



**INFLATION DRIVERS IN ZIMBABWE**  
**SUPPLEMENT 1 OF 4**  
**TO THE 1<sup>ST</sup> QUARTER, 2005**  
**MONETARY POLICY REVIEW**

**DELIVERED**  
**BY**  
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## 1. DEFINITION OF INFLATION

1.1 Inflation is the rate of growth of the general price levels of goods and services in the economy, within a given period of time, for example monthly, quarterly or annually.

1.2 Zimbabwe's Consumer Price Index (CPI) basket is made up of the following components as tabulated below:

**Table 1: Consumer Price Index Basket**

	<b>ITEM</b>	<b>WEIGHT (%)</b>
1	Food	33.60
2	Beverages and Tobacco	16.01
3	Clothing and Footwear	6.87
4	Rent, Rates and Domestic Power	17.33
5	Furniture and Household Stores	7.52
6	Medical Care	1.68
7	Transport and Communication	6.60
8	Recreation and Entertainment	1.22
9	Education	4.44
10	Miscellaneous Goods and Services	4.73
	<b>Total</b>	<b>100</b>

1.3 Reflecting a combination of both demand pull and cost push inflation drivers, the period 2000 to January 2004 saw Zimbabwe registering unprecedented levels of inflation build up (Figures 1 and 2).

Figure 1:

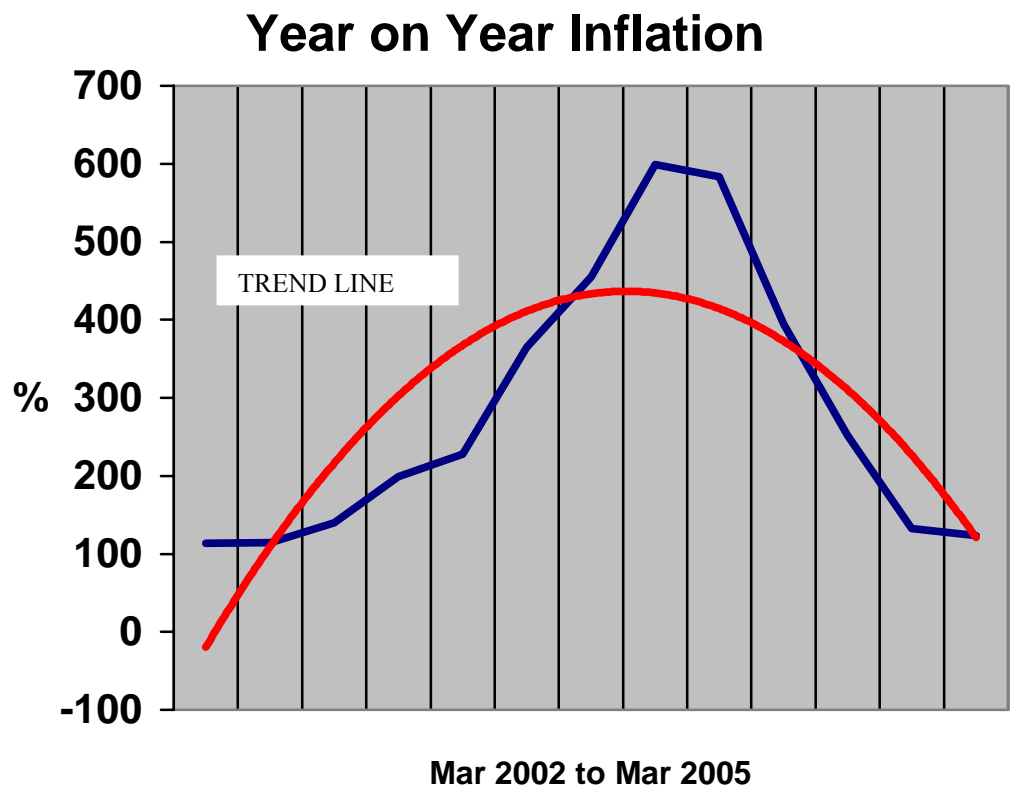
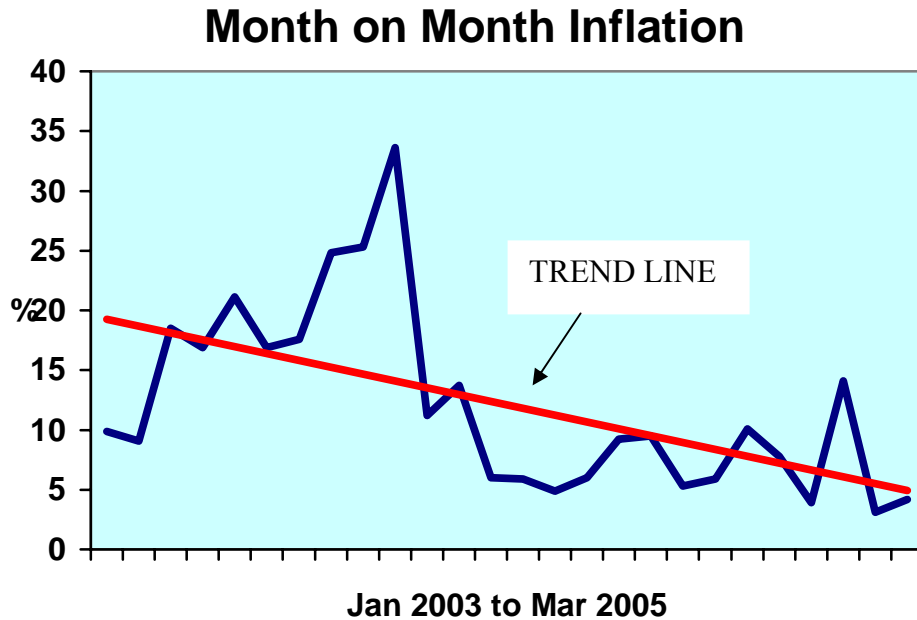


Figure 2



## 2. ENEMY NO. 1 IN ZIMBABWE... INFLATION

Within the context of Zimbabwe's Turnaround programme, inflation has been declared the economy's number one enemy. This has been clearly spelt out in the maiden Monetary Policy Statement of December 2003 and subsequent ones as well as in the Government Budget Statements.

2.1 The need to reduce inflation is predicated on the corrosive social and economic costs, associated with it.

These include:

- i. Erosion of purchasing power of incomes;
- ii. Widespread uncertainty, which makes forward business planning difficult;
- iii. Speculative activities, which divert resources from productive activities;
- iv. Penalizes fixed income earners like pensioners;
- v. Strain on the country's foreign exchange due to increased import demand;
- vi. Low worker morale, which affects productivity, quality and the supply of goods and services;
- vii. Stifles economic growth;
- viii. Penalizes savers who are key to any future investment, growth and development; and
- ix. Erodes the competitiveness of the country's goods and services in international markets.

2.2 Against the background of the above social and economic costs, no other variable has generated widespread debate and controversy in Zimbabwe as inflation.

