant foreign exchange.**

(b). They have bankable expansion programs that are rigorously stress-tested, with credible capacity to uplift export performance. This condition also covers financing needs for working capital purposes.

(c). Where exporters have shipped their goods and require post-shipment bridging finance against CD1's.

8.22 In order to avoid abuse of funds into speculative activities, disbursement of funds will be made under the following strict conditions:

(a). That each beneficiary will declare to the Reserve Bank, through their bankers, projected monthly cash-flows statements.

(b). That each month, the exporter will declare a statement of financial assets, including money market and capital market investments.

(c). That supported exporters in cases where support funds have not been repaid can not unilaterally declare dividends without Reserve Bank involvement and approval. Breach of this requirement would trigger an automatic recall of the support loans and invite other deterrent punitive measures.

(d). Other operational guidelines on these facilities will be issued to the market in due course, in liaison with the banking fraternity and other stakeholders.

NATIONAL HOUSING FACILITY.

8.23 Access to housing as a basic human necessity has become one of the main challenges confronting the country.

8.24 As Monetary Authorities, we recognize the necessity to provide support to the country's developmental aspirations through affordable financing packages to the housing sector.

8.25 Consistent with this recognition, we are pleased to unveil a National Hosing facility of $1 trillion, over and above the $750 billion Homelink Housing facility already in place, which shall operate, with immediate effect under the following conditions:

(a). The applicable rate of interest shall be **20% per annum.**

(b). Financing will strictly be for **construction of new houses, and will not be for purchase of existing structures.**

(c). Funds will be disbursed directly to input suppliers or service providers, including contractors, brick and cement suppliers, among others.

(d). The concept of building brigades needs to be revived for brick-making, building and construction of houses. This allocation should free fiscal resources in the budget to go towards resettlement and new farmer infrastructure and housing facilities through the Rural Housing and Infrastructure initiative of Government.

8.26 Under this facility, 75% of the funds will be earmarked to go towards high density residential houses; whist the remaining 25% is targeted to benefit medium-density house seekers.

8.27 Local Authorities are encouraged to identify land for these initiatives and work hand in hand with building societies, contractors and other service providers to make this program a success.

8.28 The deliberate omission of the low density bracket is meant to ensure that the facility has the greatest impact in reducing the long backlog on housing, particularly in the high density to middle income category areas. There are no funds for instance for the Northern Suburbs development in Harare, among other high income areas in other cities and towns.

8.29 **Access to the newly constructed houses will be based on verifiable municipal waiting lists.**

8.30 We wish to pre-warn municipal housing officers that any forms of corruption in administering the waiting lists will not be tolerated.

8.31 With rent and rates constituting around 16% of Zimbabwe's CPI basket, this intervention is expected to contribute positively to the anti-inflation drive.

SOURCES OF FUNDING

8.32 The National Housing Fund will be supported from statutory reserves raised from building societies and disbursed in tranches as progress is made.

8.33 The statutory reserve level for building societies has been, **with immediate effect, revised to 35% of total liabilities not supporting mortgages.**

8.34 The previous reduction to 10% of 30% of liabilities to the public has, therefore, been rescinded, as building societies have been found to deploy the funds released under this window in the money market, contrary to policy expectations that this money go towards the housing sector.

8.35 Applicants on the facility would, therefore, approach any building society for evaluations, before final approval by the Reserve Bank.

8.36 Ministry of Local Government and National Housing approved building brigades with proper and verifiable structures and registered building contractors will also be eligible for support.

8.37 The Reserve Bank will carry out close surveillance on building societies to ensure maximum compliance with the covenants of this facility.

8.38 Details of the operational modalities of this facility will be circulated in due course.

COMMERCIAL INTEREST RATES

8.39 It should be noted, however, that creation of **the above special facilities is not foreclosing the expiration and winding down of the Productive Sector Facility (PSF) which is ending on 30 June, 2005.**

8.40 Any other borrowings outside agriculture, export support or housing construction will, therefore, be at commercial market rates, under the new thrust.

8.41 Corporates are, therefore, once again called upon to adopt prudent capital budgeting systems, reducing high levels of gearing through alternative means of funding, including equity finance and prudent dividend policies that cultivate back earnings into the business.

8.42 Whilst this stance may appear like shock-therapy, this reform has become a necessary tool to arrest the resurging inflationary pressures, as well as cultivate financial management discipline in our corporate sector.

8.43 **If the country withstood the pain of inducing discipline in the banking sector during 2004, there should be no selective standards for the same discipline when it comes to the generality of the private sector.**

8.44 We do not expect cry-babying and all forms of excuses and alarm bells that are usually associated with this sector, which is well known for being vociferous and hysterical whenever measures viewed as painful to them are introduced.

8.45 Industry leaders are, therefore, forewarned against attempts to derail the turnaround path we have set, as no political, racial, social, ethnic, regional or religious lobbying against these measures will be considered.

8.46 Just as the same was not tolerated when we applied the same medicine to the financial sector last year, with beneficial impact, the same is anticipated from these new but tough measures.

8.47 We also urge our Government, labor and industry leaders to bear with us as we administer this medicine.

EXPORT MARKET DEVELOPMENT FUND

8.48 To benefit from low interest rate facilities, players in these sectors will have to shift towards exports and where a company does not have export markets, the Reserve Bank has put in place a Z$100 billion fund to develop those markets.

8.49 This fund has been created for access and administration through ZIMTRADE and the Ministry of Industry and International Trade.

8.50 Modalities of access to these funds and the qualifying criteria will be released to the market in due course but not later than 1 June, 2005.

8.51 If taken correctly and to the letter, the benefits should accrue to the overall economy as a whole by the end of the year.

9. FOREIGN EXCHANGE GENERATION

9.1 Zimbabwe remains a high import dependent economy, requiring that greater focus be placed on further supporting all generators of foreign exchange.

Foreign Exchange Inflows

9.2 On a comparative basis, the first 4 months of 2005 performed marginally lower than the corresponding period in 2004, in terms of total formal market inflows of foreign currency.

9.3 Foreign exchange inflows during the period January to April 2005 amounted to US$385.7 million, compared to a total of US$448.6 million, received over the same period in 2004.

9.4 Gold exports during the first 4 months of 2005 realized a total of US$80.4 million, compared to US$90.7 million during the same period last year.

9.5 In 2003, total sales of the precious metal fetched in US$43.9 million, during the first three months of that year.

Sources and Application of Foreign Exchange

Table 1 (a). Summary of Inflows (USD m) in 2005

	Jan 2005	Feb 2005	Mar 2005	April 2005	TOTAL Jan-Apr 2005	TARGET Jan-Dec 2005
Auction Purchases[1]	75.3	70.6	66.4	71.9	**284.2**	**1 480.0**
Gold	18.3	24.0	26.1	12.0	**80.4**	**585.0**
Tobacco[2]	0.0	0.0	0.0	2.1	**2.1**	**250.0**
MTA/Diaspora	2.8	5.6	4.1	1.1	**13.6**	**585.0**
Other[3]	0.0	5.4	0.0	0.0	**5.4**	**350.0**
TOTAL	**96.4**	**105.6**	**96.6**	**87.1**	**385.7**	**3 050.0**

Notes:

1) *Export proceeds, FCA Liquidations, free funds and pre-auction purchases. Excludes the portion of gold sale that is allocated to the auction.*
2) *Represents amounts actually received by the RBZ.*
3) *Includes proceeds from facilities negotiated by the RBZ, in 2004.*

Table 1 (b): Summary of Inflows (USD m) in 2004

	Jan 2004	Feb 2004	Mar 2004	April 2004	TOTAL Jan-Apr 2004	TOTAL Jan-Dec 2004
Auction Purchases[1]	35.9	71.1	105.9	92.8	**305.7**	**1 223.2**
Gold	25.5	18.7	23.6	22.8	**90.7**	**273.8**
Tobacco[2]	0.0	0.0	0.3	2.7	**3.0**	**49.9**
MTA/Diaspora	0.0	0.0	0.0	0.1	**0.1**	**54.8**
Other[3]	24.8	0.0	24.3	0.0	**49.1**	**109.1**
TOTAL	**86.2**	**89.8**	**154.1**	**118.4**	**448.6**	**1 710.8**

Table 1(c): Summary of Inflows (USD m) in 2003

	Jan 2003	Feb 2003	Mar 2003	April 2003	TOTAL Jan-Apr 2003	TOTAL Jan-Dec 2003
Auction Purchases[1]	3.3	3.3	7.2	3.4	**17.2**	**45.3**
Gold	14.9	14.4	9.7	4.9	**43.9**	**152.3**
Tobacco[2]	0.0	0.0	0.0	3.7	**3.7**	**45.9**
Other[3]	4.1	3.1	3.1	13.7	**24.0**	**58.2**
TOTAL	**22.3**	**20.8**	**20.0**	**25.7**	**88.8**	**301.7**

Table 2 (a): Summary of Outflows (USD m) in 2005

	Jan 2005	Feb 2005	Mar 2005	Apr 2005	TOTAL Jan-Apr 2005	CUM. Jan-6 May 2005
Auction Payments[1]	54.4	34.9	50.0	36.5	**175.8**	**182.1**
NOCZIM	4.2	15.6	18.3	17.0	**55.1**	**55.1**
ZESA	8.3	2.5	3.4	6.6	**20.8**	**23.7**
Government[2]	22.7	43.9	20.1	24.1	**110.8**	**111.4**
IMF	0.0	3.0	2.0	0.0	**5.0**	**5.0**
Afreximbank	9.6	7.9	8.2	9.4	**35.1**	**43.3**
Gold Producers	1.5	1.9	2.5	2.7	**8.6**	**9.3**
Other	18.1	13.6	18.8	1.0	**51.5**	**51.5**
TOTAL	**118.8**	**123.3**	**123.3**	**97.3**	**462.7**	**481.4**

Notes:

1) *Allocations for private sector imports through the auction.*
2) *Includes payments for Gvt Ministries and Depts, Universities and other quasi-fiscal institutions.*

Table 2 (b): Summary of Outflows (USD m) in 2004

	Jan 2004	Feb 2004	Mar 2004	Apr 2004	TOTAL Jan-Apr 2004	TOTAL Jan-Dec 2004
Auction Payments	24.3	63.3	72.0	58.0	**217.6**	**869.1**
NOCZIM	0.0	2.0	4.0	14.1	**20.1**	**155.6**
ZESA	0.0	0.0	1.6	3.0	**4.6**	**92.4**
Government	12.6	4.8	11.4	12.0	**40.8**	**254.4**
IMF	1.5	1.5	3.0	0.0	**6.0**	**22.6**
Afreximbank	10.2	12.3	10.1	12.0	**44.6**	**122.9**
Gold Producers	6.4	3.4	6.0	4.0	**19.8**	**39.6**
Other	3.9	2.7	3.3	6.4	**16.3**	**58.7**
TOTAL	**58.9**	**90.0**	**111.4**	**109.5**	**369.8**	**1 615.3**

Table 2 (c): Summary of Outflows (USD m) in 2003

	Jan 2003	Feb 2003	Mar 2003	Apr 2003	TOTAL Jan-Apr 2003	TOTAL Jan-Dec 2003
NOCZIM	1.9	0.0	4.7	2.3	**8.9**	**37.0**
ZESA	0.0	0.0	0.0	0.1	**0.1**	**6.8**
Government	2.4	8.8	1.0	2.0	**14.2**	**63.4**
Afreximbank	2.5	2.3	5.8	3.5	**14.1**	**52.3**
Gold Producers	1.8	1.9	0.1	0.8	**4.6**	**35.4**
Other	7.3	4.7	8.7	14.7	**35.4**	**65.5**
TOTAL	**15.9**	**17.7**	**20.3**	**23.4**	**77.3**	**260.4**

10. THE FOREIGN EXCHANGE AUCTION SYSTEM

10.1 The Controlled Foreign Currency Auction System, which commenced on the 12th of January 2004, was meant to serve dual purposes of stabilizing the exchange rate, as well as allocating the scarce foreign currency resources in the economy.

