MONETARY POLICY STATEMENT

THE SECOND QUARTER TO 30 JUNE, 2004

Issued

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

By

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GOVERNOR

RESERVE BANK OF ZIMBABWE

JULY 2004

The Monetary Policy Statement is issued by-annually, in January and June of each year. In an attempt to lay out the Bank's Monetary Policy stance and consistent with the 2004 national Budget and the Governor's maiden Monetary Policy Statement announced on 18 December, 2003, it has become necessary, however, to review and articulate complementary monetary measures on a quarterly basis, at the same time, fulfilling the requirements of the Reserve Bank of Zimbabwe Act.

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RESERVE BANK OF ZIMBABWE

MONETARY POLICY STATEMENT: 2004 SECOND QUARTER REVIEW

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1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement, which covers the review of the first half of year 2004, and the outlook period, is presented, consistent with Statutory requirements as stipulated in the Reserve Bank of Zimbabwe Act, Chapter 22:15 Section 46.

1.2 The Review Statement also marks the second sequel after my maiden Monetary Policy Statement of 18 December 2003, which spelt out the Central Bank's five year Vision to 2008.

1.3 This Policy Statement, which comes to complement the comprehensive Mid-Term Fiscal Review by the Minister of Finance and Economic Development Dr H.M. Murerwa yesterday (26/7/04), reinstates and endorses the turnaround objectives as laid down in my earlier statements to stakeholders in December, 2003 and April 2004, which include:

(a) **Stabilization of** the inflationary spiral to maintain the internal value of the Zimbabwe dollar, and hence, **protect real incomes of corporate sector, households, Government and society in general.**

(b) The **arrest** of pressures on the **exchange rate** to maintain the external value of the Zimbabwe dollar through **exchange rate stability**, and normalize foreign exchange market trading including accountability thereof.

(c) The a**rrest** of job losses and **increase employment** levels through greater capacity utilization and investment growth.

(d) **Promotion of** collective cooperation through stakeholder participation and dialogue on matters of the national economy.

(e) **Promotion of a stable**, reliable, sound and effective financial system to support economic growth and development.

(f) **Re-engagement of** the international community to lay a sound basis for the re-establishment of Zimbabwe's relations with international creditors and other global business partners.

(g) **Engaging** Zimbabweans in **the Diaspora and involving them in the turnaround of our economy and in other supportive initiatives**.

(h) **Beginning** to build foreign currency reserves of our own resources.

(i) **Supporting the** productive sectors of the economy through low-cost finance while allowing the market to determine rates for non-productive, non priority level spending.

1.4 The first half of the year has broadened and deepened the spirit of cooperation among the wide spectrum of stakeholders, across Zimbabwe's social strata, productive sectors, Government, the financial sector and civic society in general.

1.5 Other members of the international community have also renewed their earnest commitment to supporting us in our efforts towards the achievement of full economic turnaround and lasting prosperity for our Nation.

1.6 At the onset, therefore, I once again wish to convey my deeply felt gratitude to the Governor's Advisory Board and various local contributors, as well as those from abroad, including Zimbabweans in the diaspora, for their continued invaluable support in helping us put together and ascend the rungs of our ladder to the Vision of a better Zimbabwe for all.

2. TURNAROUND PROGRESS TO DATE

2.1 The first six months of 2004 were marked with considerable progress and very encouraging developments that, as a Nation, we collectively achieved.

FINANCIAL SECTOR STABILITY

2.2 The financial sector, through its intermediary functions between savers and investors in an economy, is a critical success factor in economic turnaround programs.

2.3 By its nature, the financial system is highly sensitive, and is defined and sustained largely on the public's total confidence in it.

2.4 Where the financial sector departs from prudential norms of banking and good corporate governance, the inevitable result is that the public's confidence in the sector disappears, effectively leading to retrogressive disintermediation.

2.5 It is for this reason that the Reserve Bank of Zimbabwe, as part of its statutory mandate, has been and continues to exercise greater vigilance in cleaning up the financial sector of graft and wanton speculative practices using public funds.

2.6 As Monetary Authorities, our resolute to clean up the financial system is also predicated on the compelling desire to maintain the highest standards in financial management, and in conformity with international best practice.

2.7 As your Central Bank, we are working tirelessly to ensure that the country's financial sector remains safe and sound, and geared to play a positive role in the development of Zimbabwe. In the same vein, we acknowledge and applaud efforts made by the Banking Industry, who have come up with a historic Code of Conduct, and have taken heed of our call for extended hours of business.

2.8 The maintenance of high standards of financial stability, safety and soundness of banking institutions remains a central objective of Monetary Policy.

2.9 Consistent with this objective, most banking institutions have taken comprehensive initiatives to strengthen their capital positions, liquidity and funds management, management skills and corporate governance.

Problem Bank Resolution

2.10 The Zimbabwe Banking Sector, as at end of June, 2004 comprised a total of 41 banking institutions, with the following functional distribution:

- Commercial banks: (16); Merchant banks: (6); Building societies: (5); Discount houses: (9); and Finance houses: (5).

2.11 Out of the 41 banking institutions, 5 are under curatorship, two under liquidation, and 4 are still under the Troubled Bank Fund.

2.12 On the balance, therefore, Zimbabwe's financial sector remains highly stable, with 73% of banking institutions being in a solid, safe and sound condition.

2.13 It should also be noted that, of those under the Troubled Bank Fund, some are currently undertaking comprehensive reforms, which should see them graduate back into the safe and sound category.

2.14 The Reserve Bank will continue to take timely and decisive corrective actions in dealing with distressed banking institutions.

2.15 The Troubled Bank Fund which was introduced in January 2004, and ending on 31 March 2004, was extended to allow for the affected institutions to pursue strategic initiatives that would bolster their viability and solvency situations.

2.16 **The Reserve Bank has now formulated detailed proposals and implementation strategies on holistic solutions to problems facing troubled institutions.**

2.17 Once these proposals have undergone the necessary statutory approvals, it is envisaged that a lasting resolution to the challenges faced by these few troubled banking institutions would be implemented during the last quarter of the year, so that we close the 2004 Chapter and enter 2005 on a clean slate.

2.18 Details of this troubled bank resolution strategy will be released in due course.

Mergers and Acquisitions

2.19 Some institutions are currently pursuing strategic initiatives that include mergers and acquisitions, as well as engagement of technical partners. The Reserve Bank remains committed to playing a key facilitatory role to ensure fruition of these initiatives.

2.20 In pursuit of our main objective of maintaining a safe and sound banking system, we are encouraging consolidations in the financial services sector.

2.21 The recent merger between CFX Financial Services and Century Holdings is clear testimony of the immense opportunities for growth still abound in Zimbabwe's financial sector.

Risk Focused Supervision.

2.22 Against the background of increased sophistication of operational systems in the banking sector, and in line with international best practice, the Reserve Bank is now fully implementing Risk Focused Supervision of financial institutions.

2.23 Risk-based supervision places strong emphasis on understanding and assessing the adequacy of risk management systems that are in place to identify, measure, monitor and control risks in an appropriate and timely manner.

2.24 Consistent with this risk-based supervision, as Monetary Authorities, we once again reiterate that banks must ensure that:

(a) Boards of directors take active responsibility for overseeing implementation of sustainable strategies in the banks they superintend; and

(b) Comprehensive risk management programs be put in place, covering the entirety of the risk universe, including credit, liquidity, market, operational, strategic, image, regulatory, manpower and other risks.

2.25 Within the framework of this new risk-based supervision approach, the Reserve Bank will, with effect from 1 September, 2004, require submission to the Bank of profiles of the top 3 executive office bearers in the following areas:

(a) Overall/whole bank;

(b) Treasury front office;

(c) Treasury back office;

(d) Finance;

(e) Risk Management, including Credit;

(f) Exchange Control;

(g) IT;

(h) Company secretary;

(i) Audit;

2.26 The Reserve Bank will issue guidelines that further directs the market in this respect by end of August, 2004.

2.27 Guidelines to enhance corporate governance in banking institutions and bank holding companies are also being compiled, and will be circulated in the market by no later than end of August, 2004.

2.28 Central in these guidelines would be requirements for banking institutions to strike an appropriate balance between executive and independent non-executive directors on the boards of banking institutions and bank holding companies.

2.29 The provisions of the said Guidelines will be incorporated in the comprehensive amendments of the Banking Act [Chapter 24:20] and Banking Regulations, Statutory Instrument 205 of 2000, which are expected to be finalized and passed into law by 31 December, 2004.

Early warning systems

2.30In order to be proactive, an early warning system (EWS) will be put in place by 30 September, 2004. The system is designed to provide indicators of any impending deterioration in the financial condition of a banking institution and the financial system as a whole.

Banking Supervision Application

2.31 The Reserve Bank will implement an information technology system called Banking Supervision Application, which will automate the supervisory processes and workflows. This is in line with SADC information technology harmonization requirements.

2.32 Financial institutions will be issued with new templates for statutory returns and requested to upgrade their IT software platforms to facilitate the implementation of this project.

2.33 The Reserve Bank will conduct workshops and road-shows for financial institutions before and after the deployment of the application in September 2004.

Relationship with External Auditors

2.34 A framework that will formalize working relationships between the Reserve Bank and external auditors of banking institutions, in line with international standards, is currently being developed.

2.35 Once completed, this framework is expected to provide mutually beneficial synergies between market players, the external audit functions, and the Central Bank as the regulatory arm.

Asset Management Companies

2.36 Licensing criteria for asset management companies, microfinance and money lending institutions has been developed and communicated to applicants, and this forms the basis of review of applications coming through the Reserve Bank. No other authority is empowered to give licenses to these companies.

2.37 As at 30 June 2004, a total of fifty seven (57) applications for Asset Management Companies had been received. To date, twenty three (23) companies have been licensed, eight (8) were rejected, seven (7) withdrew on their own, and nineteen (19) are at various stages of the vetting process. We do not have much appetite for more applications this year and for a greater part, thereafter.

2.38 An Exit Policy and Procedures for Asset Management Companies has been formulated with the objective of ensuring that insolvent Asset Management Companies and those whose license applications would have been rejected leave the financial sector with minimum or no disruption to the sector.

2.39 The Policy and Procedures also provide for an orderly exit of operational Asset Management Companies that fail to comply with regulatory requirements.

2.40 The Asset Management Bill, 2004 and the Financial Laws Amendment Bill, 2004 have gone through Parliament and now await Presidential assent, before they become law. Once passed into law, the Asset Management Act and Financial Laws Amendment Act will make permanent the provisions of the Presidential Powers (Temporary Measures) (Asset Management) Regulations, Statutory Instrument 16 of 2004, and the Presidential Powers (Temporary Measures) (Financial Laws Amendment) Regulations, Statutory Instrument 14 of 2004, respectively, which are due to expire on 31 July 2004.

Microfinance Institutions

2.41 As at 30 June 2004, a total of 168 applications for Microfinance institutions had been received, and are at various stages of the vetting process.

2.42 The initial evaluation of applications for microfinance and money lending licenses revealed that the bulk of these had serious deficiencies including inadequate capitalization, substandard corporate governance structures, rudimentary financial projections, and limited documentary evidence on such critical compliance requirements as tax clearance certificates.

2.43 Against this background, the Reserve Bank, in association with the Zimbabwe Association of Microfinance Institutions (ZAMFI) conducted road-shows in the cities of Harare, Bulawayo, Gweru, Mutare and Masvingo to educate applicants on the registration requirements.

2.44 As a follow-up to the comprehensive road-shows and outlays of additional guidelines to the market on licensing requirements, no asset management company will be allowed to operate without a license after 31 August, 2004.

2.45 Those which fail to meet the registration requirements will be wound up in terms of the Companies Act and the Insolvency Act.

2.46 Licensed non-bank financial institutions will be subjected to rigorous monitoring and on-going supervision. The Reserve Bank has already designed statutory returns to facilitate off-site analysis of asset management companies, microfinance institutions and moneylenders.

2.47 With effect from next month, the Bank Licensing, Supervision and Surveillance Division of the Bank will be conducting road-shows for further consultation and education of registered non-banking institutions.

2.48 After this process, the first statutory returns will be expected for the period ending 30 September, 2004. On-site examinations of licensed non-bank financial institutions will commence this third quarter of 2004.

Registration of Bank Holding Companies

2.49 In line with Monetary Authorities' new supervisory responsibility to license Bank Holding Companies, the Reserve Bank will pay special attention to operations of bank holding companies.

2.50 This will be part of the on-going implementation of the consolidated supervision framework which seeks to minimize intra-group systemic risks, which had been prevalent at some banking institutions that were evading regulatory requirements through "innovative" group structures, and conducting non-core banking business at holding company levels.

Capital Adequacy

2.49 Guidelines on new Bank capital level requirements and on the allocation of capital for market risk were issued in January, 2004.

2.50 Banking institutions started allocating capital for market and operational risk as at 31 March, 2004, as part of the consolidated supervision framework. This will ensure that banking institutions hold adequate regulatory and economic capital for the full spectrum of risks they are exposed to.

2.51 Banking institutions are, once again, reminded that the new paid up capital requirements come into effect at the end of September, 2004. It is imperative that management, boards of directors and shareholders ensure timely compliance with the new requirements, which are meant to further strengthen the industry. Those unable to comply should approach the Reserve Bank in August, 2004, so that orderly exit strategies from the sector are organized.

International Ratings

2.52 In the Monetary Policy Review of April 2004, the Bank reminded that, with effect from January, 2005, all banking institutions will be subject to ratings by internationally recognized rating agencies.

2.53 To operationalise this requirement, the Reserve Bank will, in due course accredit the rating agencies, which will be communicated to the market.

2.54 The criteria for accreditation of the rating agencies will be published by 30 September, 2004.

Does Bank Viability, Management Ability, Systems and Insolvency Matter?

2.55The foregoing strict and more stringent framework for bank licensing, supervision and surveillance has been formulated with the strongest desire to ensure that Zimbabwe’s financial system remains a solid catalyst to the growth and development programs of the country.

2.56Whereas collapse of a non-financial private sector company may have localized adverse effects on employment and provision of specific goods and services the, failure of a financial institution has far reaching negative implications to the wider economy.

2.57 This is so because typically, a financial institution exists in a weave of intricate linkages with the rest of the economy, through the functions of deposit mobilization, loans provision, facilitation of national payments, interbank accommodation systems, as well as serving as a conduit for international financial flows.