- 2.3 It is for this reason that the Reserve Bank of Zimbabwe has decided to invest time and effort to unravel the dynamics of inflation focusing on the major drivers.
- 2.4 These inflation drivers emanate from either the demand or supply side effects on changes in the general price levels.
- 2.5 On the demand side, excessive money supply growth was identified as one of the major cause of inflation. Empirical evidence for Zimbabwe has shown that excessive money supply growth, which is not matched by productive economic activity, has adverse effects on inflation. Money supply growth emanates from the actions of both the private sector and Government to the extent of their borrowing from the banking system.
- 2.6 On the supply side, there is an inverse relationship between real output and inflation. As output rises, this has a dampening effect on inflation because of the increase in the supply of goods and services.

- 2.7 In Zimbabwe, there are supply bottlenecks, which have been brought about by various factors including natural disasters (drought), shortage of inputs, and structural rigidities including infrastructural deficiencies. These factors have to some extent adversely affected production and have resulted in demand outstripping supply leading to inflationary pressures during the last few years.
- 2.8 Over Zimbabwe's recorded history, there has been a marked inverse relationship between inflation, GDP growth (Figure 4) and average rainfall received.
- 2.9 An analysis of the country's total rainfall endowments since 1901(Figure 3) to the current season reflect a clear downward trend which signals increased susceptibility of the county's productive systems to the vagrancies of droughts.

Figure 3

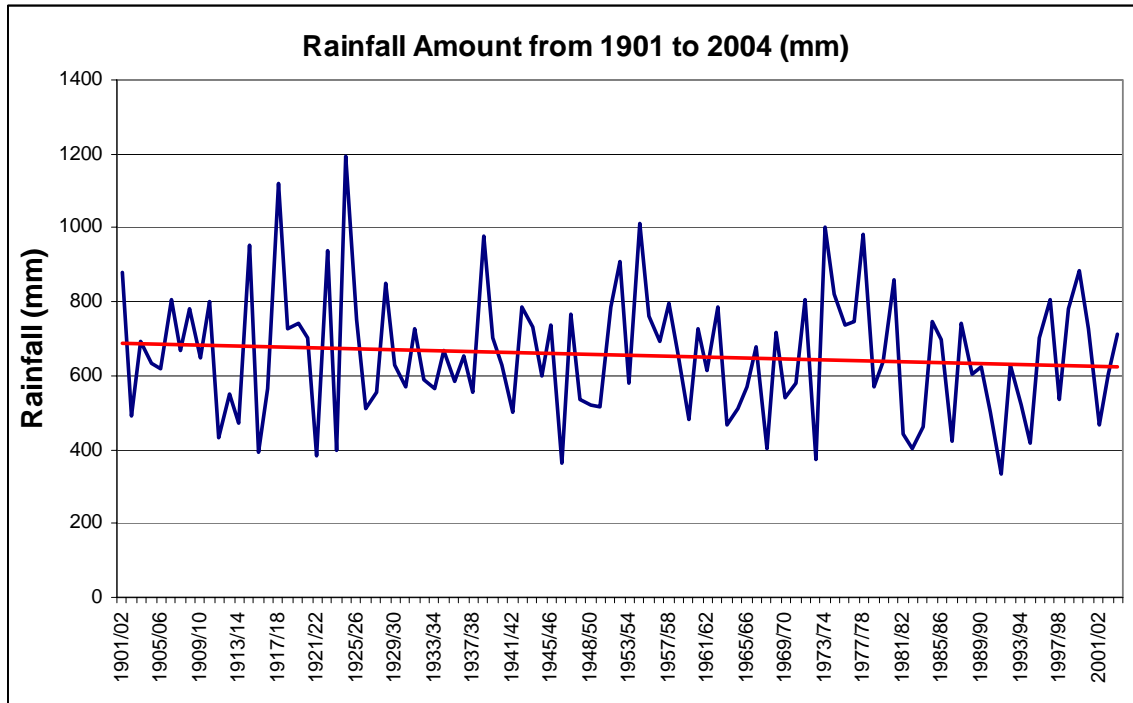
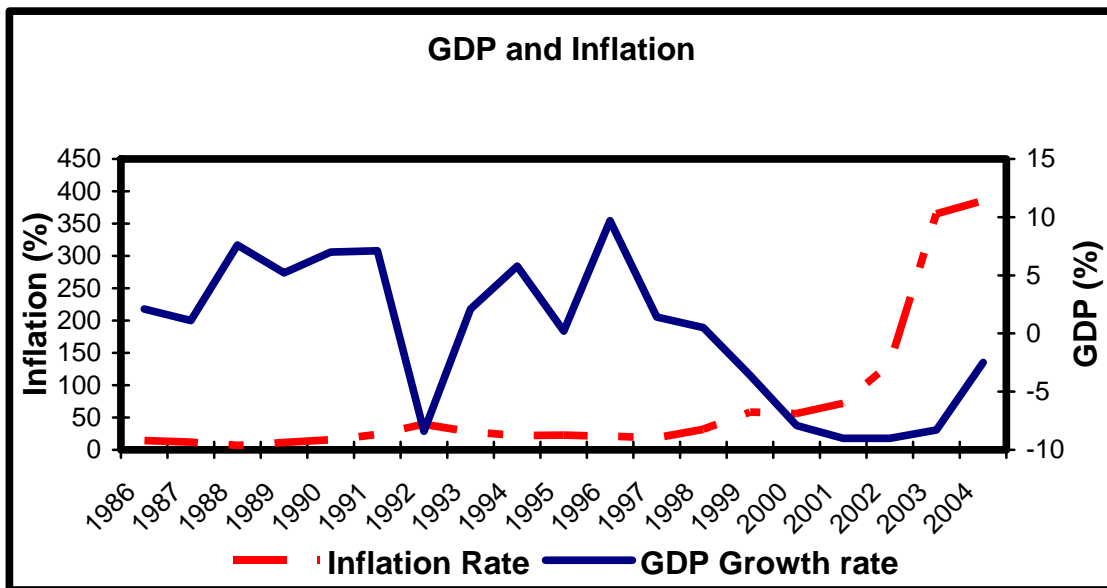


Figure 4



2.10 To unlock the supply chain, the RBZ has embarked on the re-orientation of the public enterprise and local



authorities (PLARP), which have a significant role to play in infrastructure development.

2.11 In addition to PLARP, the RBZ identified specific items in the CPI basket whose prices have a significant impact on inflation developments. The identified sectors are listed below:

- i. Food sub sector;
- ii. Rent and Rates;
- iii. Energy; and
- iv. Education.

### **3. MONETARY AGGREGATES**

**3.1** On the demand side, money supply growth unrelated to economic activity is a major source of inflation in the economy. The Reserve Bank therefore, created a Framework for Liquidity Management, whose primary objective is to contain money supply growth to levels consistent with inflation targets.

**3.2** The first step was to identify the main causes of money supply growth and design strategies and instruments, to

achieve the announced money supply and inflation targets. This involved the construction of a Liquidity Forecasting Program (LFP), which is a key input into the overall Liquidity Management Program (LMP).

### **3.3 Challenges**

**3.3.1** In order to reduce money supply to levels consistent with inflation targets, the Reserve Bank maintains a certain level of market shortage. The major challenges to the Reserve Bank's efforts to siphon liquidity from the market and achieve the desired level of shortage are the following sources of liquidity injections:

- i. Accommodation of banks;
- ii. Large Treasury Bill maturities;
- iii. Government salary payments and other expenditures;  
and
- iv. Foreign exchange purchases particularly during the tobacco auction season.

