2005 THIRD QUARTER MONETARY POLICY STATEMENT

Issued

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT CHAPTER 22:15, SECTION 46

By

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1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement comes at a time when Zimbabweans from all walks of life, especially workers in both urban and rural areas, pensioners, the unemployed and our rural folk are grappling to make ends meet due to escalating costs on a daily basis.

1.2 This Statement comes at a time when employers are also having to make the difficult choices between staying in business or getting out; exporting or not exporting; to retrench or not to retrench, among other challenges.

1.3 This Statement is also coming at a time when our farmers are faced with the dilemma as to which crop to plant, where to get their inputs from, at what price and what to expect at the end of the season.

1.4 New and small enterprises are facing up to the choice of whether or not to borrow to stay afloat; miners are facing viability and expansion challenges.

1.5 Hospitals are in need of drugs; commuters, transporters and motorists are looking for fuel daily , while all households, industrial and commercial concerns look to ZESA to assure them of uninterrupted supply of electricity.

1.6 Our creditors of yester-year want their money now, while new suppliers demand cash upfront for new supplies.

1.7 Government services need support, especially in the area of foreign currency, while the monthly take-home salaries of civil servants across the board, now represents pocket money for children going to school.

1.8 In a nutshell, these are the challenges against which this Monetary Policy Statement has been crafted.

1.9 The big questions to be asked and answered upfront are:

i. Is the situation correctable?
ii. Is there any reason to wake up in the morning and hope for a better day?
iii. Do Zimbabweans have what it takes to wean themselves out of these challenges?
iv. Are we dead and buried yet?
v. Is giving up the fight an option for any Zimbabwean in the trenches of farming, mining, tourism, industry, banking, commerce, civil service, teaching, nursing, or any other trench?
vi. Is getting at each others' throat the answer?

1.10 Well, the Governor's one word answer to the first three questions is a big YES; while the answer to the last three questions is a big NO.

1.11 Therefore, in dedicating this Statement to all Zimbabweans in the various trenches of our turnaround, I hereby give you our package of Monetary Policy measures to be implemented with immediate effect. We also give advice in this Statement.

1.12 This Monetary Policy Statement also reviews the economy's performance over the third quarter of 2005, as well as presents enhanced macroeconomic policy measures to arrest the exogenous adverse effects of the drought, sustained increase in world oil prices, persisting foreign exchange shortages, and the resurgence in inflationary pressures in the economy.

1.13 With the 2005/2006 agricultural season now at hand, this Monetary Policy Statement also articulates the framework and roles of the Banking Sector in supporting agriculture as the mainstay of the economy.

1.14 As Monetary Authorities, we also, once again, reiterate our war-cry on the need for speeded stability in agriculture, particularly in the areas of productive use of every inch of land, as well as cessation of any forms of disruptions on the farms.

1.15 As Zimbabweans, we have to fully come to understand that without effective production on the ground; without effective utilisation of every inch of land; and without commonality of purpose, the road to macroeconomic stability and prosperity will be long and arduous.

1.16 Our food security situation is threatened by a combination of drought and underutilisation of land by many of our own brothers and sisters who have been allocated this precious resource.

1.17 Indeed, a Nation that surrenders or subcontracts the feeding of its people to other Nations, for whatever reason, stands exposed to the whims of external shocks which undermine the welfare of its citizenry.

1.18 It is against this background that we applaud and encourage Government's current efforts aimed at putting in place deterrent legislation that seeks to curb naked criminal acts on our farms.

1.19 As the country's enemy number one, inflation predominantly occupies more attention of this Monetary Policy Statement, as well as the need for us as a Nation to focus more on enhancing production as an integral part of reigning in inflation expectations.

1.20 This Monetary Policy Statement also re-affirms Zimbabwe's commitment to working closely with the international community, as well as the centrality of investment promotion in the turnaround program, through policy consistency and respect for the sanctity of private property rights.

1.21 Foreign currency generation remains a top priority on the agenda, requiring policy adjustment to anchor and enhance export performance in the productive sectors of the economy.

1.22 This Policy Statement, therefore, introduces a more supportive foreign exchange management system that improves on the current foreign exchange auction system, with allowance for a more prominent role of market forces in allocating foreign exchange resources among competing sectors of the economy.

1.23 In departure from previous Statements, I have split issues between those of policy nature, within our primary realm of operation as Monetary Authorities, and so implementable immediately, and those areas of ADVICE, where we seek to give guidance on the sustainable advancement of Government socio-economic policies, as mandated by the Reserve Bank of Zimbabwe Act.

INTERNATIONAL AND REGIONAL SETTING

2 INTERNATIONAL AND REGIONAL DEVELOPMENTS

2.1 High oil prices have, over the past few months, weakened prospects of robust global economic growth, particularly in import-dependent developing economies.

2.2 Against this background, coupled with the series of natural disasters that characterised the year 2005, global economic growth is expected to slow down from 5.1% in 2004 to 4.3% in 2005. In 2006, global economic growth is expected to register marginal changes in 2005, at a forecast 4.4%.

Sub-Saharan Africa

2.3 Economic growth in Sub-Sahara Africa is expected to slow down in 2005 from 5.3% to 4.6% reflecting the combined effects of rising oil prices, the drought in the Sahel regions, as well as countries in Southern and Eastern Africa.

2.4 Average inflation in Sub-Saharan Africa has picked up slightly to a projected 9.9 percent in 2005, but is expected to fall to 8.3 percent on average in 2006.

2.5 Zimbabwe's three-digit inflation, thus, tallies well out of line with regional averages, underscoring the declaration by authorities on inflation being the country's enemy number one.

2.6 It is for this reason that, within the SADC macroeconomic convergence undertakings, Zimbabwe's economic environment has to be comparable with regional economies' fundamentals by 2008.

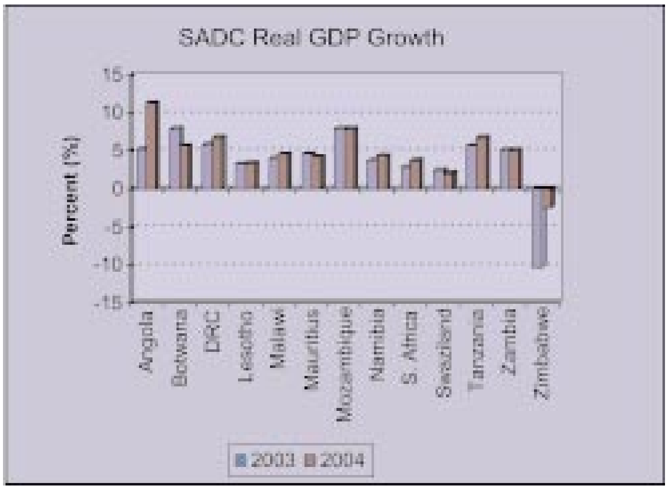
2.7 Internally, therefore, Vision 2007 has got to be achieved, in readiness to firmly integrate the country's economy with regional and international business partners.

SADC RECENT ECONOMIC DEVELOPMENTS

Gross Domestic Product

2.8 SADC economies performed better in 2004, compared to 2003, as GDP growth increased from 3.6 per cent to 4.8 per cent, on average.

2.9 Regional developments, thus, strongly underscore the need for Zimbabwe to hasten its turnaround programs, particularly in the areas of agricultural productivity, foreign exchange generation and inflation reduction.



Source: *SADC Recent Economic Developments*

International Commodity Prices

2.10 The strong demand in the major industrial countries has seen international commodity prices firming, largely benefiting the economies of the Middle Eastern petroleum exporters, mineral resource rich countries in Africa, Latin America and Russia.

INTERNATIONAL COMMODITY PRICES

Year/ Period	Gold *us$/oz*	Platinum *us$/oz*	Nickel *us$/tonne*	Crude Oil *us$/barrel*
2002 Dec	333.52	598.67	7263.33	27.66
2003 Dec	407.45	812.88	14144.38	30.04
2004 Dec	442.34	849.60	13749.50	40.50
2005 Jan	424.53	858.38	14558.57	44.16
Feb	423.79	871.08	15316.75	45.53
Mar	434.05	868.12	16198.01	52.60
Apr	429.39	865.37	16153.81	52.95
May	422.09	866.49	16930.82	49.43
Jun	431.37	880.94	16126.34	54.83
Jul	242.54	874.82	14610.00	57.38
Aug	437.32	899.37	14942.61	63.92
Sep	455.44	913.74	14191.19	63.60

Global Trade

2.11 Global exports growth increased from -3.8% in 2001 to 20.6% in 2004. The forecast growth rate for 2005 is set at 12.1%. The increase in global exports is attributed to considerable removal of global trade barriers at world level, through the initiatives of the World Trade Organization (WTO).

Global goods exports (av. annual growth rate) 2000-2004

	Year			
	2001	2002	2003	2004
World	-3.8	4.4	15.6	20.6
Developed countries	-4.7	2.9	14.2	17.8
Developing countries	-1.1	9.0	19.9	28.0
East Asia & Pacific	-1.8	14.3	24	28
Europe and Central Asia	6	10.9	20.4	26.2
Latin America & Caribbean	-4.3	0.9	9.4	30.4
Middle East & North Africa	-6.8	7.7	24.4	29.5
South Asia	1.4	11.4	26.7	19.8
Sub -Saharan Africa	-5.5	0.4	22.3	34

Source: *Global Development Finance 2005*

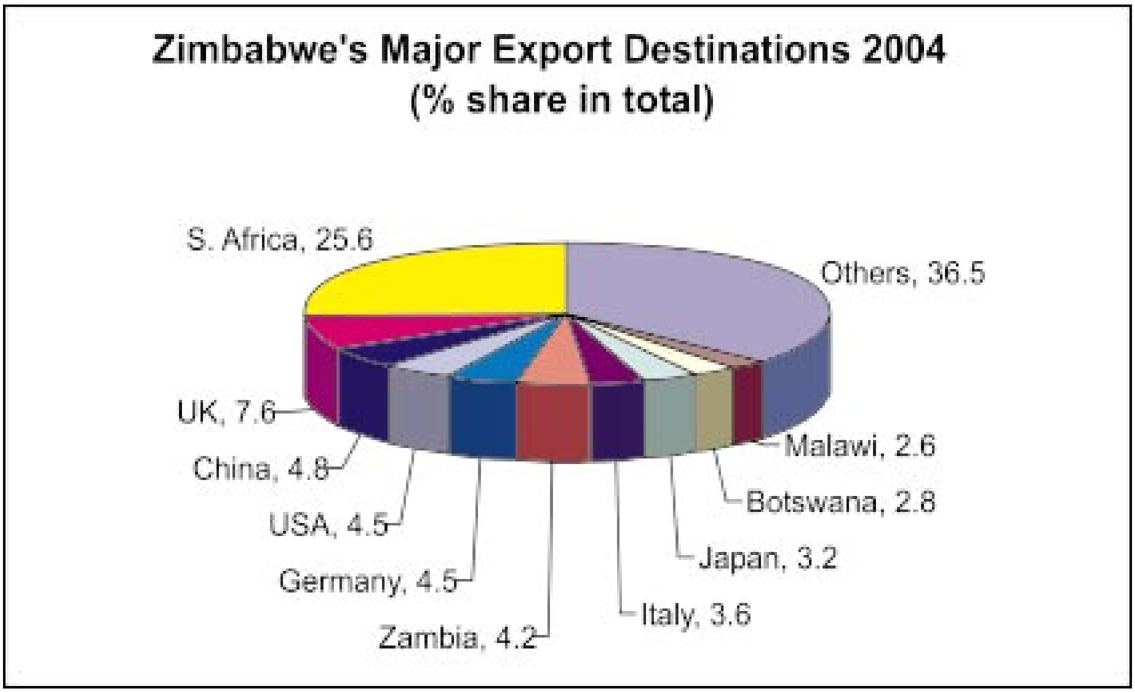
2.12 Developing countries have increased their share of world exports, as well as diversification of their exports. The growth rate of exports from the developing countries has also increased from -1.1% to 28%, while Sub-Saharan Africa also registered an increase from -5.5% to 34% in the same period.

2.13 Trade within Africa, as a share of the continent's global trade, however, remains low (at around 10%) and volatile compared to other continents.

Global goods imports (av. Annual growth rate) 2000-2004

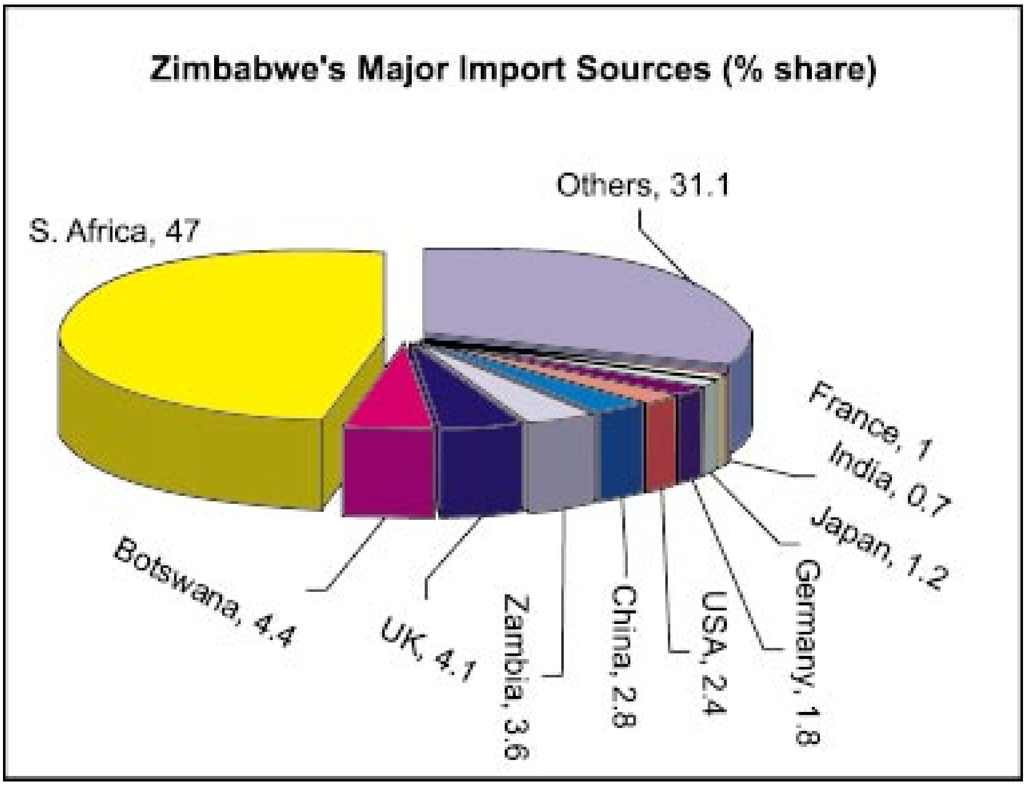
	Year			
	2001	2002	2003	2004
World	-3.8	3.7	15.6	20.4
Developed countries	-5.2	2.8	14.3	18.5
Developing countries	1.0	6.8	20	26.1
East Asia & Pacific	1.3	14.3	26.9	32.5
Europe and Central Asia	3.9	12.9	22.1	23.9
Latin America	-2.2	-6.7	4.6	18.4
Middle East & North Africa	5.8	7.3	20.3	16.1
South Asia	-3.9	6.5	25.9	31
Sub Saharan Africa	4.5	-1.8	26.4	26.5

Source: *Global Development Finance 2005*



Source: *Central Statistical Office (CSO)*

2.14 South Africa has remained Zimbabwe's major export destination, accounting for slightly more than a quarter (25.6%) of Zimbabwe's exports over the past year.
Source: *Central Statistical Office (CSO)*



2.15 South Africa has also remained the country's major source of imports, accounting for 47% of the country's import bill in 2004, with the major imports being raw materials, machinery, equipment and other finished products.

GLOBAL CAPITAL FLOWS

Global Foreign Direct Investment (FDI) Flows

2.16 Global FDI inflows rose marginally by 2% from US$633 billion in 2003 to US$648 billion in 2004. High FDI flows to developing countries are projected to remain high as Transnational Companies (TNCs) seek to improve their competitiveness by expanding the fast growing markets of emerging markets.

2.17 Sub- Saharan Africa realised a 400% increase in portfolio investment from US$0.7 billion in 2003 to US$3.5 billion in 2004.

Net Foreign Direct Investment Inflows (US$ Billion)

	2000	2001	2002	2003	2004 Est
East Asia and Pacific	44.2	48.2	55.6	59.6	63.6
Europe and Central Asia	29.2	31.4	35	35.6	37.6
Latin America and the Caribbean	78.9	70.2	45.7	36.5	42.4
Middle East and North Africa	4.3	5.7	3.8	4.8	4.1
South Asia	3.3	4.4	4.8	5.2	6.5
Sub – Saharan Africa	6.3	14.9	9	10.1	11.3

Source: *Global Development Finance*

2.18 As part of the turnaround program, Zimbabwe has to claim its rightful place, not only in terms of investment capital attraction, but also as a major producer of export goods and services.

MONETARY POLICY REVIEW AND NEW MEASURES

- STATUS OF THE BANKING SECTOR - Policy
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- EXTERNAL DEBT MANAGEMENT - Policy
- NATIONAL PAYMENTS SYSTEM – Policy
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- MACROECONOMIC CONVERGENCE – Policy

3. STATUS OF THE BANKING SECTOR

Overview …

3.1 The financial sector has remained generally safe and sound and continues to be resilient, despite the challenging macroeconomic environment.

3.2 The demonstrable safety and soundness of the banking sector is attributable to the on-going development and implementation of sound risk management and corporate governance practices in the industry.

Banking Institutions …

3.3 As at 30 September 2005, the number of banking institutions under the supervision of the Reserve Bank increased to thirty-two (32), following the uplift of curatorship from Intermarket Discount House Limited and Intermarket Banking Corporation Limited.

3.4 The banking institutions now comprise thirteen commercial banks, five merchant banks, six discount houses, four finance houses and four building societies.

Asset Management Companies…

3.5 As at 30 September 2005, twenty (20) asset management companies (AMCs) were under the supervision of the Reserve Bank, down from thirty one (31) originally registered in 2004.

3.6 Ten licenses were cancelled, and one asset management company, CFX Asset Management, which had been under curatorship up to 31 July 2005, is winding down business.

Capitalisation…

3.7 Banking institutions and asset management companies are reminded of the impending 30 September 2006 deadline in respect of the following capital levels:

New Minimum Capital Requirements: (Effective 30 September 2006)

MARKET SEGMENT	NEW CAPITAL
Commercial banks	Z$100 billion
Merchant banks	Z$75 billion
Finance Houses	Z$75 billion
Building Societies	Z$75 billion
Discount Houses	Z$50 billion
Asset Management Companies	Z$10 billion

3.8 All banking institutions are, therefore, strongly urged to start working on their recapitalisation plans in view of the approaching deadline. The Reserve Bank will continue to monitor progress to this end.