2.58 Against this background, collapse of a banking institution has capacity to exert extensive collateral damage to the whole economy, through systemic contagion effects.

2.59 Following collapse of a banking institution, the public's confidence in the entire financial system may evaporate, which can culminate in extensive runs on other banks that may have been in solid gearing and liquidity conditions.

2.60 As Monetary Authorities, it is thus an intrinsic part of our mandate to ensure that all avenues are explored and exhausted before any troubled bank is put under liquidation.

2.61 Boards of directors, management and shareholders, however, will continue to be put at the forefront of engineering turnaround strategies, as well as providing the necessary financial injections needed to salvage troubled banks.

2.62 This requirement is put so as to ensure that the financial system is not riddled with elements of moral hazard, where banks misconstrue our commitment to minimal bank insolvency as an expression that they are "cows too sacred to touch, their management/shareholders too connected or big to be allowed to fail, as has been the thinking in some boardrooms.

2.63 No! We can not and we will not allow this to happen. Where shareholders do not take a frontline role in scouting the market for solutions to their institutions' solvency and structural liquidity constraints, the Reserve Bank will be left with no option but to impose solutions that serve the best interests of the country, the economy, and the banking public at large. This is despite the barrage of constant threats to harm and/or tarnish the image of the Governor and his team coming from affected parties in and outside the country.

FINANCIAL SECTOR DEVELOPMENT PLAN

2.64 To fortify the central role of the financial sector in the country's growth and development programs, the Reserve Bank is developing a comprehensive 5-year financial sector development plan, which will facilitate the development of a more resilient, competitive, and dynamic financial system.

2.65 Among the key objectives of this 5-year plan is:

(a) Creating rigorous and unified corporate governance systems that are in line with best practices.

(b) Synchronizing all the various pieces of legislation that govern the financial sector, with a view to ensuring a level playing field.

(c) Streamlining regulatory structures across the entire financial services sector.

(d) Broadening and strengthening the financial sector safety nets, including the Deposit Protection framework.

(e) Laying out minimum common standards for requisite human capital development in the financial services sector.

(f) Integrating money laundering systems with regional and international practices.

2.66 Details of this program will be availed to market players during this quarter.

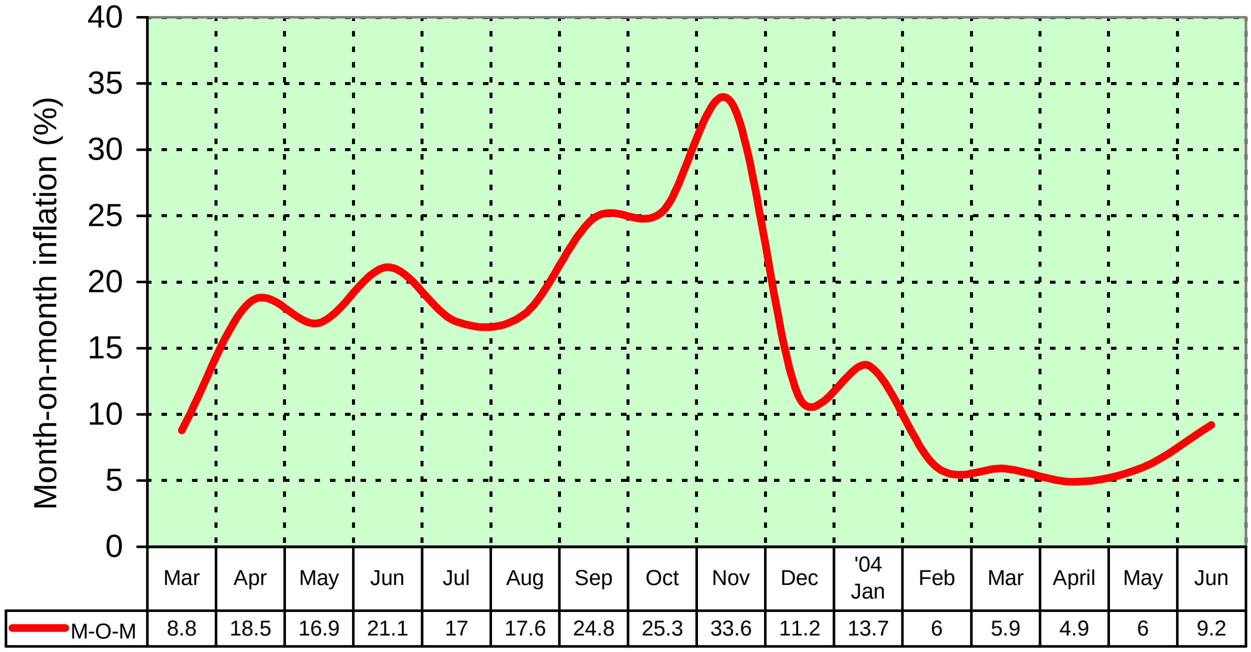
MARKED DOWNWARD TREND ON INFLATION

2.67 Inflation, which measures the rate of increase in the general level of prices of goods and services in the economy, **remains the country's major economic adversary.**

2.68 It is, however, pleasing to note that through a combination of monetary austerity, fiscal discipline and focused selective credit allocation to the productive sectors, **the high inflation bubble has been burst.**

2.69 At its worst peak, monthly inflation had reached 34% in November, 2003. This has, however, been rapidly reduced and contained to an actual outturn monthly average of 6.6% over the period February – June, 2004.

Figure 1: Month-on-month inflation profile: March, 2003-June, 2004

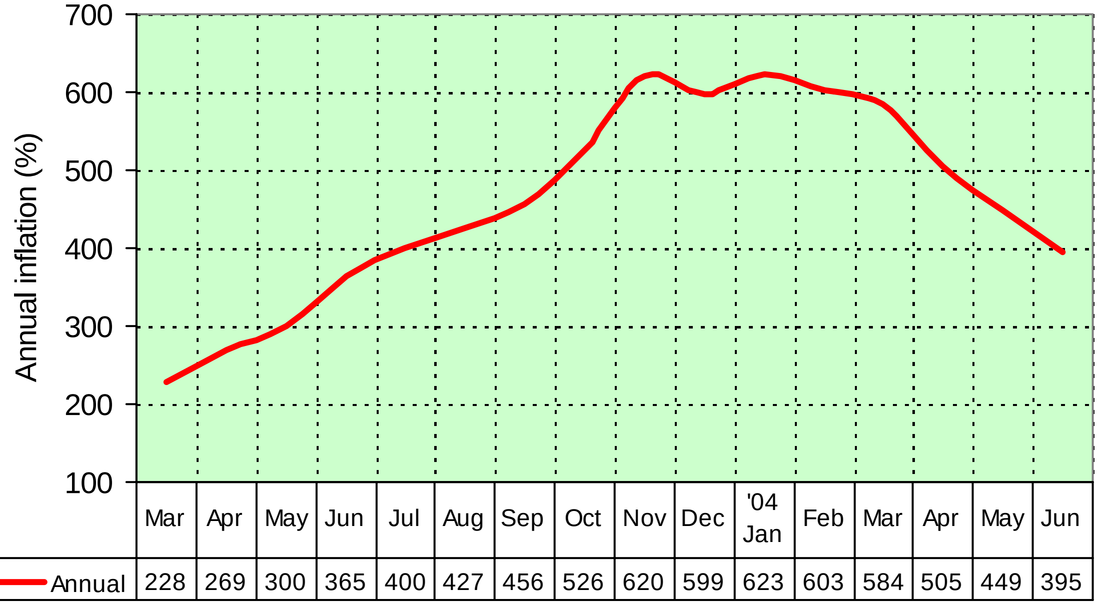


2.70 Annually, the overall rate of inflation declined from a peak of 623% in January, 2004 to 394.6% in June, 2004, effectively shedding off 228 percentage points over the five months to June, 2004.

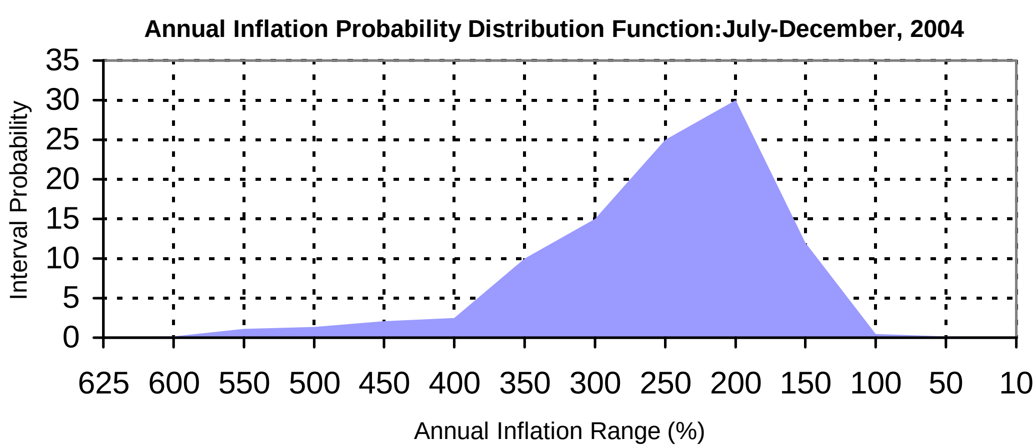
2.71 Relentless efforts will continue to be applied to extinguish the inflation scourge from the economy, in line with our targets of 200% by December 2004 and further down to double-digit by mid-2005.

2.72 As Monetary Authorities, we pledge to continue applying the totality of our energies with vigor, in the fight against inflation, largely due to the debilitating costs of this economic vice.

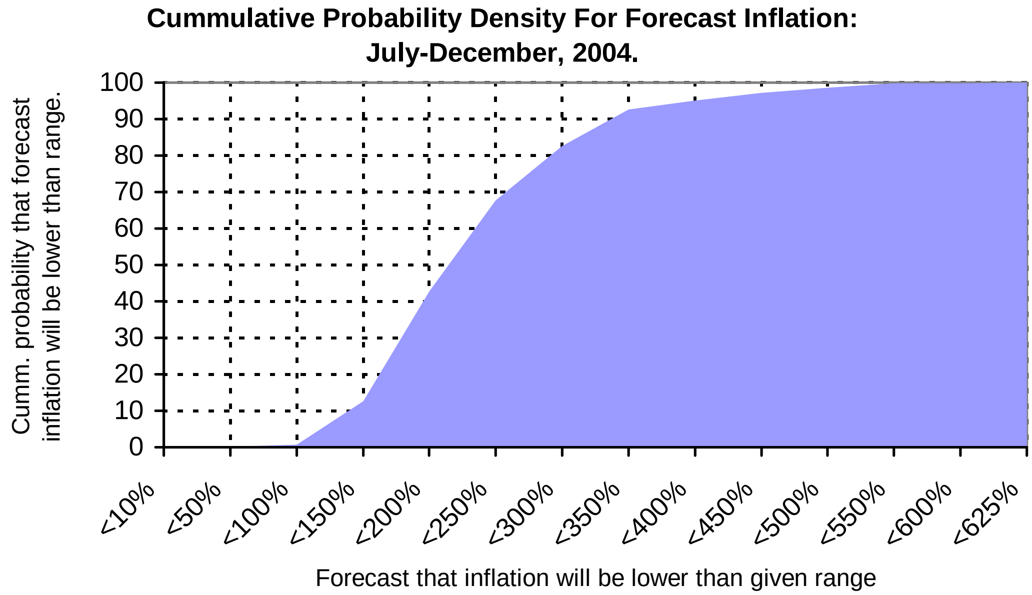
Figure 2: Annual Inflation Profile: March 2003-June, 2004



2.73 The year-end target of reducing the annual rate of inflation to 200% remains within reach, provided that all stakeholders, including us as your Central Bank, Government, Business and Labor stay the course of utmost restraint, supported by a resolute turnaround implementation environment, free of policy reversals and individual stakeholder selfishness.



2.74 The spread of likely inflation outcome for December, 2004 is largely concentrated on the 200% mark, consistent with the Bank's target, as set out in December, 2003.



2.75 As Monetary Authorities we, therefore, envisage a much more positive outlook on inflation, with a 90% confidence level that the December, 2004 inflation would be less than the June, 2004 outcome of 394.6%.

2.76 It should however, be noted that successful reduction of inflation demands that farmers, manufacturers, tour operators, retailers, miners, municipalities, public utilities and other service providers, including labor, **exercise the highest level of restraint** in setting their prices and service charges.

2.77 Where prices are arbitrarily varied, **with no justifiable reference to actual production costs, the battle against inflation becomes that much more arduous and prolonged.**

2.78 As your Central Bank, **we remain resolute in fighting inflation** through dedicated support to the productive sectors and monetary restraint on non-productive and speculative spending.

2.79 Labor, Business and The Public Sector **continue to have an equally bigger and important role to play in the anti-inflation campaign,** and this is through a coordinated alignment of expectations, actions and pricing policies.

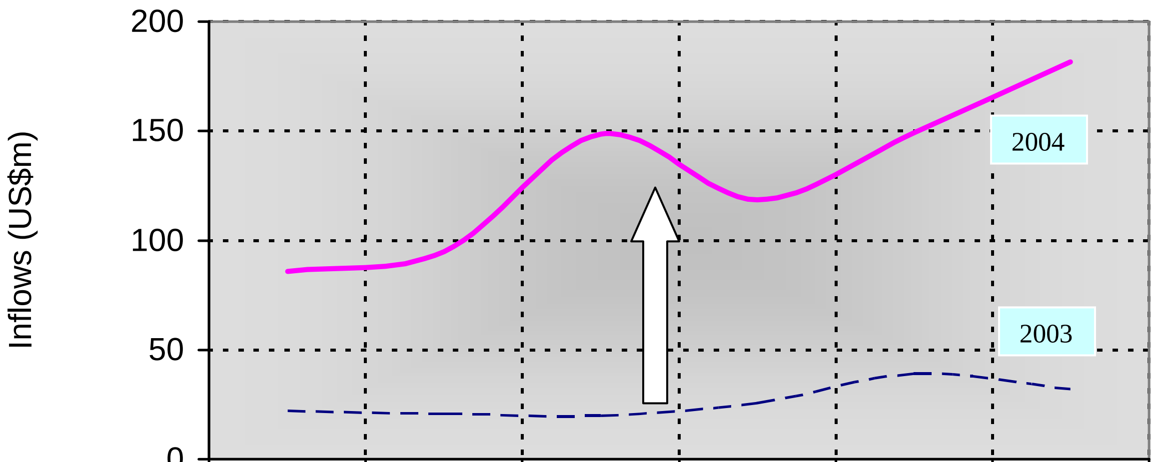
2.80 Whereas profiteering may seem to be good for the individual trader, company or, trading agent, it is never good for the economy as a whole. This forms and defines **the fallacy of composition**: what is good for one set of economic players is not necessarily in the good interest of the entirety of the community.