### **3.4 Strategies**

3.4.1 In the quest to control money supply to levels consistent with inflation targets, the Reserve Bank developed the following strategies:

- a) Formulation of instruments that control money supply;
- b) Coordination of the activities of the Reserve Bank's Divisions, particularly those that disburse funds to the market. This entails synchronization of the Productive Sector Facility (PSF) and PLARP disbursements with liquidity mopping up operations - critical for effective management;
- c) Development of the private placement initiative for OMO bills, so as to tap in more excess liquidity.
- d) Re-introduction of 2-5 year OMO bonds, with yields indexed to inflation, to lock up liquidity on a more longer term basis, while at the same time helping to spread out costs.
- e) Introduction of tap issues for long-term liquidity management instruments, with competitive yields, which are inflation-indexed.

- f) Enforcement of full compliance with statutory reserve requirements. Banking Supervision and Surveillance conducts spot inspections to ensure full compliance with statutory reserves.
  - g) Synchronization of the PLARP program.
  - h) Continuous formal communication with the market, on the Bank's Liquidity Management Program (LMP); and
  - i) Designing of a program for the issuance of PLARP bonds guided by liquidity forecasts and the funding needs of parastatals and local authorities.
- 3.5 The Reserve Bank recognizes the impact of supply constraints and cost-push factors of inflation and in this respect, task forces were identified to research on some of the critical areas and come up with strategies that would reduce inflationary pressures.

## **4. FOOD SUB SECTOR**

### **4.1 Sub Groups in the Food and Beverages Groups**

4.1.1 The food group is divided into sub groups where the major items are bread and cereals, meat and fruits and vegetables with weights of 11.99%, 6.56% and 5.97%, respectively. Details of sub groups in the food and beverages categories are shown in Table 2 below.

**Table 2: Sub Groups in the Food and Beverages Groups**

	<b>ITEM</b>	<b>WEIGHT</b>
<b>A</b>	<b>FOOD</b>	<b>33.60</b>
1	Bread and cereals	11.99
2	Meat	6.56
3	Fish	1.17
4	Milk, cheese and eggs	2.37
5	Oils and fats	2.14
6	Fruits and vegetables	5.97
7	Coffee and tea	0.28
8	Condiments and confectionary	2.91
9	Meals outside home	0.19
<b>B</b>	<b>BEVERAGES AND TOBACCO</b>	<b>16.01</b>
1	Beverages	14.31
2	Tobacco	1.69

- i. The detailed breakdown of the food CPI items is appended in Annex 2.

## **4.2 Challenges Faced By The Food Sector**

4.2.1 The drought that the country is experiencing in the 2004/05 agricultural season has resulted in the resurgence of shortages of basic food commodities. The goods that are currently in short supply in the economy include dried kapenta (matemba), cooking oil, flour, bread, fresh milk, powdered milk, lacto, sugar, meat (beef), mealie- meal, soft drinks, fruit and vegetables.

4.2.2 Companies are currently operating below full capacity due to the following factors, among others;

- i. Shortage of imported inputs;
- ii. Shortage of locally produced raw materials owing to the drought;
- iii. The beef and dairy industries are mainly affected by a limited number of herds for beef and milk. This

industry is also affected by shortage of stock-feed and veterinary drugs.

- iv. Cooking oil and other oil products are mainly affected by the shortage of soya beans, sun flower and maize.

### **4.3 Strategies For The Food Sector**

4.3.1 Since 2005 is a drought year, the RBZ, Government and other relevant stakeholders are putting measures in place that will increase the supply of goods and services particularly food in order to reign in on inflation arising from the shortages. The strategies below are basically concentrated on improving food supply.

#### **4.3.2 Maize and Wheat**

- i. The Government and the Central Bank are introducing a winter crop incentive scheme and ensure security of tenure so that the farmers are motivated to develop their farms and enhance productivity.

- ii. The RBZ and the Government are ensuring sufficient supplies of maize and wheat through imports of the grain.

### **4.3.3 Meat**

- i. More resources are being channelled towards poultry farming in the short term since chicken is a close substitute for beef, which is in short supply. This is because chicken has a shorter rearing period than cattle.
- ii. The RBZ and other stakeholders have put in place a financing structure for restocking the national herd and investment in research and development. This will result optimum use of the Cold Storage Company facilities.
- iii. The Government through relevant line Ministries has put in place measures to prevent the spread of contagious diseases such as foot and mouth thereby reducing the losses resulting from such outbreaks.

### **4.3.4 Milk And Cheese**



The RBZ has set up a Z\$150 billion facility for the Dairy industry to enhance the capacity of milk production. The funds will among other things be used for:

- i. Restocking the dairy herd, and
- ii. Training upcoming milk producers on issues of preservation and handling of milk, since it is a perishable product.

#### **4.3.5 Fruit And Vegetables**

The RBZ has set-up a fund to ensure increased and consistent supply of fruit and vegetables through the following initiatives:

- i. Irrigation rehabilitation for farms near urban areas which can grow fruits and vegetables;
- ii. Developing marketing zones for fruit and vegetables and putting in place transport arrangements to move the produce from the farmers to the consumers.
- iii. Identifying and arranging financing for potato seed production to cover the current deficit.

#### **4.3.6 Oils And Fats**

- i. The RBZ together with other stakeholders has established a facility to ensure sufficient supply of soya beans and other raw materials required for production of cooking oil, through the 2005 summer program.

#### **4.3.7 Sugar**

The challenge lies in the distribution of the product. Middlemen are being allowed to distribute sugar and artificial shortages are being created resulting in hoarding and subsequent trading at exorbitant prices on the parallel market. The Reserve Bank and Government are ensuring that the distribution channels are clear and efficient.

#### **4.3.8 Medium to long term measures**

- i. The Reserve Bank has structured targeted financing facilities to the agricultural sector to improve production.
- ii. The Reserve Bank and Government are revamping Agricultural Extension Services to educate the farmers on effective agricultural production.
- iii. The Reserve Bank has set up financing structures for dam construction and rehabilitation of irrigation infrastructure to ensure consistent supply of water for irrigated agricultural produce.

## **5. RENT AND RATES**

### **5.1 Background**

5.1.1 Rent and rates have a significant input in the computation of Zimbabwe's Consumer Price Index (CPI). Contributing 15.8% of the CPI, rent and rates form the third largest category in the CPI after food (33.6%) and beverages (16%).