3.9 It is imperative that banking institutions take note that optimal capital levels are dynamic and are subject to changes as would be ditacted by such fundamentals as the exchange rate, among other key considerations. For instance, the Z$100 billion would-be new capital for commercial banks was equivalent to US$10 million at the time we unveiled the advance notice of higher capital levels back in July 2005.

3.10 It has to be understood therefore, that sharp adjustments in the exchange rate, will inevitably, among other considerations, make it necessary that Monetary Authorities further review these capitalisation levels.

ENHANCEMENT OF RISK BASED SUPERVISION AND CONSOLIDATED SUPERVISION

3.11 As announced in the previous Monetary Policy Statements, the Reserve Bank is making steady progress towards perfection of the practice of risk-based supervision.

3.12 Currently the Reserve Bank is in the process of conducting a risk management survey of the banking sector, whose results will shape and guide the implementation framework.

3.13 As a parallel process, the Reserve Bank is also deepening the thrust on consolidated supervision in the market.

LICENSING

Asset Managers…

3.14 Following the rigorous review of the licensing criteria, the Reserve Bank deemed it fit to issue Asset Management Companies with perpetual licenses.

3.15 We are aware, however, that the shift from renewal licenses to perpetual licenses has caused some delays in the renewal process. The relevant realignment administrative issues surrounding this change-over have, however, now been finalised and the licensing process should progress much smoothly henceforth.

Moneylending and Microfinance Institutions…

3.16 A cumulative total of 274 applications were received from prospective moneylending and microfinance institutions between January 2004 and 30 September 2005. Most applications, other than those which were rejected or withdrawn by promoters, were approved and are now under consideration as part of the annual re-licensing process.

3.17 To date, a total of 186 institutions have been issued with licenses.

PRE-EMPTIVE STRATEGIES AND MARKET STABILITY

3.18 As Monetary Authorities, one of our major objectives remains that of ensuring maintenance of financial stability, through early detection of irregularities and adherence to prompt corrective action.

3.19 In that regard, the Reserve Bank has established a dedicated unit under Bank Licensing, Supervision & Surveillance Division that will specialise in implementing prompt corrective action programs, in order to promote financial sector stability and, hence, reduce the adverse and often inadvertent negative externalities associated with problem bank resolution strategies.

3.20 As Monetary Authorities, we also wish to underscore to the banking sector that whereas in 2004, greater prominence was attached to the need to preserve indigenisation and broad participation in the financial services sector, through establishment of the Troubled Banks Fund (TBF) that forestalled closure of affected banking institutions, in future, this stance will not be adopted.

3.21 The implication is, therefore, that market players are expected to adeptly manage their assets and liabilities in line with sound corporate governance and prudential norms.

3.22 Any mis-management leading to insolvency will automatically translate into liquidation of the relevant institutions, without recourse to any form of troubled bank bailout.

3.23 As Monetary Authorities, we have adopted this stance, as part of our efforts to rid the banking system of any implicit pillars of moral hazard behavior.

3.24 Some, may misconstrue the recent amendments to the Reserve Bank Act, which put a requirement for consultations between the Reserve Bank and the Minister of Finance to mean that we will condone bad behavior in the financial sector.

3.25 Nothing could be further from the truth, as the Reserve Bank's consultative framework with our Principals in the Ministry of Finance will be on an agreed 48 hours turnaround cycle, with prompt remedial measures being taken without fear, favor or any other considerations outside the canons of sound banking sector management.

Forensic Audits

3.26 As Monetary Authorities, we also wish to inform the banking public that the Reserve Bank now has finished the independent forensic audits on all the 2004 failed banks, which audits, detailing the roles and culpability of former owners/managers, are now forming part of the unwavering program to hold all defaulters and culprits accountable.

3.27 These forensic audits will be made public once the necessary clearances with our legal advisors have been done.

MICROFINANCE INSTITUTIONS…

3.28 As Monetary Authorities, we are pleased to report that a consultative National Task Force has been set up to spearhead the development of a National Policy and formulation of a regulatory framework for the microfinance industry in Zimbabwe.

3.29 Members were drawn from government, microfinance apex bodies, Reserve Bank, non-governmental organisations, microfinance institutions, academic institutions and bodies representing microfinance borrowers.

3.30 The National Task Force will, among other mandates, analyse operations of microfinance institutions with a view to recommending policy measures supportive of sustained development and viability of the sector; adoption of appropriate legal and supervisory frameworks; clarify the role of apex bodies in the regulatory framework; development of an appropriate interest rate policy and critique the adequacy and efficiency of consumer protection laws governing the sector.

ENHANCEMENT OF FINANCIAL STABILITY

3.31 As part of the on-going Reserve Bank efforts to promote financial stability, we are in the process of formalising cooperation with other regulatory authorities. To this end, the Reserve Bank will continue to encourage other sectoral supervisors to institute prudential supervision of non-bank financial institutions (NBFIs).

3.32 A coordinated approach to the development of a regulatory framework for NBFIs will ensure that all systemically important institutions are subjected to prudential regulation and supervision.

4. MONETARY AGGREGATES AND INTEREST RATES

Money Supply

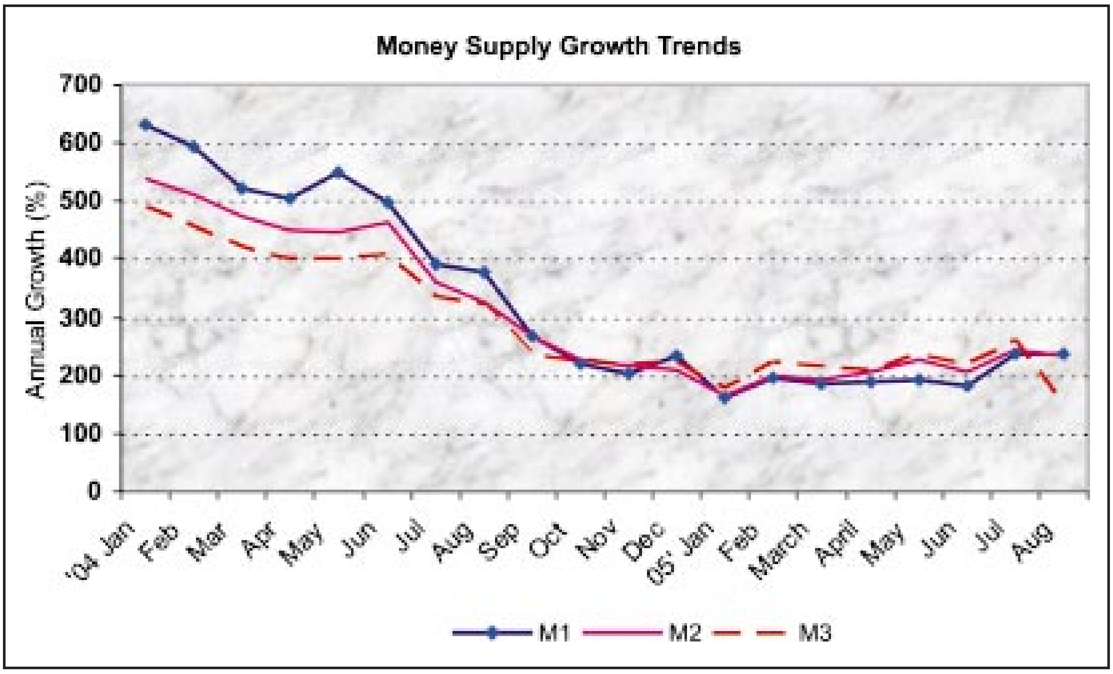
4.1 Consistent with the anti-inflation drive, money supply growth has trended downwards from **491%** in January 2004 to **249.9%** in August 2005 and has remained between 178% and 260% from January 2005 to August 2005.

4.2 Notably, however, since the beginning of the year, money supply growth has been on the upward trend.

4.3 Accounting for the 249.9% annual growth in money supply (M3) in August 2005 was

(i) Credit to Government, which grew by 1 037.7%,
(ii) Claims to public enterprises, 660.6%; and
(iii) Credit to the private sector at 99.9%.

Money Supply Growth Trends

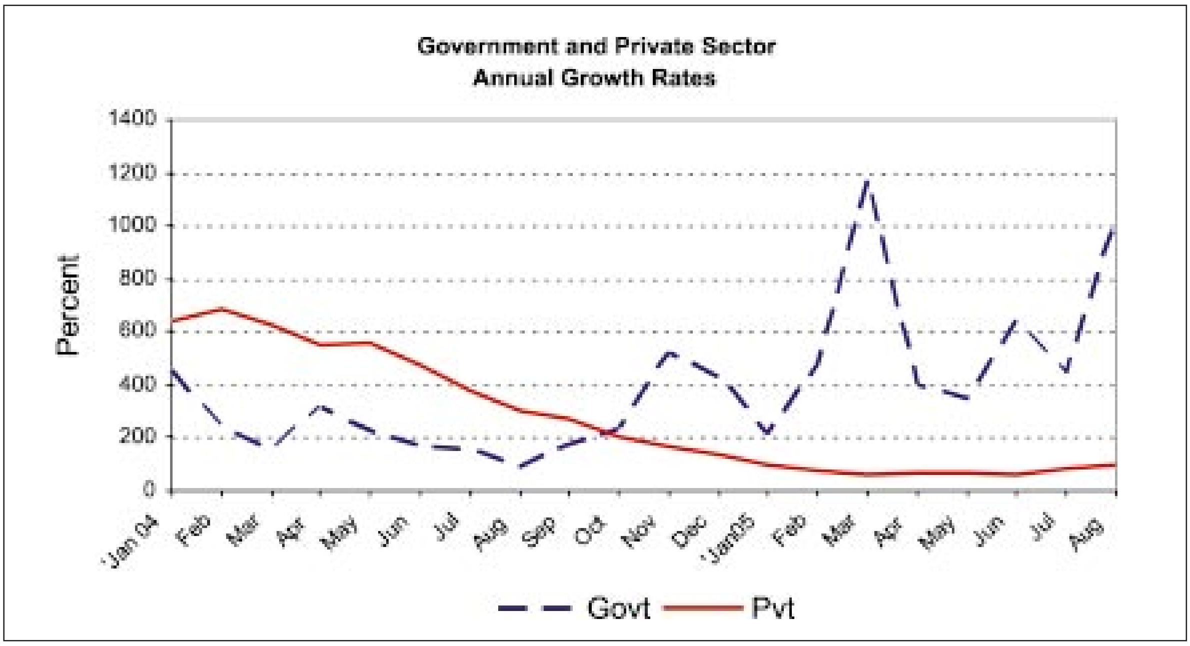


4.4 The increase in credit to Government reflects mainly grain imports against the background of the current drought, as well as fuel imports.

4.5 Reflecting the tight monetary policy stance and the active mopping program currently being pursued, credit to the private sector has been progressively decelerating since 2004.

4.6 Annual growth in credit to private sector was 302.5% in August 2004, before declining to 134.4% in December 2004 and 60% in June 2005. Lending to private sector has, however, steadily increased to 100% by end of August 2005.

Government and Private Sector Credit Growth



Average Proportion to Total Domestic Credit

	1998	1999	2000	2001	2002	2003	2004	2005*
Credit to Government	23.0%	24.6%	32.4%	41.6%	32.5%	22.4%	17.6%	37.5%
Credit to Public Enterprises	3.9%	5.3%	5.4%	7.0%	7.3%	7.1%	7.2%	7.2%
Credit to Private Sector	73.1%	70.2%	62.2%	51.4%	60.2%	70.4%	75.2%	55.3%

* August 2005.

4.7 The private sector, however, continues to command the biggest share of domestic credit, averaging about 70% of the total domestic credit in the late 90s through to 2004. The average private sector credit for 2005 stood at 55.3% and the August share significantly declined to 44.4%.

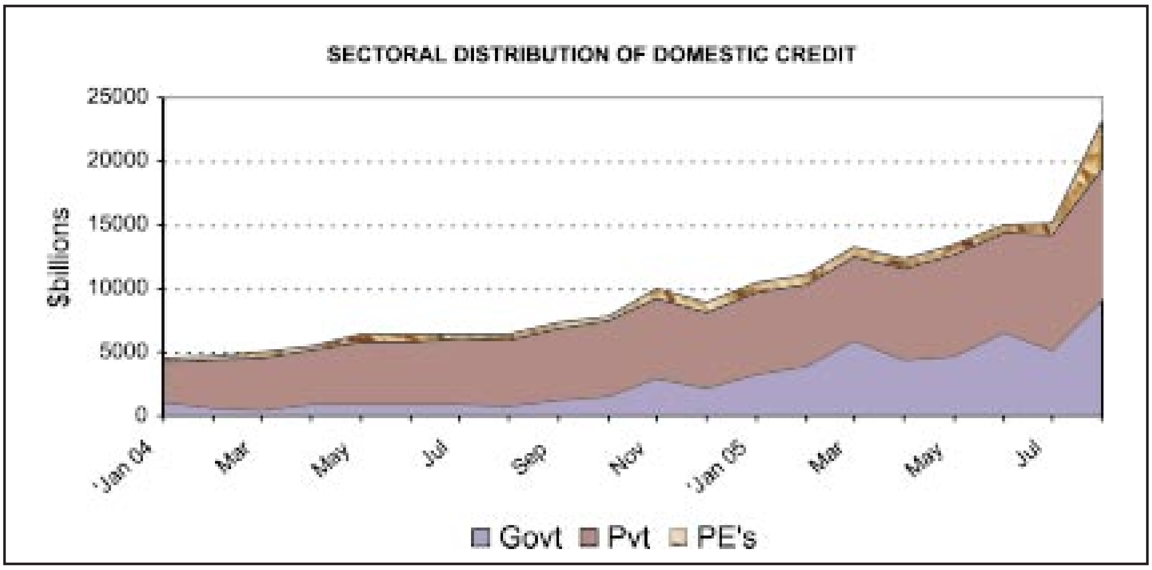
4.8 Annual credit to public enterprises grew by 660.6% in August 2005, reflecting disbursements being made under the Parastatal Reorientation Program (PARP) and the Local Authorities Reorientation Program (LARP)

PLARP DISBURSEMENTS AS AT 30 SEPTEMBER 2005*

INSTITUTION	AMOUNT DISBURSED ZW$ billion
AIR ZIMBABWE	509.42
CAAZ	73.45
DDF	20.34
NRZ	69.05
REA	62.85
ZISCO	611.84
ZBH	16.59
ZUPCO	42.59
HWANGE	39.3
ZESA	358.71
CSC	115.67
ARDA	170.2
EPZA	6.41
ZINWA	593.26
IDC	99.37
TRANSMEDIA	3.1
TOTAL (PARASTATALS)	**2792.15**
HARARE	45.546
BULAWAYO	23.300
KADOMA	12.970
CHEGUTU	7.279
GWANDA	2.560
MARONDERA	0.289
TOTAL (LOCAL AUTHORITIES)	**91.944**

The PLARP program has now been capped at an envelop limit of $3 trillion, as part of the anti-inflation thrust.

Sectoral Distribution of Domestic Credit



RESERVE MONEY DEVELOPMENTS

4.9 Annual growth in reserve money which had declined from 383% in July 2005 to 235% in August 2005, increased to 285% in September 2005.

4.10 In absolute terms, reserve money growth increased from \$6.4 trillion in July 2005 to \$7.3 trillion in September 2005.

4.11 Growth in reserve money emanated from the significant increase in demand for currency, which increased from \$4.8 trillion in July 2005 to \$6.5 trillion in September 2005. Sadly, this sharp increase in demand for currency is largely a reflection of growth in parallel market activities in the economy.

4.12 Net credit to Government increased from \$1.1 trillion in July, 2005 to \$1.5 trillion in August, 2005, but declined to \$1 trillion in September, 2005. Net credit to Government is largely in the form of Treasury bill holdings.

4.13 Credit to deposit money banks (DMBs) increased from \$3 trillion in July, 2005 to \$4 trillion in September, 2005. The major drivers in the credit are overnight and clearing advances.

MONETARY TARGETING FRAMEWORK: NOMINAL ANCHOR

4.14 Over the past 20 months, the Reserve Bank has been following an eclectic monetary policy framework, where a combination of moderate exchange rate pegging, monetary targeting and interest rates realignment was being used to balance the twin objectives of inflation reduction and enhancement of capacity utilisation in the productive sectors of the economy.

4.15 Against the background of the sharp resurgence in inflationary pressures, however, it has become necessary that more emphasis be put on monetary targeting, so as to pin down inflation expectations.

4.16 With immediate effect, therefore, the Reserve Bank will be pursuing explicit monetary targets which will be achieved through rigorous open market operations, as well as supportive curtailment of expansionary monetary interventions.

4.17 Under this monetary targeting framework, annual money supply growth will be reduced from the estimated 280% in October, 2005 to under 50% by December, 2006.

Monetary Targets: Annual Growth Rates

Aggregate	Dec 05	Mar 06	Jun 06	Sep 06	Dec 06
Broad Money(M3)	240%	180%	100%	65%	50%

INFLATION DEVELOPMENTS

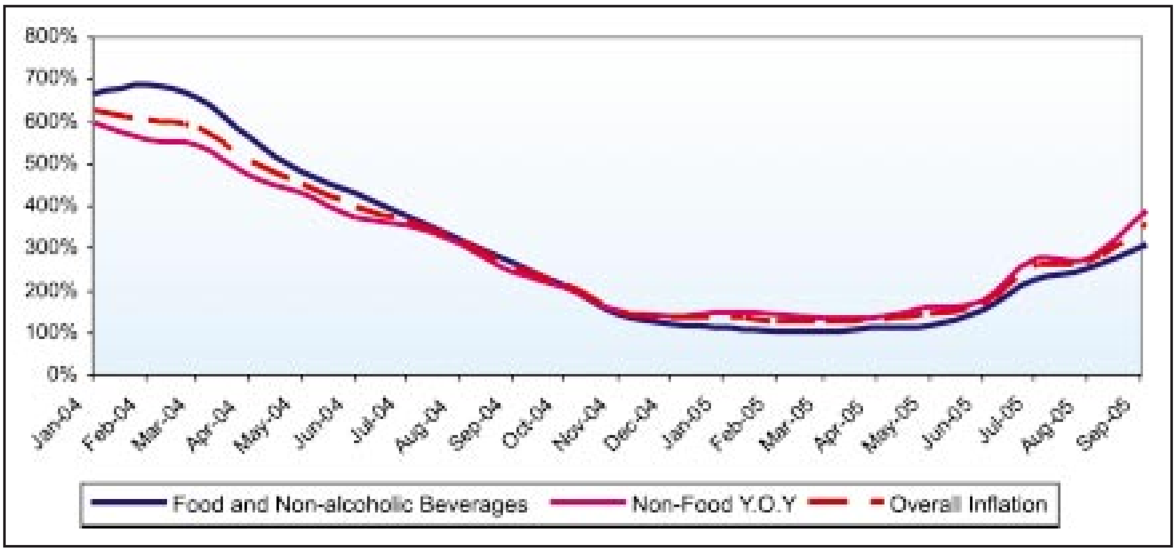
Inflation Trends

4.18 In the first quarter of 2005 inflation continued on a downward trend from 133.6% in January 2005, to 123.7% in March 2005. In the second quarter of 2005, however, this trend reversed and the upward pattern has continued into the third quarter, largely underpinned by both demand-pull and cost-push factors.