FORMAL FOREIGN EXCHANGE INFLOWS

2.81 The first six months of 2004 have seen total foreign exchange inflows into the official market amounting to **US$778.6 million**, compared to **US$160.7 million** achieved over the same period in 2003. This represents a growth of 385%.

2.82 Annually, total formal foreign exchange inflows into the economy for the 12 months to December, 2003 amounted to US$301 million, which implies that the six months to June, 2004, have already achieved more than double the entire year's performance in 2003.

FORMAL FOREIGN EXCHANGE INFLOWS: JAN-JUN (2003 & 2004) -US$m



	Jan	Feb	Mar	Apr	May	Jun
'2003	22.3	20.8	20.0	25.7	39.0	32.0
'2004	85.7	95.0	148.6	118.4	149.2	181.7

2.83 We attribute this marked increase in official foreign exchange inflows during the first half of 2004, to the following key factors:

(a) Increased levels of discipline by market players, including exporters and the financial sector.

(b) Flexibility in the return to exporters and other generators of foreign currency, following introduction of the foreign currency auction system beginning January, 2004.

(c) Positive supply response to the concessional financing facilities that are being availed to exporters, among other productive sectors of the economy, for both working capital funding, and capital expenditure requirements.

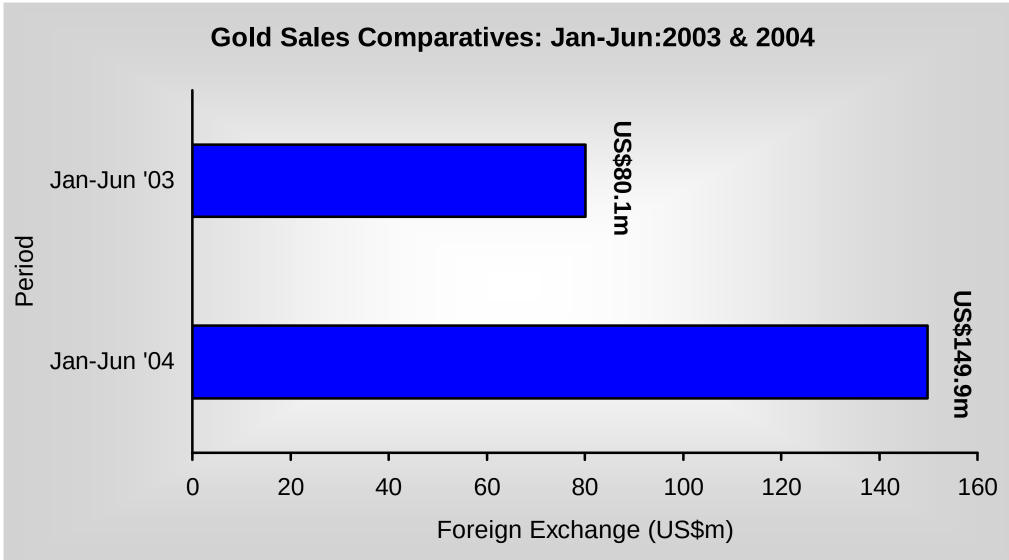
(d) Considerable return to normalcy of general business confidence in the economy, buoyed by a more stable planning environment.

COMMENDABLE UPTURN IN GOLD DELIVERIES

2.84 Over the 6 months to June 2004, gold sales fetched US$149.9 million, compared to US$80.1 million registered over the same period in 2003.

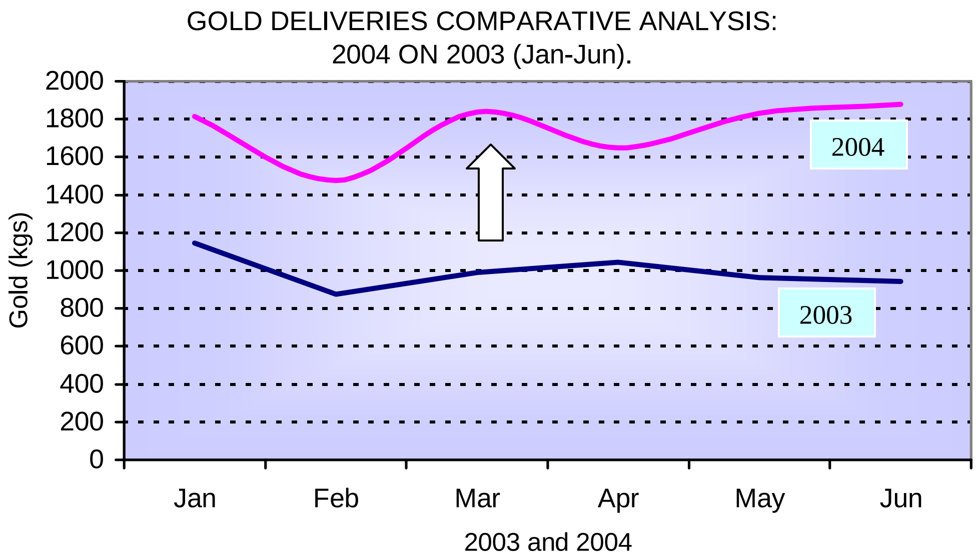
2.85 This representing an 87.1% growth in value terms over the period January-June, 2004.

2.86 In tonnage terms, the six months to June, 2004 saw gold deliveries to the Reserve Bank amounting to 10.5 tonnes, compared to a total of 5.96 tonnes delivered over the same period in 2003 .This represents a growth of 76%.



2.87 Annually, year 2003 registered total gold deliveries amounting to 12 tonnes, compared to the 10.5 tonnes already achieved over the six months to June, 2004.

2.88 We expect a total output of not less than 22 tonnes of gold for the whole of 2004, which would represent a volume increase of 83% over 2003. Over the outlook into next year, we are expecting not less than 30 tonnes in the whole of 2005.



2.89 The positive upturn in the foreign exchange inflows helped to mitigate the acute import compression that had threatened to choke the entirety of economic production in 2003.

2.90 In terms of usage, the US$778.6 million received during the first half of the year was applied to the following critical foreign payments:

What have we done with this money?

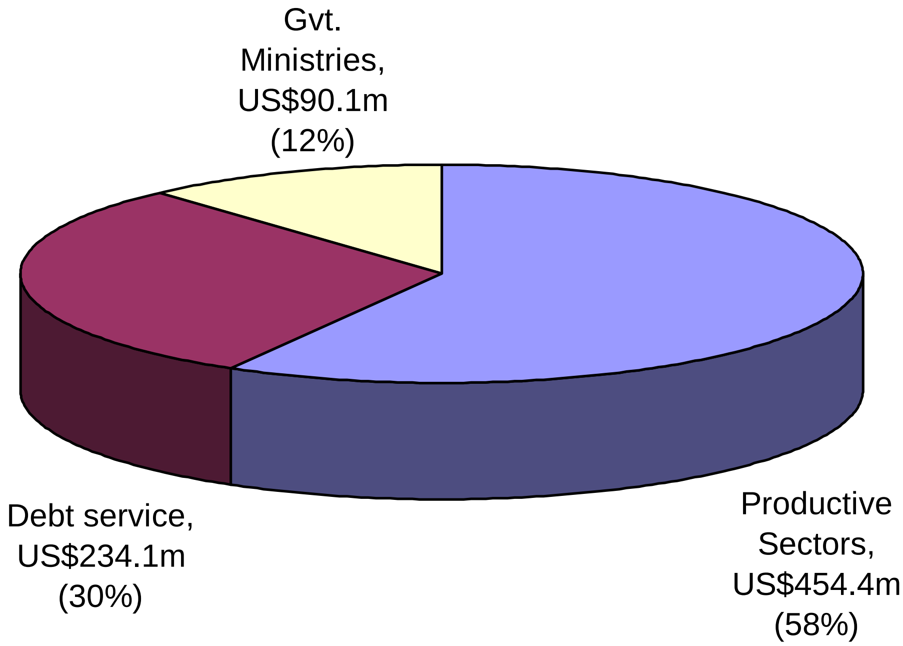
2.91 As your Central Bank, part of our statutory mandate is to discharge the efficient management of the country's foreign exchange resources, ensuring that there is optimal allocation of the scarce resource among competing needs of the country.

2.92 In carrying out this function, special attention is placed on the pressing needs of the productive sectors, so as to stimulate a meaningful supply response.

Source and application of funds: January-June, 2004 (US$m)

Item/Sector	Usage US$m
Total inflows	778.6
Auction	
Raw materials	128.4
Fuel – Private sector	70.1
Machinery	38.1
Spares	29.9
Motor vehicles	17.9
Chemicals	11.1
Loan repayments	6.8
Other auction	59.1
Other payments	
NOCZIM – public sector fuel	51.8
ZESA - electricity	22.6
Loan repayments	65.5
GMB	0.7
Multilaterals	10.7
Gold producers	24.7
Gvt. Ministries	90.1
Reserve Bank Loans and other priorities	151.1
Total	**778.6**

Sectoral Usage of Official Foreign Exchange Inflows: Jan-Jun '04



2.93 It is important to note that, **over and above** the total foreign exchange availed to the productive sectors through the Reserve Bank, via the auction system and other direct allocations, **the productive sectors had access to additional foreign exchange, through utilization of their foreign currency account (FCA) balances,** under the foreign currency retention system.

INCREASE IN CAPACITY UTILISATION

2.94. Against the background of improving foreign exchange inflows and access to concessional finance, the productive sectors of the economy have responded very positively.

2.95 Capacity utilization in manufacturing, which had declined to the lowest ebb, particularly during the last half of 2003, is showing strong signs of rebounding.

2.96 As of end of 2003 capacity utilization in manufacturing was estimated, through research-based assessments, to range 30-40% at most productive centers of the economy.

2.97 As of end of June 2004, indications based on surveys and information submissions from representative bodies for industry show that capacity utilization at most manufacturing plants that accessed concessional financing has markedly increased to between 60-70%. There is still room to improve to 100%, which is our target by June, 2005.

3. STABILSATION OF ENERGY AVAILABILITY

3.1 The first six months of the year have also seen considerable stabilization of the energy supply situation throughout the country.

The fuel sector

3.2 This positive development has largely been a result of a coordinated approach to private sector and public sector cooperation, supported by improving foreign exchange inflows.

3.3 Shortages of fuel had caused untold suffering to the commuting public, as well as impaired business operations.

3.4 Against this background, the Reserve Bank, in close consultation with the Ministry of Energy and Power Development attaches immense priority to fuel procurement.

3.5 To this effect, over and above the US$80 million allotted for fuel imports on the foreign exchange auction, the Reserve Bank availed an additional US$51.8 million to NOCZIM, over the period December, 2003 to June, 2004.

3.6 The increased involvement of the private sector in procurement of fuel is expected to further bolster stability of fuel supply in the country.

3.7 Lasting stabilization of the fuel sector also requires that the country effectively utilizes the existing Beira Pipeline infrastructure.

3.8 The current move by the Petroleum Marketers Association of Zimbabwe to pool resources together through a special purpose vehicle to effect bulk purchases of fuel is highly commendable, and the Central Bank stands ready to provide the necessary facilitations to ensure success of the venture.

3.9 As Monetary Authorities, we strongly welcome Government's plans to soon table in Parliament, a **Petroleum Bill**, which according to His Excellency, the President, Cde, R.G Mugabe, in his Address to the

Nation of the official opening of the Fift Session of the Fifth Parliament of Zimbabwe on 20 July, 2004, will:

<u>Quote</u>: ***“..seek to ensure that all players in the industry adhere to fair practices in terms of pricing, products quality, health, safety and environmental requirements”*** *(page 8).*

Electricity supply

3.10 Given the central nature of electricity energy to the achievement of economic growth and development aspirations of the country, greater priority is being given to ZESA in terms of foreign exchange allocation.

3.11 Over the period December, 2003 to June, 2004, a total of US$22.49 million was allocated to ZESA for payment of long outstanding debts, as well as importation of power and spare parts.

3.12 These initiatives have gone a long way in restoring ZESA’s dignity and creditworthiness to our major external power suppliers, who are now dealing with ZESA on softer terms of trade and normal supplies.

3.13 These cooperative initiatives have also seen ZESA signing memoranda of understanding with the City of Harare and other urban centers for urgent revival of public lighting which had virtually collapsed.

3.14 Stabilization of the power sector has also seen ZESA successfully electrifying a total of 34 irrigation schemes over the 5 months to May, 2004, and is targeting to bring on line an additional 1 500 before end of year.

3.15 Nation-wide, a total of 2 298 institutions had been electrified over the period January-May, 2004, with the following provincial distribution:

(a) Manicaland: 422;
(b) Mash Central: 246;
(c) Mash East: 379;
(d) Mash West: 265;
(e) Masvingo: 351;
(f) Mat North: 152;
(g) Mat South: 196;
(h) Midlands: 287.

3.16 Envisaged further improvement in foreign exchange availability over the remainder of the year is expected to create more capacity for ZESA to complete an additional 1 022 electrification projects already under way nationwide.

3.17 Where abuses of funds have been detected, the Reserve Bank will seek to bring to book all culprits, without fear of favor.

3.18 In this regard, the Bank has finished the audit of Agribank loans that were given to farmers in 2003 and out of a total of 10 419 beneficiaries, it has been established that 186 of them abused the funds (Z$1.2 billion).

3.19 Efforts are under way to recover every penny of those funds.

3.20 Fortunately, together with Agribank, we know these debtors by name, village (and totem!), and will leave no stone unturned to track down and recover the public funds misused.