10.2 In 2004, a total of 98 Main Auctions and 20 Small to Medium Enterprises (SMEs) and Individuals Auctions were held. For the period January to 10 May 2005, the Bank has conducted 33 Main Auctions and 19 SMEs and Individuals Auctions.

10.3 This framework has, however, not been without its own challenges, underscoring the gap that still remains in the economy's foreign exchange demand and supply sides.

10.4 The amount on offer, which at the inception of the auction was only US$5 million per auction or US$40 million per month, was increased to US$8.5 million per auction or US$68 million per month in May 2004.

10.5 Subsequently, the Bank further enhanced amounts available on the auction to US$10 million per auction or US$80 million per month in August 2004, which was also further enhanced to the current US$11 million per auction or US$88 million per month.

10.6 Notwithstanding these progressive enhancements, as Monetary Authorities, we are fully aware of the huge gap that still obtains between weekly auction provisions and aggregate requirements, as bid by importers and other users of foreign exchange.

USAGE OF FOREIGN EXCHANGE

10.7 Usage of the foreign exchange allocated on the Auction remained oriented more towards the importation of raw materials (32.2%), fuel (31.2%) and, equipment, machinery and spares (15.9%).

Analysis of Allotted Auction Amounts by Purpose

Purpose	Cumulative Allocation Since January 12, 2004 (USD Million)	Proportion to Total (%)
Raw Materials	370.0	32.2%
Fuel & Petroleum Products	358.5	31.2%
Equipment & Machinery	109.4	9.5%
Spares	73.4	6.4%
Fees & Subscriptions	53.7	4.7%
Motor Vehicles & Bicycles	38.0	3.3%
Chemicals	41.4	3.6%
Manufactured Goods	36.7	3.2%
Education	21.3	1.9%
Dividends	8.2	0.7%
Loan Repayments	8.1	0.7%
Travel	8.7	0.8%
Reimbursements	1.8	0.2%
Other*	18.7	1.6%
Grand Total	1147.9	100.0%

*Other transactions include; pharmaceuticals, maize, seeds, drugs, aircraft and freight

SUPPORT FOR EDUCATION

10.8 The total number of bids allocated for education, since 20 January 2005, is 3 174 valued at US$11.6 million.

10.9 As Monetary Authorities, we will continue to attach prominence to the development of our national human capital.

SMALL TO MEDIUM ENTERPRISES (SMEs) AND INDIVIDUALS AUCTION

10.10 In order to cater for the specific foreign exchange needs of SMEs and individuals, on 17 August 2004, any SMEs and Individuals Auction was introduced and to date, a cumulative total of US$10.5 million has been allotted.

SUPPORT TO THE ENERGY SECTOR

FUEL

10.11 Beginning 2004, the Reserve Bank accorded greater priority to fuel procurement, through direct allocation of foreign exchange to NOCZIM and private companies under the Auction System. Importation of fuel by oil companies is, therefore, a guaranteed US$4 million per auction, or US$8 million per week, which translates to about US$32 million per month.

10.12 Since the inception of the Auction System on 12 January 2004, a cumulative total of US$326.5 million was allocated for the importation of fuel by oil companies. The Bank also made some ad hoc allocations to the fuel sector outside the auction.

10.13 In 2004, the country imported fuel amounting to US$413 million. This implies an average of US$34.4 million per month.

10.14 Fuel imports by private oil companies amounted to US$217.1 million or 52.6% of total fuel imports. The Bank also directly allocated US$155.7 million or 37.7% to NOCZIM, for the procurement of fuel and debt service.

10.15 In addition, utilization of foreign exchange by Direct Fuel Importers (DFIs) from their FCAs, for the importation of fuel, amounted to US$40.2 million.

10.16 During the first 4 months of 2005, the country has imported fuel worth US$111.1 million – an average of about US$28.0 million per month.

10.17 Of this, US$50.4 million or 45.3%, was allocated to private oil companies through the Special Purpose Vehicle (SPV) charged with the responsibility of importing fuel, while NOCZIM was directly allocated US$55.1 million or 49.6%. DFIs also utilized US$5.6 million from their FCAs.

ELECTRICITY

10.18 Beginning 2004, ZESA was given a dispensation to charge exporters in foreign exchange. This practice was discontinued in March 2004 when the Bank started to directly allocate foreign exchange to ZESA. Thus, to guarantee availability of electricity, ZESA does not participate on the Auction.

10.19 In 2004, the Bank directly allocated US$92.4 million to ZESA for the importation of electricity and debt service. This implies a monthly average allocation of US$7.7 million.

10.20 During the period January 2005 to 10 May, the Bank has, so far, allocated US$23.7 million.

REVIEW OF THE AUCTION SYSTEM

10.21 Notwithstanding the challenges and inevitable limitations of the Auction System, exacerbated by widespread incidents of multiple bidding, among other distortions, the Foreign Exchange Auction System remains the second best alternative in the allocation of scarce foreign exchange resources, at this stage, in our turnaround program.

10.22 In order to smoothen the operations of this framework, the following enhancements have been introduced with immediate effect.

MONTHLY AUCTION PROVISION

10.23 Monthly auction provision of foreign exchange will, with effect from 1 June 2005, be increased to US$100 million from the current monthly level of US$88 million, for the Main Auction.

10.24 With respect to the SMEs and Individual Auction, the monthly provision has correspondingly been doubled from the current provision of US$1 million to US$2 million.

10.25 As foreign exchange inflows continue to improve, these provisions will be reviewed to further benefit importers.

ABUSES OF AUCTION FUNDS

10.26 As Monetary Authorities we have noted with concern, abuses of the Auction System by some economic players. Such abuses include:

(a). Diversion of fuel funds, where for instance, the Reserve Bank of Zimbabwe had to battle for a full month with **15 fuel importing companies which had failed to account for US$12.4 million worth of foreign exchange allocated to them to import fuel.**

(b). In other cases which are still pending, some members of the Indigenous Petroleum Marketers of Zimbabwe have failed to account for between 5-7.5 million litres worth of fuel, since October 2004, with the foreign exchange allocated to them having been used by external companies that have since filed for liquidation in their backyards.

(c). Petroleum Marketers of Zimbabwe (PMZ) members had similar problems, though they seem to be getting their act together.

10.27 The number of companies licensed to import fuel and who constitute the PMZ/IPMZ membership and, therefore, expect foreign exchange allocation from the limited Reserve Bank pool, extends to more than one hundred and twenty (120). This number is, in our view, excessive to optimal requirements for players in this market and we urge the responsible authorities to withdraw some of these licenses.

10.28 We believe that the maximum number of players should not be more than 20. The rest should either amalgamate or simply close shop because they are distorting the currency allocation from the auction.

10.29 Other forms of abuses for auction funds that we have detected are:

(a). The emergence of cunning middlemen/women going around the market, providing foreign exchange bidding services at the auction, in return for illegal margins.

- Against this background, the Reserve Bank will, with immediate effect, bar and tightly screen away on Exchange Control applications and Auction, to weed out bids initiated by briefcase dealers deemed to be distorting market fundamentals. Culprits will be dealt with accordingly.

(b). In respect of holiday travel allowance, incidents of some Authorized Dealers' staff members have been found acting as agents on behalf of hidden principals in return for illegal commissions.

(c). Others too, having been allocated holiday travel allowance, merely abscond and trade the foreign exchange in the parallel market.

10.30 The Exchange Control arm of the Bank will, henceforth, be much tighter in its follow ups and the public is hereby called upon to take heed.

11. PARALLEL MARKET TRADING

11.1 Monetary Authorities, once again appeal to the corporate sector and the general public to contribute positively towards the turnaround initiative by complying with the standing Exchange Control Regulations of the country.

11.2 Given the considerable efforts that have been made to address viability concerns of exporters, the surveillance arm of the Central Bank will rigorously follow through to ensure that traders in the foreign exchange market stick to the standing regulations.

11.3 We also call upon the law enforcement agents to adopt a zero tolerance stance towards indiscipline, along the same way they were steadfast in this regard over the just ended Elections period.

11.4 As Monetary Authorities, we are contributing towards the fight against corruption and rampant indiscipline through the following interventions:

(a). Urging Authorities to set aside adequate financial resources for the expansion of the country's **correctional institutions**, (building of more jails) preferably located in outlying rural areas, so that the convicted inmates can play a supportive role in tilling the land.

(b). Urging Authorities to provide adequate financial assistance for the speeded formation of Commercial Courts and to fund the adequate training of the commensurate judicial officers.

(c). Tightening the supervision and surveillance processes and enforcement of the country's Exchange Control Regulations and Anti-money Laundering laws.

(d). Introducing a new mandatory financial accounts reporting system, **where no exporters listed on the Zimbabwe Stock Exchange (ZSE) would be able to publish their financial accounts without Reserve Bank clearance** on their purity, on matters relating to the declaration and repatriation of export proceeds. Internal and External Auditors, Boards of Directors, and shareholders are hereby called upon to ensure that they prime their management and exporter-agents to comply, as Exchange Control Authorities will brook no violations of this requirement.

(e). Requiring, with immediate effect that all interbank funds transfers above $500 million, as well as cash withdrawals of above $50 million be reported to the Reserve Bank immediately, with identity of drawer and counter parties in the transaction (in the event of transfers). This is part of our Anti-money Laundering thrust.

IS EXCHANGE RATE DEVALUATION THE SOLE ANSWER?

11.5 Over the past 17 months of the turnaround program, considerable debate has been generated on the subject of sustainable exchange rate management, particularly in relation to exporter viability and foreign currency generation.

11.6 As Monetary Authorities, we are vividly conscious of the need to maintain exporters' viability as a necessary condition to uplift the country's foreign exchange generative capacity.

11.7 Where we strongly differ with proponents of perpetual exchange rate devaluation as the sole panacea for balance of payments disequilibria is on the omission of several pertinent factors.

11.8 Firstly, for as long as a country has widespread indiscipline in the economy, where market players are bent on making quick gains through such rent-seeking activities as mere trading of foreign currency and non-essentials on parallel and underground grey markets, as well as immersed in corrupt activities, any unguided exchange rate depreciations will turn out to be short-lived respites which are sooner torpedoed by bouts of speculative attacks.

11.9 Secondly, for high import-dependent economies, such as Zimbabwe, with the export basket highly concentrated in primary exports that take time to respond to price incentives, the cost side of the economy typically has a faster **impulse response function** than the foreign exchange generative side, as exporters need time to gear up their systems for higher output.

11.10 For example, whereas it takes a matter of a day for a devaluation to increase input costs, such as fuel prices, imported electricity costs, chemicals, debt service costs, among many other essential outlays, it would take a full season for farmers, months for miners and manufacturers, to significantly respond to the price incentive.

11.11 Equally important, there is also need to take into account the social responsibilities of Government, where such interventions as importation of HIV/AIDS drugs, and other priority payments are significant variables in the bid to optimize the Nation's welfare function.