4.19 Adverse inflation expectations have also emerged as a major factor underlining the recent surge in the ugly head of inflation, as suppliers have once again, relapsed into the ad hoc mode of increasing prices on the back of factors unrelated to true costs of production.

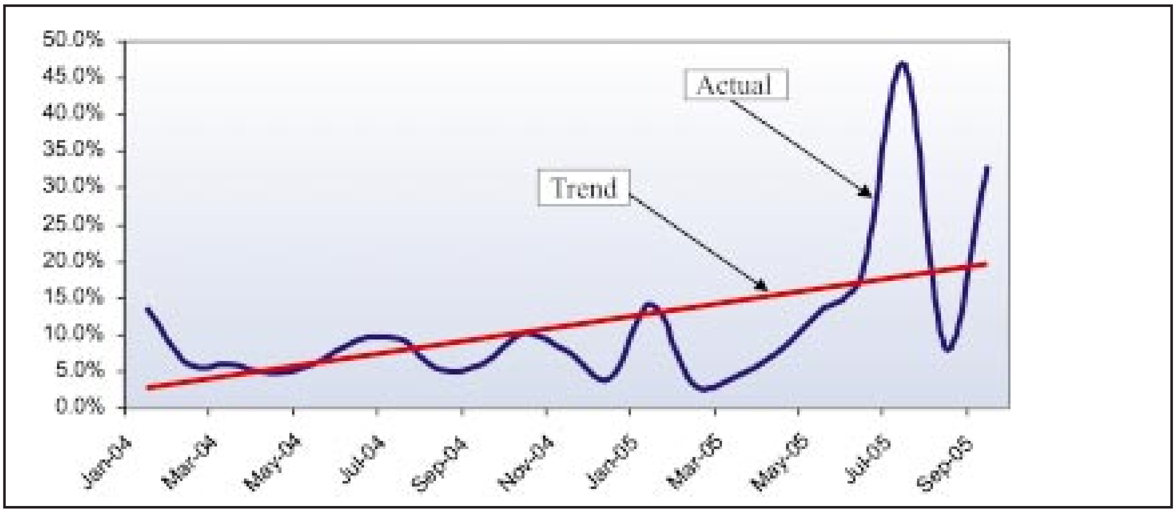
4.20 Against this background, the annual inflation rate has increased progressively to 265.1% in August 2005 and further to 359.8% in September 2005.

Year on Year Inflation Profile



4.21 Month-on-month inflation, which for the first six months of the 2005 averaged 10%, surged to 47% in July, 2005, before receding to 33.3% in September 2005.

Month on Month Inflation



4.22 The upward trend is, however, expected to slowdown during the last quarter of the year, with annual inflation expected to reach levels of 280-300% by December 2005, and of between 50- 80% by December 2006.

4.23 These targets will be achievable if we ALL play our part and do not cause some "tsunamis" in our daily behaviours, our policy pronouncements, spending patterns, and do not continue to play the parallel market, destroy productive infrastructures and desist from smuggling out gold and other precious metals; and avoid all actions which will diminish foreign currency inflows, as well as those that will diminish productivity efforts and, thus, adversely affect our fight against inflation.

Major Factors Driving Inflation

4.24 Excessive growth in money supply remains a major factor underlining the resurgence in inflation in the economy, and as a firm response to this, the Reserve Bank has put in place a tight liquidity management program, supported by positive real interest rates to curtail any further inflationary monetary growth.

4.25 It is also for this reason that, with immediate effect, the Reserve Bank has adopted a dedicated monetary targeting framework whose main objective is to reign in money supply levels to thresholds consistent with underlying real economic activity.

4.26 Significant inflationary pressures in the economy have also arisen from supply bottlenecks, attributable to the current drought and the upsurge in the international prices of oil.

4.27 The drought coupled with foreign exchange shortages have combined to result in the contraction in economic activity, creating shortages of goods and hence the build up of inflationary pressures.

DEALING WITH FOOD INFLATION

4.28 Accounting for 32% of the country's total consumer price index (CPI), the food component is a major inflation driver, which deserves the focal attention of every Zimbabwean, if the inflation scourge is to be tamed.

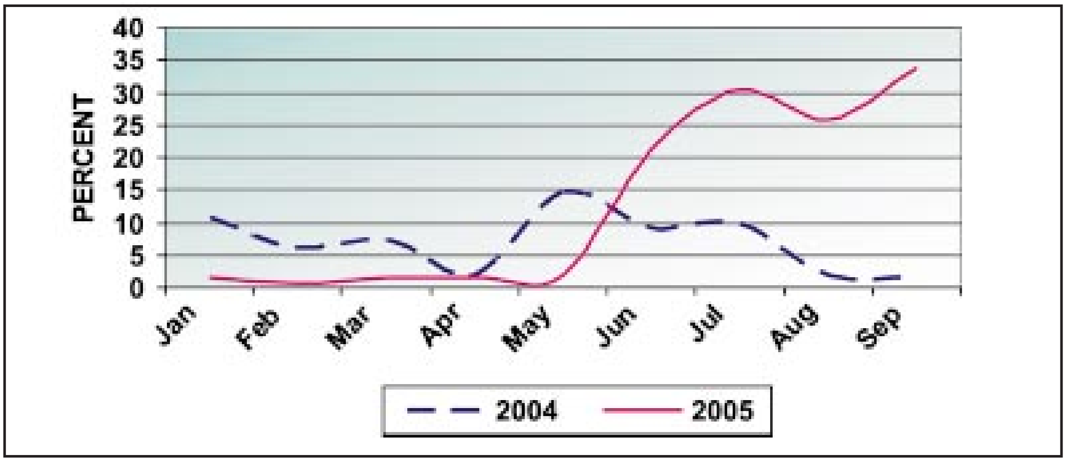
Bread and Cereals

4.29 The Bread and Cereals component constitutes 8.6% of the food basket, of which maize meal and bread carry weights of 3.2% each.

4.30 Compared to the same period in 2004, month on month inflation for this category has been relatively lower until May 2005.

4.31 Monthly inflation under this category rose from 1.7% in May and remained above 20% through to September, 2005.

Bread and Cereals Month on Month Inflation



4.32 This unfavorable trend has been attributed to the following factors:

- Drought induced shortages of basic commodities,
- Artificial shortages created by price controls on wheat and maize,
- Delays in announcing pre-planting prices and
- Security of tenure related uncertainties, which discourage long term investments in wheat production.

4.33 Inflation control should, therefore, be seen as a challenge that deeply lies in realms of responsibility of every holder of land in Zimbabwe, where assurance of food security guarantees stability of food prices.

4.34 There is, therefore, need to enhance agricultural productivity through:

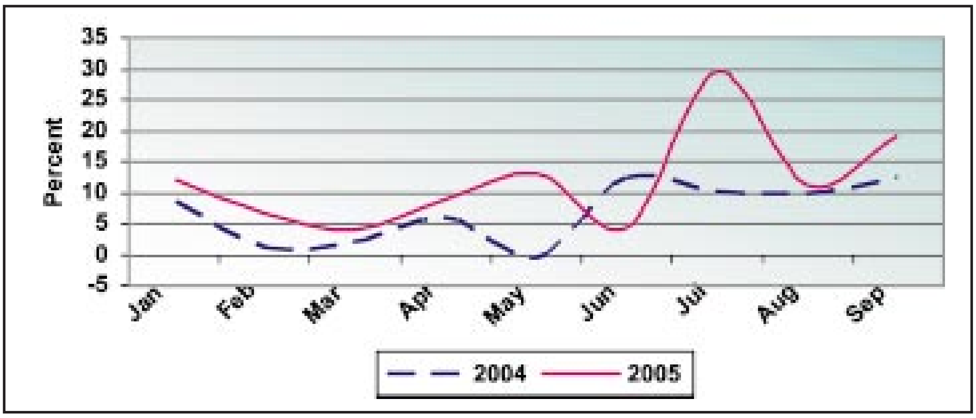
(a). Effective utilisation of water bodies, through irrigation schemes;

(b). Institution of effective security of tenure, so as to unlock the scope for meaningful financial sector support in agriculture;

(c). Removal of price controls, particularly on end products, of agro-based industries, so as to create room for viable producer prices offered to farmers and

(d). Zero tolerance for disturbances and disruptions on farm activity by unruly agents keen on reaping where they did not sow.

Meat Month on Month Inflation



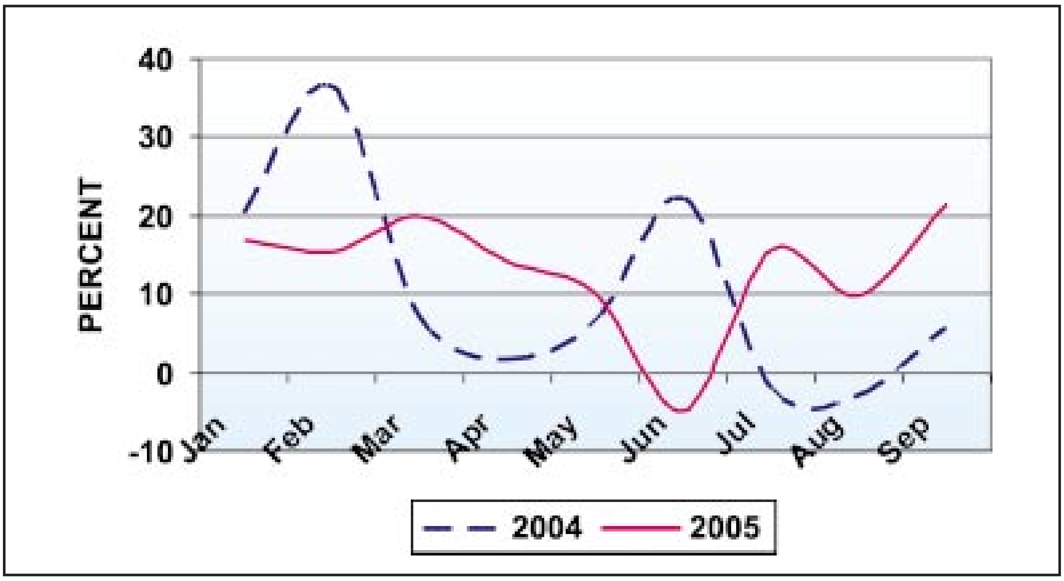
4.35 With meat accounting for 5.4% of the food basket, it is also imperative that deliberate programs be put in place to restock the national herd, which has been depleted through recurrent episodes of drought over the past decade or so.

Fruits and Vegetables

4.36 Fruits and vegetables account for 5.3% of the food basket, with the inflation trends for this sub-group reflecting seasonal fluctuations. In 2005, the fruit and vegetables month on month inflation has generally been declining but picked up in July, again underscoring the primacy of a focused thrust to uplift production levels.

4.37 It should, therefore, be clear to every Zimbabwean that without a growing agricultural sector, we will continue to depend on costly imported foodstuffs, and with it, perpetual episodes of high inflation.

Fruits and vegetables Month on Month Inflation



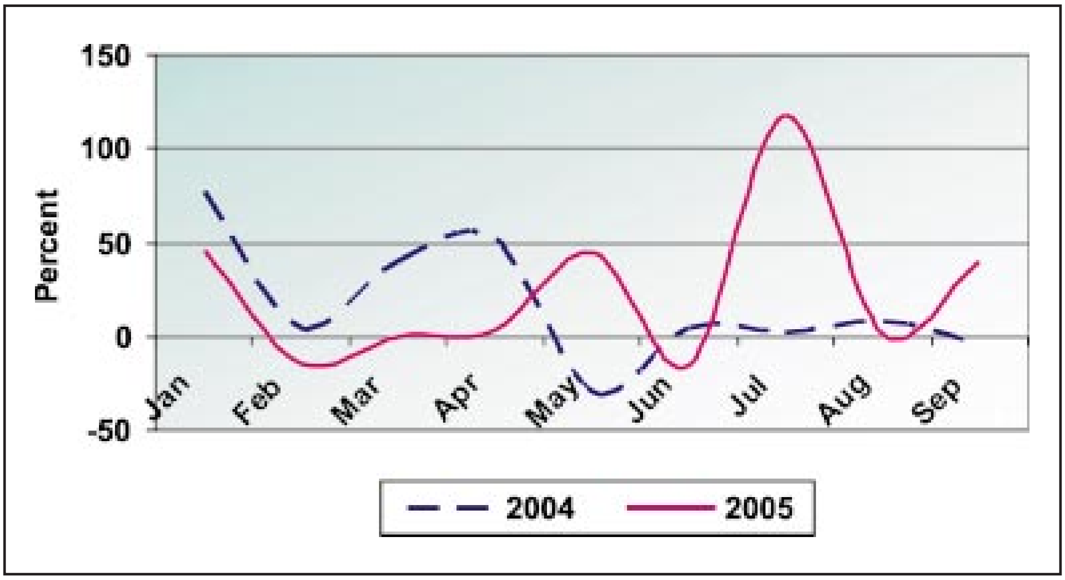
NON-FOOD INFLATION

4.38 Successful reduction of inflationary pressures also requires that as a country, we get to understand the main drivers of price increases for the non-food components of the CPI basket.

Housing, water, electricity, gas and other fuels

4.39 This is the largest non-food sub category, constituting 16.2% of the CPI basket. Major items in this sub group are domestic power, electricity and gas (9.2%), rent (4.4%) and rates (2.5%).

Housing, Water, Electricity, Gas and other Fuels Month and Month Inflation



4.40 Month on month inflation of this sub-category, which had remained relatively low compared to the same period in 2004 reversed the trend in May 2005, reaching an all time high of 118% in July, 2005.

4.41 This unsustainable trend has been attributed to the frequent and lumpy rates and charges increases by municipalities.

4.42 It is for this reason that as Monetary Authorities, we continue to charge a war-cry for the need to radically transform the way our local authorities discharge their services to the general public.

4.43 Efficiency of service delivery should come in as a major factor to forestall the inflationary rates and charges increases.

4.44 It is also imperative that Rent Boards, as well as the relevant authorities in Government work to introduce effective surveillance mechanisms that protect the vulnerable tenants who are now repeatedly burdened with ad hoc rent increases that are largely driven by greed, and unrelated to any logical economic fundamentals.

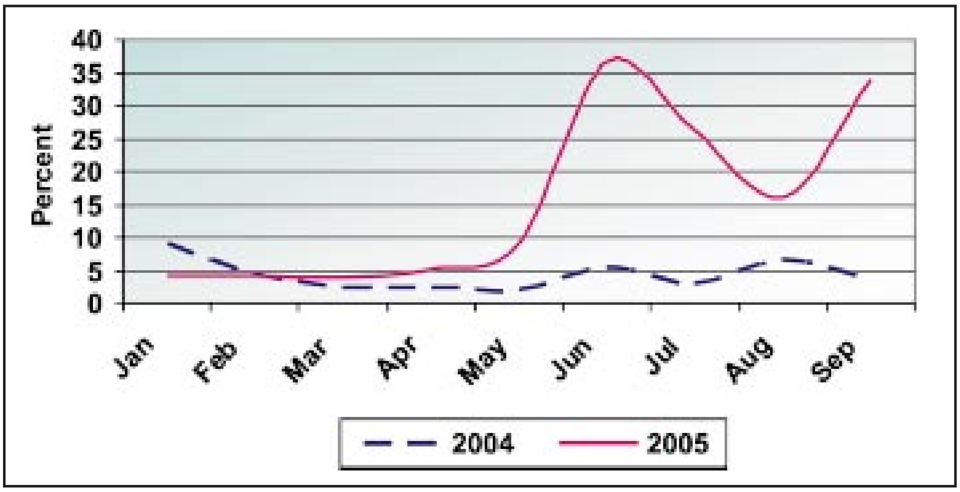
4.45 Housing construction, under the various Central Government and Local Government programs should also be hastened to lessen the demand-pull effects of waiting lists for accommodation units on rental increases.

Furniture, household equipment and maintenance

4.46 This category represents the second largest non-food category, constituting 15.1% of the CPI basket.

4.47 Until May 2005, monthly inflation for furniture, household equipment and maintenance sub-category remained largely under 5%, and rose above 35% in June.

Furniture, Household Equipment and Maintenance Month on Month Inflation



4.48 The major factors contributing to the surge in prices under this category include:

(a). Supply chain disruptions arising from the destruction of wood plantations by unscrupulous economic agents.

(b). Supply bottlenecks aggravated by fuel shortages.

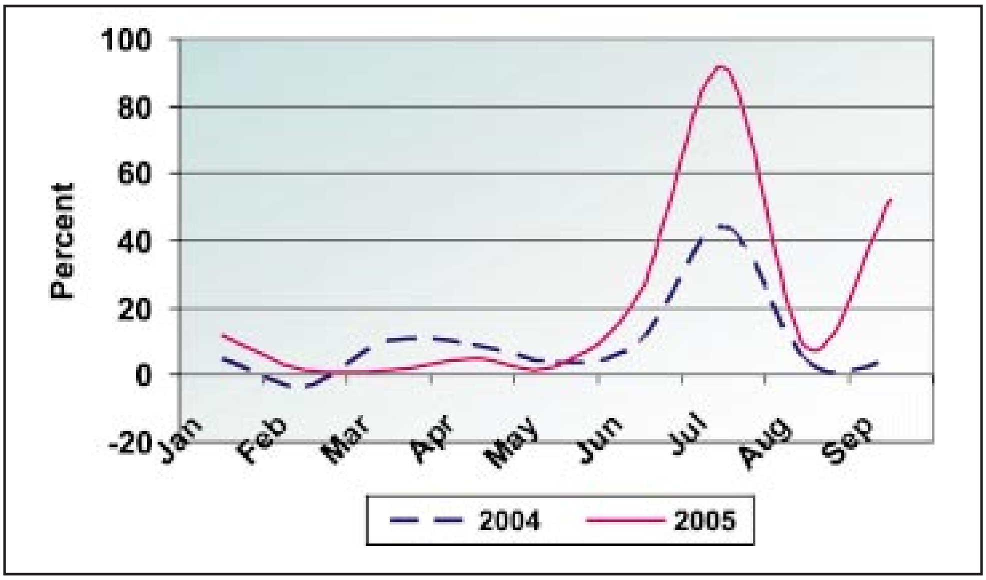
(c). Ad hoc and speculative pricing tendencies by some players in the market, where prices, even of non-imported materials are indexed to parallel foreign exchange market exchange rates.