3.21 This rigorous approach is being spread to all the other facilities accessed through the rest of the banking system.

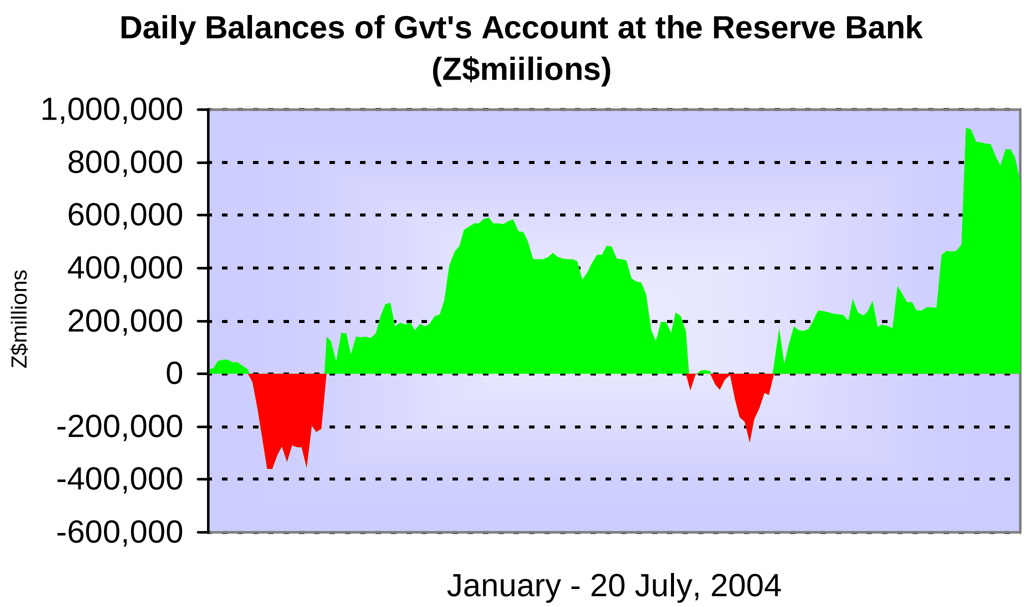
AVAILABILITY OF BASIC COMMODITIES

3.22 Reflecting the intrinsic benefit of removal of structural rigidities, imposed by price controls, shortages of basic commodities, such as cooking oil, sugar, salt, milk, rice, *inter alia*, as was experienced in 2003, dissipated over the first half of 2004. This development has significantly helped stabilize the public's confidence and expectations on the success of the turnaround program.

FISCAL DISCIPLINE

3.23 As Monetary Authorities, we would like to commend Government for the continued tight management of expenditures, in line with announced budgeted programs. This is in spite of reported unbudgeted pressures on the fiscus which the Honorable Acting Minister of Finance and Economic Development alluded to in his Mid-Term Fiscal Review yesterday.

3.24 Over the period January – 20 July, 2004, Government maintained an average surplus cash position of $241 billion on their account at the Reserve Bank. As of the 20th of July, 2004, this position was at a staggering credit balance of $726 billion.



3.25 Much as we applaud the sterling record of fiscal rectitude over the first half of the year, as reflected by Government surplus cash positions on their Central Bank account, as Monetary Authorities, we however wish to emphasize the need for Line Ministries to continue operating within budgeted programs.

3.26 Surplus cash positions should, therefore, not be misconstrued as invitations for higher expenditure bids than earlier budgeted for and approved.

3.27 As Monetary Authorities, we heartily welcome the relief measures announced yesterday by the Hon. Acting Minister of Finance and Economic Development, Dr H.M. Murerwa in his Mid-Term Fiscal Review. The fiscal concessions given to individuals, as well as to the various sectors of the economy, including the streamlining of VAT administration, should auger well for stimulation of demand and enhanced revival of the corporate sector and we want to thank the Minister on behalf of all stakeholders.

4. EXCHANGE RATE MANAGEMENT

4.1 Since the inception of the auction system on 12 January, 2004, a total of 51 auctions to the 12th of July, 2004 had been conducted, availing cumulative foreign exchange amounting to US$399.36 million to key priority sectors of the economy.

4.2 Major beneficiary applications have largely been on:

(a) Raw materials, 35.5%;
(b) Fuel and petroleum products; 20.1%;
(c) Equipment and machinery, 10.3%; and
(d) Spares, 8.1%.

Analysis of Cumulative Allotted Auction Amounts by Purpose: 12 January-12 July, 2004.

Purpose	Cumulative Allocation to Auction 51 (USD)	Proportion to Total (%)
Raw Materials	141 908 565.48	35.5%
Fuel & Petroleum Products	80 112 586.81	20.1%
Equipment & Machinery	41 217 845.46	10.3%
Spares	32 418 173.24	8.1%
Fees & Subscriptions	27 049 478.03	6.8%
Motor Vehicles & Bicycles	19 089 961.03	4.8%
Manufactured Goods	13 181 403.50	3.3%
Chemicals	12 377 782.38	3.1%
Loan Repayments	7 069 093.50	1.8%
Education	6 459 139.75	1.6%
Travel	4 344 788.46	1.1%
Dividends	3 146 866.02	0.8%
Reimbursements	1 695 234.20	0.4%
Other*	9 287 611.70	2.3%
Grand Total	**399 358 529.56**	100.0%

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

Increasing abuse of the auction system

4.3 As Monetary Authorities, we note with grave concern the increasing tendencies by some market players to abuse the auction system. Such abuses have taken different forms, including:

(a) Repeated accessing of foreign exchange on the auction for purposes of externalizing the funds under false import documents;

(b) Hoarding of foreign currency through generation of shadow import bills for material not currently required, with such innovative invoices often generated by associate or friendly related parties in foreign markets; and

(c) Repeated cancellation of import orders post access and the transference of foreign exchange from the auction system to other uses not originally approved.

4.4 Clearly, these selfish practices, if unabated, threaten to derail the turnaround progress achieved to date.

4.5 As your Central Bank, we will not allow unfettered perpetuation of these **retrogressive abuses.**

4.6 **With immediate effect, the following additional checks and balances will apply:**

(a) Each Authorized Dealer will be required to submit, within 90 days of accessing funds on the auction, in respect of both, funds accessed for own use or on behalf of importing clients, documents of proof of entry of the imported goods, as would be stipulated in the operational guidelines to be circulated by the Reserve Bank before the end of this week.

(b) For all foreign exchange payments applications, with effect from 1 September, 2004, Exchange Control would issue importers and other users of foreign exchange, a unique and permanent Import Tracking Control Number (ITCN), which shall be noted on all auction-related documents, including foreign exchange biding forms, invoices and documents of entry of imported goods.

Foreign Exchange Usage Inspections Committee

(c) The Reserve Bank, in consultation with other Law Enforcement Agencies, has formed a Foreign Currency Usage Inspections Committee, which will conduct random verification inspections on corporates and individuals awarded foreign exchange on the auction. Where abuse is detected, swift prosecution proceedings and hefty fines will be triggered. **These inspections shall apply retrospectively to cover transactions on the auction system beginning 12 January, 2004.**

4.7 This Monetary Policy Statement endorses and confirms Monetary Authorities' continued confidence in the current foreign exchange auction system.

4.8 Against this background, the current framework of the foreign exchange auction system will be maintained.

Parallel market dealing

4.9 The Governor of your Central Bank recently came face-to-face with the vices of foreign exchange parallel market trading, and the devastating effects this is exerting on the National economy.

4.10 Closer Exchange Control surveillance by the Reserve Bank staff is underway to clamp down on errant foreign exchange dealers.

Whistle Blowing and Corporate Governance

4.11 The Financial Mail of South Africa, in its issue of June 18, 2004 page 44, had this to say on whistle blowing:

<u>Quote:</u> "***One result of the surge of interest in governance is a new focus on whistle blowing. This is the practice of bringing illegal or unethical activities, malpractices or foul play within a business to the attention of those who run the business, or the police, or other appropriate authorities…" (page 44).***

4.12 Other countries, the world over, for example Australia and New Zealand, have established formal standards for whistle blowing, as an integral part of promoting good corporate governance and fighting graft in their economic systems.

4.13 In His address to the Nation on the 20th of July, 2004, His Excellency, The President, underscored the Government's commitment towards fighting of corruption when he said:

<u>Quote:</u> ***"…Government will remain resolute in its efforts to eradicate the cancerous scourge of corruption in all its manifestations. In this regard, therefore, the Anti-corruption Commission created under the Anti-Corruption Act will be constituted…"***

4.14 Consistent with this Vision, it is imperative that as Zimbabweans, we also take away the stigma that is increasingly being attached to the whistle blowing framework being implemented as part of the turnaround program.

4.15 As Monetary Authorities, we strongly welcome and are supporting the current initiatives by the Standards Association of Zimbabwe aimed at putting in place national standards on good corporate governance.

4.16 Full implementation of a formal standards framework would, no doubt, strengthen our current collective efforts to fight graft.

4.17 As Monetary Authorities, we also recognize and applaud the initiative made by Honorable Members of Parliament, some of whom are represented here, in formulating the Zimbabwe Chapter of the African Parliamentarian Network against Corruption (APNAC), as this will, no doubt strengthen current efforts to stem graft from our systems. Recent meetings with members of our Parliament, Hon W. Madzimure (MDC), Hon M. P. Mbalekwa (ZANU-PF), Hon P. Misihairambwi-Mushonga (MDC), and Hon W. Mutsauri (ZANU-PF), gave Monetary Authorities encouragement to work tirelessly in this direction.

4.18 "As patriotic Zimbabweans, we have to realize that there comes a time when it makes good business sense to forfeit a portion of one's profits today, in favor of future survival of our same businesses, unless, of course one's future plans do not involve remaining in this country..", wrote one economic commentator from Bulawayo, Zimbabwe.

MEASURES TO MOBILIZE FOREIGN EXCHANGE

5. SUPPORT TO EXPORTERS

The Carrot and Stick Export Retention Scheme

5.1 The carrot and stick export incentive seeks to reward exporters who repatriate their export proceeds early, with the highest foreign exchange retention benefit currently accruing to those exporters who negotiate advance payments for their exports.

5.2 However, due to increasing regional and international competition, there is need for flexible terms of payment, such that advance payments in most instances have become theoretical.

5.3 In order to accommodate exporters for this requirement, the Carrot and Stick Export Retention Scheme has, with immediate effect, been enhanced as follows:

(a) The 25% at Z$824/US$ surrender requirement has been reduced across the different timeframes of repatriation of foreign currency.

(b) The proportions of foreign exchange retentions in FCAs and that sold at the auction rate have been adjusted in ways that encourage and benefit those exporters who remit their funds early.

5.4 These enhancements of the carrot and stick framework are expected to balance the twin objectives of boosting exporter viability and enhancing liquidity conditions in the foreign exchange market.

Carrot and Stick Export Retention Scheme: to 27/7/04

Form CD1, TR1, TR2, CD3 Acquittal Period (Days)	FCAs Retention (%)	Sold to RBZ @ Use (at Z$824/US$) (%)	Sold to (At ruling Auction rate)(%)
Prepayments	80	0	20
1-30	**70**	**25**	**5**
31-60	65	25	10
61-90	55	25	20

Exchange Control Approved Extensions: to 27/7/04

91-100	50	25	25
101-120	40	25	35
121 and above	30	25	45

Carrot and Stick Export Retention Scheme: NEW ENHANCED from 28/7/04

[NOT APPLICABLE TO HORTICULTURE]

Form CD1, TR1, TR2, CD3 Acquittal Period (Days)	FCAs Retention (%)	Sold to RBZ @ Use (at Z$824/US$) (%)	Sold to (At ruling Auction rate)(%)
Prepayments	80	0	20
1-30	**75**	**0**	**25**
31-60	70	15	15
61-90	60	15	25

Exchange Control Approved Extensions: NEW ENHANCED: from 28/7/04

[NOT APPLICABLE TO HORTICULTUE]

91-100	50	20	30
101-120	40	25	35
121 and above	20	25	55

Tobacco Merchants' pre-export and transitory foreign exchange expenses

5.5 In terms of the Exchange Control (Tobacco Finance), Order, tobacco merchants are allowed to retain 100% of their export proceeds to the extent of drawdowns made on the relevant offshore loans. Other USD based costs (if any) are paid from the merchant's FCA after all surrender requirements have been met.

5.6 In order to cater for foreign exchange related expenses incurred by merchants during the exporting process, tobacco merchants will be allowed, with immediate effect, to pay for foreign pre-exporting and in-transit foreign exchange costs relating to specific export consignments from gross export receipts, **only where there is acceptable and verifiable documentary evidence for the payment of these costs in foreign currency.**

5.7 As Monetary Authorities, we wish to stress to the tobacco industry and to Authorized Dealers that a serious view will be taken on those who attempt to abuse this dispensation through:

(a) manipulation of *incoterms*, for instance, where the true sale contract says buyer pays for freight and insurance, there could be attempt to manipulate the charges to appear as if they are for the account of the exporter;

(b) attempting to parcel packaging sourced from local package suppliers as foreign expenses, with a view to fraudulently net the local cost bills off gross export proceeds.

5.8 Authorized Dealers are, therefore, called upon to closely verify authenticity of pre-exporting or in-transit foreign exchange charges paid out of gross exports.

Export Processing Zones (EPZ) Foreign Ownership Threshold

5.9 According to current policy, EPZ registered companies which have a 40-100% foreign shareholding are not subject to Exchange Control.

5.10 However, should the foreign-owned EPZ Company access local borrowing the company will automatically be subject to Exchange Control, for as long as the loan is still outstanding.

5.11 In order to encourage EPZ investments in foreign exchange generating ventures, the threshold for foreign ownership in EPZ companies, **for purposes of Exchange Control administration**, has been, with immediate effect been reduced from the current 40% to 25 %.

5.12 This means that EPZ joint venture companies with 25% -100 foreign shareholding, shall be treated in the same way as the wholly foreign owned EPZ companies, that is, such companies will not be subject to surrender requirements applicable to wholly or 76-100% locally owned EPZ companies and non-EPZ exporters.

Roaming fees

5.13 In terms of the International Roaming Agreements, which local service providers have with international partners, Zimbabwean travelers use an International Operator’s network to make calls and access other mobile telecommunications services.

5.14 To capture foreign exchange which is otherwise being lost to international telecommunications service providers, as locals travel without roaming services and inevitably phone using other channels, with immediate effect, local service providers will be allowed to bill Zimbabweans (outside Government service) requiring roaming services at the ruling auction rate.

5.15 It should be noted, however, that such Zimbabwean roaming service users will only be limited to effect such payments from their free funds or approved holiday and business travel allowances.