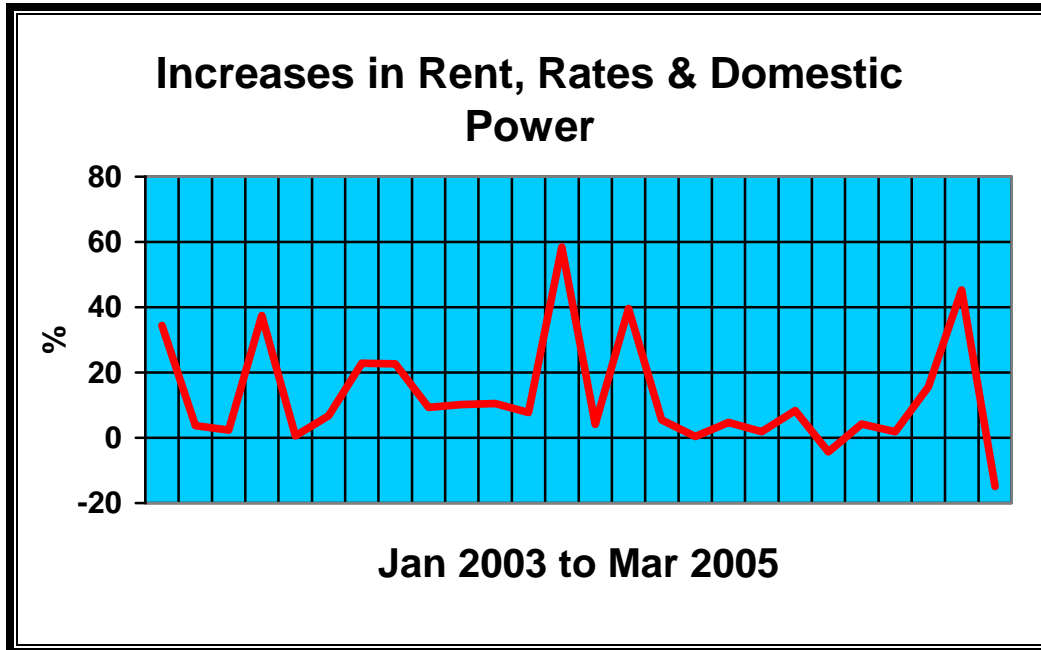
### **5.2 Trends in Rent and Rates**

5.2.1 As shown in the figure 1 below, in 2003, most Estate Agents and Property owners had resorted to quarterly adjustments of rentals and rates due to the high inflation, which prevailed then.

5.2.2 In 2004, as inflation slowed down, upward adjustments in rent and rates became less frequent, resulting in low and relatively stable inflation in this category.

5.2.3 There is some seasonality in rental adjustments (Figure 5) with significant increases occurring in January as new leases are agreed upon or the escalation clauses are implemented. In January 2005, the category increased by 64% largely due to the adjustment in rates which was rescinded in February hence the decline of 22%.

Figure 5



### 5.3 Major Challenge for Rent and Rates

**5.3.1** Extensive stakeholder consultations and research has shown that the upward pressure on rent and rates is a result of the shortage of affordable industrial, commercial and residential properties. Current estimates of the housing backlog from Local Authorities show that over 2 million people are on the housing waiting list, countrywide. Factors that are currently restraining supply in the sector include:

- i. Unavailability of serviced land. Due to lack of adequate funding, most Local Authorities have not been able to

service land for the construction of houses and offices. Much of land servicing has been left to private land developers, whose capacity and scale is limited.

- ii. Lack of serviced land has also been caused, in some instances, by inefficiencies in the handling of land development paperwork. Restricted capacities of most local authorities' water supply and sewerage reticulation systems have also hindered the servicing of stands and construction of new houses and offices.
- iii. Construction costs have also been escalating and are currently prohibitive. Given the high cost of building materials such as cement, building sand, quarry stones, timber, roofing material, glass, iron and steel, plumbing and bricks, it is cheaper to buy an existing property than to build. This has resulted in increased pressures on existing housing units leading to high property prices.
- iv. The high mortgage rates, which prevailed over the past couple of years, have acted as a deterrent to potential house owners who have no choice but find themselves having to rent and be at the mercy of landlords.

- v. The cost of bricks, which constitute between 15% and 25% of construction costs, is currently between \$500 000 and \$800 000 per 1000 for commons compared to \$13 000 in 2003. Taking the lower figure, this is an increase of over 3500%

## **5.4 Other Causes of Increases in Rent and Rates**

**5.4.1** Pegging rentals in foreign currency at black market rates has also been identified as contributing to the levels of rents currently prevailing. Some unscrupulous real estate agents and a new group of owner managers in the property market who engage in unethical practices for the sake of profiteering have been the major culprits.

**5.4.2** The upward rental adjustments in January 2005, were as a result of catch-up effects on expiring lease agreements whose rentals had remained at low levels for the rest of 2004. It is also during January that most of the escalation clauses in lease agreements are effected.

5.4.3 Rent and rates have also been directly increasing in line with increases in inflation and associated charges such as amenities, insurance, maintenance costs.

**5.4.4** High demand for houses by Zimbabweans in the diaspora has contributed to the increase in property prices, which are now beyond the reach of many. Affordability has left many families with just one option, which is to rent hence the continued escalation in rentals.

## **5.5 Possible Solutions to the Rent and Rates Challenges**

**5.5.1** The major solution to the rent and rates challenge lies in enhancing the sector's supply side. The Reserve Bank has identified the following measures to mitigate the inflationary pressures coming from rent and rates:

- i. The RBZ encourages employee housing schemes to be set up by companies for their staff;
- ii. Speeding up land development processes to increase the availability of serviced stands. The same should be done for approvals for site and construction plans;



- iii. The RBZ urges Local Authorities to work with private investors in the servicing of land and this can be done on a Build Operate and Transfer (BOT) basis. This will assist Local Authorities, which have serious financial constraints;

## **6. ENERGY**

- 6.1** Due to the universality of application of electricity, fuel and coal in all productive systems, any slippages and unjustifiable price adjustments of these energy sources inevitably trigger an adverse domino effect on the country's cost structures.
- 6.2 It is for this reason that under the recently launched Parastatals and Local Authorities Reorientation Program (PLARP), greater focus is being placed on enhancing operational efficiencies so as to mitigate the undesirable knock-on effects on inflation caused by random increases in energy prices.
- 6.3 The PLARP initiative seeks to ensure that the general public is not burdened by pricing models that lump in vast margins

to cover for operational inefficiencies, which have been noted to be the case at the moment.

6.4 The energy items in the CPI basket fall under domestic power. They include electricity, paraffin, fuel and gas. Changes in the prices of these items, have a significant impact on the prices of the other items of the CPI basket.

6.5 The energy sector has a direct weight of 2.36 in the CPI basket.

## **6.6 Challenges**

6.6.1 The challenges faced by the providers of energy range from the unavailability of spare parts for electricity plants to logistics in the procurement and distribution of fuel as well as indebtedness.

6.6.2 Tariff adjustments by the utilities have knock-on effects on the rest of the economy and therefore, the timing and extent of these adjustments is vital.

6.6.3 It is preferable that where these adjustments are justifiable and necessary, they be staggered over a period of time so as to smoothen their impact on the rest of the economy.

6.6.4 There is also need to improve the logistics in terms of the distribution of fuel in the country.

6.6.5 The lack of efficient distribution chains has often resulted in shortages and the development of parallel markets where the commodities are available at exorbitant prices.

6.7 All the public utilities involved in the provision of one energy type or the other, NOCZIM, ZESA and the other players have to improve their operations to ensure that the country does not grind to a halt since they supply inputs that are vital to all the other sectors of the economy.