Transport and Communication

4.49 Transport and communication account for 10.8% in the CPI basket.

4.50 Monthly inflation accelerated sharply from 2.4% in May 2005, to 24.7% in June and 91.8% in July, 2005.

Transport and Communication Month on Month Inflation



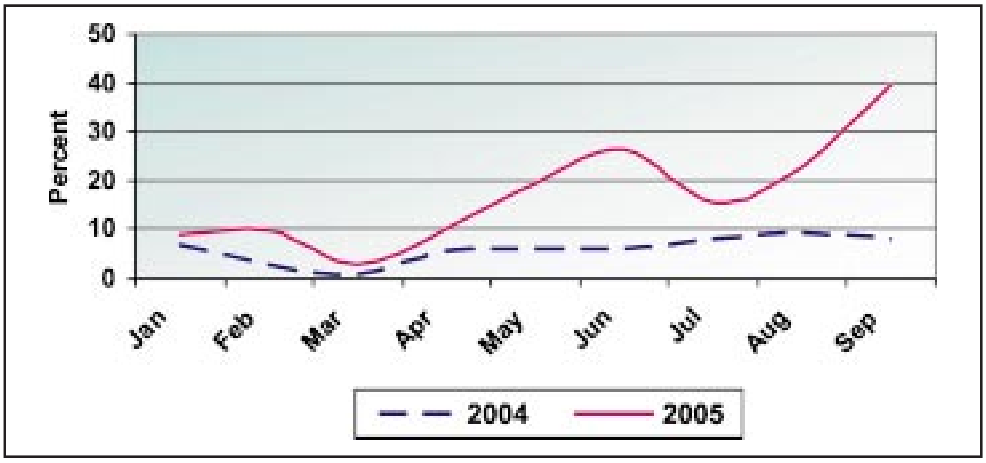
4.51 The main cost driver in the transport category has been the sharp increase in global oil prices, an eventuality that, as a country, we need to respond to through innovative identification of alternative sources of energy.

Beverages and tobacco

452 Alcoholic beverages and tobacco account for 4.9% of the CPI basket, of which beer and tobacco represent 3.6% in this sub group.

4.53 Compared to 2004, month on month changes of this component have been very high and accelerating sharply since July 2005.

Beverages and Tobacco Month on Month Inflation



Expectations

4.54 As Monetary Authorities, we also wish to re-emphasise the prominent role of expectations in shaping the future profile of economic aggregates, and the behaviour of players in both the goods and factor input markets.

4.55 Where unrealistic pessimistic pictures about the economy are painted and widely publicised ex-ante, more so if the publishers are widely respected by virtue of their status in society, domestically, regionally or internationally, economic agents take immediate and pre-emptive speculative actions which, when looked at ex-post, would have gone to fulfil the pessimistic trajectories.

4.56 We, therefore, call upon those of our local and international economic commentators to help us rebuild macroeconomic stability in Zimbabwe through avoidance of needless and precipitous trajectories on the economy's productive outlook, especially when those predictions are based on flawed assumptions about the true Zimbabwean situation on the ground.

4.57 Simply, therefore, our humble request is that: **please do not talk Zimbabwe into a crisis.**

5. INTEREST RATES POLICY

5.1 The resurgence of high inflationary pressures requires that the monetary policy framework institutes appropriate counter measures.

5.2 In order to provide a robust nominal anchor for inflation control, interest rates will be allowed to reflect the Reserve Bank's underlying monetary targets, which in turn, will be set and managed to achieve the desired dis-inflation path.

5.3 Thus interest rates, or the money market pricing side, will be endogenously determined, consistent with inflation developments.

5.4 In order to counter the high inflation expectations that have resurfaced over the recent months, the Reserve Bank, with effect from the 12th of October, 2005 introduced the following accommodation rate levels:

(a) 415% secured; and

(b) 430% unsecured.

5.5 These interest rate levels are largely pre-emptive, and seek to thaw down inflation expectations. Money market players should, therefore, not seek to directly link investment rates on Treasury bills and other instruments to these last resort accommodation rates.

5.6 Rather, the guiding parameters for investment rates, as well as the Reserve Bank's Open Market Operations (OMO) rates would be actual and targeted inflation levels over the tenor of the instruments.

5.7 Accommodation rates will, therefore, serve as policy rates, whose main focus is on inflation expectations.

Selected Money Market Rates (%) – end-period

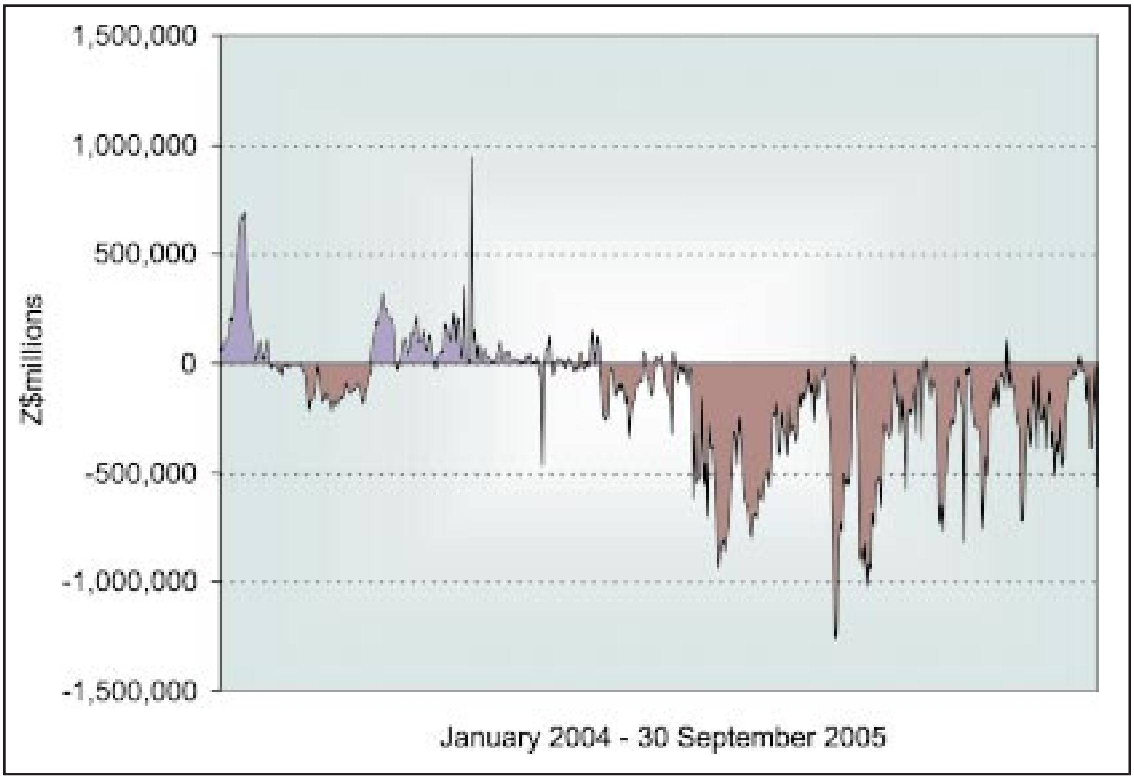
Interest Rate	Apr 04	May 04	Jun 04	8 Jul 04	Apr 05	May 05	June05	July05	Aug05	Sept05	Oct 05*
91-Day TBs	105.97	113.14	162.85	162.85	95.00	150.00	150.00	150.00	259.28	265.0	265.00
Call Money	22.50	55.00	19.10	16.70	25.00	27.50	31.30	30.00	42.50	26.30	26.30
Inter-Bank	123.20	101.70	18.20	50.00	47.50	98.87	127.2	130.00	233.90	110.00	233.30
Overnight (secured)	205.00	205.00	205.00	189.00	95.00	160.00	160.00	190.00	270.00	280.00	415.00
Overnight (unsecured)	215.00	215.00	215.00	199.00	105.00	170.00	170.00	200.00	280.00	290.00	430.00
2-Year Special TBs	—	—	70.80	70.80	17.00	17.00	17.00	17.00	17.00	17.00	105.00

** Figures as at 12 October 2005*

MONEY MARKET POSITION

5.8 Under the tight monetary management framework, the Bank will maintain a short money market position, consistent with efforts to fight inflation.

Daily Money Market Positions



PROMOTING INTERBANK TRADING

5.9 For the banking sector to meaningfully play its role of smoothly channeling the economy's financial resources, it is imperative that banking institutions support each other through gainful interbank trading.

5.10 As Monetary Authorities, we have, however, noted with concern, some tendencies by long established banks to ostracize the smaller and upcoming banks, even when they are in stable and sound conditions, with the end result that these affected smaller banks end up being perpetual borrowers from the Central Bank, even when the money market is in surplus conditions.

5.11 It is for this reason that the Reserve Bank introduced the mandatory 2-year special bills, which seeks to encourage banks to deploy their excess cash resources into the interbank market.

5.12 Following representations by the Banking Industry, over the past few months, the 2-year special bills have been moderated as follows:

(a). The applicable rate has been increased from 17% to 105%, with immediate effect. This rate, however, does not apply in retrospect.

(b). All existing stocks of the 2-year special bills will be converted to yield the new interest rate for the remainder of their tenor.

CAPITAL ORIENTATION

5.13 As Monetary Authorities, we wish to reiterate out repeated call that corporates reorient their financing systems in a manner that cushions them from high interest rates necessitated by high inflation.

5.14 Alternative sources of financing that companies should seriously consider include:

(a). Equity injection through diversification of ownership.

(b). Streamlining of operations, concentrating asset portfolios in core business.

(c). Foreign exchange injections, especially in the case of those companies with foreign shareholder parentage.

(d). Consolidations through mergers and acquisitions.

(e). Greater orientation towards exports.

5.15 Thus, those companies that refuse to accept that under periods of high inflation, there must be minimal reliance on borrowings as the principal means of financing are bound to face operational and viability challenges, which can culminate in their extinction.

STATUTORY RESERVES

5.16 Consistent with the Reserve Bank's pledge to continuously review and enhance the operating conditions in the banking sector, the levels of minimum required statutory reserves payments have been, with immediate effect, reduced as follows:

(a). Payments on all demand and call deposits have been reduced **by 25%, from 60% to 45%.**

(b). Payments on all savings and time deposits have been reduced **by 20%, from 37.5% to 30%.**

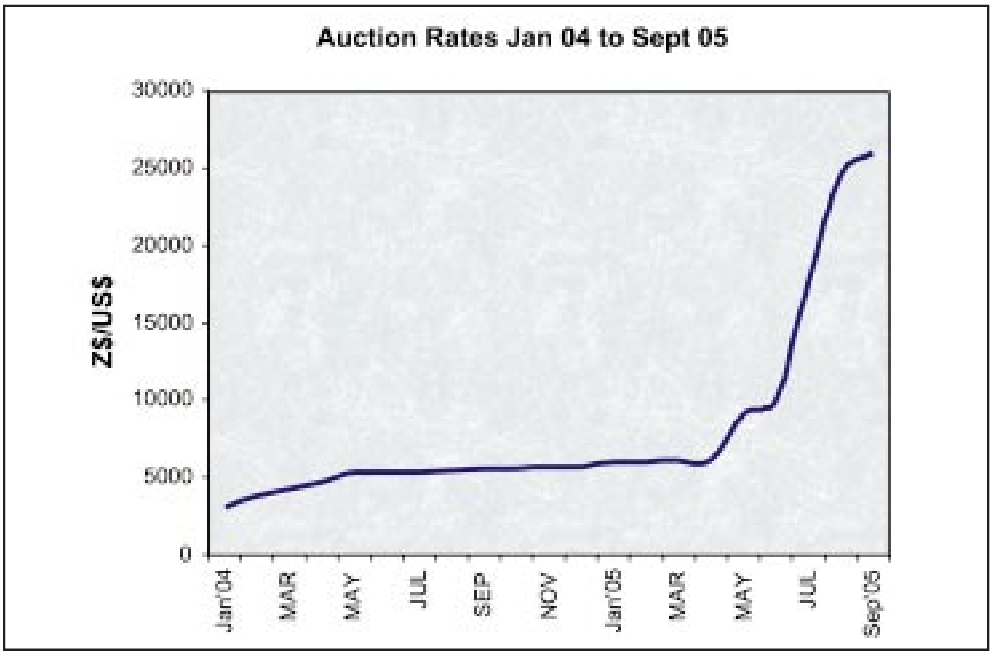
(c). On Building Societies, the applicable rate has been reduced **by 14.3%, from 35% to 30%.**

5.17 Further reviews will be carried out on an on-going basis, as part of the financial sector consolidation process.

6. EXCHANGE RATE MANAGEMENT

6.1 The foreign exchange auction system was adopted in January 2004, as an interim step towards restoring stability in the foreign exchange market. Its introduction brought about a modicum degree of flexibility, predictability and stability in the foreign exchange market, relative to the preceding situation.

6.2 In line with market developments, as well as inflation trends, the auction exchange rate level has been allowed to periodically adjust, as part of efforts to preserve exporter-viability.



6.3 Against the background of incisive inputs from stakeholders, as well as the growing need for allowance of the interplay of market forces in promoting allocative efficiencies in the foreign exchange market, it has become necessary that, with immediate effect, a new foreign exchange management system be introduced.

6.4 Under this framework, which replaces the existing auction system, the **Tradable Foreign Currency Balances System (TFCBS)**, the following conditions would apply:

(a) All exporters will retain 70% of their export proceeds in foreign currency accounts, and sell the remaining 30% at the Official Auction exchange rate determined and announced to the market from time to time. Initially, this rate shall be pegged at the prevailing exchange rate of Z$26000/US$.

(b) Corporate FCA balances will be retained for up to 30 days, after which the unutilised balances shall be liquidated onto the interbank foreign exchange market.

(c) Through Authorised Dealers, exporters can sell their foreign exchange in FCA balances, at a market-determined rate on the interbank market.

(d). Holders of free funds, including individuals, NGOs, Embassies, International Organisations and Zimbabweans in the diaspora, can sell their foreign exchange in the interbank market at the market rate. The Homelink Brand will also buy foreign exchange at the market rate.

(d) All importers, save for critical Government and other strategic and social payments, will access foreign exchange from the interbank market, at the market rate.

DEALING MARGINS

6.5 Authorised Dealers shall trade using a bid-offer spread rate of +/-3% on the ruling mid-rate in the market.

FREE FUNDS COMMISSION

6.6 In order to promote the mobilisation of free funds, Authorised Dealers, as well as licensed Money Transfer Agencies (MTAs) will earn a free funds commission of 10% on every dollar they sell to the Reserve Bank.

6.7 It should be noted, however, that **any free funds disposed in the interbank market will be at the going market exchange rates, with no commission.**

CUT-OFF DATE

6.8 In order to discourage the apparent moral hazard behavior by some exporters, who, over the past months, have deliberately delayed repatriation of export proceeds into the country in anticipation of changes in the foreign exchange management systems, the cut-off date for purposes of shipments qualifying under the new 70/30% FCA retention threshold is the 1st of October, 2005.

6.9 What this means is that all exports which were shipped prior to 1 October, 2005 will be subject to the 50% retention rule.

6.10 Authorised Dealers are called upon to ensure compliance with this cut-off criterion.

6.11 It should, however, be noted that the 1st of October, 2005 cut-off date **does not** entitle refunds to those who shipped exports during October, 2005 and had already gotten payment, prior the introduction of the new exchange rate management system.

REPORTING SYSTEM ON FOREIGN EXCHANGE DEALS

6.12 In order to certify compliance with set Exchange Control Regulations, all Authorised Dealers and Money Transfer Agencies will be expected to submit to the Reserve Bank, daily returns detailing all their foreign exchange transactions and applicable exchange rates.

6.13 The daily reports, whose exact format will be clarified to Authorised Dealers in due course, is to be supported by much more integrated weekly returns, whose format will also be send to Authorised Dealers and Money Transfer Agencies (MTAs).

6.14 All payments through purchases of funds in the interbank market shall be strictly on the back of explicit exchange control approvals, and **each Authorised Dealer is obliged to verify authenticity and validity of each payment application before an importer or user of foreign exchange from the interbank market can be awarded funds.**

PRIORITY GOVERNMENT PAYMENTS

6.15 In order to protect the vulnerable social groups, particularly in the areas of medical drugs, hospital equipment, and fuel importation for strategic National programs, among other priority sectors, a special Official Auction exchange rate would apply on the 30% of export proceeds to be disposed to the Reserve Bank.

6.16 This special rate will be reviewed from time to time, in line with market developments, including, but not limited to inflation trends.

6.17 Beneficiary sectors include:

- HIV/AIDS drugs
- Public Hospital equipment importation programs
- Public Hospital medical drugs
- External debt service payments
- Strategic grain reserves
- Other National contingency requirements.

TOBACCO FUNDS

6.12 In order to support the tobacco industry through recognition of growers as exporters, foreign exchange inflows in relation of the tobacco industry, all loan draw-downs for purposes of purchasing tobacco from the auction flows shall be sold to the Reserve Bank, with the following applicable exchange rates:

- The ruling open market rate would apply on 70%.
- The Official Auction rate would apply on 30%.

PRE-FINANCING OF TOBACCO GROWERS

6.13 In order to promote pre-financing of tobacco growing by merchants, and hence, promote foreign exchange inflows, merchants can now draw-down funds from their offshore lines of credit and pre-sell same to the Reserve Bank, for purposes of financing working capital requirements of growers.

6.14 Such funds, which will be approved on a transaction by transaction basis, can then be netted off the following season's tobacco sales.

6.15 It is imperative that merchants note that strict Exchange Control approvals will be required for such pre-financing, as well as the offsetting of the following season's foreign exchange inflows.

GOLD BUYING

6.16 Given the peculiarity of gold as a reserve asset, the buying framework for this precious metal seeks to balance the needs of gold producers, against the foreign exchange requirements to meet strategic national requirements.

6.17 Under the new framework, which becomes applicable with immediate effect, gold purchases by the Reserve Bank will be effected under the following arrangements:

(a). Gold producers will be entitled to retain 40% of their proceeds in FCA accounts, for purposes of meeting their operational requirements.

(b). The remaining 60% is sold to the Reserve Bank at the interbank exchange rate.