Gold Sector Support

5.16 Gold remains a strategic reserve asset for the country, given its general acceptability on world markets.

5.17 Against this background, the Reserve Bank remains highly committed to the survival and growth of the Gold Industry.

5.18 As has been highlighted in the foregoing, the first half of 2004 saw a marked improvement in gold deliveries to the Reserve Bank, on the back of various support initiatives.

5.19 Over the six months to June, 2004, the Reserve Bank decentralized its gold buying operations countrywide. Buying centers have been established in major gold producing areas, such as Gwanda, Filabusi, Bulawayo, Zvishavane, Gweru, Kwekwe, Bindura and Chimanimani.

5.20 More gold buying agents are being appointed country-wide to increase geographical coverage. To date, 176 custom millers and 38 agents are working together with Fidelity Printers and Refiners – the gold buying arm of the Reserve Bank.

5.21 Royalties and commissions are being paid to Rural District Councils who engage actively in the gold mobilization program.

Gold support price…

5.22 With **immediate effect**, **the Gold support price, applicable to both small scale and large scale miners has been reviewed upwards, from the current Z$71 000 per gram, to Z$85 000 per gram.**

5.23 Foreign exchange surrender arrangements remain the same as per current policy, for those who do not opt to offload their gold into local currency.

Conservancies

5.24 Consistent with Government's Wild Life Based Land Reform Policy of June, 2004, the country should harness the great foreign exchange generation potential in the wildlife sector.

5.25 Over the recent months, increasing concerns are being raised by private Conservancy operators, including:

(a) General apprehensions on respect for inter-governmental investment protection agreements, and protection of private property, in general.

(b) Over-harvesting of wildlife through rampant poaching and land degradation, through incessant felling of trees.

(c) The cutting of the Conservancies' perimeter fences, effectively increasing the risk of transmission of the foot and mouth disease from wild animals to cattle.

(d) The 25-year tenure of leases in the sector.

5.26 Whilst naturally, it is typical in any revolution, such as the Watershed Land Reform Program, that there are inevitable transitional and inadvertent frictional episodes, there is need for stakeholders to collectively direct energies towards arresting any potential perpetuation of adversities that threaten extinction, not only of foreign exchange generating activities, but of the wildlife sector as a National heritage.

5.27 The Reserve Bank urges the relevant Ministries and Government departments to closely look at these concerns, with a view to putting in place a framework that revitalizes the wildlife sector as a major contributor to foreign currency earnings into the economy. We, thus welcome His Excellency, The President's recent commitment that any anomalies in the Land Reform Program will be dealt with decisively, and in line with the 2003 Utete Land Commission Report.

Other Export Support Measures

5.28 Exporters are advised that all the other export support measures, as spelt out in the previous monetary policy statements remain available for their support. These include:

(a) Memorandum of Deposit (MOD) facility for all exporters.
(b) Exporters' post-shipment foreign currency bills, issued on 50% of the FOB value of shipments for 90 days at an interest rate of Libor + 5%.
(c) The 15% tradable duty tax credit certificates.
(d) Concessional financing facilities.

(e) The 20% FOB export incentive scheme for clothing and textiles exports to the USA.

(f) The tobacco export support price of Z$750 per kg.

(g) Recently introduced $100/kg stabilization fund for the cotton sector, as agreed with the Ministry of Agriculture and Rural Development, Cotton Growers, Merchants, and the Reserve Bank.

Toll gates on main National highways

5.29 Driving in and across Zimbabwe is among the cheapest in the sub-region and more so compared to most countries the world over.

5.30 For instance, whereas driving from Beitbridge to Johannesburg would cost at least ZAR120 for light passenger vehicles in toll fees, it costs international drivers absolutely nothing to drive across Zimbabwe – border to border.

5.31 A similar picture is factual when one looks at the toll fees for the Maputo (Mozambique) – Johannesburg (RSA) route.

5.32 As part of turning around the country's foreign exchange generative capacity, the Reserve Bank will work closely with the relevant Government Ministries and private sector investors to put up supportive structures for the introduction of toll gates along the country's main highways.

5.33 Experiences in other countries show that such facilities are more effectively discharged under the build, operate and transfer (BOT) schemes, which we encourage.

Administration of points of entry into the country

5.34 Increasing the foreign exchange generative capacity of the country also requires that, as a Nation, we work towards continuous elevation of our service quality to visitors coming into and leaving the country.

5.35 Consistent with the saying that, "first and last impressions last", our points of entry into and departure from Zimbabwe, such as airports, and national border posts, should be free from such inconveniences as long hours of queuing and waiting, or abrasive treatment of visitors.

5.36 ZIMRA and the Civil Aviation Authority of Zimbabwe, are therefore, called upon to keep a close eye on their service delivery systems at the country's points of entry, as part of promoting incoming traffic in the Tourism sector which generates the much needed foreign exchange for our country. The foreign currency generation capacity or lack of it in their responsibilities is what is of interest to us as Monetary Authorities more than anything else.

5.37 Where deficiencies are identified, alternative mechanisms, including outsourcing to the private sector, should be considered as has been done in other parts of the region and the wider world.

Need for a paradigm shift

5.38 Building of a sustainable foreign exchange market in Zimbabwe requires that players in the economy transform their operational systems through a paradigm shift - from a dependency syndrome, more towards efficiency driven self-sustenance.

5.39 For instance, at the micro-level, owning a spoon should not give a household comfort. Rather, the household must irk to know how to produce the spoon.

5.40 In our municipalities, we must come to realize that implementation of well-thought out long-term water reticulation systems, ones that optimize on usage of the scarce water resource, through minimal pipe bursts and equipment break-downs, go a long way in serving foreign currency in many respects.

5.41 Less pipe bursts mean less usage of treated water, which in turn reduces demand for water treatment chemicals.

5.42 Less pipe bursts and minimal machinery breakdowns also mean that there will be less demand for foreign exchange for importation of replacement components. “If we want to look after dollars in our lives, we have to begin by appreciating the value of cents” the saying goes.

5.43 Where this all points to is that at the firm, municipal, household or Government level, we need to transform our operational systems through a paradigm shift, orienting more towards optimization of resource usage – to the drop, to the cent, to the inch, to the gram and to the second. This approach to our economic life will ease pressure on foreign currency demands at the Central Bank, some of which demands arise from careless spending and reckless care for infrastructure in situ.

6. FACILITIES FOR NON-RESIDENT ZIMBABWEANS

The Homelink Facility

6.1 Following wide consultations and an intent desire to cater for the needs of fellow Zimbabweans leaving abroad, the Reserve Bank, beginning 1 May, 2004, put in place **a safe, swift, convenient and reliable** means of remitting funds back home, under the trade mark **Homelink.**

6.2 Under this system, local money transfer agencies (MTAs), who have been **rigorously vetted and certified** by the Reserve Bank have partnered with international money transfer operators, to provide the money remittance service.

6.3 A total of 29 money transfer agencies are already licensed, with 18 now fully operational.

6.4 The Homelink product provides several benefits to Zimbabweans leaving abroad:

(a) The method of funds remittance is swift, safe, reliable and convenient.

(b) No commissions are deducted when the money reaches home.

(c) The **diaspora rate of Z$5 600/US$** or the auction rate, which ever is higher applies.

(d) As is later amplified in this Statement, the Reserve Bank has put together tailor-made Homelink financial instruments to enable profitable investments back home by Zimbabweans living abroad.

(e) The Homelink facility is being enhanced to provide access to key ancillary services, such as bill payments on behalf of loved ones at home – electricity, telephone, water, inter alia, funeral insurance policies and medical aid cover.

6.5 As of 26 July, 2004, a total of US$23.8 million had been received through the Homelink facility, since its inception.

Payouts to Recipients by Money Transfer Agencies

6.6 According to Statutory Instrument 77 of 2004, recipients of money under the Homelink facility had an option to be paid-out either in foreign currency or in local currency.

6.7 It has however, been noted with concern that a significant part of the foreign currency being received through MTAs is now finding its way into the diversionary grey markets, thereby dampening our efforts in curbing money laundering, prevention of terrorism financing and the upholding of clean financial systems, in line with our international obligations.

6.8 Against this background, it has become necessary that the payout framework under the Homelink **be modified in a manner that balances the need to maintain attractiveness of the system, and minimization of diversion of resources into underground markets.**

6.9 With immediate effect, **therefore, all receipts under the Homelink channel will be converted to local currency at the diaspora rate of Z$5 600, or the auction rate, which ever is higher and no payments shall be given out in foreign currency.**

Agency Fees for MTAs

6.10 Money Transfer Agencies have made representations that the 1.5% commission currently being paid for every US dollar delivered to the Reserve Bank is not viable, especially to those with branch networks in outlying areas.

6.11 In recognition of this submission, the fees for MTA have been increased from the current 1.5% **to 7.5%, with effect** from 28 July, 2004.

6.12 In order to level the playing field in the foreign exchange market, **Authorized Dealers will be paid 7%** (compared to the current 1%) for every unit delivered to the Reserve Bank. The other 0.5% will continue to be paid by sellers of foreign exchange.

Homelink Housing Development Scheme

6.13 As part of enhancing the benefits accruing to Zimbabweans living abroad, the Reserve Bank is working together with property developers, and the Estate Agents Industry, to facilitate access by Zimbabweans abroad, to decent, affordable investments in real estate. Following a cordial meeting with Estate Agents and the Council recently, the Estate Agents are now part of the Governor's weekly Advisory team with effect from Friday the 23rd of July, 2004.

Foreign Investment Rules for non-resident Zimbabweans

6.14Following the May-June, 204 road shows in USA, UK and South Africa, non-resident Zimbabweans expressed a desire to have their investments recognized as **'foreign investment'** and to be allowed to fully repatriate their profits and dividends to their countries of temporary residence.

6.15In light of this, **'foreign investment' shall, for all new investments coming through formal channels, effective 1 August, 2004, encompass all investments in Zimbabwe, funded from external sources, for both cases where that capital is owned by a foreigner or non-resident Zimbabwean (free funds).**

Foreign Investment Dilution Threshold in Existing Local Companies

6.16 Foreign investment into existing Zimbabwean owned companies is currently limited to 40% per counter.

6.17 In order to encourage non-resident Zimbabweans to invest their foreign currency earnings held outside the country back into Zimbabwe, no dilution limit will apply on all investments from Zimbabweans living abroad.

6.18 Appropriate guidelines and regulations will be issued before the end of August, 2004, in consultation with the Zimbabwe Stock Exchange and other relevant stakeholders in the investment arena.

Foreign Investment Capital Inflows

6.19 Where foreign equity or loan capital is received from offshore sources to fund local operations, the funds are immediately liquidated 100% at the Diaspora floor price or the average auction rate, whichever is higher.

6.20 Where foreign equity or loan capital is received from offshore sources specifically for purposes of importing capital goods, with Exchange Control Approval; the funds may be deposited 100% into the investor's local corporate foreign currency account.

6.21 Once the funds are deposited into a local corporate foreign currency account, Exchange Control authority will be required to make any payment to a foreign service provider or supplier.

6.22 In the event that such funds are deposited into the investor's local individual foreign currency account, no Exchange Control authority is required to effect any import payment.

6.23 This condition will, with effect from 1 August, 2004, apply for ‘free funds’ that are remitted from the Diaspora awaiting investment in Zimbabwe by non-resident Zimbabweans.

Dividend and Profit Remittances

6.24 Under the current Exchange Control guidelines, profits and dividends from foreign investment have 100% remittability rights.

6.25 By nature of the status of the foreign currency holdings of non-resident Zimbabweans, which are “free funds”, profits and dividends in respect of investments by non-resident Zimbabweans would be, with effect from 1 August, 2004, accorded the same status as that of foreign investors and, would be freely remittable.

6.26 Access to auction funds should also be allowed for dividend remittances arising from investments funded through foreign exchange injection from the Diaspora.

6.27 The Monetary Policy Review Statement of 21 April, 2004 reaffirmed that Zimbabweans, within and outside the country, are free to operate individual foreign currency accounts (FCAs).

6.28 This relaxation of capital controls is also expected to encourage some non-resident Zimbabweans to internalize their investment income - by depositing their profits and dividends in foreign currency accounts (FCAS) with local Authorized Dealers.

Disinvestment Proceeds

6.29 In terms of current Exchange Control policy on capital remittances, all disinvestment proceeds from foreign investments established prior to May 1993 are blocked through Government 4% 12 year and 6% 20 year bonds.

6.30 The repatriation of such disinvestment proceeds can be accelerated by seeking prior authority through the Exchange Control Review Committee, if the disinvestment proposal results in localization of ownership or if the sale of foreign shares to locals is discounted by 10% or more.

6.31 For disinvestment proceeds from foreign investments established post-May 1993, repatriation is 100% and immediate.

6.32 These also require prior Exchange Control approval to ensure that the investor does not repatriate from Zimbabwe proceeds that are more than the initial capital injection.

6.33 To encourage non-resident Zimbabweans to invest in Zimbabwe, without fear of having their funds blocked when they wish to exit, disinvestment proceeds for non-resident Zimbabwean are, with effect from 1 August, 2004, freely remittable as is the case with foreign investors for post-May 1993 investments.

Non-resident Zimbabweans Foreign Currency Bonds

6.34 Many Zimbabweans leaving abroad have expressed a deep desire to contribute positively to the turnaround of the economy, through placement of their foreign exchange savings in well-structured financial instruments here back home.

6.35 In response to this noble gesture, the Reserve Bank will, with effect from 1 August, 2004, issue **foreign currency bonds specifically for non-resident Zimbabweans.**

6.36 These foreign currency bonds will have the following features:

(a) Tenor, 12 months.
(b) Interest rate of, **12 months Libor + 6 percentage points per annum**, paid half yearly.
(c) Tradable.
(d) Central Bank Guaranteed for full settlement of principal plus interest, in foreign currency, on date of maturity.
(e) Full remittability of both principal and interest.
(f) Lowest denomination for participation will be US$1 000, with no upper limit.
(g) The bond will be floated in buckets of US$20 million per turn.

6.37 Non-Zimbabwean foreign investors wishing to participate in these foreign exchange bonds will be free to do so, and all the remittance conditions would apply, as is the case for non-resident Zimbabweans.

External Loan Financing

6.38 Under the current regulations, all external loans should be sanctioned by the External Loans Coordination Committee (ELCC). ELCC approvals are based on sustainability analysis of the terms of the debt, in line with pre-determined criteria.