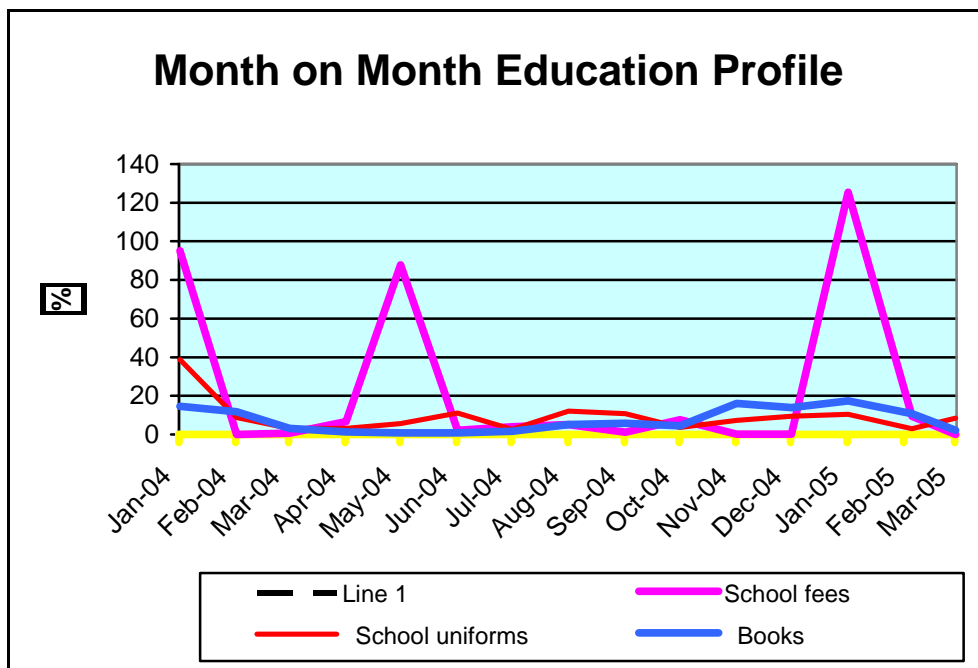
## **7. EDUCATION**

### **7.1. Introduction**

**7.1.1** Education constitutes **4.3%** in the Consumer Price Index basket, with **fees** contributing **3.4%** to the basket. Other

components of this sub-category are **school uniforms (0.8%)** and **education books (0.2%)**. Figure 6 below gives a profile of the month on month changes in the education index since January 2004.

Figure 6:



**7.1.2** From the graph above we note that the increase in education is cyclical with the main driver being school fees. The peaks in school fees are consistent with the start of each term with the exception for the start of the 3<sup>rd</sup> term in 2004, when controls on school fees, were put in place.

**7.1.3** High increases in school fees have been witnessed over the past couple of years and these hikes prompted the Government to intervene with a view to ensuring that education remains affordable to all. The hikes in school fees were being justified on the prevailing high inflation environment.

## **7.2 Challenges Facing Schools**

7.2.1 In general, private schools have always been more expensive than public schools mainly because they offer more in terms of both curricular and extra curricular activities. However, the continued increase in fees has been exerting pressure on inflation. The increase in school fees has been a result of the following challenges, among others:

- i. Private school fees are structured to fully recover costs. Two approaches are used to come up with the school fees structure:
  - Flat fees, whereby the costs are divided into three equal instalments.

- Progressive fees, whereby the fees for the first term are the lowest, but progressively increase for the second and third terms.
  
- ii. The major cost driver in private schools are staff costs, which constitute between 55% and 60% of overall education costs. Previously, the Ministry of Education used to provide a teachers grant. Until 2001 the differences in fees and levies between private and public schools was not so wide because of this grant.
  
- iii. Salary increases were therefore considered to be the main determinant of school fee adjustments. Private schools try to maintain the salaries of their staff competitive so as to retain them.
  
- iv. Boarding fees have gone up in response to the increase in the price of food items and other amenities like electricity and water. These constitute between 20% and 30% of private schools costs.

- v. Private schools are also responsible for their capital expenditure as well as the maintenance of physical infrastructure of their schools, both buildings and grounds.
- vi. The rising cost of textbooks – some of which have to be imported.
- vii. Increases in Government subsidies to schools have been lower than inflation over the last five years resulting in pressure for public schools to also increase school levies.

### 7.3 Solutions

7.3.1 In order to avert some of the challenges being faced by both public and private schools, the RBZ proposes that the Government, through the relevant organs should consider the following;

- i. Establishment of a virtual warehouse which would facilitate the central buying of commodities and services in bulk for both public and private schools – allowing the schools to benefit from discounts through economies of scale, and

- ii. The engagement of the printing and publishing industry to increase their printing capacity so that school textbooks and exercise books are printed locally thus avoiding importation costs.
- 8.** In its endeavor to reign in on inflation, the RBZ is implementing some of the solutions to the challenges as stated above and the Bank urges all stakeholders to operate constructively in the stabilization of the economy.



## **ANNEX I**

### **UNDERSTANDING THE COMPUTATION OF INFLATION**

#### **1. Introduction**

1.1 This Annexure attempts to explain the way inflation is computed by the Central Statistical Office (CSO) of Zimbabwe. The basic methodology and base years are very much similar to those utilized by other SADC countries, for example, South Africa, Namibia and Tanzania. The range of the CPI basket and weights being used today are within the ranges used by other developed countries.

#### **2. Data Collection**

2.1 Surveys to collect data on inflation are done around the 15<sup>th</sup> of each month. This means enumerators carry out surveys from the 13<sup>th</sup> to the 17<sup>th</sup> of each month. It is also important to carry out the surveys at the same time every month so as to determine an expenditure pattern that is not influenced by changes in income levels. This is because the prices of some products, particularly fruits and vegetables, fluctuate with the time of the month especially month ends.

2.2 The surveys for all products except fruits and vegetables are done in shops. The prices of fruits and vegetables are collected from the respective green markets (**musika**) throughout the country.

### **3. Weights**

3.1 Data to compute weights is obtained from household surveys (Income Consumption and Expenditure Surveys or ICES). The Central Statistical Office (CSO) samples a number of households throughout the country, where their consumption expenditure pattern is recorded for the year. The data is collected on a monthly basis and integrated for the whole year. From this data, the annual average household consumption expenditure is calculated. This data is used to calculate the weights for each item in the CPI basket. Ideally the CSO should adjust the weights once in every 5 years.

3.2 The current Consumer Price Index is using the 1995 base year and the CSO is currently working on finalising a survey (the ICES) for a more recent base year. This means that in the near future, new weights will be utilized in the computation of inflation.

3.3 However, the weights which are currently in use are credible since they are on the whole, indicative of the consumers' expenditure pattern, for example, food at 33.6 weight constitutes the largest category in the CPI basket. All stakeholders are urged to give support to the CSO in their endeavor to update the Income, Consumption and Expenditure Survey, which is used to come up with more recent weights. The base year should be updated on a regular basis so that weights are more reflective of current expenditure patterns.

#### **4 Methodology**

4.1 The CSO uses the Laspeyres index to calculate the consumer price index and its presentation is given below.

4.2 The Laspeyres Index is given by;

$$\text{Laspeyres Index} = (\sum P_1 Q_0 / \sum P_0 Q_0) * 100$$

Where  $P_1$  = price in the current year

$P_0$  = price in the base year

$Q_0$  = quantities sold in the base year

- i. The Laspeyre's index indicates how much the cost of buying base year quantities at current year prices is, compared with the base year costs.
- ii. It requires quantities measured for only one period - the base.
- iii. The Laspeyres method uses quantities consumed during the base period.