11.12 Against the background of these focal issues, exchange rate management must, therefore, be carried out in a measured and responsible manner, balancing the virtues of the viability motive against the need to minimize the attendant inflationary cost-push effects.

11.13 As Monetary Authorities, we want to assure our exporters that no generator of foreign currency in this country will be allowed to go into extinction, as various supportive interventions are at our disposal.

11.14 The urgent work at hand is, therefore, to work together as progressive Zimbabweans to clean out the scourges of corruption, rampant indiscipline, and the high affinity for speculative trading that seems to have gripped us as a Nation, so as to sharpen the transmission mechanism of the exchange rate as a tool for macroeconomic management.

11.15 When there is discipline, and the country can fully account for the resources that are being shipped out of the country under cover of darkness; fully account for the tourism inflows that are being swept under hotel counters, and the existence of a shared hatred against corruption in all its manifestations, **we will, as your Central Bank, have no hesitation to advocate for greater flexibility in the country's exchange rate management, as we will be certain of its potency in generating a quicker supply response.**

11.16 Producers too, need to focus on enhancing their viability through the adoption of efficient cost-saving methods, adoption of prudent stock management and sound procurement policies, maintenance of sound corporate governance systems, exercising greater accountability, as well as increasing product quality to shore up sales.

11.17A comparative analysis of Zimbabwe's fuel prices, and other energy costs, as well as relative cost of borrowing in relation to inflation, clearly indicate that as a country, we are highly subsidizing our producers to levels where they should be producing competitively for exports.

A COMPARATIVE ANALYSIS OF FUEL PRICES: PETROL*

Country	**Currency**	**Retail Price Per Litre**		
		Country's currency	**US cents**	**Zimbabwe Dollars**
Botswana	Pula	3.07	68.71	**4 260.02**
Zambia	Kwacha	5 364.35	114.14	**7 076.68**
Malawi	Kwacha	102.00	90.69	**5 622.78**
Mozambique	Meticais	16 540.00	74.17	**4 598.54**
South Africa	Rand	5.28	88.32	**5 475.84**
Swaziland	Lilangeni	4.20	70.40	**4 364.80**
Namibia Windhoek	Dollar	4.05	67.75	**4 200.50**
Namibia Walvis Bay	Dollar	3.90	65.24	**4 044.88**
Ghana	Cedi	7000.00	76.67	**4 753.00**
Nigeria	Naira	55.00	40.73	**2 525.27**
Kenya	Shilling	74.00	98.67	**6 117.54**
Uganda	Shilling	1 800.00	100.00	**6 200.00**
Zimbabwe	Dollar	3 600.00	58.06	**3 600.00**

*As of 9 May 2005.

11.18 As a country, we also need to be cost-efficient by cutting out the penal practices of middle-dealers, who are making a living by loading mark-ups that are multiples of product prices at source, when providing supplies to producers.

11.19 Reported fatal pressures on viability must, therefore serve to indicate the need for producers to think hard about improving their ways of doing business, as opposed to merely expect all burdens of productive inefficiency to be lumped wholesomely on the exchange rate.

11.20 Doing so would be tantamount to indexing the entire economy to the whims of ludicrous speculators in our midst.

12. FCA RETENTION PERIOD

12.1 The urgency of the turnaround program demands that the economy strives to operate on a quick turnover in the employment of its resources.

12.2 Consistent with this, the 30 day FCA retention period will be adjusted to 21 days, within which exporters can utilize their balances to meet own import requirements.

12.3 Only case by case exceptional considerations would be allowed to retain foreign exchange up to 30 days from date of deposit.

REVISED CARROT AND STICK FCA RETENTION THRESHOLDS

12.4 The persistent mis-match between demand and supply of foreign exchange demands that, as a country, we optimize usage of the limited resources at hand.

12.5 Exporters are, therefore, called upon to repatriate their proceeds over the shortest possible timeframes.

12.6 As an encouragement to this effect, the following FCA retention carrot and stick framework will apply, with immediate effect:

FCA RETENTION CARROT AND STICK

ACQUITTAL PERIOD: (days post shipment)	FCA RETENTION THRESHOLD		PROPORTION SOLD ONTO THE AUCTION	
	All non-Horticultural Exports	Horticultural Exports	All non-Horticultural Exports	Horticultural Exports
0-30	55%	55%	45%	45%
31-60	50%	40%	50%	60%
61-90	40%	30%	60%	70%
Over 90	20%	10%	80%	90%

GOLD SUPPORT PRICE

12.7 In order to boost deliveries of gold, as the country's strategic reserve mineral, the gold support price has been increased, with immediate effect, **from the current level of Z$130 000/gram to $175 000/gram.**

TOBACCO SUPPORT PRICE

12.8 On the back of genuine viability pressures confronting tobacco farmers, the tobacco top up support price has been increased, with immediate effect, **from the current level of Z$2000/kg to Z$5000/kg.**

12.9 **This increase shall apply in retrospect to farmers who have already sold their tobacco since the beginning of the selling season this year.**

COTTON SUPPORT PRICE

12.10On the back of depressed international prices of cotton this year, and the recognition of the strategic importance of cotton as a foreign exchange earner, a **support price of Z$3500/kg** to the cotton growers, over and above what they are paid by cotton buyers has been introduced with immediate effect..

EXPORT DELIVERY BONUS

12.11 Under the existing export incentive system, exporters are benefiting from a 15% of FOB tax credit.

12.12 In order to enhance export viability, **with immediate effect, this has been adjusted to 25% of actual foreign exchange repatriated into the country**, as opposed to payment on the back of CD1 documents of shipment.

12.13 In order to encourage exporters to repatriate their export proceeds back into the country earlier this bonus incentive will be paid under the following carrot and stick framework.

CARROT AND STICK FRAMEWORK FOR FOREIGN EXCHANGE DELIVERY BONUS

Repatriation period (Days)	Bonus threshold	
	Non-Horticulture Exports	Horticulture Exports
0 – 30	25%	25%
31 – 60	15%	15%
61 – 90	10%	10%
Above 90	0%	0%

12.14 **Furthermore, in order to avoid delays in making the payments to exporters, the 25% benefit will be paid immediately on repatriation of foreign exchange by the Reserve Bank, which in turn would then claim for reimbursement from ZIMRA.**

12.15 This new measure, therefore, replaces the 15% of FOB incentive, with immediate effect.

NON-TRADITIONAL GENERATORS OF FOREIGN EXCHANGE: Homelink, NGOs, Embassies, International Organizations, Others.

12.16 Under the current export support framework, these non-traditional sources of foreign exchange do not stand to benefit from the various support measures being given to exporters.

12.17 In order to provide a level playing field, and to encourage foreign exchange inflows from this sector, the **diaspora support price has, with immediate effect, been adjusted from Z$6200/US dollar to Z$9000/US$, representing a 45% supportive increase.**

12.18 As Monetary Authorities, we have come to realize that individual FCA holders, as well as other holders of free funds FCAs, are abusing the window where they are allowed to withdraw daily cash of up to US$1000 when traveling.

12.19 Others, for instance, have seen this window as a way of siphoning out cash into the parallel market.

12.20 Against this background, the following foreign currency cash withdrawals shall apply, with immediate effect:

(a). No FCA holder will withdraw cash in foreign currency, unless there is verifiable proof of travel, or a demonstrable need to pay out foreign participants on regional or international programs in the case of international organizations.

(b). In all cases, an FCA holder, who has withdrawn cash will have to show proof of travel (passport stamp) or receipts of cash utilization within 30 days of such withdrawal.

(c). FCA holders will, however, be free to withdraw their money in travelers’ cheques (TCs), **which they will duly sign in front of the selling officers at the dispensing Authorized Dealers**.

(d). The Reserve Bank will strictly monitor to ensure compliance with this requirement, such that any Authorized Dealers found in breach of this regulation will risk losing their dealership license.

FISCAL EXPORT SUPPORT INCENTIVES

12.21 As Monetary Authorities, we are pleased to report that Government, through the Ministry of Finance and ZIMRA, is also intensifying support frameworks to exporters, as part of the turnaround initiatives.

12.22. Through an immensely positive spirit of joining forces with Monetary Authorities in working towards enhancement of viability to our export sector, the Ministry of Finance and ZIMRA have agreed to put in place the following export support measures:

Rebate of Customs Duty on Raw Material Inputs

12.23 Under this facility, exporters will get rebates of customs duty on raw material inputs for export goods with effect from 1 June, 2005.

12.24 This intervention, whose operational modalities will be announced by ZIMRA, is expected to cost the country about Z$240 billion in foregone revenue by ZIMRA.

TOBACCO GROWERS LEVY

12.25 The 1.5% Tobacco Growers levy, which accrues to Government for the 2005 and 2006 tobacco season. Has**, with immediate effect, been suspended.** This is meant to further support and encourage farmers to grow tobacco.

BUY ZIMBABWEAN PRODUCTS CAMPAIGN

12.26 As Monetary Authorities, we note with grave concern the continued and unsustainable importation of non-essential goods and services at the expense of essential imports crucial for the stability and growth of the economy.

12.27 Furthermore, it has been noted with similar concern that the economy's aggregate consumption pattern is exhibiting unexplainable preference for imported consumables to locally produced goods of comparable or sometimes better quality.

12.28 Against this background, Monetary Authorities have put in place an aggressive program, under the theme **"Buy**

Zimbabwean Products Campaign", to promote the consumption of our locally produced commodities which are of world-class market quality, in a bid to ensure the re-alignment of our consumption patterns with our balance of payments position and other national economic objectives.

12.29 This aggressive promotion of local products will by no means be peculiar to Zimbabwe as empirical evidence points to the fact that many countries with enough pride to maintain solid nationhood and identity have enacted different forms of "**buy national**" regulations and/or laws.

12.30 The United States of America, Brazil, China and South Africa are among economies which have exhibited this noble gesture to their local producers.

12.31 It is however worth noting that local brands to be promoted under this initiative will only qualify having satisfied rigorous quality tests in line with the generally high quality standards demanded by the Zimbabwean populace, in everything they spend their hard-earned income on.

12.32 Also as Monetary Authorities, we consider as our mandate to ensure that local industries which have adhered to product quality be rewarded by being accorded their right to local market share.

12.33 The initiative is equally poised to protect the unsuspecting Zimbabwean consumers from the influx of sub-standard imports that have invaded and distorted a variety of our product markets.

12.34 In the same light, it is envisaged that the consumption of what we produce would be the starting point in solidifying our sense of belonging and pride in our own economy which by virtue of our Zimbabwean citizenry share collective responsibilities for its success and sustainability.

12.35 Modalities and the launch date for this program will be made available to the public in due course.

12.36 Details of the framework are outlined in the Supplement accompanying this Statement.

13. NON-ESSENTIAL IMPORTS

13.1 As alluded to earlier, as Monetary Authorities we are concerned that notwithstanding the current shortages of foreign exchange, the country's appetite for imported trinkets and other non-essentials remains high and growing.

13.2 Against this background, with immediate effect, the Reserve Bank will closely screen import applications to enforce the **non-essential imports criteria already in place**, under which no Exchange Control approvals are given for importation of non-essentials.

14. HOMELINK

14.1 Following the launch of Homelink (Pvt) Ltd on the 2nd of February 2005, the company has grown to position itself as a focused private sector participant.

14.2 Zimbabweans in the Diaspora have overwhelmingly responded to the Homelink Housing Development Scheme (HHDS), with 1 508 applications valued at ZWD790 billion having been received as of the 12th of May 2005.

14.3 Offer letters have been issued in respect of 1 024 of these applications and 484 properties have been visited to confirm their values.