6.39 Offshore loan repayments by exporting companies are funded through FCA balances in the corporate FCA. **Funds for external loan repayments cannot be sourced from the market.**

6.40 However, non-exporting companies may be authorized to source funds from the auction for purposes of loan repayment for those loans approved by the ELCC.

6.41 Non-resident Zimbabweans will be, with effect from 1 August, 2004, allowed to raise offshore financing through external borrowings and subject to the same treatment as foreign investors.

6.42 To ensure that there is a balance on debt and equity financing, the gearing ratio of 50:50 will be maintained.

Investment on the Zimbabwe Stock Exchange

6.43 Currently foreign investors can take and invest on the Zimbabwe Stock Exchange up to 40% per counter as a group and 10% per counter, as individuals.

6.44 A review is being made of this investment window and appropriate guidelines will be issued in due course.

6.45 Where non-resident Zimbabweans want to venture into financial institutions, investment proposals would be appraised in line with Banking Regulations.

Accelerated Foreign Direct Investment Window (AFDIW)

6.46 As Zimbabwe fortifies its turnaround program, it has become necessary that the country's industrial capacity be significantly uplifted, to lay a base for broad based value-adding economic production.

6.47 To achieve this, the economy has to augment the internal savings-investment gap through increased foreign investment.

6.48 Ordinarily, foreign investors need maximum assurances on remittability of returns on their investments, as well as dividends or disinvestments, security of investment, and a conducive fiscal and monetary policy environment. It is now a common acknowledgement in the world of finance and investment that "unlike old capital, new money today, especially foreign direct investment, is very timid and needs a window for fast exit" in the event of investor panic. (Mzi Khumalo – Chairman of Metallon Corporation Ltd, 17 June, 2004 Johannesburg – RSA).

6.49 As an integral part of enhancing the investor climate, with effect from 1 August, 2004, the Reserve Bank has put in place an Industrial and Mining Rehabilitation facility for foreign investors, whose operational modalities would be as follows.

(a) The facility will apply to all new foreign direct investments into infrastructure development, mining, manufacturing and other agro-based processing industries, and export generating ventures into the country between the 1st of September, 2004, and December, 2006.

(b) Any investment into the country under this facility will be backed by a Reserve Bank of Zimbabwe guarantee, certifying that the Reserve Bank would:

6.50 Make available foreign exchange for full remittance of dividends within 30 days from date of application to remit the dividends.

6.51 Make available foreign exchange equivalent to the original investment net of any dividends remitted within 90 days, for full remittance of disinvestment, in the event the investor decides otherwise.

(c) All incremental export earnings from new investments that come in under this facility will be retainable 100% in corporate FCAs, over the specific timeframes as would be laid out in the standing Exchange Control regulations on FCAs, from time to time.

Eligibility and sustainability

6.52 For eligibility into this facility, new investments need to have been **injected and sustained for a minimum period of nine months in the country** and reasons for disinvestment need not be operationally self-inflicted or fraudulent as in the case of trying to use Zimbabwe as a destination for cleaning laundered money under the guise of investment.

6.53 To generate confidence and credibility of the rehabilitation program, and the capacity to honor remittance requirements, the Reserve Bank will put in place an **investment return sinking fund**, where modest amounts of all our foreign exchange inflows into the Bank are stored away towards building this fund.

6.54 These prudential arrangements will continue to be enhanced on an on-going basis.

6.55 As Monetary Authorities, we wish to underscore that **the Bank's guarantee is on political risk only, such that investors are expected to bear the ordinary business risk, ensuring that their businesses are run under prudential corporate governance norms, with sound and responsive business acumen.**

6.56 This investment vehicle will be administered by the Reserve Bank's newly formed Foreign Investment Administration Desk, in close consultation with the Zimbabwe Investment Center (ZIC).

Non-Resident Zimbabweans Investment Program

6.57 An analysis of demographic transitions in successful Asian and other European economies reflects that whilst considerable numbers leave their countries during their prime ages, they eventually retire back to their countries, supported by investments they would have seeded in their home-countries over the years.

6.58 Non-resident Zimbabweans too should vigorously claim their stake in the Zimbabwean economy, through prudential deployment of their hard-earned resources into lucrative investment alternatives back home, while still in their prime ages in foreign lands.

6.59 The Reserve Bank has carried out an extensive analysis of the Zimbabwean economy, and identified numerous investment opportunities that lay untapped, and which non-resident Zimbabweans are encouraged to take advantage of.

6.60 Those of our brothers and sisters in the diaspora who wish to retire to their home-country one day should not blame anyone in future, should these opportunities, which are finite in nature, get exhausted.

Examples of Sectoral Investment Opportunities

SECTOR	SUB-SECTOR/ACTIVITY
Mining	Gold; Platinum, Diamonds, Chrome, Nickel, Coal, Black granite
Agriculture	Horticulture; Tobacco, Poultry, Wheat, Maize, Beef, Cotton, Paprika, Soya bean, Barley
Tourism	Conservancies, Lodges, Cultural, International marketing
Manufacturing	Import substitution processing, Car assembly, including procurement of kits, Chemicals, Agro-processing (value-addition), equipment manufacturing.
Health	Drugs procurement, Equipment procurement; Build-equip-and-sub-letting of health facilities.
Transport	Haulage –local and international; NRZ – own a wagon program; Air Zimbabwe, Build-operate-transfer on toll gates in main highways.
Telecommunications	Fixed, Mobile, Investment in expansion of main telecoms backbone,
Services	Insurance (export credit insurance), finance
Education	Technology transfer and Research and Development
Infrastructure	Build operate and transfer programs
Energy	Equity in power generation and distribution, procurement of spare parts
Water	Chemical procurement, Chemical manufacturing, water reticulation systems (build operate and transfer models)
Housing	Residential, Industrial
National Strategy	Turnaround consultancy
IT	Computer Assembly and Software Development

Revival of Industrial Centers

6.61 The past few years have seen industrial production in the country's traditional hubs of economic activity, such as Bulawayo, Gweru, Kwekwe, Kadoma, Chitungwiza, Mutare, Masvingo, Chinhoyi, Bindura, Marondera, and other urban centers considerably decline due to deteriorating capacity and in some cases, infrastructural neglect.

6.62 To restore the industrial city status of Bulawayo and other urban centers of the country, the Reserve Bank has ring-fenced and set aside $200 billion to go towards rehabilitation of industries and processing centers around the country.

6.63 Operational modalities of this fund will be made available to the market in due course, after completion of consultations with relevant Ministries and representative bodies of industry and commerce.

Turnaround Culture

6.64 For meaningful investment to flow into the country, particularly in the strategic parastatal community, it is imperative that as Zimbabweans, we rid our systems of the gross **mentality of entitlement**, where office bears resist implementation of prudent turnaround strategies, clinging to the past, with no sound financial management norms.

6.65 Specifically, the parastatal sector should evolve into contract systems for engagement of top management, where each contract is renewable upon satisfactory performance, with remuneration being performance-related.

6.66 Your Central Bank has already taken this route for all its senior management team, where all contracts are five years, and renewable only upon good performance.

6.67 Through adoption of effective turnaround programs, both at the corporate and public sector levels, our businesses and the economy must be able to outlive all of us, propelling to success well beyond the horizons of current generations.

Empowerment through Shareholding Schemes

6.68 In order to further broaden the benefits to non-resident Zimbabweans in claiming a stake in their motherland, the Reserve Bank is in active consultations with the corporate sector in mining and manufacturing for the possibility of setting aside shares for acquisition by Zimbabweans living abroad.

6.69 Deal-specific opportunities will be announced jointly by the Reserve Bank and the corporates involved, and it is at that time that the operational modalities for each transaction will be unveiled.

6.70 As part of strengthening this framework, Zimbabweans living abroad are encouraged to form consortiums and jointly approach and negotiate with, especially multinational corporates with business interests in Zimbabwe, for equity shareholding, which they would acquire using their foreign free exchange resources.

7. MONETARY MANAGEMENT AND INTEREST RATE POLICY

Money Supply and Credit Developments

7.1 Management and control of monetary aggregated trends remains a major intervention instrument of monetary policy for achievement of the low and stable inflation objective.

7.2 Consistent with the anti-inflation drive, money supply growth has trended downwards from **490.9%** in January, 2004 to **400.3%** in May, 2004. The major monetary aggregates – M1, M2 and M3 are trending down since the beginning of the year.

7.3 The main sources of monetary growth have largely been expansion in credit to the private sector, which peaked at 682.1% annually, in February, 2004 and, expansion in credit to Government, which peaked at 452.9% in January, 2004.

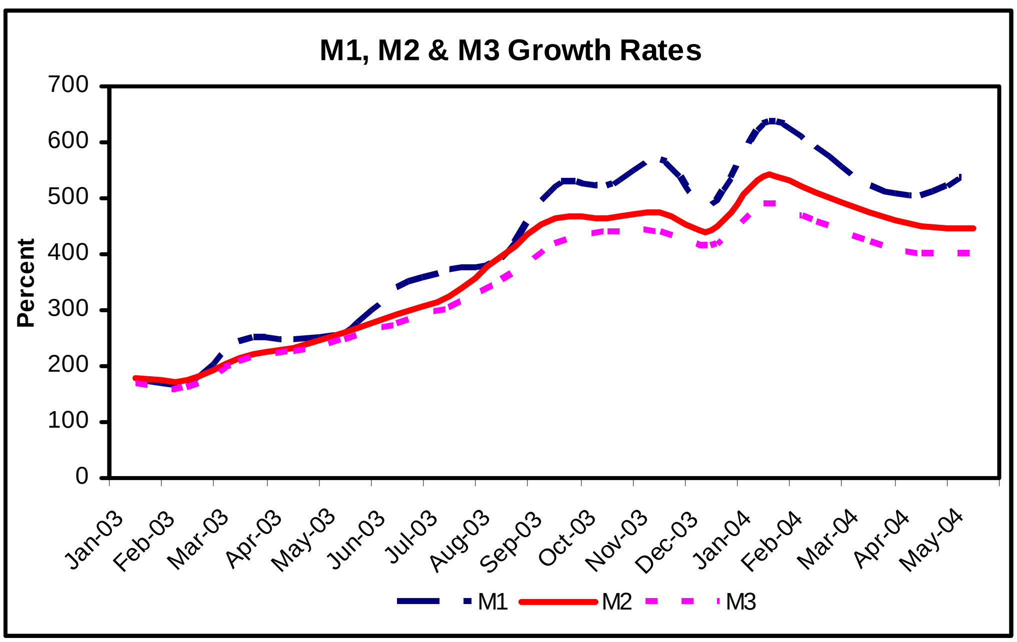
7.4 The decline in money supply and credit growth in the first five months of the year reflect the close balance the Reserve Bank is maintaining between targeted credit allocation to productive sectors, and inflation-linked interest austerity on speculative and non-productive borrowing.

7.5 Whilst indeed, it is a generally shared view among Monetary Economists, that “inflation is everywhere and always a monetary phenomenon”, we are of the view that in economies in transition, such as ours, sometimes it is necessary to apply selective injection of liquidity to unlock supply rigidities, which in turn thaws down inflationary pressures.

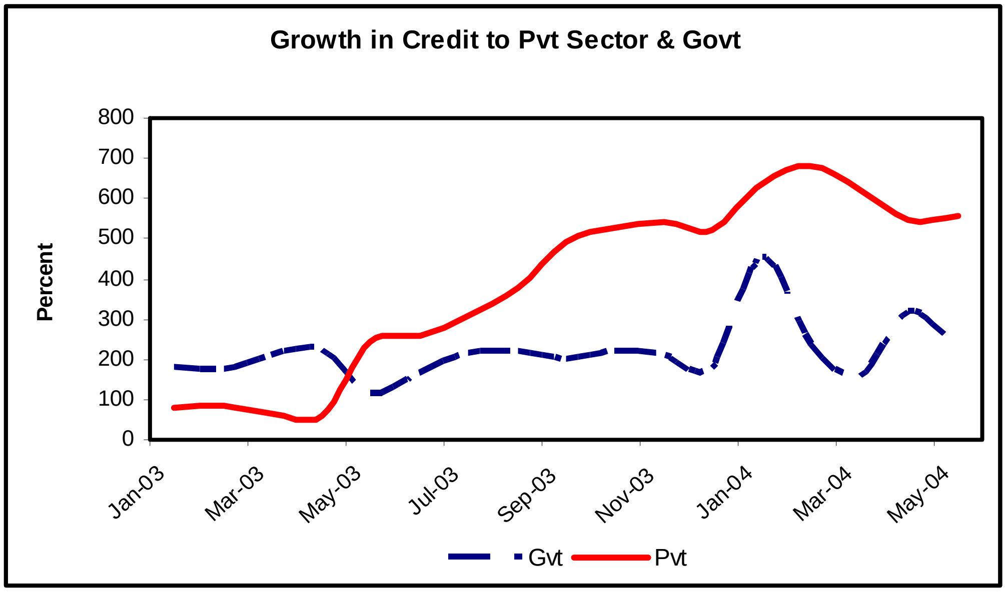
7.6 With this frame of mind at play, however, we are fully aware that, over the medium to long-term, an environment of low and stable inflation demands that monetary expansion be aligned to levels consistent with real economic activity.

7.7 The Bank's active open market operations and money and capital markets instrument designs are being tailor made to engender effective management of excess liquidity out of the system.