#### **4.2.1 Strength of the Laspeyres**

- i. By using the same base period, it allows for direct comparison of indices.
- ii. If the CPI is computed using the Laspeyres index, then the CPI is considered as an upper bound to a **cost of living index**<sup>1</sup> in that, the CPI does not reflect the changes in buying or consumption patterns that consumers would make to adjust to relative price changes. The ability to substitute means that the increase in the costs to consumers of maintaining their level of well being tends to be less than the

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<sup>1</sup> A cost of living index would measure changes over time in the amount that consumers need to spend to reach a certain "level of utility" or "standard of living".

increase in the costs of the mix of goods and services that they previously purchased. This is because the costs of living index is affected by the substitution effect and the income effect. When the prices of goods change, consumers substitute the goods in their basket to try and remain on the same level of satisfaction, but the Laspeyres index does not substitute the items in the basket.

- iii. It is simple and less cumbersome to use.

#### **4.2.2 Disadvantages of the Laspeyres Index**

The Laspeyres Index does not take into consideration changes in consumption patterns. Items purchased in large quantities just a few years ago may be relatively unimportant today, since consumers tend to adjust their consumption patterns depending on income, climatic changes, prices and structural changes in the economy.

#### **4.2.3 Policy**

It is rational for trade unions to bargain for a percentage that is lower than the inflation rate because the Laspeyres index

overstates the cost of living since the basket is not adjusted in accordance with price changes.

### **4.3 Paasche Index**

4.3.1 The Paasche method uses quantity measures of the current period rather than for the base period as shown below;

4.3.2 Paasche Index is given by;

$$\text{Paasche Index} = (\sum P_1 Q_1 / \sum P_0 Q_1) * 100$$

Where  $P_1$  = price in the current period

$P_0$  = price in the base period

$Q_1$  = quantities sold in the current period

**NB** The difference between the Paasche and the Laspeyre's Indices reflects the change in consumption patterns of consumers.

#### **4.3.3 Advantages of the Paasche Index**

- i. It is particularly helpful since it combines the effects of changes in price and consumption patterns.

- ii. The Paasche Index generally shows a trend towards less expensive goods and services, which is what consumers do when prices change.

#### **4.3.4 Disadvantages of the Paasche Index**

- i. There is need to tabulate quantity measures for each period examined which may be time consuming and expensive. Data for this purpose may not be available.
- ii. Since quantities considered in the Paasche Index are different, it is difficult to make intertemporal comparisons of the indices in different periods.

#### **4.4 Fallacy of Inflation and Price Changes**

4.4.1 Most people have often criticized the CSO for misrepresenting inflation data especially if the inflation rate declines. People always argue that there cannot be a reduction in inflation when prices are always rising in the shops. A fall in inflation implies that the general prices are rising at a slower rate than for the comparable period. Therefore, a decline in inflation does not mean a fall in prices.

4.5 Table 3 below shows the 10 broad categories of items in the CPI basket and their weights. A further breakdown of these major categories is included in Annex 2.

**Table 3: Consumer Price Index Basket**

	<b>ITEM</b>	<b>WEIGHT (%)</b>
1	Food	33.60
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	<b>Total</b>	<b>100</b>



## ANNEX 2: CONSUMER PRICE INDEX (CPI) BASKET

Item	Weight	Item	Weight
<b>ALL ITEMS</b>	100	<b>Maize meal</b>	<b>6.41</b>
<b>FOOD</b>	<b>33.60</b>	Maize meal –super refined	1.82
<b>Bread &amp; cereals</b>	<b>11.99</b>	Maize meal-roller meal	4.59
<b>Bread</b>	<b>3.92</b>	<b>Rice and cereals</b>	<b>0.71</b>
White bread	3.69	Rice - long grain	0.32
Brown bread	0.24	Rice - short grain	0.32
<b>Other bakery products</b>	<b>0.04</b>	Spaghetti	0.01
Bun	0.01	Macaroni	0.01
Scone	0.01	Breakfast cereals	0.03
Cake	0.01	Baby cereal	0.03
<b>Biscuits</b>	<b>0.10</b>	<b>Meat</b>	<b>6.56</b>
Biscuits-plain marie	0.02	<b>Beef</b>	<b>4.74</b>
Biscuits-loose	0.02	Rump steak-beef	0.78
Biscuits-lemon creams	0.02	Topside-beef	0.78
Biscuits-assorted	0.02	Stewing steak-beef	0.78
<b>Flour</b>	<b>0.81</b>	Ration meat-beef	0.78
Flour-self raising	0.40	Liver-beef	0.78
Flour –plain	0.40	Mince (beef)	0.78

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Boerewors-beef	0.06	Milk- sterilized	0.37
<b>Offals</b>	<b>0.17</b>	Powdered milk- full cream	0.18
Offal-beef	0.05	Powdered milk - for babies	0.04
Offal-beef	0.12	<b>Other milk products</b>	<b>0.09</b>
<b>Chicken</b>	<b>1.34</b>	Cheese	0.04
Chicken-full	1.34	Ice cream	0.03
<b>Other meat products</b>	<b>0.32</b>	Yoghurt	0.02
Pork	0.17	<b>Eggs</b>	<b>0.50</b>
Bacon	0.03	Eggs	0.50
Sausages-pork	0.06	<b>Oils and fats</b>	<b>2.14</b>
Tinned meat	0.05	<b>Butter</b>	<b>0.02</b>
<b>Fish</b>	<b>1.17</b>	Butter	0.02
<b>Fish</b>	<b>1.17</b>	<b>Cooking oil</b>	<b>1.64</b>
Frozen fish	0.50	Cooking oil -olive	0.82
Dried fish	0.65	Cooking oil -panol	0.82
Tinned fish	0.02	<b>Margarine</b>	<b>0.48</b>
<b>Milk, cheese and eggs</b>	<b>2.37</b>	Margarine-stork	0.35
<b>Milk</b>	<b>1.78</b>	Soft margarine - hellio	0.13
Sour milk	0.37	<b>Fruits and vegetables</b>	<b>5.97</b>
Fresh milk	0.83	<b>Fresh fruits</b>	<b>0.43</b>

<b>Item</b>	<b>Weight</b>		<b>Item</b>	<b>Weight</b>
Apples	0.06		Tinned peas	0.03
Bananas	0.15		Tinned fruit	0.02
Mangoes	0.07		<b>Coffee and tea</b>	<b>0.28</b>
Oranges	0.14		<b>Coffee</b>	<b>0.06</b>
<b>Fresh vegetables</b>	<b>4.90</b>		Coffee - instant	0.03
Green beans	0.03		Coffee ground	0.03
Cabbages	0.61		<b>Tea</b>	<b>0.22</b>
Okra	0.06		Tea bags	0.11
Carrots	0.03		Tea leaves	0.11
Onions	0.26		<b>Condiments and confectionary</b>	<b>2.91</b>
Rape/Covo/Chomoulier	1.65		<b>salt</b>	<b>0.21</b>
Tomatoes	1.28		Table salt	0.21
Potatoes	0.77		<b>Sauces and other foods</b>	<b>0.50</b>
Cucumber	0.01		Tomato sauce	0.04
Sweet potatoes	0.21		Curry powder	0.08
<b>Tinned and dried vegetables</b>	<b>0.64</b>		Gravy-powder	0.01
Baked beans	0.30		Soup	0.01
Dried beans	0.30		Vinegar	0.00