14.4 About ZWD75 billion in respect of 176 properties had been disbursed as at 12 May, 2005.

14.5 As Monetary Authorities, we are fully aware that the expressed demand falls short of what the housing market can supply, thus creating a potential risk of inflationary pressures.

14.6 To mitigate against this possibility, Homelink has responded positively, by moving into construction of new housing units to increase supply, and hence, dampen the inflationary pressures.

14.7 To date 120 fully serviced stands have been purchased in Harare, with construction expected to begin this month. Construction of these properties is also expected to have downstream benefits to the rest of the economy.

14.8 Homelink continues in its identification of suitable fully serviced stands and consultations are underway with local authorities in Harare, Bulawayo, Mutare, Masvingo, Gweru, Kwekwe and other towns where Zimbabweans in the diaspora have expressed demand for residential properties.

14.9 In pursuit of its objectives of serving the needs of Zimbabweans in the Diaspora in a manner that will result in increased foreign currency inflows into the country, Homelink has developed new products and repackaged existing ones.

14.10 On the new product front, the following have been developed;

(a). New Enterprise Development Investment Scheme (NEDIS)
(b). Quoted Securities Investment Scheme (QSIS)
(c). Homelink Bereavement Policy
(d). Non-Resident Pension Scheme

14.11 Operational modalities and the phased rollout plan of the new and repackaged products will be announced by Homelink (Pvt) Ltd in due course.

15. NATIONAL PAYMENT SYSTEMS

PROGRESS ON MEASURES ANNOUNCED

15.1 As monetary authorities, we continue to be committed in our efforts to ensure efficiency and robustness of the payment system and preserve confidence in the banking sector.

15.2 The regional Clearing Houses we opened in Gweru, Masvingo and Mutare have greatly assisted in ensuring timely settlement of obligations arising from these centres as well as allow us a wider spread in our payment system oversight activities.

15.3 Contrary to the previous situation where we were able to establish the situation pertaining to cash levels and ATM functionality in Harare and Bulawayo only, we are now able to also carry out spot checks in these centres.

15.4 As your Central Bank, we take a serious view in ensuring that banks maintain adequate cash levels to avoid inconveniencing the public.

15.5 As I have always said, the cash crisis of 2003 should never be repeated. To this end, we continue to urge banks to ensure that adequate cash is maintained in the Banking Halls and that ATMs are also adequately stocked to ensure continuous availability of this service.

15.6 We wish to commend financial institutions for positively responding to our calls of ensuring adequate cash and continuous ATM functionality during the just ended Easter Holidays. We trust that banks will continue to be part of this very important process of building confidence in our financial system.

ATMS, CREDIT OR DEBIT CARDS

15.7 From studies that have been conducted, it has been proved that there is a positive correlation between increased use of reliable electronic means of payment and GDP growth.

15.8 In this regard, the Reserve Bank continues to encourage use of electronic means of payment. Apart from reducing the settlement lag, such means of payment also help in reducing costs associated with printing of money.

15.9 Our modernization efforts in this area will focus on promoting and consolidating the drive towards achievement of inter-operability of card systems. Banks are therefore encouraged to share infrastructure as far as possible in order to minimize costs, optimize usage of cards and bring convenience to the customers.

15.10 The critical role played by telecommunications service providers such as Tel*One in supporting banking products such as ATMs and Electronic Funds Transfer at Point of Sale (EFTPOS) can not be overemphasized.

15.11 In recognition of this role, the Reserve Bank will continue to engage these service providers with a view to raising the level of awareness on the importance of providing reliable service that supports economic activity.

15.12 In order to promote the usage of cards, the Bank will continue to participate in industry initiatives and campaigns that are aimed at increasing card usage.

ZIMBABWE ELECTRONIC TRANSFER AND SETTLEMENT SYSTEM(ZETSS)

15.13 With thirty (30) participants connected to the system, activity within the ZETSS system continues to grow with an average value of Z$1.5 trillion being processed on a daily basis.

15.14 From a 73% recorded in December 2004, the ZETSS utilization level increased to 77% and 80% for January 2005 and February 2005 respectively. With an average utilization level of 79%, the first quarter of 2005 recorded an increase of 10 percentage points above the 69% for the last quarter of 2004.

15.15 As Monetary Authorities, we are concerned by the tendency by corporates to issue high value cheques. We would like to appeal to corporates to embrace electronic means of payment which guarantee finality and irrevocability of settlement. To this end, corporates are encouraged to use the ZETSS system which was designed as a risk reduction tool and to handle high value payments. We urge corporates to familiarize themselves with the risks associated with the cheque payment stream particularly where high values are concerned.

ZIMBABWE STOCK EXCHANGE: CLEARING AND SETTLEMENT

15.16 In my last monetary policy statement, I did indicate that we would be embarking on a modernization process for the clearance and settlement of securities.

15.17 I am pleased to report that the stocktaking phase of these efforts has been completed. This will now pave the way for the reform initiative to commence while bringing on board all key stakeholders.

15.18 As the oversight authorities, we have an interest in any changes relating to the securities infrastructure. This interest is based on the premise that any disturbances in the securities clearance and settlement process can negatively affect the stability of the payment system, and the monetary policy operations.

15.19 Our collaborative efforts in this regard will not only focus on market practices and tradition but will be broad based in order to allow for evaluation, increased market activity and technological changes.

15.20 As Monetary Authorities, we commit to providing the necessary funding for the identified IT solution, to address the ZSE challenges once and for all.

STRAIGHT THROUGH PROCESSING

15.21 As announced in my 3rd quarter Monetary Policy Statement of 2004, the process to implement Straight Through Processing (STP) by financial institutions has begun in earnest.

15.22 Implementation of STP will result in the improvement of operational efficiency through minimizing or eliminating human intervention during transaction processing.

15.23 It will also allow funds processed through ZETSS on behalf of customers to be automatically applied to their respective accounts. Hence, customers will realize their funds earlier than is the current situation.

CLEARING HOUSE SOLUTION

15.24 To further enhance efficiency in the payment system, the Reserve Bank is engaged in discussions with clearing banks with a view to implementing a Clearing House solution.

15.25 As you may be aware, the current processes in the Clearing House are manual and paper based. The implementation of the Clearing House solution is therefore expected to bring efficiency, reduce paper processes as well as address risks inherent in the current arrangements.

BOOK ENTRY SOLUTION

15.26 The Reserve Bank is aware of the challenges being experienced by participants in our current Book Entry system. In particular, bottlenecks have been experienced with institutions physically coming to the Central Bank to make securities transfers.

15.27 In order to address these challenges, I am pleased to announce that the Reserve Bank will be replacing this system with a new Book Entry system this year. This will bring about efficiency, electronic transfers as well as facilitate the dynamic management of collateral within the ZETSS system.

PART II:

1. WAR AGAINST CORRUPTION

2. ECONOMIC GROWTH

3 NATIONAL DEVELOPMENT

4. DROUGHT MITIGATION

5. PARASTSTAL AND LOCAL AUTHORITIES REORIENTATION

6. FISCAL CONGRUENCE

7. INTERNATIONAL RELATIONS

16. WAR AGAINST CORRUPTION

16.1 When we unveiled our Maiden Monetary Policy Statement on 18 December, 2003, the most far reaching and immediate challenge at that time was to restore order and discipline in the financial sector.

16.2 At that formative stage of the turnaround program, debilitating misuse of public funds by unscrupulous bankers threatened to throw the country's entire productive system into irreparable damage.

16.3 Significant challenges confronting this Post Elections and Drought Mitigating Monetary Policy Framework, meant to yet again hasten the turnaround program are, however, now economy-wide **corruption** and **indiscipline** resurging in our midst.

16.4 These challenges need decisive corrective measures, if our collective efforts to steer the fortunes of our economy to prosperity are to bear fruit.

WHAT IS CORRUPTION?

16.5 The diversity and sometimes subtle nature of corruption tends to overshadow its debilitating effects in the economy away from detection, effectively prolonging under-performance in our key productive sectors.

16.6 Simply put, corruption refers to **an act or process by which a business, political, social, or religious transaction is effected on the back of bribery, in cash or in kind, directly or indirectly to one party or more in the transaction.**

COSTS OF CORRUPTION

16.7 From the above broad definition, it is discernible that corruption is a costly cancer, which if not exorcised, will continue to exact severe corrosive effects in the economy.

16.8 The following are examples of the main costs of corruption:

(a). It causes the collapse of service delivery levels, as office bearers cease to do what they are naturally expected to do under their terms of engagement, and instead, insist that to perform, they must be paid an extra fee. **This is also inflationary, as it increases transactions costs.**

(b). It weakens and destroys key National institutions, as procedures and ethics are cast aside, with the payment of bribes inducing bending of rules and regulations to satisfy individual needs of those who pay bribes, at the expense of the upright citizenry.

(c). It leads to wasteful mis-allocation of resources through diversion to non-core and non-productive purposes.

(d). It breeds and fuels economy-wide indiscipline, as market-payers are made to believe that there is wealth that can be made through breaching of regulations and rules, without any productive effort being invested.

(e). It causes general moral decay in society, as the values of integrity, accountability and honesty are thrown to the wind, amid the rent-seeking behavior patterns. **This retards both allocative and productive efficiency in the economy.**

(f). The above costs of corruption, if untamed, therefore, have the capacity to derail the current turnaround program, in much the same way as the financial sector indiscipline threatened to destabilize the economy at the dawn of the first phase of the turnaround initiatives.

TOURISM SECTOR

16.9 As Monetary Authorities, we are strongly disheartened by the increasing indiscipline in the Tourism Industry, where the bulk of operators are wantonly breaching standing Exchange Control Regulations, effectively under-declaring their foreign exchange inflows.

16.10 During the first three months of 2005, for instance, a total of 452 000 tourists visited the country, up 30% on 2004 arrivals over the same period.

16.11 If one uses a modest assumption that each visitor spent only US$250 for an average of 3 days stay in a three star facility, needless to say some stayed in 5 star hotels in the country, the expected total inflows from the tourism sector would be US$113 million. And if one assumes each visitor's expenditure to average US$500, then the expected total would have amounted to US$226 million.

16.12 Yet, over the same period, the Tourism sector only declared a paltry US$6 million (USD six million dollars!), which is a far cry from expected inflows, even when one assumes each tourist spend a mere US$100 in the country!

16.13 It is against this background that the Reserve Bank has taken the unprecedented decision to provide the State with adequate funding to build more correctional institutions, so as to put a stop to the high levels of indiscipline and acts of high level detrimental collusion in the economy.

ANTI-CORRUPTION RESPONSE FRAMEWORK

16.14 As amplified in the foregoing, **corruption and indiscipline stand as the country's root causes of most of the current challenges in the economy.**

16.15 In order to maintain the momentum on our turnaround program, a strong response framework needs to be put in place to decisively deal with these vices.

16.16 A Supplement to this Monetary Policy Statement on the subject of corruption gives more details on the various forms this cancer can take, and alternative policy responses which, as a Nation, we need to adopt to clean our systems of this debilitating ill.

16.17 As part of this response framework, we call upon the relevant authorities to consider the following alternatives, which are amplified in the Supplement.

16.18 We are aware that Government and Parliament have already taken steps to create or form some of these institutions. Their inclusion here is for completeness of the program and outlining of options available.

(a). Adoption of Anti-corruption Legislation.

(b). Expanded Judicial System, with the creation of Commercial Courts country wide.

(c). Re-orientation of Law Enforcement Systems to be more deterrent.