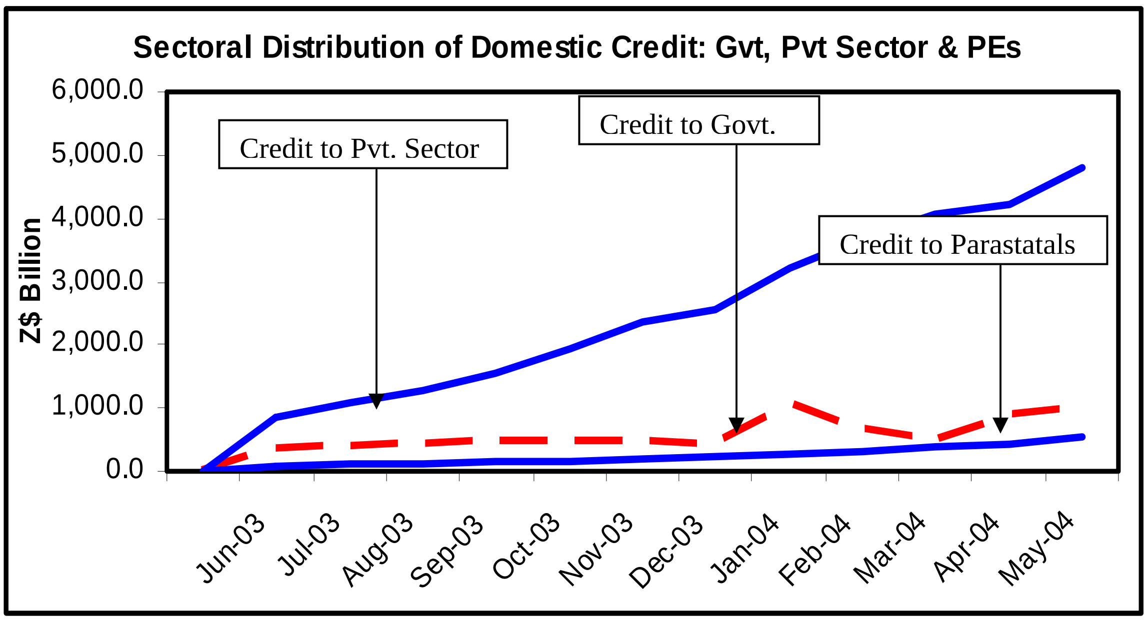
Money Supply Growth Rates



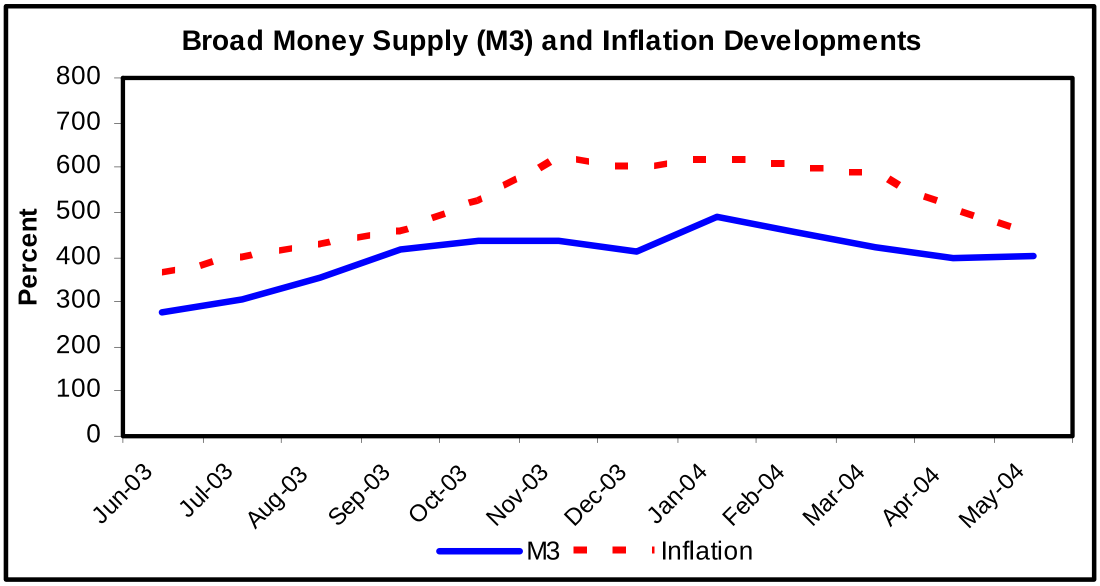
Annual Domestic Credit Growth Rates



Distribution of Domestic Credit



Money Supply and Inflation Developments



Interest rate policy

7.8 The turnaround monetary policy framework came into place at a time when, as Monetary Authorities, we had to apply urgent, and what would ordinarily be regarded as unorthodox monetary measures, to arrest the melt-down in economic production, which was fast engraving itself in the economy.

7.9 To date, most corporates have had over half a year's provision of reasonable latitude on both working capital and capital expenditure financing to their operations.

7.10 As Monetary Authorities, we seek to remind the corporate sector of the need to tirelessly work towards re-orienting their operational systems and financial positions, to prime themselves for faster convergence of the dual interest rate framework, in the deflating outlook environment.

7.11 Equally important, the Reserve Bank notes with concern, continued divergence of some market interest rates from the announced interest rate guidelines that sought to achieve positive real rates of 10-20% on inflation, on an effective compounded basis.

7.12 As much as the concessional interest rate on targeted lending to the productive sectors was reviewed to 50%, from 30%, in what is expected to be an on going realignment process towards convergence, financial institutions are also expected to realign their interest rates to levels consistent with the considerably decelerating inflation.

7.13 The Bankers Association is called upon to ensure that its membership, as their contribution to the turnaround program, comply with well-meaning policy signals from regulators.

Accommodation Policy and Open Market Operations

7.14 The Bank's current strict accommodation policy will remain in place, and it is expected that Management and Boards of financial institutions exercise maximum levels of prudence in steering their assets and liabilities positions to optimal levels.

7.15 With respect to market liquidity management, the current special Treasury bills will be augmented with intraday open market operations tenders so as to effectively rid the market of inflationary credit positions.

7.16 The Reserve Bank will continue to issue the standard Government Treasury bills, and longer-term stock on a needs basis, guided by financing requirements of the fiscus and debt restructuring programs in the wider public sector.

Profiteering in the Banking Sector

7.17 As Monetary Authorities, we have noted with grave concern covert resistance by the banking sector to align their interest rate structures to the announced policy framework, where interest rates, in effective compounded terms, should track the levels of inflation at real margins of 10-20%.

7.18 To the contrary, banking institutions have elected to openly defy these guidelines, which were issued in good faith, and in a moral suasion mode, and instead, appear to have chosen to undermine the progress of the turnaround efforts by literally drawing the blood out of the productive sectors and the defenseless borrowing public.

7.19 To us, this is another form of indiscipline rearing its ugly head in replacement of previous parallel market transgressions.

7.20 Typifying this bizarre and insatiable quest for abnormal super-profits is the bloated records of profits the financial sector has been and continues to record, or is about to announce to the market, with, in some cases pre-tax earnings growing by as high as 2000-3000%, at a time when the rest of the economy is underperforming.

7.21 The essence of banking sector profit ought to be on volume driven, non-funded revenue streams, and yet our financial sector participants seem to think otherwise, happy to pocket net interest margins, too wide for any individual bank to publicly quote.

7.22 Against this background, the banking sector is implored to take heed and immediately align their interest rate regimes to sane levels, consistent with the inflation-linked monetary policy framework already in place.

7.23 Short of this, Monetary Authorities will have no option but to foist interest rates levels to the market. Certainly, this would be a sad day for our progressive framework of macroeconomic management.

7.24 Let it also be known that as a Central Bank, we are not against super profits per se, no; rather we encourage superior performance as reflected by super profits, but not seven star super profits, such as returns of 2000%! It reflects badly on the industry and on us as supervisors of the sector – in a sea of struggling majority.

Productive Sector Facility Abuse Penalty Fund (PSFAPF)

7.25 We have also come to realize the unrepentant traits still abound in the economy, where some productive sector facility borrowers have seen it fit to make easy profits by waylaying and preying on productive sector facilities destined for their desperate companies and sectors.

7.26 Among such vices, is the fact that some banks are not immediately passing on funds to their clients soon after receiving same from the Reserve Bank, nibbling on interest earnings arising out of overnight placements of those funds, or short-term investments in money market instruments. Similarly, some borrowers have seen it fit to place those funds in areas far too distant from productive sectors of their operations.

7.27 An exhaustive, thorough and relentless audit trail is being unleashed on both banks and borrowers to verify and certify that since January 2004, no amounts destined for end-users in the productive sectors were diverted or temporarily commandeered for other unauthorized uses.

7.28 Any Bank found having delayed passing funds to beneficiaries by more than 5 days, retrospectively from 1 January 2004 to date, will be sanctioned at penal rates commensurate with the Bank’s overnight accommodation policy over the relevant periods of deviation.

7.29 Banks which accessed concessional funds on the strength of incorrect customer information will be similarly penalized.

7.30 The penalties so levied would go into a Productive Sector Facility Abuse Penalty Fund to be utilized for on-lending to other productive sectors of the economy.

Statutory Reserves

7.31 Underpinned by the desire to keep inflationary money supply growth rates in check, and the fact that 100% of statutory reserves are being re-channeled back into the market through concessional financing facilities, with effect from 1 August, 2004, the minimum statutory reserves for commercial banks and merchant banks will be increased by 7.5 percentage points on savings accounts, and by 10 percentage points on demand and call accounts.

National Payments System

7.32 As part of deepening operational efficiencies in the financial services sector, the Bank remains committed to the adoption of state of the art IT platforms in the country's payments system.

7.33 In order to enhance the operational reliability of the ZETSS system, the Reserve Bank, in close collaboration with commercial banks and system suppliers, successfully launched a project to upgrade the ZETSS software to a version that optimizes the deployment of liquidity in the market.

7.34 To further smoothen the operations of the settlement system, as well as avoid gridlocks, the Bank will re-introduce the intraday credit limit facility within ZETSS, with effect from the 1st of August, 2004.

7.35 Operational details for this new arrangement will be dispatched to clearing banks before the implementation date.

7.36 It must, however, be noted that only banks with the requisite security shall be accommodated under this arrangement. Previous abuses of the facility will not be allowed to repeat themselves ever.

7.37 As the Bank works towards attainment of 90% ZETSS utilization by year-end, clearing and settlement procedures will be tightened to ensure compliance.

7.38 The Bank, in consultation with clearing banks, is working towards implementation of same day clearing and settlement, so as to increase operational efficiency and minimize risks associated with the deferred net settlement system in the Clearing House.

7.39 In my last Monetary Policy Statement, I advised that the project to extend direct access to ZETSS to all banking institutions would be completed by end of July, 2004.

7.40 A lot of progress has been made in this respect, with all hardware and software installations having been completed. The only outstanding issues are with regard to ironing out a few technicalities with network providers, before roll-out.

7.41 The project should be completed before the end of August, 2004.

8. ECONOMIC GROWTH, EMPLOYMENT PROMOTION AND NATIONAL DEVELOPMENT

Gross Domestic Product

8.1 At the heart of the turnaround program is the collective desire to arrest the decline in national productivity that has characterized the economy over the past few years.

8.2 Whilst year 2004 has shown considerable positive signs of recovery in the productive sectors, more and sustained efforts are still required to ensure that the modest gains made so far, are broadened into lasting economic recovery.

8.3 Overall GDP, which shrunk by an estimated -9% in 2003, is expected to decelerate by a further -5% in 2004, largely reflecting lagged effects of structural rigidities experienced over the 12 months to December last year.

8.4 Combined benefits of concessional financing facilities, increased foreign exchange availability on the back of a rebounding export sector, rapid decline in inflation, and renewed confidence across the productive sectors of the economy, are however, expected to steer economic productivity in the positive range, starting 2005 onwards.

Fight against Unemployment and Inflation: The Supply Side…

8.5 In order to arrest the scourges of rising unemployment, your Central Bank introduced a financing rescue package for the productive sectors, where funds are being made available to producers at concessional interest rates, initially 30% and recently changed to 50%.

8.6 As of 30 June 2004, a total of $1.7 trillion had been disbursed, with the following sectors being beneficiaries:

(a) Manufacturing: $744.2 billion (42.3% of total);
(b) Agriculture: $744.5 billion (42.4% of total);
(c) Mining: 137.0 billion (7.8% of total);
(d) Transport: $72.2 billion (4.1% of total);
(e) Tourism: $28.5 billion (1.6% of total);
(f) Construction: $15.2 billion (0.9% of total);
(g) Communication: $11.7 billion (0.6% of total); and
(h) Health: 3.4 billion (0.2% of total).

8.7 Survey results, recently carried by the Reserve Bank are reflecting very encouraging responses, in terms of capacity utilization, output and employment creation. On the back of this, Monetary Authorities are pleased to announce that these facilities would be extended to those service providers who are not of a final consumptive nature. The comprehensive list of qualifying sectors would be announced in due course.

8.8 The marked deceleration in inflation is to a large measure attributable to the trickle-down effects of the considerable relief that these facilities did bring to producers.

8.9 Within the framework of this initiative, specific programs to enhance the development process are being supported, with the following resources having been earmarked and disbursed:

SME promotion

8.10 A total of $12 billion has been channeled through SEDCO, to this sector which is Zimbabwe's future engine of growth.

8.11 As Monetary Authorities, we welcome Government's plans to table before Parliament the **Small and Medium Enterprises Business Bill**, which would, no doubt, give impetus to the development of the SME sector.

Winter wheat program – food security

8.12 A total of $150 billion was ring-fenced and disbursed, so as to enhance wheat production. High domestic wheat production does not only benefit the country through food security, but also directly contributes to the anti-inflation drive, as food constitutes one of the main drivers of inflation.

Irrigation rehabilitation program

8.13 Resources amounting to $85 billion were set aside and disbursed through the Ministry of Agriculture and Rural Development to lay the foundation for the rehabilitation of infrastructure in the agricultural sector.

8.14 Considerable progress on the Matabeleland Zambezi Water Project is expected, following the provision of financing support to this noble National cause.

8.15 It is also imperative that the country vigorously puts deliberate programs to ensure that the already existing dams around the country are put to good productive use.

8.16 The majority of these dams lying fallow were financed through external borrowing facilities, which urgently need foreign currency to service the debts.

8.17 As Monetary Authorities, we will be keen to support foreign exchange generating projects that ensure full utilization of National dams strewn all over the country's districts.

GMB support – viability of agriculture

8.18 To smoothen the marketing of agricultural produce, an advance of $100 billion was ring-fenced from statutory reserves and allotted to GMB.

Agricultural equipment facility

8.19 In order to optimize on usage of agricultural equipment that had been lying idle, the Reserve Bank put in place a used agricultural equipment facility – based on willing buyer will seller – administered by FARMEC.

8.20 As of 30 June, 2004, 129 tractors, 15 combine harvesters, 3 bulldozers, 7 rippers, and 15 ploughs, among many others had been unlocked and made available to Government for deployment into needy farming areas.

REVIVAL OF AGRICULTURAL PRODUCTIVITY

8.21 Agriculture remains the mainstay of the Zimbabwean economy, and this primarily derives from land being an endowment where the country has immense comparative advantage.

8.22 Because of this, and the inextricable down-stream linkages between agriculture and the rest of the economy, there is need for collective efforts, aimed at reinvigorating effective utilization of land.