7. BALANCE OF PAYMENTS DEVELOPMENTS

CURRENT ACCOUNT

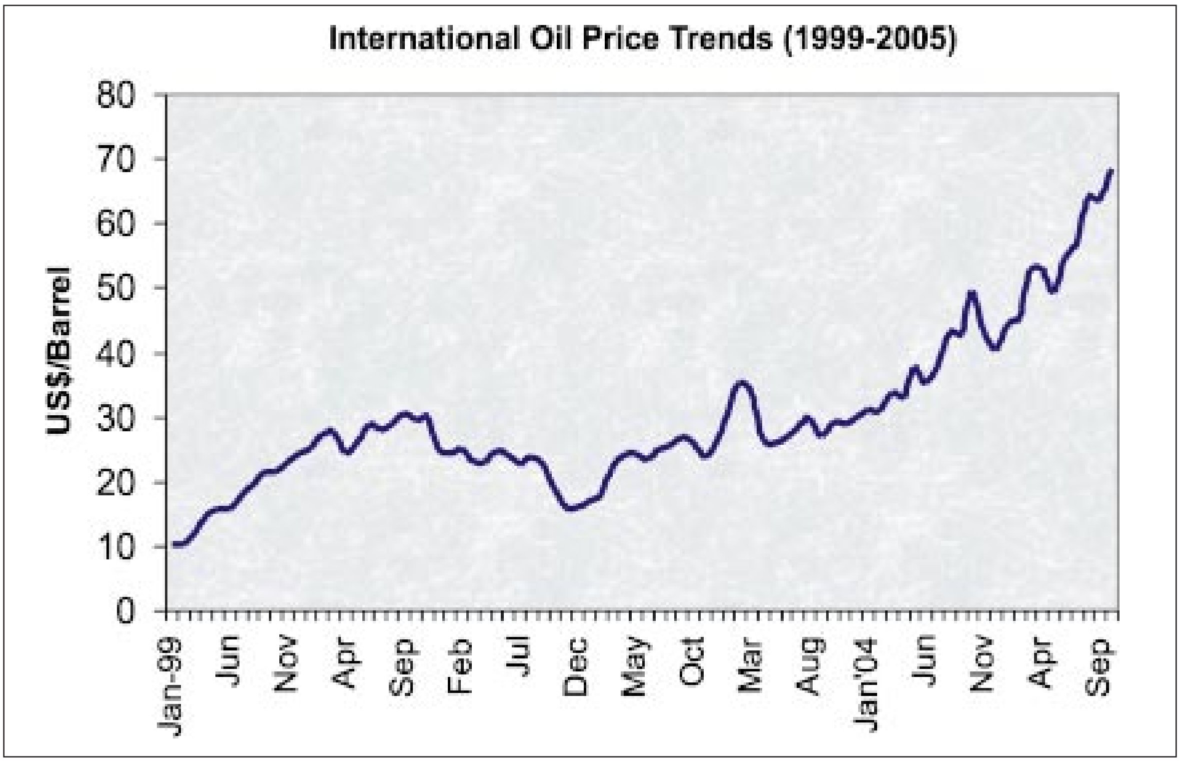
7.1 The country's external sector came under pressure in the third quarter of 2005 due to the resurgence in inflation and the cumulative impact of the drought and shortages of fuel on export performance.

7.2 The year 2005 started with a drought which has posed a major challenge to external sector stability due to the additional demands arising from food imports.

7.3 In addition, the sharp rise in oil prices on international markets has also placed additional demand on the country's foreign exchange resources.

7.4 International oil prices increased from US$46.5 per barrel in January, 2005 to a peak around US$70 per barrel in mid-September, 2005, adversely affecting the country's balance of payments position, as well as economic productivity through the cost-push knock on effects.

7.5 It is, therefore imperative that the country innovates on alternative sources of fuel , as well as rationalise the aggregate demand for fuel, particularly in non-productive areas.



EXPORTS

7.6 The resurgence in inflation from 123.7% in March to 359.9% in September, 2005, has undermined producers' viability and export competitiveness.

7.7 Total export shipments for the period January to September, 2005 declined by 7.6%, from US$1 360.2 million in the first nine months of 2004 to US$1 256.2 million in the same period in 2005. Based on current trends, global exports are projected to decline by 6.4% to US$1576.1 million in 2005.

IMPORTS

7.8 Shrinkage in exports has constrained the capacity of the economy to import critical raw materials, a development which is undermining productivity in the key export industries.

7.9 Developments in the first 9 months of 2005, show a reduction in import volumes and indications are that global imports will decline by 2.6% in 2005. The compression in imports will be reflected in a concomitant decline in GDP of around 2% in 2005.

SERVICES

7.10 On the invisibles account, net earnings from services such as shipping, transport and travel are projected to record a deficit of US$149 million in 2005 from a deficit of US$107.5 million in 2004. This is against the backdrop of low export and import volumes and slowdown in economic activity.

7.11 The income account is also projected to register a deficit of US$201.7 million in 2005. As a result, the current account balance is projected to show a wider deficit from US$416.7 million in 2004 to US$561.8 million in 2005.

CAPITAL ACCOUNT

7.12 The capital account, traditionally the surplus account of the balance of payments, is projected to improve from a deficit of US$244.0 in 2004 to a surplus of US$295.7 million. This largely reflects an improvement in offshore trade finance facilities raised to fund food and fuel imports.

7.13 Capital inflows, however, remain constrained by suspension of both budgetary and balance of payments support by the international donor community and the subsequent fall in external loan disbursements for ongoing projects.

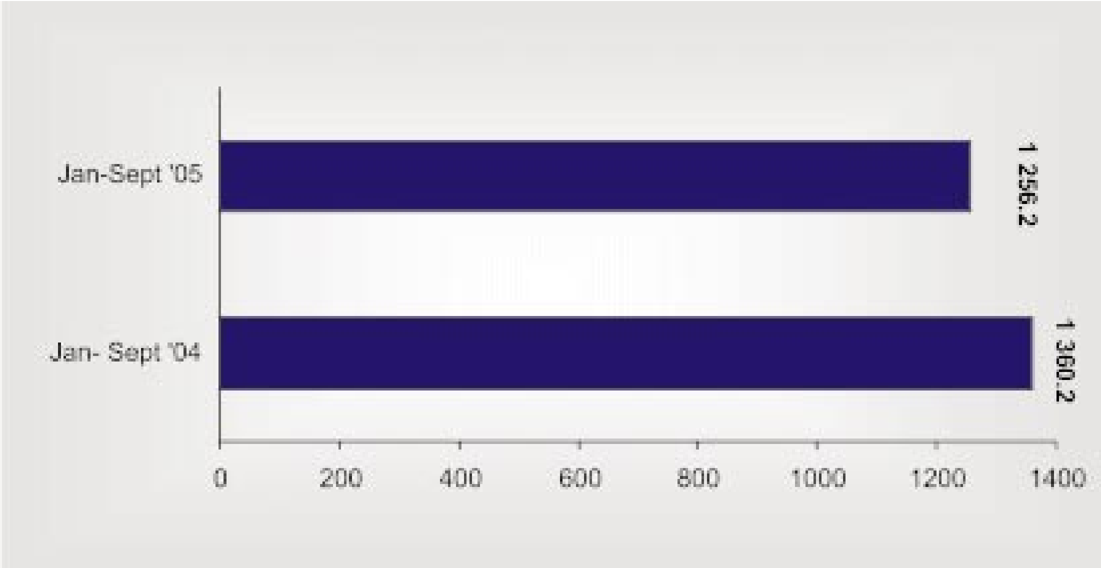
OVERALL BALANCE

7.14 Based on the above foreign exchange supply and demand conditions, the overall balance of payments position is projected to improve from a deficit of US$ 302.8 million in 2004 to a lesser deficit of US$266.1 million in 2005.

SECTORAL EXPORT PERFORMANCE

7.15 The resurgence in inflation, the cumulative effects of drought and fuel shortages resulted in shrinkage in global exports during the first nine months of 2005. Total export shipments (excluding gold) for the period January to September, 2005 declined by 7.6%, from US$1 360.2 million in the first nine months of 2004 to US$1 256.2 million in the same period in 2005.

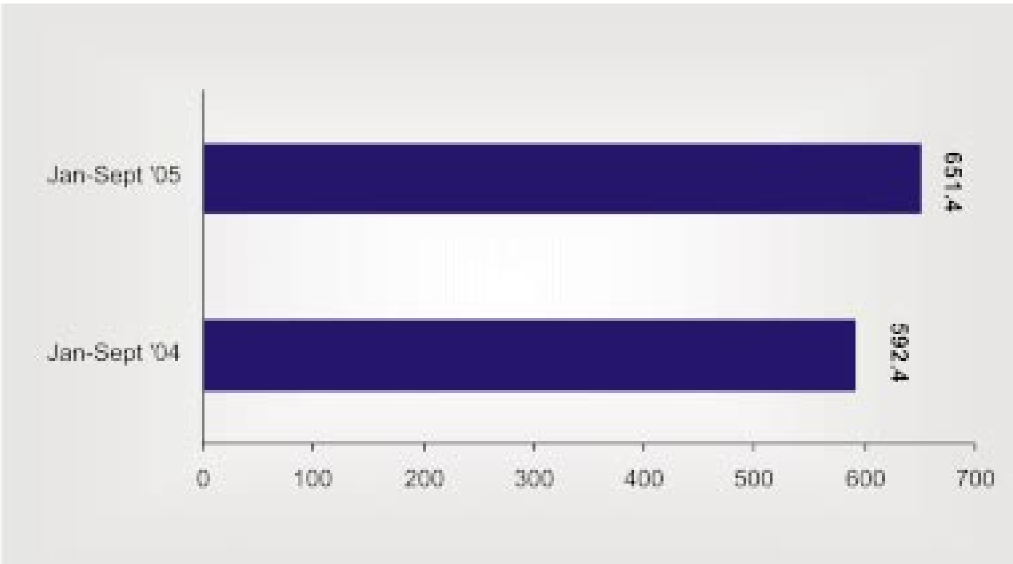
Total Export Shipments (Including Gold) (US$ million)



Positive Growth in Mining

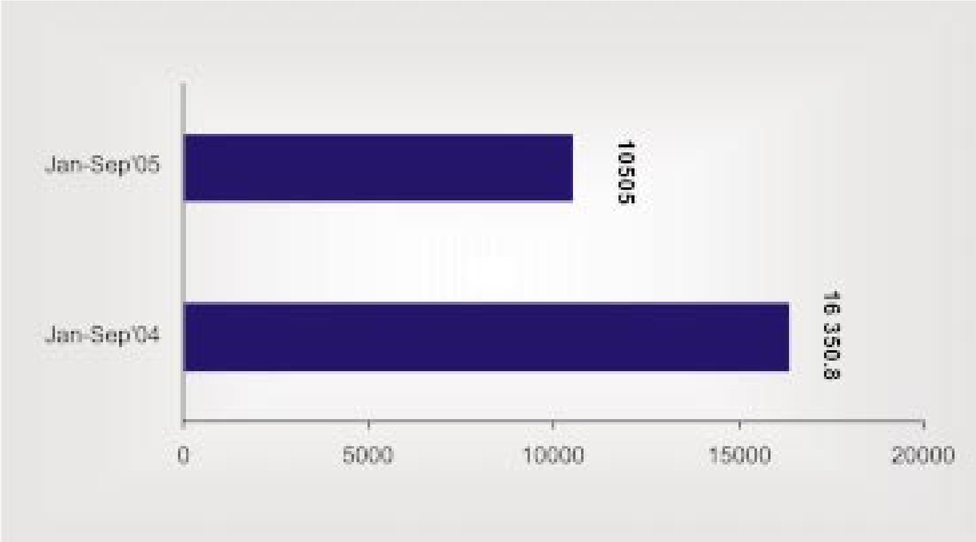
7.16 Mineral exports, however, registered positive growth, benefiting from firming international prices and expansion projects at some mining houses. In the first three quarters of 2005, mineral exports increased by 9.95% from US$592.4 million in 2004 to US$651.4 million in 2005.

Mining Exports (US$ millions)

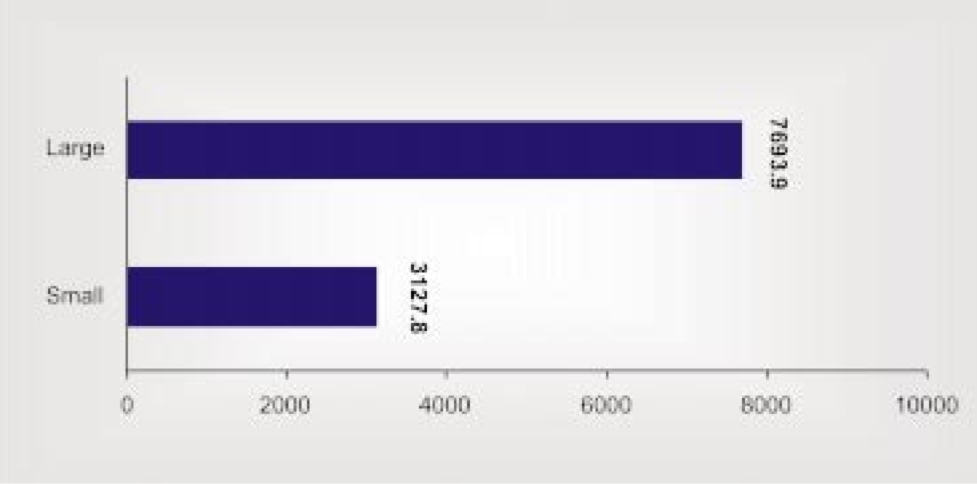


7.17 Gold deliveries to Fidelity Printers and Refiners declined from 16.4 tonnes between January and September, 2004 to 10.51 tonnes in the same period in 2005. By 8 October 2005, cumulative gold deliveries had risen to 10.8 tonnes. The slowdown in gold deliveries is largely attributed to leakages into the parallel market.

Gold Deliveries (Kgs)

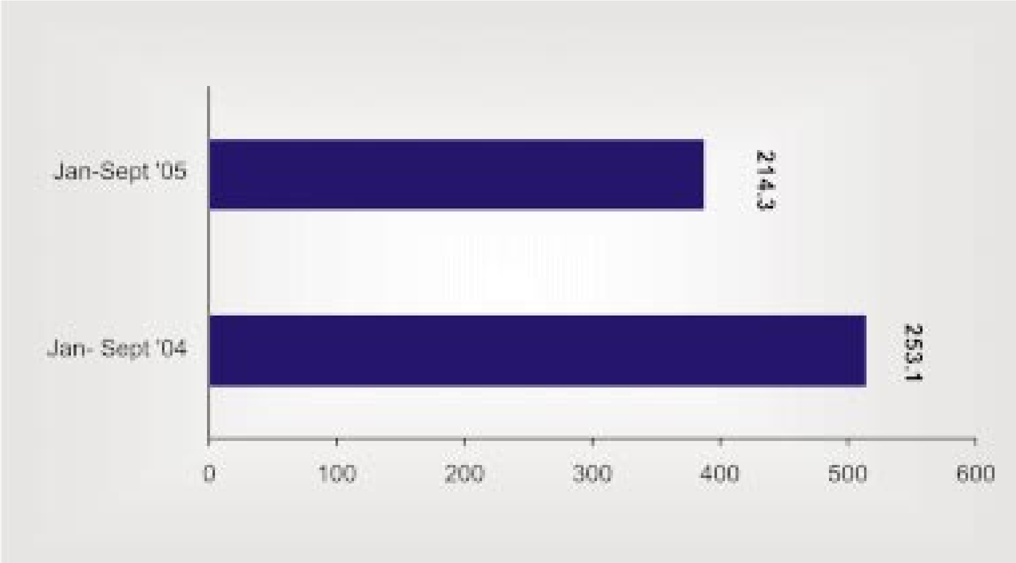


Small and Large Scale Gold Production (kgs): Jan – 8 October 2005



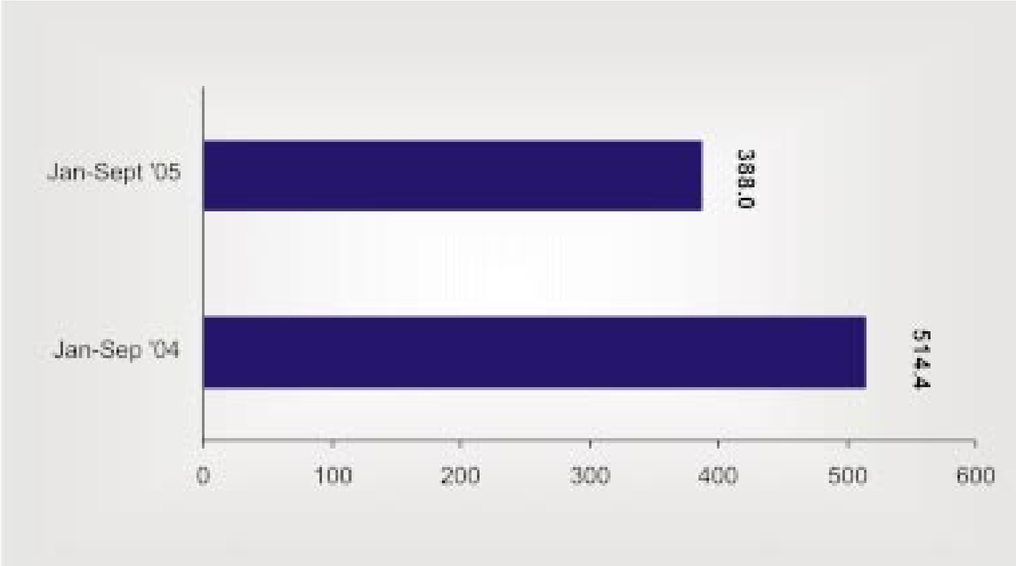
7.18 Manufactured export shipments declined by 15.3% during the first 3 quarters of 2005 to US$214.3 million from US$253.1 million in 2004. The resurgence in inflationary pressures in the economy poses a major challenge to the performance of this sector.

Manufacturing Export Shipments (US$ million)



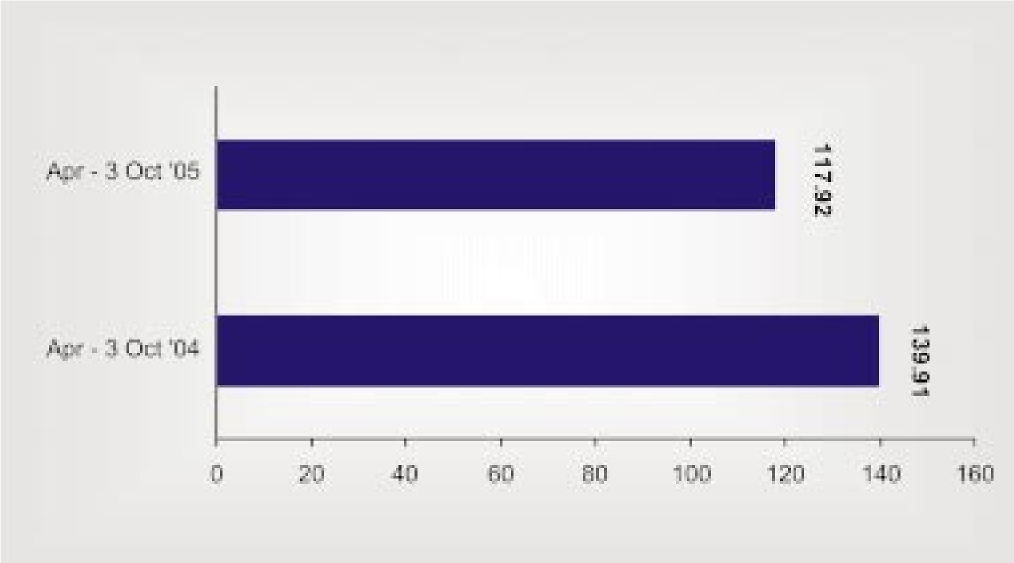
7.19 In the first nine months of 2005, agricultural export shipments (including tobacco) amounted to US$388 million representing a decline of 24.6% from US$514.4 million in 2004. The decline is mainly attributed to the drought and lack of inputs, notably fertilizers, seeds and chemicals.