(d). Formation of a National Anti-corruption Commission

(e). De-licensing Clause to penalize defaulters.

(f). Establishment of an Anti-corruption Charter

(g). Creation of an Anti-Corruption Bureau.

(h). Joint Anti-corruption Operations between the Reserve Bank, the Zimbabwe Republic Police, State Security and all Ministries as well as key stakeholders such as Labor, Employers and Civil Society.

17. ECONOMIC GROWTH: SECTORAL PERFORMANCE

Real Gross Domestic Product (GDP) Developments

17.1 The Turnaround measures that have been implemented since the beginning of 2004 have positively impacted on the economy, with evidence of economic rebound.

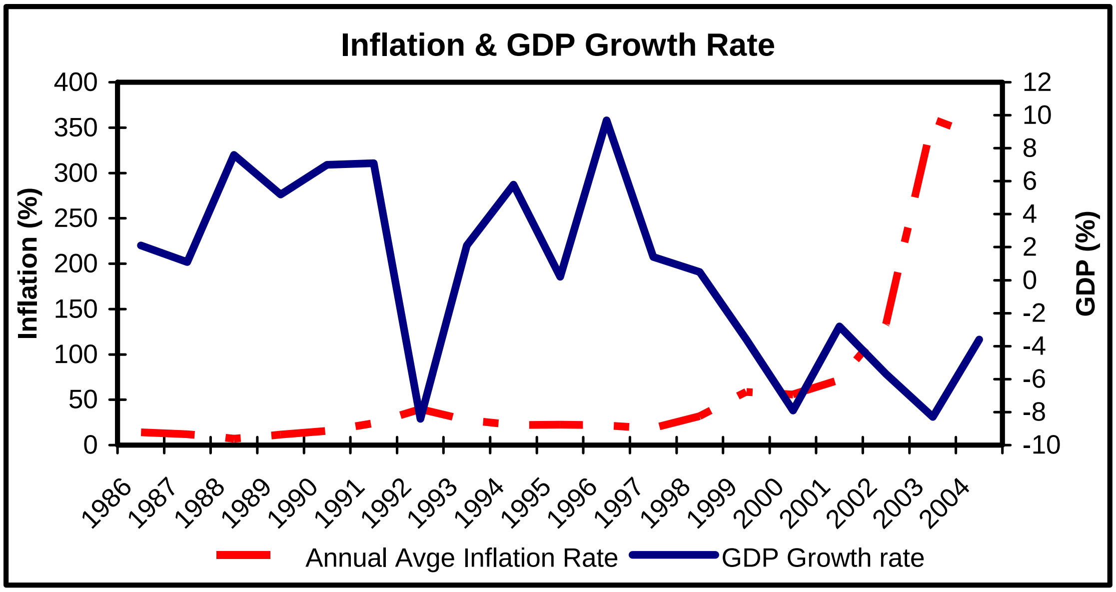
17.2 The policies on infrastructure, exchange rate management, financial sector discipline and control of expenditures on the fiscal front have seen inflation declining significantly from 622.8% in January to 129.1% in April, 2005.

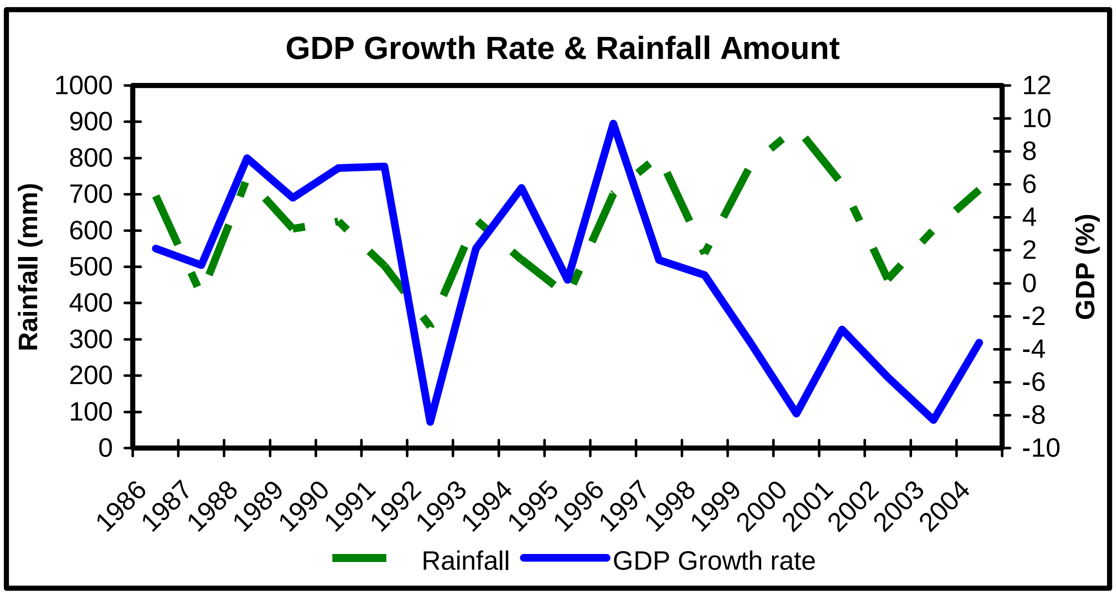
17.3 In the fourth quarter Monetary Policy Statement, real economic growth was projected at between 3% and 5% for 2005.

17.4 However, growth prospects, initially predicated on agriculture rebound, have now receded, reflecting the adverse drought conditions unfolding this agricultural season which is expected to adversely affect overall economic performance.

17.5 The Zimbabwean economy has been experiencing frequent droughts since 1901 and what is evident from the rainfall pattern and trends is that the amount of rain is gradually dwindling as years have gone by.

17.6 There are distinct correlations between droughts in Zimbabwe, the overall adverse performance of the economy and inflation, which ought to guide turnaround policy priorities to promote food security and overall reduction of inflation.





17.7 Reflecting the dominance of agriculture in the country's productive systems, the unfolding drought is expected to limit the forecast GDP growth to an average positive real rate of 2-2.5%, down from the previously forecast 3-5%.

18. ZIMBABWE STOCK EXCHANGE

18.1 The Zimbabwe Stock Exchange (ZSE) has, over the years, played an important role as an alternative investment destination for surplus funds, with the other investment destinations being the money, property and the foreign exchange markets.

18.2 This notwithstanding, however, as Monetary Authorities, we are expressly concerned that the Zimbabwe Stock Exchange (ZSE) **is increasingly turning into an explosive source of "imaginary and inflationary wealth"** being derived from mere trading of paper, without significant direct cash-flow benefits to the underlying listed companies.

18.3 The world over, it is a common reality that no economic turnaround, in particular, an inflation stabilization program, can succeed without due attention being put on redirecting the operations of the stock exchange in a manner that enhances this capital market's synergies with the productive sectors of the economy.

18.4 It is against this background that the bourgeoning on the stock exchange capitalization levels over the past 15 months, at a time when there has been very minimum primary issues of stocks to benefit capital budgeting programs of the productive sectors, is a source of deep concern to Monetary Authorities.

18.5 Monetary Authorities are, therefore, in consultation with the Zimbabwe Stock Exchange, Stock Brokers and other players in the industry, working to introduce innovative capital market instruments that would see the stock exchange, as well as other secondary capital markets playing a meaningful supportive role in the economy's productive system.

18.6 Details of this program will be unveiled to the market in due course.

19. PARASTATAL AND LOCAL AUTHORITIES REFORM (PLARP)

19.1 In the 2004 Fourth Quarter Monetary Policy Statement, Monetary Authorities emphasized the need for radical restructuring and re-orientation of the country's parastatal and local authorities sectors, in order to close the significant missing link in the turnaround program.

19.2 The Reserve Bank is pleased to report that since the unveiling of the Parastatal and Local Authorities Reorientation Program (PLARP), significant strides have been made, with some parastatals having already managed to submit their comprehensive turnaround strategies, enabling them to benefit from first tranches of the support framework.

Reorientation Audit Framework

19.3 Given the centrality of parastatals and local authorities as the nucleus of productivity enhancement, as well as support to foreign exchange generating activities in the economy, it is imperative that resources earmarked for their turnaround programs be effectively and efficiently utilized.

19.4 It is for this reason that Monetary Authorities will be conducting Reorientation Audits on all PLARP beneficiaries.

19.5 Audit frameworks for all institutions have already been developed, with the following focal areas:

(a) Taking stock of parastatal and local authorities’ capacity utilization levels, and status of their equipment and machinery base.

(b) Verifying the usage of PLARP funds.

(f) Ascertaining board, board committees, management structures, and the general corporate governance, risk management and the control environment.

(g) Ascertaining the rigor of internal and external audit functions, as well as insistence on the timeous production of audited sets of accounts.

(h) Assessment and review and assess procurement and outsourcing policies.

(i). Carrying out impact assessment of the PLARP interventions on the economy.

SOURCES OF FUNDING FOR THE PLARP INITIATIVE

19.6 As Monetary Authorities, we wish to, once again, reiterate that all the financial support given under the PLARP initiative will be sourced from financial markets, through issuance of appropriate borrowing instruments.

19.7 The PLARP program is, therefore, not funded from Government's Consolidated Revenue Fund, as has been suggested by some economic players.

19.8 In order to meet the foreign exchange requirements of parastatals and local authorities, some of the PLARP funds will be deployed into quick turn-around foreign exchange generating programs in agriculture, such as horticulture.

20. INSURANCE AND PENSION FUND INDUSTRY

20.1 As part of the broad framework to stabilize the financial system, it has become necessary and indispensable that the asset portfolios of the insurance companies and pension fund industries comply with statutory minimum prescribed asset holdings.

20.2 Equally important, the insurance and pension fund sector, as holders as managers of a significant component of public savings assumes a more active role in supporting national developmental programs.

20.3 With immediate effect, therefore, all insurance and pension fund institutions are bound to allocate their build-ups in compliance with the 45% prescribed asset requirements.

20.4 The Reserve of Zimbabwe will during the course of this year introduce innovative market instruments so as to breathe life in the country's secondary financial markets in a manner that is geared to compliment other support measures being given to the productive sectors.

21. PRODUCTIVE SECTOR SUPPORT

SUPPORT TO THE PRIVATE SECTOR

21.1 Over the past 15 months, the Reserve Bank of Zimbabwe has been supporting the productive sectors of the economy under concessionary finance facilities.

21.2 On a cumulative basis, a total of Z$2.87 trillion was disbursed under this intervention with the following sectoral distribution:

Sectoral Utilisation of PSF Facility

Sector	Loan Amount (ZBN)	Percentage of Total
Agriculture	1,174.7	40.86
Manufacturing	921.3	32.05
Mining	499.0	17.36
Transport	81.4	3.10
Tourism	89.2	2.83
Construction	65.8	2.28
Distribution	23.1	0.83
Communication	16.8	0.58
Health	3.4	0.11
TOTAL	**2,874.7**	**100.00**

21.3 As Monetary Authorities, we are encouraged by the positive response, save for the misused facilities, to these support interventions by the productive sectors in terms of capacity utilization, job preservation, as well as creation of new opportunities for increased resource utilization in the economy.

21.4 The Productive Sector Finance Facility disbursements have largely uplifted producers' working capital capacities, as well as capital expenditure outlays.