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Jam- sun sweet	0.04	<b>BEVERAGES AND TOBACCO</b>	<b>16.01</b>
Jam - mixed fruit	0.04	<b>Beverages</b>	<b>14.31</b>
Baking powder	0.02	<b>Fruit juice</b>	<b>2.41</b>
Sweets	0.02	Fruit juice	2.41
Peanuts	0.09	<b>Soft drinks</b>	<b>2.92</b>
Potato crisps	0.05	Coca cola - bottled	1.42
Peanut butter	0.11	Coca cola - tinned	1.42
<b>Sugar</b>	<b>2.20</b>	Tonic water	0.08
White Sugar	1.10	<b>Clear beer</b>	<b>3.31</b>
Brown Sugar	1.10	Clear beer - castle (bottle store)	1.10
<b>Meals outside home</b>	<b>0.19</b>	Clear beer - Bohlingers (bottle store)	1.10
<b>Meals outside home</b>	<b>0.19</b>	Clear beer - castle (hotel)	1.10
Hamburger	0.01	<b>Opaque beer</b>	<b>4.68</b>
Chips	0.03	Opaque beer - packed	2.34
Sadza	0.05	Opaque beer - draught	2.34
Dinner meal	0.05	<b>Other bar drinks</b>	<b>0.99</b>
Quarter chicken	0.03	Brandy	0.10
Pie	0.02	Gin	0.10

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Whisky	0.13	Shirts - long sleeve	0.32
Wine	0.57	Shirts - short sleeve	0.28
Whisky	0.09	<b>Socks and briefs</b>	<b>0.08</b>
<b>Tobacco</b>	<b>1.69</b>	Socks	0.06
<b>Cigarettes</b>	<b>1.53</b>	Briefs	0.02
Cigarettes - kingsgate	0.77	<b>Women's clothing</b>	<b>1.98</b>
Cigarettes - Berkeley	0.77	Costume	0.87
<b>Other tobacco</b>	<b>0.16</b>	Dress	0.21
Snuff	0.04	Skirt - flared	0.17
Pipe tobacco	0.12	Skirt - pencil	0.17
<b>CLOTHING AND FOOTWEAR</b>	<b>6.87</b>	Blouse	0.25
<b>Clothing</b>	<b>5.30</b>	Jersey	0.32
<b>Men's clothing</b>	<b>2.15</b>	<b>Women's underwear</b>	<b>0.13</b>
Trousers-formal	0.60	Panties	0.06
Trousers	0.19	Brassiere	0.02
Jean trousers	0.08	Panty-hose	0.01
Suits - double breast	0.29	Petticoat	0.05
Suits - single breast	0.29	<b>Night dress</b>	<b>0.03</b>
Pullover	0.09	Night dress	0.03

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Shorts	0.19	<b>Children's Shoes</b>	<b>0.37</b>
Dress	0.21	Girls school shoes	0.12
T Shirt	0.19	Girls party shoes	0.12
Rompers	0.04	Boys school shoes	0.12
Napkins	0.07	<b>Sports shoes</b>	<b>0.05</b>
<b>Dress Material</b>	<b>0.23</b>	Sports shoe	0.05
Dress material - single metre	0.11	<b>RENT, RATES and DOMESTIC POWER</b>	<b>17.33</b>
Dress material - double metre	0.11	<b>Rent &amp; rates</b>	<b>15.79</b>
<b>Footwear</b>	<b>1.57</b>	<b>Rent</b>	<b>14.25</b>
<b>Men's shoes</b>	<b>0.55</b>	Rent high density	7.12
Shoes - leather	0.27	Rent low density	7.12
Canvas shoes	0.27	<b>Sewerage rates</b>	<b>0.13</b>
<b>Women's shoes</b>	<b>0.60</b>	Sewage - high density	0.07
Court shoes	0.15	Sewage - low density	0.07
Casual shoes	0.15	<b>Dust removing rates</b>	<b>0.13</b>
Sandals	0.15	Dust removing rates - high density	0.07
Canvas shoes	0.15	Dust removing rates - low density	0.07
<b>Children's Shoes</b>	<b>0.37</b>	<b>Owners rates</b>	<b>0.40</b>

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Owners rates - for land	0.20	<b>FURNITURE AND HOUSEHOLD</b>	<b>7.52</b>
Owners rates - for	0.20	<b>Soft furnishings</b>	<b>1.20</b>
Water Charges	0.87	<b>Textiles</b>	<b>1.01</b>
Water Charges – low density	0.44	Bed sheets	0.15
Water Charges- high density	0.44	Blanket	0.43
<b>Repair and Maintenance</b>	<b>0.75</b>	Bed spread	0.43
<b>Materials for Repair</b>	<b>0.50</b>	<b>Other textiles</b>	<b>0.18</b>
Asbestos Sheet	0.25	Towel	0.07
Cement	0.25	Curtain material	0.12
Window panes	0.25	<b>Household utensils</b>	<b>0.62</b>
Door Lock	0.25	<b>Cutlery</b>	<b>0.03</b>
Paint	0.25	Kitchen knife	0.01
<b>Domestic power</b>	<b>0.80</b>	Tea spoon	0.01
<b>Electricity</b>	<b>0.32</b>	<b>Kitchen Utensils</b>	<b>0.56</b>
Electricity charges - metred 600 units	0.16	Plate	0.05
Electricity charges - monthly charge for	0.16	Teapot	0.05
<b>Paraffin and gas</b>	<b>0.48</b>	Plate	0.10
Paraffin	0.42	Coffee mug - enamelware	0.10
Gas	0.06	Coffee mug - chinaware	0.06

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Frying pan	0.10	Electric stove	0.14
Pot	0.10	Refrigerator	0.45
<b>Drinking glass</b>	<b>0.03</b>	Deep freezer	0.08
Drinking glass	0.03	Hot plate stove	0.03
<b>Furniture and carpets</b>	<b>1.31</b>	` Primus stove	0.01
<b>Furniture</b>	<b>1.28</b>	<b>Other household equipment</b>	<b>0.03</b>
Bedroom suite	0.05	Pressing iron - adjustable	0.00
Bed & Mattress	0.29	Pressing iron - non adjustable	0.00
Table & chairs	0.06	Electric fan	0.01
Lounge suite - dralon	0.27	Electric heater	0.01
Lounge suite – weave/rexin	0.27	<b>Household operations</b>	<b>3.66</b>
Wardrobe	0.05	<b>Detergents</b>	<b>2.37</b>
Dining room suite	0.14	Washing powder - surf	0.26
Room divider	0.09	Washing powder - cold power	0.26
Kitchen dresser	0.06	Disinfectant	0.03
<b>Carpets</b>	<b>0.03</b>	Toilet cleaner	0.03
Floor carpets	0.03	Laundry soap - wrapped	0.90
<b>Household equipment</b>	<b>0.74</b>	Laundry soap - mottled	0.90
<b>Stoves and refrigerators</b>	<b>0.71</b>	<b>Laundry services</b>	<b>0.10</b>