Agriculture Export Shipments (Including Tobacco) US$ million



7.20 Tobacco deliveries during the 2005 marketing season amounted to 72.5 million kgs in 2005 compared to 71.1 million kgs in 2004 representing a 2% increase.

Tobacco Sales (US$ million)



SOURCES AND APPLICATION OF FOREIGN EXCHANGE

Summary of Inflows (USD m) (JAN-SEP 2005)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Total Jan-Sep
Auction Purchases[1]	75.3	70.6	66.4	71.9	60.0	107.1	54.8	105.6	69.6	**681.4**
Gold	18.3	24.0	26.1	12.0	17.9	18.2	11.8	12.4	19.1	**159.8**
Tobacco[2]	0.0	0.0	0.0	2.1	6.8	15.8	11.8	8.5	2.1	**47.1**
MTA/Diaspora[3]	2.8	5.6	4.1	1.1	0.3	1.0	0.0	1.7	0.5	**17.1**
Other (LOC)[4]	0.0	5.4	0.0	0.0	19.3	0.0	58.0	23.0	20.0	**125.7**
TOTAL	**96.4**	**105.6**	**96.6**	**87.1**	**104.3**	**142.1**	**136.4**	**151.2**	**111.3**	**1030.5**

Notes:
1. Amount reflects inflows from companies' export proceeds, FCA liquidations and other free funds sold through Auction System.
2. Excludes proceeds of other tobacco-backed facilities.
3. Money Transfer Agencies (MTAs) were introduced in 2004.
4. Proceeds from lines of credit (LOC).

Summary of Inflows (USD m) (JAN-SEP 2004)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Total Jan-Sep
Auction Purchases	35.9	71.1	105.9	92.8	99.6	127.5	127.3	150.7	90.2	**901**
Gold	25.5	18.7	23.6	22.8	22.4	28.1	22.8	11.7	34.7	**210.4**
Tobacco	0.0	0.0	0.3	2.7	8.1	13.5	13.9	9.5	1.2	**49.2**
MTA/Diaspora	0.0	0.0	0.0	0.1	15.7	8.1	5.6	3.8	6.2	**39.5**
Other	24.8	0.0	24.3	0.0	0.0	0.0	0.0	0.0	0.0	**49.1**
TOTAL	**86.2**	**89.8**	**154.1**	**118.4**	**145.8**	**177.2**	**169.6**	**175.7**	**132.3**	**1249.2**

Summary of Inflows (USD m) (JAN-SEP 2003)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Total Jan-Sep
Auction Purchases	3.3	3.3	7.2	3.4	3.4	3.1	7.9	6.6	1.2	**39.4**
Gold	14.9	14.4	9.7	4.9	25.2	11.0	15.2	10.8	11.6	**117.7**
Tobacco	0.0	0.0	0.0	3.7	6.8	15.1	8.7	5.5	5.1	**44.9**
Other	4.1	3.1	3.1	13.7	3.6	3.7	8.5	-	8.3	**48.1**
TOTAL	**22.3**	**20.8**	**20.0**	**25.7**	**39.0**	**32.9**	**40.3**	**22.9**	**26.2**	**250.1**

Summary of Outflows (USD m) (JAN-SEP 2005)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Auction Payments[1]	57.7	46.9	55.5	36.5	37.5	54.2	42.5	5.5	2.3
NOCZIM	4.2	15.6	18.3	17.0	24.3	22.9	28.8	7.8	15.7
ZESA	8.3	2.5	3.4	6.6	8.8	5.0	2.8	9.9	6.0
Government[2]	22.7	43.9	20.1	24.1	11.1	30.0	26.4	12.9	44.3
IMF	0.0	3.0	2.0	0.0	0.0	9.0	—	120.0	15.0
Trade Fin. Lines	9.6	7.9	8.2	9.4	8.2	—	—	5.9	11.4
Gold Producers	1.5	1.9	2.5	2.7	3.3	3.2	3.1	3.3	3.9
Other	14.8	1.6	13.3	1.0	1.0	9.8	18.5	19.3	15.0
TOTAL	**118.8**	**123.3**	**123.3**	**97.3**	**94.2**	**134.1**	**122.2**	**184.6**	**113.5**

Notes:

1.Allocations for private sector imports through the auction.

2.Includes payments for Gvt Ministries and Depts, Universities and other quasi-fiscal institutions.

Summary of Outflows (USD m) (JAN-SEP 2004)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Total Jan-Sep
Auction Payments	24.3	63.3	72.0	58.0	68.3	80.7	76.0	77.5	86.6	**606.7**
NOCZIM	0.0	2.0	4.0	14.1	9.1	23.4	20.2	29.1	8.7	**110.6**
ZESA	0.0	0.0	1.6	3.0	4.9	13.1	12.0	15.4	8.0	**57.9**
Govt	12.6	4.8	11.4	12.0	26.6	25.9	30.1	23.4	24.0	**170.8**
IMF	1.5	1.5	3.0	0.0	3.1	0.0	1.5	3.0	3.0	**16.6**
Trade Fin. Lines	10.2	12.3	10.1	12.0	20.6	0.2	4.3	3.9	10.8	**84.4**
Gold Producers	6.4	3.4	6.0	4.0	2.8	2.1	2.9	2.1	3.2	**32.9**
Other	3.9	2.7	3.3	6.4	4.0	5.8	3.6	5.6	4.3	**39.6**
TOTAL	**58.9**	**90.0**	**111.4**	**109.5**	**139.4**	**151.2**	**150.6**	**160.0**	**148.6**	**1 118.9**

Summary of Outflows (USD m) (JAN-SEP 2003)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Total Jan-Sep
NOCZIM	1.9	0.0	4.7	2.3	11.4	8.2	6.6	1.9	0.0	**37.0**
ZESA	0.0	0.0	0.0	0.1	6.6	0.1	0.0	0.0	0.0	**6.8**
Government	2.4	8.8	1.0	2.0	6.9	8.3	11.0	11.8	3.1	**55.3**
Trade Fin. Lines	2.5	2.3	5.8	3.5	3.1	6.7	4.1	6.4	1.7	**36.1**
Gold Producers	1.8	1.9	0.1	0.8	2.9	1.1	7.1	2.7	1.0	**19.4**
Other	7.3	4.7	8.7	14.7	6.3	2.1	4.9	4.5	2.6	**55.8**
TOTAL	**15.9**	**17.7**	**20.3**	**23.4**	**37.5**	**26.5**	**33.7**	**27.3**	**8.4**	**210.4**

MONTHLY FUEL PAYMENTS (US$M) (JAN-SEP 2004)

PERIOD	PRIVATE COMPANIES	NOCZIM	OFF FCAs	TOTAL
Jan. 2004	2.7	0.0	1.3	**4.0**
Feb	7.5	2.0	2.3	**11.8**
Mar	10.3	4.0	3.8	**18.1**
Apr	12.7	14.1	14.5	**41.3**
May	16.9	9.1	2.5	**28.5**
Jun	18.5	23.4	5.1	**47.0**
Jul	21.4	20.2	2.5	**44.1**
Aug	22.5	29.1	1.2	**52.8**
Sep	30.0	8.7	3.2	**41.9**
Total	**142.5**	**110.6**	**36.3**	**289.5**

MONTHLY FUEL PAYMENTS (US$M) (JAN-SEP 2005)

PERIOD	PRIVATE COMPANIES	NOCZIM	OFF FCAs	TOTAL
Jan. 2005	25.7	4.2	1.1	**31.0**
Feb	7.3	15.6	1.3	**24.2**
Mar	13.8	16.8	1.2	**31.8**
Apr	2.9	18.5	3.0	**23.4**
May	0.4	21.3	1.1	**22.8**
Jun	0.8	25.8	3.6	**30.2**
Jul	4.5	28.7	10.4	**43.6**
Aug	0.2	8.1	5.3	**13.6**
Sep	0.0	15.7	5.5	**21.2**
Total	**55.6**	**154.7**	**31.5**	**241.8**

EXTERNAL DEBT DEVELOPMENTS

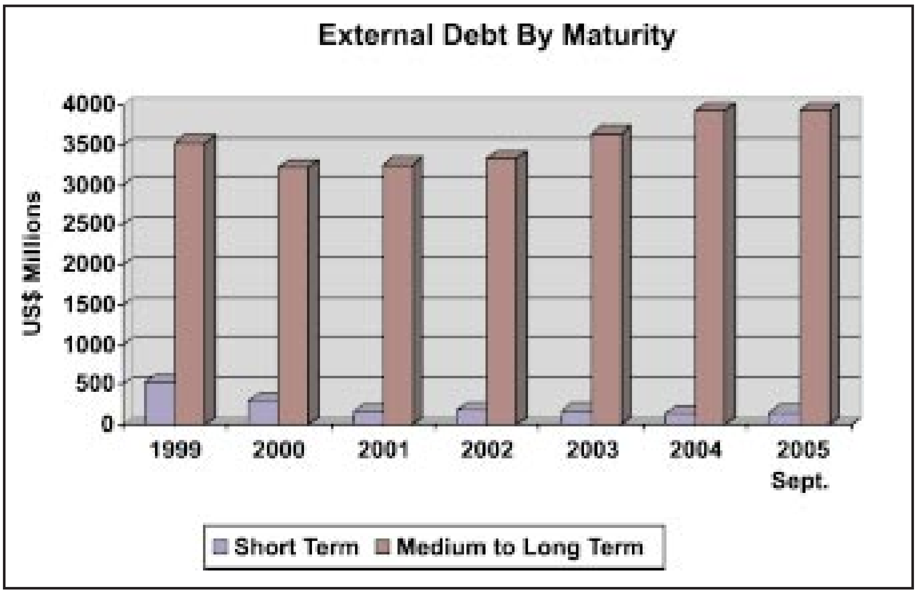
7.21 Zimbabwe's total external debt disbursed and outstanding (including arrears) is estimated to have increased from US$4,071 million in 2004 to US$4,103 million by end September 2005, representing an increase of 0.8%.

External Debt by Maturity

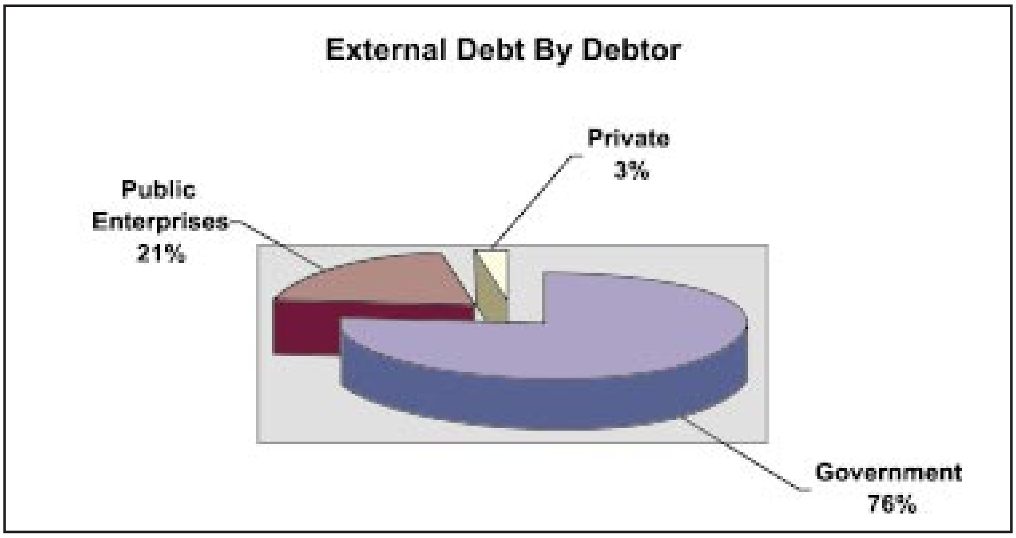
7.22 Medium to long-term external debt has continued to dominate the stock of external debt, accounting for 96% of the total. This category of debt increased from US$3,927 million to US$3,934 million.

7.23 Outstanding private sector short-term offshore trade finance facilities stood at US$67 million during the period under review.

External Debt by Borrower

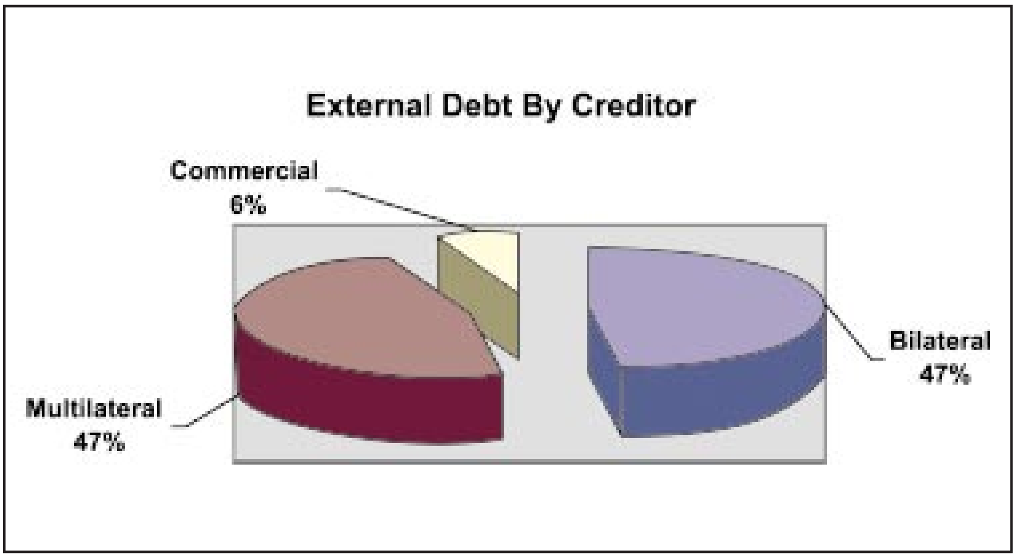


7.24 Government debt accounts for 76% of the total external debt, public enterprises, 21% and private sector 3%.



External Debt by Creditor

7.25 Of the country's total debt, 47% is owed to multilateral creditors, while bilateral and commercial creditors are owed 47% and 6%, respectively.



8. NATIONAL PAYMENT SYSTEMS

8.1 The maintenance of an efficient and robust national payments system remains one of our major objectives as a central bank.

8.2 In this regard, as Monetary Authorities, we continue to encourage a move towards the use of electronic means of payment given their positive impact on economic development and in particular, cost savings related to notes and coins management.

8.3 Financial institutions and the general public at large are, therefore, being called upon to utilise electronic instruments as a growing means of payment in Zimbabwe.

8.4 As we approach the festive season, we once again urge banks to ensure adequate cash and full ATM and POS functionality for the convenience of the public.

8.5 We are aware of challenges faced by some financial institutions in the procurement of equipment in order to meet this requirement. In addressing these challenges, we commit to supporting deserving banking industry requirements that will positively enhance our drive towards ensuring full functionality of ATMs and POS terminals at all times.

CENTRAL SECURITIES DEPOSITORY (CSD) SYSTEM

8.6 I am pleased to advise that in response to the various challenges experienced by the financial industry on the current Book Entry System, the Reserve Bank is in the process of implementing a Central Securities Depository system for government securities.

8.7 The system which is scheduled to go live in February 2006 will bring a new and more efficient dimension in the management of Government securities.

9. CURRENCY MANAGEMENT

Adequacy of Currency Management Stocks

9.1 As the festive season approaches, financial institutions are being urged to forecast and put in place adequate logistical arrangements to ensure effective distribution of cash to the public.

9.2 There are increasing incidences of creeping indiscipline by some financial institutions in the handling of currency:

(a) There is clear evidence which indicates that some commercial banks are providing huge volumes of cash to parallel market operators and not raising any alarm to the central bank as required and at times circumventing the money laundering guidelines to please these dealers.

(b) There has also been a huge public outcry on the discrimination by banks in the distribution of currency denominations in favor of preferred parties at the expense of individuals. This practice negates the Reserve Bank's objective of wide distribution of all clean currency denominations, including lower ones.

9.3 As Monetary Authorities we may be compelled to take decisive action against errant commercial banks. Already, our intelligence systems have put up their surveillance units on alert to flush out any errant behavior by banking institutions.

INTRODUCTION OF A NEW CURRENCY

9.4 As previously announced that the Reserve Bank was working on introduction of a new currency, we are pleased to give notice that this will be done in the new-year, 2006, at a date to be announced once consultations with relevant stakeholders have been finalised.

9.5 The transacting public, as well as corporate bodies are, therefore, being called upon to hold cash sparingly, so as to smoothen the change over process.

Clean Money Policy

9.6 The Reserve Bank is also implementing a clean currency policy to enable stakeholders to effectively authenticate security features of our currency and to have the convenience of using clean and high quality notes.

9.7 Members of the public, commercial banks and retail outlets are requested to continue supporting these efforts by depositing unfit notes with the commercial banks for onward delivery to the Reserve Bank.

10. MACROECONOMIC CONVERGENCE PATH

10.1 Zimbabwe, as an active player in regional and international efforts meant to increasingly integrate economies through trade and free movement of capital, among other dimensions, has to hasten the pace of macroeconomic convergence, so as to be in line with economic fundamentals already obtaining in other countries, particularly within the SADC region.

10.2 It is against this background that as Monetary Authorities, we have set in motion the Monetary Policy measures unveiled in this Statement to deliver the following convergence path:

Macroeconomic Convergence Path

Aggregates	Programmed Convergence Horizon	Comments
Interest rates	March 2007	Convergence of agriculture lending rates with those applying to the rest of the economy.
Exchange rate	December 2006	Convergence of Official Auction rate with Market rate
Subsidies	December 2006	Implicit subsidies on goods and services
Quasi-fiscal Operations of RBZ	December 2006	PLARP program has already been capped at a limit of $3 trillion, down from the initial $12 trillion.
Inflation	March 2007	Single digit levels.

10.3 The above convergence path largely derives from the measured and gradual approach that is seen as the most viable option for Zimbabwe, as opposed to a shock-therapy, or a "big-bang" route, which has immense dangers of setting in high social costs of adjustment.

10.4 For the above Monetary Policy framework to yield optimum effect, however, it is imperative that a broad range of supportive fiscal, structural and other necessary measures be put in place and implemented whole-heartedly.

10.5 It is for this reason that as Monetary Authorities, we are taking the opportunity of this Statement to supplement the foregoing Monetary Policy measures with pieces of advice on what we firmly believe are the necessary compelementary policy measures, priorities and sequencing that will enhance scope for greater success in our collective turnaround program.