Utilization of PSF Funds by Purpose

SECTOR	Working Capital Z$ BN	Capital Expenditure Z$ BN	TOTAL Z$ BN
Agriculture	1,080	95	1,175
Manufacturing	883	38	921
Mining	471	28	499
Tourism	71	18	89
Construction	15	50	65
Transport	40	41	81
Communication	14	3	17
Distribution	23	0.6	24
Health	3	0.4	3
TOTALS	**2,600**	**274**	**2,874**

REPAYMENT PERFORMANCE

21.5 As Monetary Authorities, we are pleased to report that a total amount of Z$1.38 trillion has been repaid, consistent with the revolving fund nature of the PSF initiative as a support instrument.

21.6 As at 31 March 2005, a total of Z$1.49 trillion was outstanding, and as Monetary Authorities, we wish to call upon corporates and individuals to maintain sound financial management track records, in order to lay a foundation for sustained support of their production activities by the financial sector.

PRODUCTIVE SECTOR FACILITY ABUSE PENALTY FUND

21.7 Banks which delayed in passing funds to beneficiaries by more than 5 days were charged penalties amounting to **$13.1 billion**.

21.8 The penalty fund fell to **$500m** during the period July to September 2004 indicating reduced incidents of such delays.

WINDING DOWN OF THE PSF PROGRAM

21.9 In order to balance the twin objectives of capacity enhancement in our productive sectors, and the need to fight inflationary growth in money supply, the Reserve Bank in January, 2005 announced the extension of the PSF program to June 30, 2005.

21.10 Monetary Authorities wish to send yet another reminder that this deadline still holds, and that all borrowed corporates should ensure full repayment of their outstanding loans on or before the 30th of June, 2005.

21.11 Equally important, administering banking institutions should ensure full performance, **as failure to do so would leave the Reserve Bank with no option but to debit the banks with the outstanding PSF amounts.**

21.12 Where there is default, **market rates will start to apply for any outstanding balances under the PSF program beyond 30 June, 2005.**

22. OPERATIONALIZATION OF COMMAND AGRICULTURE

22.1 In order to guarantee the country's food security and self sufficiency, it is imperative that minimum thresholds of the country's arable land be put under food crops, coupled with a balanced orientation towards foreign exchange generating activities.

22.2 It is against this background that as Monetary Authorities we called for the principle of Stick and Carrot Command Agriculture in our January 2005 Monetary Policy Statement.

22.3 Key components of operationalizing Command Agriculture include:

(a) Timely announcement of viable pre-planting producer prices for all strategic crops and timely disbursement of adequate inputs.

(b) Selection of farmers who will participate in specific crops will be based on demonstrated capacity to produce, based on previous seasons' sales records and with a verifiable track record.

(c) Provision of support to farmers will be on an enforceable contract basis, with set targets which are agreed upfront.

(d) All arrangements for disbursement, monitoring and recovery of loans should be properly working.

(e) Targeted bulk buying of inputs to mitigate high input costs.

(f) Support will be provided to cater for a complete package, including, labor, energy, seeds, fertilizers, chemicals, combined harvesters, transport including tillage and irrigation rehabilitation/expansion.

(g) Farmers will be vetted to ensure that only high performing farmers benefit from support.

(h) Payments for produce to farmers should be timely to avoid side marketing.

(i) It is being proposed that Ministry of Finance should look at giving tax credits when farmers submit receipt of inputs on delivery of produce.

(j) Farmers who surpass a set target, by 25% for any specific crop should get rebates, for example from electricity charges and fuel costs, among others.

(k) A unit will be created within Reserve Bank to specifically administer and monitor utilization of the facilities.

22.4 It is also imperative that as a country, we put in place tailor made strategies to increase productivity levels for targeted crops.

WINTER WHEAT PROGRAM

22.5 As a deliberate strategy to enhance the country's food security situation, as well as saving of foreign exchange, a provision of $600 billion for the 2005 winter wheat farming program has been made.

22.6 There is, however, an urgent need to enhance the logistical arrangements under which the winter wheat program is implemented to ensure timeous availability of funding and inputs.

AGRICULTURAL INFRASTRUCTURE, ENGINEERING, MILK PRODUCTION AND BEEF CATTLE RESTOCKING

22.7 Success of the Agrarian Reform, also strongly hinges on the country's ability to urgently revive national agricultural infrastructure.

22.8 Against this background, an amount of $2.5 trillion has been set aside for irrigation rehabilitation, tobacco barn construction, milk production support, beef cattle restocking as well as assembling of agricultural drying facilities to expedite the harvesting cycles.

22.9 In order to ensure optimum usage of this financial support, disbursements, which would be at an interest rate of 20% per annum, will be made directly to suppliers of material and services to minimize intermediate temptation to play around with the money along the way.

22.10 Because of the infrastructure nature of the facility, the $2.2 trillion would be disbursed over the next 18 months, with the tenor of borrowings being tailor-made to project-specific needs.

22.2 The $2.5 trillion fund will be channeled under the following allocations:

Irrigation Support: $1 trillion.

22.3 This would cover the following key aspects of both underground and surface irrigation rehabilitation:

(a). Acquisition of pipes.

(b). Purchase of water pumps.

(c). Purchase of center pivots.

Expected Impact

22.4 To ensure food security and surplus crop production, the country should have at least:

(a). 300 000 ha under irrigated maize;

(b). 150 000 ha under winter wheat; and

(c). 100 000 ha on other crops, for example tobacco, potatoes and paprika.

22.5 If 300 000 ha of land are put under irrigated maize, about 75%, or 9 months of the country's minimum needs of 1.8 million tonnes will be met, with the balance coming from the rest of farmers.

22.6 This strategy will ensure that the country meets its staple food needs at all times and in good rainfall years, the surplus is exported.

22.7 If 150 000 ha of land are put under irrigated wheat, the country's minimum annual needs of 450 000 tonnes will be met with surplus coming from other farmers being exported.

22.8 As is detailed in the Supplement to this Statement, success in turning around agricultural production will also require:

(a) Timeous setting and announcement of pre-planting prices.

(b) Effective utilization of all acquired land, including State land, such as that under the control of ARDA and CSC. ARDA needs to be rationalized into manageable and accountable estates, to avoid the current occurrences where enough support has been given without paybacks.

(c) Implementation of a tenure system that secures agriculture as, once again, a means for collateralizing loans. A program to speed up the drawing up of 99-year leases together with surveys to back up those leases with secondary title deeds should be undertaken as complementary to the land reform program and its full utilization.

(d) Declaration of war against any forms of infrastructure vandalism on our farms, with a season as the minimum custodial sentence at State farms throughout the country.

HORTICULTURE

22.11 Horticulture remains a strategic agricultural area in the country's economy, not only in terms of contribution to national productivity, but also in terms of employment creation and foreign currency generation.

22.12 Given the current urgent need to enhance foreign exchange inflows, horticulture assumes a predominant priority given its short turnaround horizon.

22.13 Against this background, Monetary Authorities have set aside **Z$750 billion** to go towards the revival of the country's horticultural estates and projects under the drought mitigation strategy.

22.14 Beneficiaries can access this facility through their bankers.

22.15 Given the unique capacity requirements of horticulture, this facility will also cater for training programs under the auspices of such umbrella arms as Horticultural Promotion Council, as well as retooling and construction of green houses.

22.16 The Reserve Bank will also mobilize the necessary foreign exchange components needed to rebuild green houses in support of this initiative.

Specialization in Horticulture

22.17 Horticulture, unlike other lines of agricultural production, is a highly specialized undertaking, with explicit patenting systems, both in terms of production breeds, as well as marketing licensing.

22.18 In order to ensure maximum productivity levels, there is great scope in the country promoting and supporting joint ventures between the new farmers with progressive-minded former operators of horticulture estates, as well as other new investors, so as to hasten the skills transfer cycle.

22.19Under this arrangement, the new investors, or skilled former operators would be given special dispensation and guarantees of uninterrupted productive tenure of 5-10 years, backed by a resolute fight against any disruptions on the farms by the relevant arms of Government.

DAIRY SUPPORT

22.9 Milk production is a critical nutritional requirement that needs maximum support.

22.10Against this background, the dairy sector support has been increased to $300 billion, from the $150 billion revolving fund unveiled in January, 2005.

22.11These resources would go towards the following dairy activities:

(a). Breeding programs.

(b). Milk parlors.

(c). Acquisition of special transportation vehicles.

BEEF CATTLE SUPPORT

22.12 Within the $2 trillion pool, $500 billion has been set aside, up from the current $200 billion, to be disbursed over the next 18 months for beef cattle restocking programs, including infrastructural repairs and building-up programs, such as paddock assembly, fencing, dip-tank construction and other related activities.

PIGS, EGGS AND CHICKEN

22.13 As part of dampening food inflation, a total of $300 billion has been earmarked from the $2.5 trillion fund, to go towards the revival of pig production, as well as funding chicken and egg production projects.

MINING SECTOR DEVELOPMENT

22.14 In order to ensure that the country derives maximum benefit from the mining sector, support will continue to be given to the industry, particularly in the area of research and development for the opening up of new mines, preferably under joint ventures with foreign and local investors.

23. NATIONAL PRODUCTIVITY CENTRE

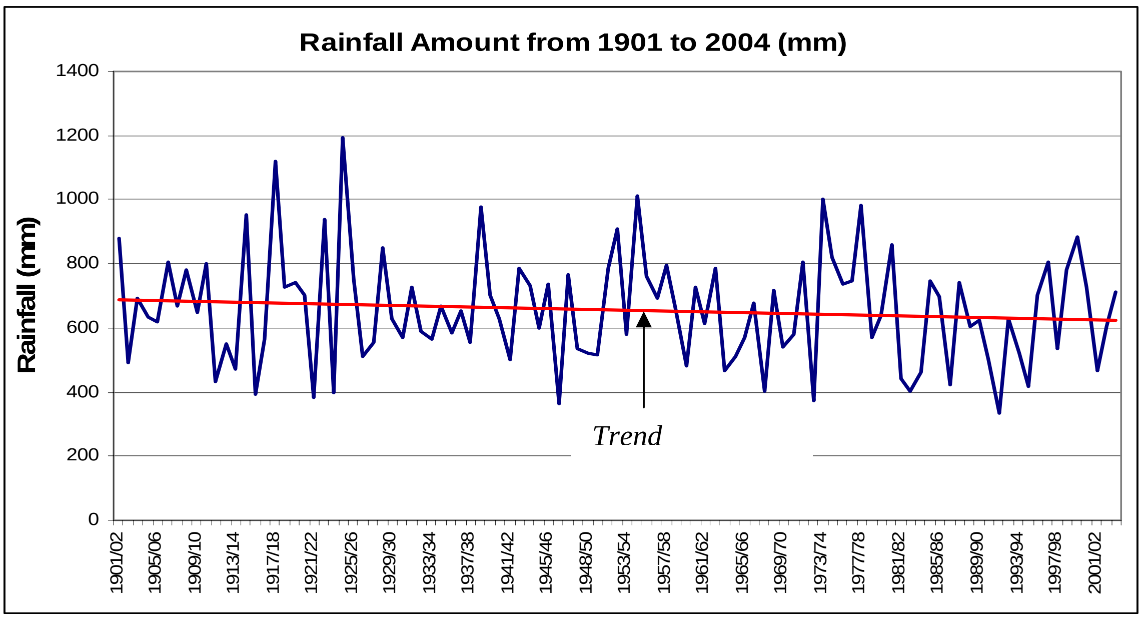
23.1 As indicated in previous Monetary Policy Statements, it is an indispensable requirement that as a country, we urgently resuscitate the National Productive Centre, which would act as an integral catalyst to uplift efficiency levels in our productive sectors.