<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Dry cleaning - men's suit	0.05	<b>MEDICAL CARE</b>	<b>1.68</b>
Dry cleaning - women's costume	0.05	<b>Medicines</b>	<b>0.39</b>
<b>Garden tools and fertiliser</b>	<b>0.23</b>	<b>Medicines</b>	<b>0.39</b>
Fertiliser	0.18	Antibiotics	0.07
Hosepipe	0.02	Antihypertensive	0.07
Hoe	0.02	Anti diabetics	0.07
Garden fork	0.02	Anti asthma	0.07
<b>Household operations</b>	<b>0.78</b>	Pain killer	0.07
Light bulb	0.07	Cough-mixture	0.07
Candles	0.11	<b>Medical fees</b>	<b>1.29</b>
Insecticides	0.11	<b>Hospital fees</b>	<b>0.33</b>
Matches	0.16	Government in-patient	0.06
Floor polish	0.10	Municipality out-patient	0.06
Torch battery	0.17	Government out-patient	0.06
Shoe polish	0.07	Private clinic ward fee	0.06
<b>Other household</b>	<b>0.18</b>	Private hospital	0.09
Knitting wool	0.15	<b>Other medical fees</b>	<b>0.96</b>
<b>Operations</b>		<b>Maternity fee</b>	
Sewing thread	0.02	Medical examination	0.01
Needle	0.01	Private consultation per visit	0.18

<b>Item</b>	<b>Weight</b>		<b>Item</b>	<b>Weight</b>
Laboratory test chest x-ray	0.01		Petrol - gasoline	0.87
Ambulance charge	0.01		Diesel oil	0.15
Medical aid contribution	0.76		<b>Public transport</b>	<b>3.51</b>
<b>TRANSPORT And COMMUNICATION</b>	<b>6.60</b>		<b>Railway fares</b>	<b>0.06</b>
<b>Vehicle running costs</b>	<b>2.19</b>		Rail journey - economy	0.02
<b>Vehicle insurance</b>	<b>0.18</b>		Rail journey - standard	0.02
Vehicle insurance	0.18		Rail journey - sleeper	0.02
<b>Car parts</b>	<b>0.45</b>		<b>Commuter fares</b>	<b>3.39</b>
Car tyre	0.13		Commuter fares	1.46
Car battery	0.06		Bus fare - convectional long distance bus	0.96
Brake pads	0.06		Bus fare - luxury coach long distance	0.96
Distributor points	0.06		<b>Taxi fares</b>	<b>0.03</b>
Plugs	0.06		Taxi fares	0.03
Gasket	0.06		<b>Air fares</b>	<b>0.04</b>
<b>Vehicle repairs and lubricants</b>	<b>0.55</b>		Air fare – local journey	0.01
Repairs	0.24		Air fare - regional	0.01
Engine oil	0.05		Air fare - international	0.01
Brake fluid	0.01		<b>Car hire</b>	<b>0.01</b>
Full service	0.25		Car hire	0.01
<b>Fuel</b>	<b>1.02</b>		<b>Communication</b>	<b>0.35</b>

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
<b>Postal services</b>	<b>0.04</b>	<b>Sport equipment</b>	<b>0.01</b>
Postage - local letter	0.02	Tennis racquet	0.00
Postage - international	0.02	Golf ball	0.00
<b>Telephone services</b>	<b>0.31</b>	Tennis balls	0.00
Telephone charge - monthly rental charge	0.06	Football	0.00
Telephone call - local metred	0.06	<b>Newspapers</b>	<b>0.17</b>
Telephone call - international metred	0.06	Daily newspaper	0.08
Cell phone - monthly fixed rental	0.06	Weekly newspaper	0.08
Cell phone - call charge	0.06	<b>Magazines</b>	<b>0.03</b>
<b>Purchase of new cars</b>	<b>0.52</b>	Local magazine	0.02
<b>Purchase of new cars</b>	0.52	International magazine	0.02
New car - type 1	0.17	<b>Music</b>	<b>0.12</b>
New car - type 2	0.17	Audio cassette - local	0.04
New car - type 3	0.17	Audio cassette - international	0.04
<b>Purchase of bicycles</b>	<b>0.03</b>	Compact disc	0.04
<b>Purchase of bicycles</b>	0.03	<b>Photography</b>	<b>0.05</b>
Bicycle	0.03	Photographic film	0.03
<b>RECREATION AND ENTERTAINMENT</b>	<b>1.22</b>	Film development	0.03
<b>Entertainment services</b>	<b>1.22</b>	<b>Radio and television</b>	<b>0.64</b>

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
Radio & cassette player	0.27	Correspondence fees	0.14
Television	0.29	Private college fees	0.85
Video cassette recorder	0.08	<b>Examination fees</b>	<b>0.18</b>
<b>Sport fees</b>	<b>0.07</b>	Examination fees-"O" level	0.18
Sports fees	0.03	<b>School uniforms</b>	<b>0.84</b>
Golf club fee	0.03	<b>School uniforms</b>	0.84
Gym fee	0.01	Girls uniform	0.13
<b>Other Expenditure on Entertainment</b>	<b>0.12</b>	Boys shorts	0.13
Radio listener's licence	0.04	Boys shirts	0.13
Television listener's licence	0.04	Jersey	0.13
Video cassette hire	0.01	Blazer	0.13
Cinema seats	0.02	Tracksuit	0.18
<b>EDUCATION</b>	<b>4.44</b>	<b>Educational books</b>	<b>0.19</b>
<b>Education fees</b>	<b>3.42</b>	<b>Writing equipment</b>	<b>0.13</b>
Education fees	1.39	Exercise Books	0.05
Tuition fees	0.85	Ball point pen	0.08
Boarder fees	0.54	<b>Textbooks</b>	<b>0.05</b>
<b>College fees</b>	<b>1.85</b>	Mathematics textbook	0.03
University fees	0.85	Economics textbook	0.03

<b>Item</b>	<b>Weight</b>	<b>Item</b>	<b>Weight</b>
<b>Miscellaneous Goods And Services</b>	<b>4.73</b>	<b>Other goods and services</b>	<b>2.13</b>
<b>Personal care</b>	<b>2.60</b>	<b>Travel goods</b>	<b>0.30</b>
<b>Men's hair services</b>	<b>0.11</b>	Suitcase	0.24
Men's hair cut	0.06	umbrella	0.06
Shaving	0.05	<b>Accommodation</b>	<b>0.31</b>
<b>Women's hair services</b>	<b>0.31</b>	Hotel room	0.31
Ladies' perm	0.08	<b>Shoe repairs</b>	<b>0.02</b>
Hair relax	0.08	Shoe repairs - women's full sole	0.01
Oil treatment and set	0.08	Shoe repairs - men's shoe full rubber sole	0.01
Hair plaiting	0.08	<b>Pet food</b>	<b>0.12</b>
<b>Toiletries</b>	<b>2.18</b>	Pet food	0.12
Toilet soap	0.47	<b>Driving fees</b>	<b>0.03</b>
Bath soap	0.47	Driving lesson fee	0.03
Toilet roll	0.16	<b>Domestic wages</b>	<b>1.32</b>
Skin cream	0.21	Domestic wages	1.32
Petroleum jelly	0.21	<b>Lottery tickets</b>	<b>0.04</b>
Toothpaste	0.45	State lottery ticket	0.04
Deodorant	0.15		
Cotton wool	0.06		