10.6 The remainder of this Statement is, therefore, devoted to areas of advice, **consistent with the stipulations of Section 6 of the Reserve Bank Act (Chapter 22:15)**, which we encourage stakeholders, including our Principals in Government, to take into account when formulating and implementing policy programs resident in their primary realms of influence.

10.7 By its nature, **advice is given on the basis that it will be assessed purely on its merits, after which it is either taken on board and implemented, modified or rejected outright.**

10.8 This emphasis and clarification is pertinent, as there have been and still are some stakeholders who see the Reserve Bank's pronouncements of advice regarding economy-wide interrelations and non-monetary policy frameworks as acts of over-extension of our operations.

POLICY ADVICE

- IMPORT SUBSTITUTION -Advice
- AGRICULTURE PRODUCTION ENHANCEMENT - Advice
- LAW AND ORDER - Advice
- INVESTMENT ATTRACTION - Advice
- PROPERTY RIGHTS – Advice
- BILATERAL INVESTMENT PROTECTION AGREEMENTS (BIPAs) - Advice
- PARASTATALS AND LOCAL AUTHORITIES - Advice
- MINING LEGISLATION - Advice
- CORRUPTION - Advice
- FISCAL RECTITUDE - Advice
- WAGES AND SALARIES - Advice
- STAKEHOLDER UNITY OF PURPOSE - Advice
- INTERNATIONAL RELATIONS - Advice

11. IMPORT SUBSTITUTION

11.1 Like most economies in the region, Zimbabwe is a net importer of goods and services, and this has been constrained by the foreign currency shortages prevailing in the market.

11.2 The foreign exchange shortages have affected local industries, both exporting and non exporting, leading to constrained industrial capacity utilisation.

11.3 Against this background, it is imperative that as a country, we gear up our productive systems more towards import-substitution, particularly in those areas where there is domestic abundance of raw materials and human expertise.

11.4 Equally, domestic policies and programs should also be tailor-made to re-orient consumption patterns more towards locally produced goods and services.

11.5 The main benefits of a dedicated import substitution program include:

- Creation of opportunities for new industries through technology transfer;
- Creation of a culture of self-sufficiency;
- Local production enhances scope for employment creation;
- Creating new income streams, through the multiplier effect, and hence, expanded domestic markets for goods and services;
- Conservation of foreign exchange, thus promoting a healthy balance of payments position for the country.

Zimbabwe's Imports Structure on a Transaction Basis

Imports (US$M)	**2000 Actual**	**2001 Actual**	**2002 Actual**	**2003 Actual**	**2004 Actual**	**2005 Proj.**
Food	61.7	68.0	214.3	205.6	161.0	344.0
Electricity	61.7	55.8	55.2	57.7	59.2	42.9
Fuels	310.2	278.7	323.3	397.9	413.0	439.2
Chemicals	311.2	407.9	360.6	328.1	401.3	410.3
Manufactured Goods	323.8	273.1	241.4	219.7	268.7	276.4
Machinery	355.4	275.9	243.9	221.9	271.4	279.2
Transport and Motor Cars	137.8	148.0	130.8	119.1	145.60	153.5
Crude Materials	125.2	97.8	86.5	78.7	96.2	97.2
Oils and Fats	39.7	30.4	26.9	24.5	29.9	30.2
Beverages and Tobacco	61.0	44.3	39.2	35.6	43.6	44.0
Other	119.6	111.3	98.4	89.5	109.5	110.6
Total Imports	**1907.3**	**1791.2**	**1820.5**	**1778.2**	**1989.4**	**2237.5**

Source: *Economic Research, Reserve Bank of Zimbabwe*

11.6 A dedicated import substitution program must also encompass the following:

(a). Promotion of food security, and hence, avoidance of costly grain importation programs, through effective utilisation of land, supported by development of irrigation systems.

(b). Development of innovations in the energy sector, for instance fuel, whose import bill has increased from US$278 million in 2001, to over US$400 million in 2004, due to increases in international oil prices. An example is the use of the well established technology of extracting liquid fuel from coal, a mineral that Zimbabwe has in abundance.

11.7 Other imported products from which Zimbabwe can save foreign currency through import-substitution include manufactured goods, chemicals, oils and fats, beverages and tobacco and other crude materials.

Import Demand Based on Exchange Control Approvals

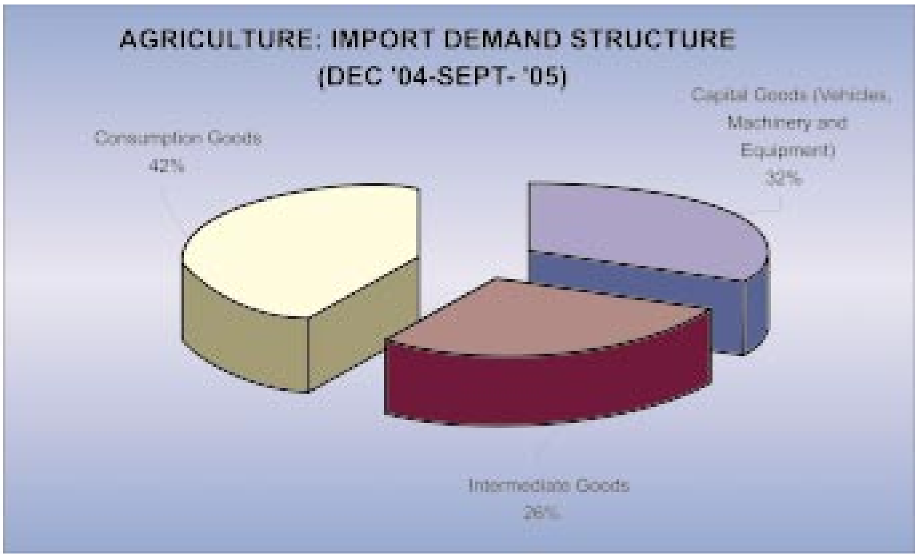
Category US$ Million	% of Total Jan-Dec '03	% of Total Jan-Dec '04	% of Total Jan-Sept '05
Consumption Goods	14%	42%	45%
o/w Fuel	8%	17%	2%
Intermediate Goods	50%	38%	40%
Capital Goods	36%	20%	15%
TOTAL IMPORT DEMAND	**100%**	**100%**	**100%**

Source: *Exchange Control Division, Reserve Bank of Zimbabwe*

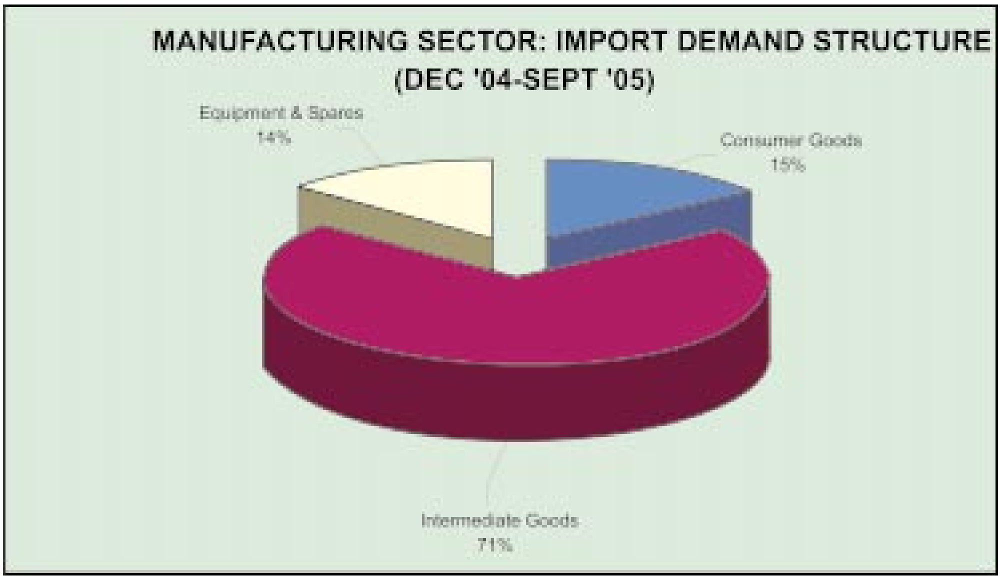
11.8 The Table above also indicates that there has been a significant change in Zimbabwe's consumption patterns, as evidenced by a shift from importation of intermediate goods (raw materials) to consumption goods (finished products). This trend is not sustainable, if as a country, we are to create our own jobs and grow the national output cake.

Sectoral Import Demand Structures

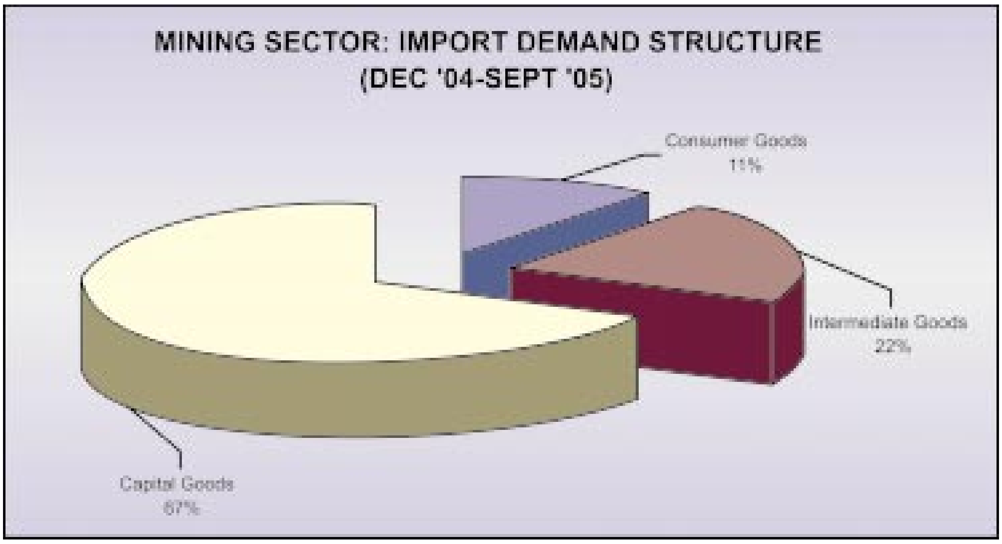
Agriculture



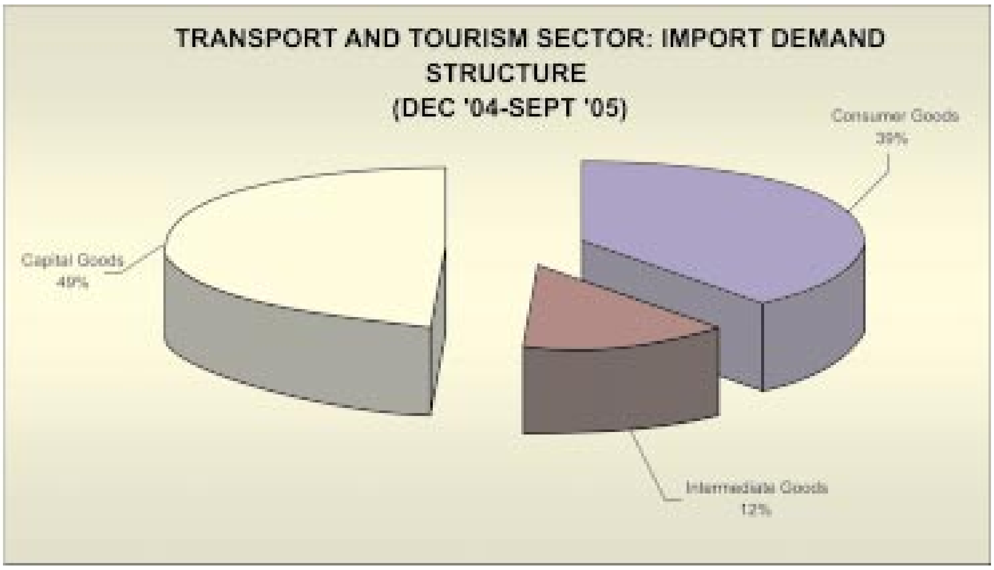
Manufacturing



Mining



Transport and Tourism



Examples of Opportunities for Import Substitution in Zimbabwe

11.9 Manufacturing Sector

- **Production of casings and containers**: - local companies should be facilitated to produce packaging materials such as Colgate casings, bottle tops, cans, among many other areas of focus.

- **Local manufacture of steel products -** currently the country is importing certain steel products yet there is scope for producing finished steel products from ZISCO.

- **Manufacture of fertilizer** - fertilizer manufacture should be enhanced by facilitating the importation of ammonia hydroxide which accounts for 34.5% of input requirements for ammonium nitrate fertilizer. Additionally, importation of potash and nitrate should be facilitated.

- **Manufacture of newsprint -** the country has vast tree plantations for pulp production yet the country imports newsprint and paper packaging materials.

- **Textile Manufacturing -** Zimbabwe has a comparative advantage in the production of cloth and textiles yet the country is importing textiles from Asia and other Africans countries.

11.10 Mining Sector

- **Coke:-** Currently ZIMASCO imports coke worth millions of foreign exchange per month from China, when Hwange Colliery could be capacitated to produce sufficient, high quality coke to meet domestic requirements and for export purposes.

- **Furnace Bricks**:-Mining companies are currently importing furnace bricks, while local companies capacitated to manufacture the bricks locally.

- **Exide:** - chemical manufacturers should be assisted to produce exide which is a major input in gold production.

- **Value addition:**-processing of minerals e.g. granite, platinum

11.11 Agricultural Sector

- **Food Security**: Boost production of crops such as maize, wheat, barley, rapoko, etc which are imported to augment shortfalls.

- **Stockfeeds**: some companies are importing products to be used in the preparation of stock-feed when the country has the capacity to produce same.

- **Agro-Processing: Product Beneficiation thrust**
  - Facilitate collection of the abundant crops which are normally left to rot due to lack of transport such as tomatoes and process them for export;
  - Finance growers of exportable vegetables and major inputs such as groundnuts for cooking oil and soaps;
  - Finance livestock production to increase throughput and by-products used as inputs such as

tallow (soaps), hides(leather), glue from hooves, milk products and others
- Canning of fruit, peas, beans etc;
- Local production of seed maize;
- Processing of cotton into final products e.g sanitary pads;
- Cigarette manufacturing instead of export of semi-processed products; and
- Processing of Paprika which currently is exported in its raw state and yet processing can realise an additional 25% in terms of foreign currency earnings.

11.12 Transport Sector

- **Tyres:-**Dunlop and National Tyres could be capacitated to produce tyres locally. There is proof that imported tyres cost four times the price of locally produced tyres.

- **Fuel:**-There is need to expedite the Methane Gas extraction project in Lupane. The Ethanol project in Chiredzi should also be facilitated in order to promote the production of blended petrol. Other important fuel products could be produced from liquid oils from coal and a proposed bio-diesel plant.

- **Freight:** - Currently many local companies are making use of foreign freight service providers for the transportation of both imported and exported products. Opportunities for import substitution exist in this sector as freight companies can be capacitated to effectively compete with their foreign counterparts.

11.13 Tourism Sector

- There is need to create a culture of using Zimbabwean products in all Zimbabwean hotels, without compromising the quality of service delivery.

IMPORT DUTY ON NON-ESSENTIAL IMPORTS

11.14 In order to influence and re-orient the economy's import demand profile through market forces, the Reserve Bank is in consultations with the Ministry of Finance, as well as ZIMRA, to put in place a framework under which all import duty on non-essential imports shall be payable in foreign currency.

11.15 This being a fiscal matter, the effective date shall be announced by the Minister of Finance in due course.

12. SUSTAINING AGRICULTURAL PRODUCTION

12.1 Agriculture remains the economy's major anchor sector, particularly given its vertical and horizontal linkages with the rest of the country's productive sectors.

12.2 It is against this background that Monetary Policy frameworks continue to tailor-make specific supportive interventions, so as to shore up performance of the sector.

Agriculture Sector Productivity Enhancement Facility Developments (ASPEF)

12.3 The ASPEF facility limit, which was initially set at **$5 trillion was subsequently enhanced** to **$7 trillion.**

12.4 The additional amount of **$2 trillion** is specifically meant for irrigation, in line with the Accelerated National Irrigation Development Program. This brings the total amount available for Irrigation Support to **$3 trillion**.

12.5 The tenor for capital expenditure loans and other infrastructural development projects such as, construction of greenhouses, irrigation expansion, beef and dairy cattle **breeding,** agricultural machinery and equipment and dam construction is 36 months and the facility expires on 30 June 2008.

12.6 The concessional interest rate of **20% per annum** will, however, be reviewed periodically, as we move towards self-sufficiency in the sector.

Facility Utilization

12.7 A cumulative amount of **$2.19 trillion** had been disbursed under ASPEF for 993 applications as at 7 October 2005.

12.8 The distribution of the amount disbursed per facility is shown in table 1 below: -

Distribution of ASPEF loans as at 30 September 2005

Facility	***Applications***	**Amount ($bn)**
Irrigation Support	189	250.06
Dairy Support	34	64.22
Beef Cattle Support	82	148.07
Poultry and Piggery	67	136.77
Other Crops & Livestock	517	1,066.71
Horticulture Support	70	135.66
Export Support	34	386.53
TOTAL	**993**	**2,188.02**

2005 Winter Wheat Program

12.9 A total of **$513.46 billion was disbursed** to 2 184 farmers. A total of **64,121 hectares** of wheat were planted.

12.10 This is expected to go a long way in reducing imports of wheat, thus saving foreign currency for the country.

Tobacco Seedlings and Land Preparation

12.11 In recognition of the importance of tobacco in generating foreign currency to the country, a facility of **$150 billion** was put in place to support the production of tobacco seedlings and land preparation. Disbursements are through Agribank and Tobacco Industry and Marketing Board (TIMB)

Maize and Sorghum Production Facility

12.12 In a bid to ensure food security to the country, a facility of **$1 trillion** has been put in place to support A1 and communal farmers with seeds and fertilizer for the growing of maize and sorghum.

12.13 The inputs will be distributed through Grain Marketing Board (GMB) and loan recoveries will be made upon delivery of output to GMB.

12.14 As Monetary Authorities, we call upon the relevant arms of Government to ensure that these funds are productively utilised, so as to guarantee food security, as well as forestall the potential inflationary effects of the disbursements.

AGRICULTURAL PRICING

12.15 As Monetary Authorities, we have come to fully experience and understand the pain associated with foreign exchange mobilisation for purposes of food importation.

12.16 Such mobilisation efforts have come face to face with matters of sovereignty, security, health stipulations (anti-GMO), outright overpricing, logistical hurdles (NRZ), and other forces that impede the exercise of food importation.

12.17 It is against this background that as Monetary Authorities, we urge the Nation at large and our Principals in Government, in particular, to ensure that this season becomes a success, because a repeat of the food deficit we are experiencing this year will have serious consequences on the socio-economic and political wellbeing of the country.