23.2 As Monetary Authorities, we commit to expeditiously integrate the preparatory ground work already carried out during the First Quarter of 2005 so as to ensure **full functionality of the nation's Productivity Centre by June 2005.**

24. OTHER DROUGHT MITIGATION MEASURES

24.1 Zimbabwe, like most countries in the Sub-Saharan African region, is prone to high recurrence of ravaging droughts which exert immeasurable stresses to the country's foreign exchange resources, as well as inducement of untold suffering to the majority of our people.

24.2 The Reserve Bank has, over the past few months completed a comprehensive analysis of the rainfall patterns in the country, from as far back as 1901 to date, and unraveled an unambiguous downward trend of average rainfall endowments.



24.3 This disturbing trend demands that we collectively put together the necessary infrastructure that enables the country to produce its minimum food requirements under irrigation.

24.4 Such a framework, broad and complex as it is, cannot be surrendered for implementation by singular institutions or organizations.

24.5 Rather, its successful takeoff requires combined efforts from us as Monetary Authorities, the Fiscal Sector, through the budgetary processes, as well as the private sector, both in terms of resource mobilization and program implementation.

24.6 The construction of dams should be followed by establishment of irrigation infrastructure and ensuring that farmers are trained to utilize these resources for adequate food production.

24.7 Fortunately, soon after independence, the far sighted programs of Government have already developed a comprehensive countrywide dam network on the back of which successful irrigation programs can be put in place.

Dam Network and Capacities per Province

Region	Number Of Dams	Full Capacity (Million Cubic Meters)	Current Capacity (Million Cubic Meters)	Current Capacity (%)
Matabeleland North	9	50.3	29.3	58.3
Matabeleland South	23	729.9	408.7	56.0
Mashonaland Central	12	243.1	155.8	64.1
Mashonaland East	13	49.0	41.6	84.9
Mashonaland West	13	1 379.9	1 014.4	73.5
Masvingo	28	2 505.1	2 030.0	81.0
Midlands	18	479.8	376.9	78.5
Manicaland	12	655.3	650.6	99.3
NATIONAL	**128**	**6 092.6**	**4 707.3**	**77.3**

FINANCING OF DAM CONSTRUCTION PROJECTS

24.8 Monetary Authorities will continue to support programs aimed at further expanding the country's dam network.

24.9 Reflecting this, a total amount of **$61.88 billion** was disbursed under the facility as at 31 March 2005.

24.10 Requests for disbursements of funds are submitted by the Ministry of Water and Infrastructure Development and payments made directly to suppliers.

24.11 The dams will facilitate development of surrounding areas through the following: -

- i) promotion of irrigation activities.
- ii) creation of employment
- iii) minimizing impact of drought.

24.12 Details of the dams for which disbursements were made are as follows: -

Schedule of Dams Funded Under the $375 Billion Construction of Major Dams Project Facility as at 31 March 2005

Dam	Location – District	Amount ($ - BN)
Tokwe - Mukorsi	Chivi	33.34
Bubi Lupane	Gokwe	3.15
Shave Dam	Zvishavane	3.04
Marovanyati Dam	Buhera	20.79
Mutange	Gokwe	1.55
Total		**61.87**

24.13 As Monetary Authorities, we will continue to focus on sourcing of adequate finance to support the continuation of construction of strategic dams, throughout the country.

25. AGRICULTURAL MARKETING AND PRICING SYSTEMS

25.1 A key component in ensuring speeded turnaround in agriculture is the need for marketing and pricing systems that make farming a viable undertaking.

25.2 Under such a sustainable framework, farmers have got to enter a new planting season with a clear conscience in so far as the pricing and marketing arrangements are concerned.

25.3 It is against this background that we call upon the relevant authorities in Government to expedite finalization of operationalizing the Agricultural Marketing Authority.

National Fertilizer Production

25.4 As Monetary Authorities, we also wish to underscore the need for us as a Nation to build and support internal capacities to produce sufficient fertilizer supplies to meet our farmers' requirements.

25.5 Against this background, the pricing frameworks for fertilizer need to be timeously reviewed in a manner that ensures producer viability.

25.6 Without adequate fertilizer supplies, the country's yield levels will continue to decline, effectively undermining success of the turnaround program.

CENTRALISED NATIONAL AGRICULTURAL INPUT AND EQUIPMENT PROCUREMENT

25.7 A major source of low productivity and immense frustration to our farming community, in particular, the nascent new farmers, are delays and often costly splintered input and equipment procurement systems that are in place today.

25.8 The costs and timeliness of delivery of such critical requirements, as seeds, fertilizers, chemicals, machinery, equipment and spare parts, become economic when sourcing is centralized.

25.9 Bulk importation of inputs and equipment will not only benefit the economy through pricing economies of scale, but also makes foreign currency provision for agriculture much easier to plan for.

25.10 Against this background, the Reserve Bank, together with the relevant authorities and representatives of the farming community, is putting in place the necessary modalities for the creation of a National Agriculture Input Procurement Vehicle, details of which will be announced to the public in due course.

LAND TENURE

25.11 As Monetary Authorities, we are greatly concerned at the continued uncertainties around the land tenure system in our agricultural sector, notwithstanding Government's announcement in June 2004 on the intension to introduce the 99-year leases on acquired land.

25.12 For agriculture to be a viable business which is supported by the country's financial system, there is need for urgent implementation of a land tenure system that promotes certainty of title for reasonable planning horizons.

25.13 Without this, the banking sector risks exposing depositors' funds through unenforceable lending contracts, which in itself is unsustainable due to the systemic adverse effects of bank failures on the wider economy.

25.14 It is for this reason that we call upon the relevant authorities in Government to expedite the delivery of this critical phase of the Land Reform Program.

LAND TAX

25.15 As Monetary Authorities, we also call upon the relevant Government Authorities to speed up the introduction of a land tax, so as to encourage effective usage of all allocated land.

25.16 Where settled farmers are underutilizing the land, appropriate tax levels that are proportional to land holdings would act as an incentive for the holders to give up underutilized portions to farmers who are willing and able to turn it into productive use.

26 FISCAL AND MONETARY POLICY COORDINATION

26.1 Success of any macroeconomic stabilization program requires that fiscal and monetary policy frameworks be formulated and implemented in a coherent and complementary manner.

26.2 As Monetary Authorities, we are pleased to report that the period 2003 to date has seen commendable progress on fiscal consolidation, largely reflected by:-

(a) a near balanced budget in 2003, with a mere fiscal of 0.3% of GDP;

(b) operation with no supplementary budgets in 2004;

(c) compliance with statutory overdraft limits at the Exchequer Account held by the Reserve Bank; and

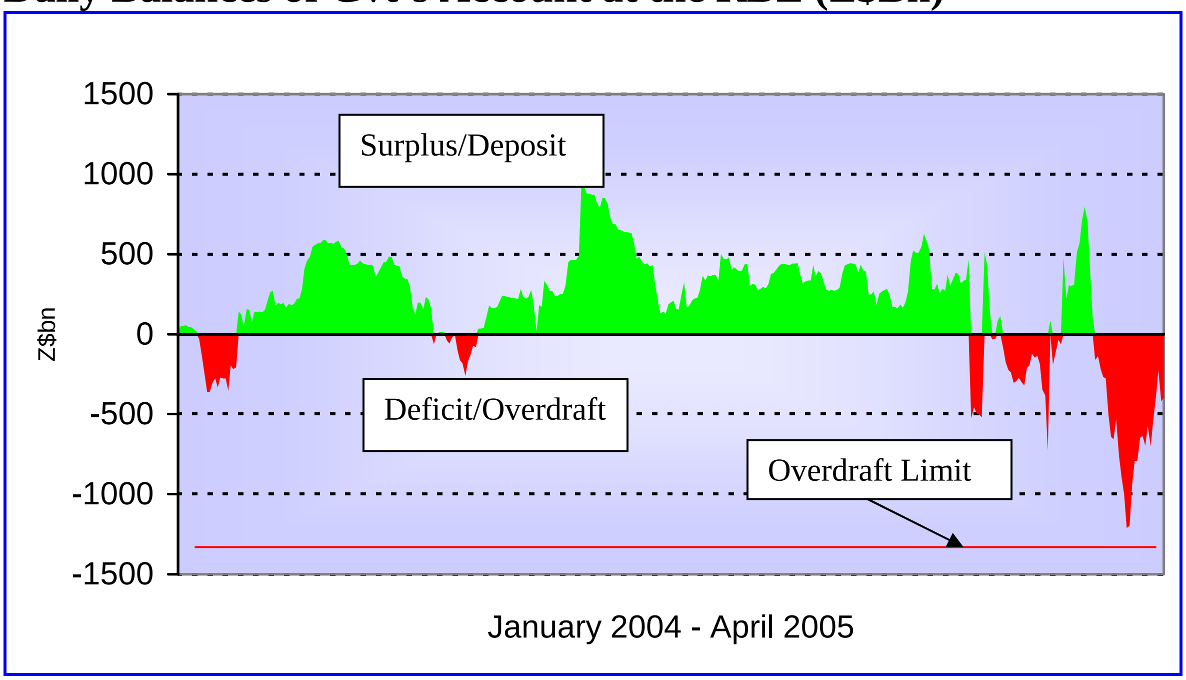
(d) the significant increase in budgetary allocations towards investment expenditures, from 7.7% of total budgeted expenditures in 2003 to 12.3% in 2004, which is expected to rise to 18% in 2005.

26.3 Notwithstanding expenditure pressures ordinarily expected during an election period, as Monetary Authorities, we are pleased to report that Government's overdraft position at the Reserve Bank was maintained within statutory provisions, throughout the first quarter of 2005.

Status of Government's Account at the Central Bank

Month	Government's Average Daily Cash Positions at RBZ ($bn)	Statutory Limit ($bn)
January 2004	(125.36)	275
February '04	187.39	275
March '04	501.30	275
April '04	305.05	275
May '04	(14.62)	275
June '04	233.76	275
July '04	696.49	275
August '04	264.48	275
September '04	372.55	275
October '04	364.11	275
November '04	298.31	275
December '04	400.96	275
January 2005	(322.17)	1 400
February '05	513.14	1 400
March '05	(1 197.83)	1 400
April, '05	(396.31)	1400

Daily Balances of Gvt's Account at the RBZ (Z$Bn)



27. WAGES AND SALARY REVIEWS

27.1 As Monetary Authorities, we once again call upon employer representative bodies and labor representative bodies to negotiate wages and salary reviews in a manner that balances continued sustainable productivity and the right of workers for humane standards of living.

27.2 It is also imperative that as a country, our wages and salary reviews be coordinated, so as to minimize ad-hoc ripple effects of exogenous cost changes on the country's production systems.

27.3 We, therefore, call upon the relevant authorities in Government, to adopt a holistic approach in reviewing minimum wage levels, as piece-meal approaches risk fomenting sectoral tensions and unnecessary disparities among workers.

27.4 Our call for restraint in wage negotiations of between 85% and 95% in January, 2005 was premised on the low-side inflation targets, which at that time did not envisage drought during this year.

27.5 However, due to the higher than anticipated inflationary pressures, we once again call upon employer bodies and labor representatives to constructively engage in a manner that takes into account developments on the ground, such that wage increases of 100%-120% would balance the need to promote workers' welfare, at the same time, retaining producers' viability.

27.6 As Monetary Authorities, we wish to stress that the above are advisory benchmarks, which should not be taken as prescriptive. While lower percentages would help the anti-inflation drive, we stress the need to align wage and salary increases to productivity within given sectors.