12.18 Equally, it has now become starkly clear that not paying our farmers adequate producer prices essentially boomerangs back in the form of more costly imports, as the fiscus outlays high resources paying for the imported grain.

12.19 As a country, we must, therefore, pay our farmers well to make farming worthwhile – after all, it is a business and must be treated as such.

12.20 To our farmers, let us grow National Security crops.

12.21 With ASPEF, a minimum of not less than 30% must be used to grow National Security crops if the farmer is to qualify for **next-round support**, especially farmers in Mashonaland West, Central, East, Manicaland and Midlands, where rainfall patterns favour such cropping programs.

12.22 For all maize, rapoko, sorghum and other small grains grown and sold to the GMB, the Reserve Bank is setting aside an import-substitution fund in the form of an incentive of Z$2 million/tonne for all maize and small grains grown and delivered to the GMB between February and May, 2006; and then Z$1.5 million/tonne for deliveries between June and July, 2006 of the same crops.

12.23 This is a maize and small grain production incentive over and above the prices Government will set and announce in due course.

12.24 Encouraging our farmers to produce maize locally under this framework is logical, given that currently the fiscus is having to pay and import price of around US$200 per metric tonne or Z$5.2 million/tonne at the auction exchange rate of Z$26000/US$.

LAND TENURE

12.25 As Monetary Authorities, we also wish to underscore the importance of implementing the 99-year lease program, in order to unlock meaningful banking sector participation in supporting agriculture in the country.

12.26 The current transitory interventions by the Central Bank, should not be taken as a permanent long-term solution to agriculture finance, which as a business, should ordinarily be catered for through the credit risk grading system in the financial system.

12.27 Meaningful participation by the banking sector in agriculture finance will relieve Monetary Authorities and allow the Reserve Bank to concentrate more on inflation control and financial sector stabilisation, without need to directly intervene in the productive sectors of the economy.

LAND INVASIONS

12.28 Our abhorrence against the reported current land invasions stem, not from diminished patriotism or revulsion towards our Land Reform Program. In fact, the opposite is true.

12.29 We support the Land Reform Program and the socio-economic and political justifications for reform and equitable redistribution of our motherland, without which our hard-earned political independence is meaningless.

12.30 We support the landless people of this country.

12.31 In so doing and saying, however, we are not blind to the fact that it was not land for the sake of having it and merely looking at it that mattered to our liberators; it was not about having the vast pieces of land and using them as braai spots and weekend picnic venues.

12.32 No. Our liberation struggle and Land Reform Program was and remains about empowering Zimbabweans economically, through the land and its potential to create jobs, create foreign currency, create our daily food: chicken and beef, pork, coffee, tea, milk and honey, for instance.

12.33 That is how former holders of land used to employ that land; they used the land to economically empower themselves, their kiths and kin, and hence, became a very powerful socio-economic bloc, and political pillars of the Government of that day.

12.34 They also created institutions that ensured financing, logistics, training and proper land use, surveillance through the *mudhumeni*s and land inspectors; things we are not doing efficiently today, hence the low yields of ½ a tonne per hectare where we should be getting more.

12.35 Your Governor and his Team at the Central Bank do spend sleepless nights devising ways and means to earn foreign exchange, enhance employment generation and sustenance; we spend sleepless nights wondering how we can tame the inflation dragon, driven by food and other basic shortages even in areas which do not know the colour or spelling of the word drought, because they are sitting on the boundless teats of water, land and potential.

12.36 Some in those areas have invested in irrigation schemes using foreign exchange to import that infrastructure; have built tobacco barns, imported dairy cows and special milk and beef breeds;

imported tea, coffee, flower and fruit bushes for planting, using Reserve Bank money which must be repaid, and yet, for some reverse reasoning, we allow these precious investments to be **invaded** and **destroyed.**

12.37 Our hearts at the Central Bank bleed with each story of such levels of economic disregard, such irrationality and such economic sabotage.

12.38 What we require at the present moment is a moratorium of such invasions or disturbances.

12.39 We need to concentrate, face down, on ploughing and planting.

12.40 We need to allow the current Land Audit exercise to be completed and recommendations submitted to the Ministry of Special Affairs, Lands and Resettlement, from which a decision to redress anomalies will be taken, and not to **audit** and pretend to correct at the same time.

12.41 Our appeal, therefore, to my brothers and sisters without land now is that the Land Reform Program is irreversible.

12.42 The land is in our hands, we can not all have a piece at the same time; let us allow the authorities to do the right thing.

12.43 If indeed we are law abiding people as we are, who desire to have food on the table from our efforts; want to kill inflation, earn enough foreign exchange to buy drugs and fuel; then let us not perpetuate indiscipline through land invasions.

12.44 Let us allow VaMutasa (Hon. Minister) to discharge his sacred and onerous task of bringing closure to the land issue, without complicating his work with untidiness at this stage.

12.45 Hence from where we stand, anyone invading farms now is not working for the interests of this country; is a criminal and ought to be locked away until after the harvest and VaMutasa has finished with the audit exercise.

12.46 We must not import a bag of grain next year. Never.

12.47 We must instead, export and have more fuel from such export activities, and every patriotic Zimbabwean is hereby called upon to support this thrust of thinking.

12.48 Let us turn the new land struggle into an economic one. Our political Principals have done their part.

12.49 It is now a war for productivity, law and order, discipline, mechanisation; a war for inputs, yields and marketing.

LAW AND ORDER

12.50 As Monetary Authorities, we applaud Government's decision to urgently introduce appropriate deterrent statutes that criminalise such disruptive practices in the agricultural sector as we have recently witnessed.

12.51 We call upon our Legislature to unite and speak with one voice in coming up with these critical laws meant to protect and promote investments in agriculture.

12.52 As part of cultivating the spirit of discipline, the Reserve Bank is also working on a program to clean up and consolidate all Exchange Control Statutes into becoming more relevant and deterrent, as some economic agents are now taking advantage of the low fines as set out in the current Statutes.

13. INVESTMENT PROMOTION

13.1 In January, 2005, as Monetary Authorities, we underscored the centrality of building an enabling environment for investment promotion, as part of the turnaround program.

13.2 Then, we emphasized that the average investor looks for an economic climate that has low and stable inflation;

13.3 A climate with foreign exchange availability and general stability in the foreign exchange market;

13.4 A climate with a skilled and readily available pool of labour force;

13.5 A climate that has and upholds investment protection laws and agreements;

13.6 A climate with enabling Exchange Control Regulations, with full remittability of dividends;

13.7 A climate that is supported by a developed, deep and agile financial system, operating in line with the highest standards of corporate governance;

13.8 A climate with favourable tax regimes and sustainable labour laws;

13.9 A climate that is characterised by socio-economic and political cohesion;

13.10 A climate with a strong and vibrant infrastructure network to support productive economic activities; and

13.11 A climate that is well endowed with natural resources from which sound business opportunities can be unlocked.

13.12 In building these pre-requisites of investment growth, as a country, we need to rid from our systems such overt criminal practices as the recent farm invasions, which are threatening to undermine the virtues of the Land Reform Program, which is now progressing into the productive phase.

13.13 Our collective tolerance for such retrogressive acts can only go to condemn and limit our capacity to attract investment in the key sectors of our economy.

Private Property Rights

13.14 Successful investment attraction can only be achieved through unreserved assurance to the international investor community of utmost security of their assets.

13.15 Where no respect is given for the sanctity of private property rights, investors become apprehensive and instead plough their resources in other more secure destinations.

13.16 It is for this reason that we implore the relevant Authorities to institute stringent laws that protect private property.

BILATERAL INVESTMENT PROTECTION AGREEMENTS (BIPAs)

13.17 Given the centrality of certainty on protection of investment capital, as Monetary Authorities, we yet again make a passionate call to Government to have a rethink on the policy stance on Bilateral Investment Protection Agreements (BIPAs), and enter into strategic agreements with regional and international business partners, in the interest of promoting foreign direct investment inflows.

13.18 As Monetary Authorities, we applaud Government's recent announcement, through the Minister of Justice, Legal and Parliamentary Affairs on current efforts aimed at putting in place a robust statutory framework to enable compensation for farm improvements and other assets to farmers affected by the Land Reform Program.

14. PARASTATALS AND LOCAL AUTHORITIES RE-ORIENTATION

14.1 As Monetary Authorities, we remain firm on our call for the radical transformation of our parastatals and local authorities, particularly in terms of corporate governance, financial management and accountability, as well as operational efficiencies.

14.2 Parastatals and local authorities stand as the veins and arteries that should carry and support private sector productive activities across the entire economy.

14.3 For farmers to effectively produce tobacco, for instance, they need coal; but for the coal to reach the farmer, NRZ has to be functionally effective; for NRZ to be effective, ZESA and NOCZIM must provide the necessary energy; for NRZ to deliver the coal to the farmers, Hwange must first produce the coal.

14.4 Equally, for our farmers to have adequate fertilizer at the fields, our fertilizer companies need adequate electricity power, among other requirements.

14.5 Also, for industry to produce, they need power, as well as adequate water provision from ZINWA; they need stable and reliable telecommunications systems; they need reliable freight services, among other key requirements.

14.6 It is against this background that as Monetary Authorities, we have no reservations nor apologies for our keen involvement in the way our parastatals and local authorities are operating.

14.7 It is an **absolute must** that these sectors undergo a **radical transformation**, as part of the turnaround process.

14.8 In order to balance the virtues of the PLARP program, and the urgent need to curtail monetary growth to reduce inflation, however a ceiling of Z$3 trillion has been set for the PLARP program.

14.9 All beneficiary parastatals and local authorities are being graduated to observe and comply with strict sinking fund arrangements that seek to instill financial discipline, as well as ensuring that funds accessed under the PLARP program are fully repaid.

14.10 It is, therefore, imperative that PLARP funds be deployed to productive, as opposed to consumptive uses.

15. MINING LEGISLATION

15.1 The vast mineral endowments of the country are an immense area of opportunity that Government should unlock through proper re-alignment of mining legislation in a manner that is transparent, objective and sensitive to investors' concerns.

15.2 Where mining rights are simply held for speculative purposes, or as status symbols, it is the country's economy that stands to suffer under the weight of protracted foreign exchange shortages.

15.3 As Monetary Authorities, we therefore, call upon the relevant Authorities in Government, to re-align mining legislation to ensure that the country's mineral resources are fully utilised.

15.4 A workable framework is one where mining rights are granted on a renewal basis, on condition of productive exploitation of the claims.

15.5 Such a "use it or forego it" principle will ensure that our vast coal bed methane gas, gold, platinum, nickel, asbestos, uranium, coal, and other mineral reserves are transformed from being a dormant heritage into absolute wealth for the economy.

16. FIGHT AGAINST CORRUPTION

16.1 As Monetary Authorities, we also wish to, once again, call upon all stakeholders to join forces in fighting corruption, which is becoming a prominent cancer in our society.

16.2 Whilst the recent creation of the Anti-Corruption Commission is a formidable step in the right direction, the primary responsibility of fighting this scourge lies on every Zimbabwean, at the individual, corporate, household, provincial, or village level.

16.3 Our gold is finding its way into the illegal parallel market under cover of darkness, principally through the veins provided by corrupt members of society, some of whom we have come to realise sit in very prominent positions of authority.

16.4 Some exports are under-declared and defaulters go undeterred due to the blind eye paid by our inspectorate officials at points of exit upon receipt of dirty "corruption dividends."

16.5 Inputs and tillage facilities to our farmers have now assumed a life of their own, where they are trading in circles, without reaching the intended farmers at all due to corrupt speculative tendencies by some members of society.

16.6 Equally atrocious, the critical fuel destined to support productive agricultural activities on the ground is being waylaid by high-ranking officials and their agents and sold into the consumptive parallel-market.

16.7 Fellow Zimbabweans, we owe it to ourselves to do the right thing and put our hands together in thwarting this cancer called corruption.

16.8 As Monetary Authorities, we urge the Anti-Corruption Commission to act with boldness and firmness, and without fear or favour in flushing out corrupt practices across all crevices of society, irrespective of social class, religious disposition, political inclination, corporate parentage, or any conceivable distinction.

17. FISCAL RECTITUDE

17.1 In line with Section 6 of the Reserve Bank of Zimbabwe Act (Chapter 22:15), some of the key deliverables of the Central Bank are:

- “to advance the general economic policies of the Government”; and
- “to act as banker and financial advisor to, and fiscal agent of the State…”

17.2 Consistent with this mandate, therefore, as Monetary Authorities, from time to time, we seek to highlight key aspects of fiscal management and the economy in general, that are pertinent to the turnaround program.

17.3 In order to strengthen the macroeconomic stabilisation momentum, therefore, it is also imperative that Government, across all line Ministries, exercises restraint on current and future expenditure programmes.

17.4 As we approach the 2006 budgeting cycle, priority should be attached more on critical Government programmes, with non-core expenditure lines being streamlined as much as possible.

17.5 Persistence of marked quasi-fiscal outlays by the Reserve Bank, on account of limited financial capacity in the fiscal budget is not sustainable, and has to be tackled through adept re-alignment of Government expenditure priorities.

17.6 In the coming year, no room will be accommodated for unbudgeted outlays.

18. WAGES AND SALARIES RESTRAINT

18.1 As an integral part of reducing the inflation spiral, it is imperative that labour unions and employer bodies negotiate for wages and salaries review frameworks that attach more prominence on productivity.

18.2 Where such reviews continue to be backward-looking, the country will continue to be locked in a wage-cost-push-inflation cycle that will take long to break.

18.3 As Monetary Authorities, we once again, wish to underscore that this call for restraint be understood as merely advisory and not meant to undermine the right of workers to negotiate for their welfare, in line with international conventions on labor relations.

19. STAKEHOLDER UNITY OF PURPOSE

19.1 The histories of economies that have done well in stabilising their macroeconomic environments have one common depiction: the peoples shared a deep commonality of purpose on matters of National importance.

19.2 It is this oneness that we call upon among Labour, Government, Business and Civil Society in individually and collectively playing a positive and constructive role towards the betterment of our economic fortunes.

19.3 There is no magic panacea that yields overnight turnarounds, except to belt-tighten; to persevere; to unite in constructive purpose; and for each one of us to be at peace with one's self at the end of each day when we review what we would have spent the day doing.

19.4 It is also imperative that as Monetary Authorities, we underscore the reality that Monetary Policies alone can not turnaround the economy.

19.5 Political policies too, have a strong bearing on shaping the current and future prospects of the economy. Where in one week, investors, the general public, business and the international community in general are fed with conflicting statements from our Government Ministers, the result is higher apprehension and uncertainties about the business environment.

19.6 Commonality of purpose also requires that as Zimbabweans, we graduate ourselves from being great speakers at workshops and seminars, into being greater implementers.

19.7 In a given year, we should, thus, be able to rate out individual and collective performance and self-award trophies, possibly on the basis of the following scale, in descending order:

- Platinum;
- Gold;
- Silver;
- Bronze; and
- Wooden Spoon.

19.8 As part of promoting stakeholder participation in the determination and implementation of Monetary Policy, the Reserve Bank, on 23 September 2005, opened itself to franc critique by stakeholders, which feedback culminated in the re-alignment of the Bank.

19.9 Efforts will continue to be made to ensure a continual consultative framework.

20. INTERNATIONAL RELATIONS

20.1 Zimbabwe remains a keen player in global international financial and commodities markets, consistent with the norms of regional and international economic and financial integration.

20.2 Against this background, the country is attaching great importance to clearing all its international financial obligations to international trading and financial partners.

20.3 Consistent with this, the past 20 months have witnessed the country make modest strides towards repayment of its long outstanding arrears with the IMF, the World Bank, the African Development Bank and other creditors.

20.4 This repayment program will be enhanced in line with the expected improvement in the overall balance of payments position over the outlook period.

Payments to the IMF

20.5 I wish to thank Zimbabweans from all walks of life, politicians, business people, Zimbabweans in the diaspora, and members of the public who realised that though we may have differences one way or the other, when National interests are at stake, they must be defended.

20.6 Save for the odd voice here and there, there is total unanimity that Zimbabwe must honour its debts, not just to the IMF, but to all our international creditors.

20.7 We fully pledge to the world to do so with regard to every penny that we owe our creditors.

20.8 SELECTED PAYMENTS TO INTERNATIONAL ORGANISATIONS (US$)

2004	IMF	World Bank	ADB
January	1574615	—	—
February	1500000	—	—
March	3000000	—	—
April	—	—	1200000
May	3000000	—	—
June	—	1500000	—
July	1500000	1500000	2300000
August	3000000	—	—
September	3000000	—	809762
Total 2005	**16574615**	**3000000**	**4309762**

Note: Total payments in 2004 were: IMF (US$22.6m); World Bank (US$3m) and ADB (US$4.3m)

MONTHLY PAYMENTS TO INTERNATIONAL ORGANISATIONS 2005 (US$)

2005	IMF	World Bank	ADB
January	—	—	—
February	3000000	—	—
March	2000000	—	—
April	—	—	—
May	—	—	476390
June	9000000	—	—
July	—	—	—
August	120000000	—	—
September	15000000	4500000	—
Total 2005	**149000000**	**4500000**	**476390**

21. CONCLUSION

21.19 The economic challenges we currently face as a country are not insurmountable.

21.20 Along the strides of our determined Mission, some battles we will win, some we may lose but at no point should such transitory set-backs drain our energies as to capitulate and stand defeated on the main war front to stabilise the macroeconomic environment and transform our economy towards greater prosperity.

21.21 As Zimbabweans, we have got to realise that the destiny of our country; or our economy; and of our livelihood squarely lies and depends on our own individual and collective actions today.

21.22 There are some, who seem to firmly believe that as a country we can prosper without producing…

21.23 Some, who believe that we can prosper and attract investment, whilst engaging in criminal acts of retrogression through pilferage of minerals, vandalising farm property, or invading productive farms.

21.24 Equally, there are some who seem to firmly believe that inflation reduction can be single-handedly achieved with no production taking place in our mines, factories, farms, and service industries.

21.25 Indeed, there are some, who seem to firmly believe that foreign exchange can be generated from the Central Bank's vaults, with no export proceeds being repatriated back into the country.

21.26 What we need as Zimbabwe is firm belief and commitment that through unfettered production in our key sectors of the economy, we will be able to produce more goods and services to meet the needs of industry, consumers, and our international export customers.

21.27 We need to firmly believe and commit to being part of the global village where investment capital flows to those destinations that assure safety and sanctity of private property rights.

21.28 Through relentless policy implementation, and a deep "never say die" spirit to our cause, we will, together, deliver Zimbabwe out of the current transitory setbacks and nurture a prosperous future for all.

21.29 As I have always said, FAILURE IS NOT AN OPTION!

21.30 In God's hands I commit this Monetary Policy Statement.

I Thank You.

DR G GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE

20 OCTOBER 2005

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