27.7 Employers and workers should, therefore, fruitfully engage in wage negotiations in full conformity with the labor laws and regulations, both of the country, as well as those set at the international level.

27.8 As Monetary Authorities, we also wish to reiterate our previous calls for employers to accord workers more prominent roles in the corporate governance structures and systems, so as to cultivate commonality of purpose and the sharing of strategic visions in their organizations.

28. NEED TO PROMOTE PRODUCTION

28.1 As Monetary Authorities, we also call upon all stakeholders to work tirelessly in defending the country from moving more and more towards mere trading, but rather be a productive economy.

28.2 Against this background, we applaud the opening up of new flights into the region, Asia, and beyond, but also warn on the need to remain vigilant and avoid turning these new services into a vehicle to relegate Zimbabwe into a trading backyard, at the detriment of local productive economic activity.

28.3 We also call upon Air Zimbabwe to ensure that all its routes are viable, so as to guarantee balanced revenue streams. Perpetual subsidies to the country's public enterprises are not sustainable, requiring that all efforts be focused on enhancing operational viability.

28.4 Success of the “Buy-Zimbabwean” campaign is predicated upon local capacity utilization, pride in our capabilities, employment creation, value-addition, curtailment of parallel market trading, and the promotion of exports.

28.5 Those inclined towards consumptive shopping trips are among the largest culprits in exerting parallel market pressure, and their operations must be curbed by every means possible under the new drive to instill discipline in our markets.

28.6 Disguising themselves as retailers or informal sector operators, the culprits are not paying taxes on their profits, yet they are big players in the game of externalizing currency bought at whatever price.

28.7 That reckless approach ends up as the parallel market index, for costing out goods and services to the whole economy.

29. INVESTMENT PROMOTION

29.1 Investment promotion remains a key pillar of the country's economic turnaround program, and Government has declared 2005 as the year of Investment attraction.

29.2 Cognisant of those investment pull-factors and perceptional risk factors in the investment source markets, Government and Monetary Authorities have, over the last few months been working on a framework to regularize bilateral investment protection agreements (BIPAs) that were inadvertently adversely affected during the emotive stages of the Land Reform Program, which has now been concluded and is irreversible.

29.3 We are pleased to report that Monetary Authorities have the assurance of Government that soon, discussions with bilateral partners will be entered into with a view to:

(a). Reaffirming Zimbabwe's commitment to respecting the sanctity of international agreements, including modalities of compensation along the terms and conditions that were agreed upon in the Bi-lateral Agreements signed after independence, with such Government institutions as the

Zimbabwe Investment Authority (ZIC), the Export Processing Zones Authority (EPZA) and other Government Ministries and Authorities.

(b). Setting the foundation for a more comprehensive framework for bilateral investment promotion and protection agreements, post the Land Reform and in the promotion of new investment initiatives.

29.4 We are pleased to inform our potential investment partners with whom we have been negotiating for investment that Zimbabwe, as a part of the global community, is fully aware of the need to protect and encourage inward investments as a tool to attract international capital mobilization.

29.5 As Monetary Authorities, therefore, we stand ready to support Government in the formulation and implementation of fair strategies to promote and protect investment inflows through normalization of international relations and banking treaties with cooperating partners.

29.6 We thank the Government in advance for making our investment promotional and bilateral debt service negotiations easier by agreeing to look at these bi-lateral historical contractual Agreements constructively, legally, professionally, respectfully, fairly and openly in terms of international norms governing such specific investment Agreements, and urge external parties to these Agreements to avoid taking precipitous actions which do not yield win-win outcomes as we move to redress the issues.

29.7 As Monetary Authorities, we are confident that once matters are finalized and the go-ahead given by Government on each of these Agreements, investment related funding structures which are tied to the performance of the economy can be worked out in a manner that is promotive of further investment inflows, as a result of the normalization of economic relations with these bilateral partners.

30. INTERNATIONAL RELATIONS

30.1 As part of the turnaround program, there is need for the country to continue working closely with regional and international business partners.

30.2 It is for this reason that as Monetary Authorities, we remain active players in the regional economic integration initiatives within the context of the SADC Committee of Central Bank Governors (CCBG), which is playing a supportive role by laying the technical foundation for the convergence of economic fundamentals in the region by 2008, as directed by SADC Heads of States and SADC Ministers of Finance.

30.3 Under Vision 2007, we seek to achieve macroeconomic stability in time for smooth integration and closer cooperation with our regional partners, as well as expanding trade relations with international blocs.

30.4 We also remain committed to the full payment of all our debts to international creditors, which repayment program is already underway, and is expected to be stepped up as the foreign exchange situation improves.

30.5 We also reaffirm our commitment to working closely and cooperatively with our multilateral partners who include the IMF, the World Bank, the AfDB, as well as bilateral creditors within and outside the Paris Club, who, over the years have been understanding to our foreign debt situation.

30.6 As Monetary Authorities, we also call upon all our Embassies across the world to set up investment promotion campaigns, to complement turnaround programs being implemented here at home. Our Foreign Affairs Ministry, therefore, has a critical role to play in sprucing up the country's international image, as well as promoting investment.

31. POST-ELECTION AGENDA…

31.1 With the Parliamentary Elections now over, the marked peace and tranquility prevailing in the economy forms a solid launch-pad to deepen our turnaround thrust.

31.2 The economic challenges at hand also require that as a Nation, we yet again take bold measures to stem out speculative behavior in our markets, as well as uplift productive capacities across all sectors of the economy.

31.3 Fellow Zimbabweans, as stated at the beginning, today we find ourselves at the cross roads; pondering which way to go, wishing that we could just sleep through this dilemma of shortages and hyperinflation, only to wake up upon the arrival and realization of our turnaround Vision…

31.4 A Vision of a prosperous Zimbabwe with a stable macro-economic environment…

31.5 A Zimbabwe in which issues of food security, full employment, low and stable inflation, interest rates and currency stability, investment flows, stable fuel and electricity supplies, smooth municipal garbage collection and clean water service provision, adequate transport, health and education, peace and security, among other aspirations, become entrenched elements of abundant availability in our daily lives.

31.6 Today, ladies and gentlemen, we find ourselves **tempted to point fingers at each other for this omission or that act of commission.** That to us represents wasted energy, except for its tutorial value of wisdom from the benefit of hindsight.

31.7 Today, we find ourselves wishing that we could hire and subcontract out to others the task and responsibility of making tough choices, and of implementing those decisions.

31.8 Because of the known love we have for one another, we pray daily and wish that we could also subcontract the pain associated with implementing tough decisions to someone else, preferably a non-Zimbabwean, a non-relative nor friend, preferably too, subcontract the pain to someone who must either come from outside Zimbabwe or a Superman from Mars or Superwoman from Planet Venus.

31.9 Unfortunately, for us Zimbabweans, Superman or Superwoman who can perform miracles on our behalf is yet to be born.

31.10 Today, ladies and gentlemen, we are tempted to destroy all that we have suffered to build, in the false hope that we can treat our economy and country like an omelet, **forgetting that omelets and countries are two different creatures.**

31.11 We are, today, fellow Zimbabweans, tempted to ask the Lord in our daily prayers, to let this **"burden pass away, and pass away quickly".**

31.12 We are, as Zimbabweans, today tempted to ask that we be "returned" or delivered back to the days when our **destiny could be planned and the outcome determined by someone else**.

31.13 We are, today tempted to forget that it is, **as they say**, only in the dictionary where **"success comes before work"** but through self-correction, the author of my dictionary, realized that "success" should come after both "pain" and "sacrifice"!

EVIDENCE AGAINST DELUSIONS OF GRANDEUR

31.14 Unfortunately for us, ladies and gentlemen, there is amble written evidence to confirm the view we hold as Monetary Authorities, that the **task** of turning around this economy is not **a "sub-contractible assignment" and is "non-transferable" to non-Zimbabweans.**

31.15 **The reality is that we have to do it on our own**, **taking our own medicine,** with external support only coming in to bolster our own genuine efforts towards self-correction and self-help.

31.16 It is written in the Holy Book that God will help those who stand up to help themselves.

31.17 To subcontract that task and responsibility would be to negate the gains of our political independence. **It would be called "abrogation" of our collective duty.**

31.18 Furthermore, it has to be realized that there are certain sacred tasks that cannot be delegated. **We can only "wish" but that is as far as it goes.**

31.19 Our Lord Jesus Christ also found himself at the cross roads of choice between pain and surrender when He called His Father to let this "burden pass away and pass away quickly"… But God must have said in reply "My Son, take it like a man for it is written that You have to suffer the pain and die for the sins of mankind and generations to come." The task was not sub-contractible nor postponeable.

31.20 We must realize as Zimbabweans today that we cannot postpone the turnaround, we have to take the pain like grown-ups and must know that the responsibility to turn around this economy squarely lies on our shoulders, for this and future generations.

31.21 The burden of responsibility is ours to carry and the sooner we join hands to make it happen quickly the better.

31.22 In case we need further Biblical enlightenment and warning on why we can't postpone or turn back on the course we have set for ourselves, the Bible tells us this story: …that while moving towards safety from the fires of Sodom and Gomorrah, **Lot's wife was instructed to walk behind her husband and not to look back for if she looked back, disaster would strike.**

31.23 Genesis Chapter 19 verses 24 to 27 tells us that in defiance, she **"looked back, and she became a pillar of salt."** No, as Zimbabweans, we can't look back. **Lets soldier on.**

INSPIRATIONAL CASE STUDIES…

31.24 It is also a fact that the darkest hour is that before dawn. We are almost there towards the promised Vision.

31.25 The Irish economy has transformed to become one of the best in Europe today from, a far cry of what it was during the land-related difficulties that country had with Britain in the last century.

31.26 Singapore transformed itself from a third world to a first world economy following its break away from Malaysia in the late 60’s and early 70’s, and the severe challenges they had before finding their own turnaround formula.

31.27 Malaysia transformed itself into the giant that it is today even after the social difficulties it went through in the late 60, early 70’s and the Asian financial crisis in 1997/98.

31.28 China, the present-day miracle and envy of many, took its medicine from the early 1990’s.

31.29 Nearer back home, South Africa’s currency hit a bad patch three years ago but today, it is as strong as it can get and indeed, the envy of many in the region.

31.30 And, there are many other examples such as that of the US economy itself during the last two centuries, Japan after World War II, Germany and others.

31.31 As your Governor, I give these examples in order to inspire fellow Zimbabweans who may not have read the economic histories and the transformational efforts, historical sacrifices, pains, trials and tribulations which those we regard as our economic heroes of today went through during the low moments of their times. So much about other people, let me end by coming back home.

32. CONCLUSION

32.1 Ladies and gentlemen, Zimbabwe’s economic history today is placing special responsibility on us as a generation, to transform our economy so that future generations will not curse on top of our graves but rather, talk highly about us with pride and gratitude.

32.2 Zimbabwe became politically independent 25 years ago owing to the courage and sacrifices that were endured by those gallant fighters of our liberation war still with us and those departed.

32.3 The demands for new forms of courage, determination and sacrifice stares us in the face today.

32.4 Whatever the shortcomings of our yester-years, whatever challenges that led us into this situation, let this generation not go down in history as one that destroyed the country's economy, as one that failed to bring about economic liberation when other generations did it for their nations. We too can do it!

32.5 In the Lord's hands, I commit this Monetary Policy Framework for our economic turnaround.

32.6 I thank you all.

G. GONO
<u>GOVERNOR</u>
19 May 2005