8.23 Food security is an indispensable prerequisite to national development, as no amount insistence or persistence can turn a hungry society into productive human capital.

8.24 A stable food supply situation is also an integral part of the preconditions of inflation-stabilization in Zimbabwe, as the food component of the consumer price index accounts for a significant proportion.

8.25 As Monetary Authorities we are heartened by the fact that the Ministry of Agriculture and Rural Development is working on a 30 year vision to turn around productivity in the agricultural sector.

8.26 This extensive Vision, encompassing infrastructure development and marketing arrangements for agricultural viability, will no doubt, uplift the Land Reform Program to greater levels of success.

8.27 As Monetary Authorities, we stand ready and committed to supporting initiatives in agriculture, particularly in foreign exchange generating crops such as tobacco, cotton, paprika, soya beans and many others.

Zimbabweans abroad also have a role to play…

8.28 Food security in the country can also be enhanced through targeted involvement of Zimbabweans living abroad in the agricultural sector.

8.29 Under this framework, Government would set aside dedicated pieces of land, earmarked for non-resident Zimbabweans, who would then inject resources into the projects meant to produce strategic reserves for such critical crops, as wheat, maize and other small grains.

8.30 Already, under the Homelink initiative, a consortium of Zimbabweans has submitted a comprehensive proposal for active involvement in agriculture.

8.31 The relevant Government Ministries are encouraged to extend a responsive hand to these gestures of goodwill by these young and patriotic Zimbabweans.

8.32 As your Central Bank, we derive encouragement not, merely because there would be foreign currency inflows into the country, but most importantly, from the fact that young Zimbabweans would live to have a stake in the fortunes of their motherland.

Land tenure

8.33 In His Address to the Nation on the 20th of July, 2004, His Excellency the President, had this to say on the issue of land tenure:

Quote: ***"The issue of security of tenure for those on the land is also being resolved, and a National Land Board will be established to preside over the administration and implementation of the land policy" (page 4)***

8.34 Successful recovery in the agricultural sector is meaningfully tenable when the financial sector plays an active positive role in supporting the sector.

8.35 It is for this reason that as your Central Bank, we, on behalf of the financial sector, welcome Government's decision to introduce transferable 99-year leases on those pieces of land that have been acquired and allocated under the reform program.

8.36 The banking sector is encouraged to renew their confidence and trust in the agricultural sector, taking full advantage of this 99-year lease arrangement.

Agricultural marketing arrangements

8.37 Achievement of sustainable agricultural productivity requires that, at the National level, comprehensive marketing arrangements be put in place, adequately protecting the interests of, the farmers, buyers of produce, and the end-users – our communities in general.

8.38 Such marketing arrangements should be supported by necessary regulatory structures, which effectively wade off such retrogressive practices, as have been experienced in some contract growing schemes.

8.39 Under such circumstances, “fly-by-harvest-time” traders have cropped up, offering prices that are out of turn with overhead structures, effectively destabilizing the production and marketing chain.

8.40 Those same traders, in most cases, would not have supported the farmers to begin with, only pitching up mid-stream in the agricultural season, to reap what they have not sawn.

8.41 The Reserve Bank welcomes the recent signing of a memorandum of understanding between merchants, farmers, Ministry of Agriculture and Rural Development and the Bank, which paved way for the smooth transition of this season’s cotton marketing process.

8.42 Comprehensive, long-term frameworks, that allow for pooled procurement of inputs, discharge of tillage programs, and marketing arrangements should be structured and implemented, so as to lay a lasting foundation for the revival of agriculture.

8.43 As Monetary Authorities, we stand ready to work with Government and the farming community in making sure that success is registered in such initiatives.

8.44 Again, Government’s commitment to see proper marketing arrangements put in place was amply expressed by His Excellency The President during his recent address to the Nation on 20 July, 2004, when he said:

Quote: ***"..Wrong pricing policies can induce "flights" from strategic crops such as maize which is at the heart of our national food security….The revival of the Agricultural Marketing Authority (AMA) should be speeded up…"(page 3).***

Horticultural sector

8.45 Horticulture remains a niche agricultural sub-sector that has a quick turnaround in generating foreign currency.

8.46 The Reserve Bank has, however, noted with grave concern that some players in this strategic sector are actively undertaking subversive transactions which are effectively starving the country of the critically needed foreign currency.

8.47 For a long time, as Monetary Authorities, we have known, partly from personal experiences also, that the delivery-payment cycle for horticultural produce, including flowers, citrus, vegetables, and other perishables, is considerably short.

8.48 With this knowledge, we had deliberately classified the horticulture sector in the same time frame with the rest of exporters for the 90 day CD1 discharge period, to give farmers an added advantage.

8.49 In light of the overt and wide-spread abuse of this privilege, **with immediate effect, the relevant period of discharging of CD1s for horticultural exports will be 21 days from date of exporting.**

8.50 The Reserve Bank is also currently carrying out extensive studies on service charges, with a view to brokering modalities for standardization of cost structures on this line. The wide discrepancy of charges claimed by some of our farmers, seem to suggest that such claims might have become a conduit for externalization of foreign exchange.

8.51 To further promote viability in the horticultural sector, a tailor-made carrot and stick framework has been put in place, which shall apply with immediate effect.

CARROT AND STICK FRAMEWORK FOR HORTICULTURE: from 28/7/04

Form CD1 Acquittal Period (Days)	FCAs Retention (%)	Sold to RBZ @ Use (at Z$824/US$) (%)	Sold to (At ruling Auction rate) (%)
0-10	80	0	20
11-14	75	0	25
15-21	60	0	40

Exchange Control Approved Extensions: from 28/7/04

22-30	40	15	45
31-60	20	25	55

National seed and inputs development program

8.50 Successful revival of the agricultural sector also requires that the country develops a sustainable supply base for seeds and key inputs.

8.51 As Monetary Authorities, we are heartened to be informed that stabilization of seed production is top on the agenda of the Ministry of Agriculture and Rural Development, within the framework of their turnaround Vision for the agricultural sector.

8.52 The Reserve Bank stands ready to facilitate creation of a national program for seed and input production program.

9. ENHANCED SECTORAL INTERVENTIONS APPROACH

9.1 Using a broadened sectoral intervention strategy, Monetary Authorities wish to play a pivotal catalytic role to bring about enhanced productivity, and closer cooperation among the following sectors:

(a) Agriculture
(b) Mining
(c) Manufacturing

(d) Telecommunications

(e) Tourism

(f) Transport

(g) Energy

(h) Services

(i) Financial sector/insurance

(j) Education

(k) Housing and construction

(l) Science and technology

(m) Labor remittances

(n) Distribution

(o) Health

(p) Parastatal community

(q) Municipalities

(r) The Zimbabwe Stock Exchange

(s) Rural folks

(t) Urbanites

9.2 Successful turnaround demands that all these sectors work together, in a coordinated mode towards achievement of a common Vision: growth and development of the Zimbabwean economy.

9.3 Such commonality of purpose comes about through conscious pursuit of pragmatic policy alternatives that bridge expectations of different and competing economic and social sectors.

9.4 Faced with limited resources and an increasing dimension of competing ends, second best alternatives, where direct sectoral interventions are invoked to shore up the supply side of the economy become inevitable.

9.5 This pragmatic approach lies at the heart of the monetary policy framework.

Mining rights

9.6 Effective turnaround of the economy, also requires that Zimbabwe optimizes the vast opportunities that are embalmed in the country's mineral resources.

9.7 A major concern that, as Monetary Authorities, we have highlighted several times before, is that the bulk of the country's mining claims remain largely unexploited, to the detriment of the National economy.

9.8 It is, therefore a hugely welcome development that Government is reviewing the **Mines and Minerals Act**, for purposes of streamlining and rationalizing the acquisition and maintenance of mining rights, as well as providing guiding principles for the indigenization of the mining sector.

9.9 The full potential of the country in the Platinum and Diamonds sectors remain black-boxes which require that as a Nation, we apply deliberate programs of action that unlock the untapped immense value in the mineral resources of the country.

Transport Sector Rehabilitation

9.10 The transport sector forms a key link in the economic production chain, which if not strengthened, has capacity to constrain productivity in virtually all sectors of the economy.

9.11 In His Address to the Nation on 20 July, 2004, His Excellency The President underscored the current challenges being faced in this critical sector, when he said:

<u>*Quote:*</u> ***"The problems besetting the transport sector remain a great concern, more so given the sector's central role in the economy. As part of efforts to address the challenges, Government is refocusing the National Transport Policy, while new strategies are being pursued to speed up on-going transport infrastructural development projects" (page 7).***

9.12 To facilitate this process, the Reserve Bank has ring-fenced and set aside **$40 billion, earmarked for the rehabilitation of the transport sector.**

9.13 Operational modalities of how this facility can be accessed will be published through the relevant Ministry in due course.

Science and Technology

9.14 Successful turnaround and sustenance of lasting economic growth and development requires that the country engineers a giant leap in its technological capabilities, so as to reduce the current high dependence on imported production systems.

9.15 Also, a developed science and technological base directly benefits the National economy through increase in efficiency levels in the productive sectors.

9.16 As Monetary Authorities, we welcome Government's decision to transform the Harare Institute of Technology into a full-fledged university with a technology thrust.

9.17 As the country consolidates the Agrarian Reform Program, the majority of former farm workers are increasingly becoming preoccupied with tilling their own pieces of land. As a result, there will be growing scarcity of farm labor.

9.18 Increased focus on technological advancement and mechanization has to, therefore, take center stage as part of a comprehensive program to revive agricultural productivity.

Medical Professions Fund

9.18 Against the background of the challenges the country has been facing over the past few years, the medical profession is among the worst hit, through migration of skills to other parts of the world.

9.19 This trend, if not arrested, threatens to undermine the solid foundation that Government had laid in the country's health system, where Zimbabwe had become a renowned center of expertise in the medical profession.

9.20 To uplift medical professions' conditions of service, among other occupational concerns, the Reserve Bank will be putting together tailor-made investment vehicles to cater for medical practitioners. Modalities of these vehicles will be announced in due course.

9.21 The Bank welcomes the announcement by the Minister of Finance and Economic Development of concessions given in his Mid-Term Fiscal Review, removing duty on essential medical and dental equipment, as well as some consumables. This fund is accessible to all licensed medical practitioners, with effect from 1 September, 2004.

9.22 Through close liaison with the Ministry of Health and Child Welfare, the Ethical Drug Association (EDA), Retail Pharmacy Association (RPA), and Pharmaceutical Manufacturers Association (PMA), the Reserve Bank will ensure that there is adequate provision of foreign currency resources to go towards importation of drugs into the country's health delivery system.

BENEFICIATION AS THE FUTURE OF ZIMBABWE

9.23 As part of bolstering the country's long-term exporting capacity, producers have to collectively orient their systems more towards increased beneficiation.

9.24 To ensure this, the Ministry of Industry and International Trade have agreed to work closely with the Reserve Bank and other industry players, to closely look at the possibility of setting ceilings on **unprocessed exports**, so as to steer more activity towards beneficiation.

9.25 This is pertinent, not only in so far as beneficiation brings in more foreign currency, but equally importantly given that each time the country exports cotton lint, unprocessed mineral ores, raw vegetables, etc, as a Nation we will actually be exporting jobs for free.

Rural incomes

9.26 The adverse effects of protracted episodes of inflation have hard hit the low incomes groups, particularly the rural population of our Nation.

9.27 It is, therefore, imperative that the various interventions in agriculture and the small to medium scale enterprise sectors put greater focus on uplifting real incomes in rural communities.

9.28 Through this, greater demand side multiplier effects will be unleashed, which in turn would radiate positive impulses in the production and developmental chains of the economy.

9.29 As a contribution to this developmental thrust, the financial sector is encouraged to set up branches in and around rural and new agricultural communities in order to bring banking services closer to home, and where appropriate, and if developmental incentives are warranted, the Reserve Bank is willing to consider innovative proposals from market players in this direction.

Confessions

9.29 Submissions of pleas for a general amnesty for those who violated various Exchange Control Regulations continue to flow to the Reserve Bank.

9.30 As intimated in my April, 2004 Monetary Policy Review, the discretion for such pardon is deposited in the Executive, The President…to be more precise, and as such, pleas for an amnesty channeled to the Central Bank are misdirected.

9.31 This notwithstanding, a considerable number of companies and individuals are coming forward and voluntarily confessing to their failings, and we strongly encourage others who may have breached the statutes to do the same thing in order to lay the basis for regularizing their affairs outside the public domain of media scrutiny and possible misrepresentations.

9.32 As your Central Bank, we will neither interfere nor stand in the way of law enforcement agents, as they discharge their duty to track down defaulters, but will cooperate to share confessed information that could lead to non-custodial apprehension of defaulters, be they individuals who bought properties/businesses outside the country, or externalized foreign currency resources in one form or shape.

9.33 It is unfortunate that some members of our community seem to prefer the “catch me if you can” route, which by all accounts is retrogressive – both to the corporate or individual, and to the Nation as a whole.

False Prophets of doom

9.34 Sincerity, goodwill; integrity and good corporate governance; as well as policy consistency and persistence are indispensable **pillars of successful economic turnaround programs.**

9.35 Greatly appalling, however, is an increasing number of **self-proclaimed “experts”** in some segments of our society, who are bent on derailing the momentum of the economic recovery program, through proliferation of thump-sucked, and overtly pessimistic trajectories on the country’s economic performance in the future.

9.36 Upon themselves, these “experts” have bestowed monopoly of accurate forecasts, monopoly of wisdom, which wisdom only sees and prescribes that the Zimbabwean economy can only go down one path: that of deterioration with no capacity or prospects of recovery.

9.37 They will believe anything negative, but will refuse to accept reality even if such reality is reality staring them in the face.

9.38 They are happy to feed our external partners with falsehoods which see no good at all and your Central Bank has spend frustratingly incredible amounts of time energy and resources explaining away fiction from facts, instead of concentrating on the job at hand – that of guiding the economy towards prosperity.

9.39 To these “experts”, who are making a living out of this practice, this is what we, as Monetary Authorities, have for them: Zimbabwe’s economy is destined towards only one direction, and this is **the full economic recovery route**, with or without their flawed analyses.

Real Estate Sector

9.40 As Monetary Authorities, we continue to note very disturbing practices by the Real Estate sector.

9.41 Such practices include:

(a) fueling of property price increases through quoting of prices in foreign exchange, notwithstanding the prohibition of this under the current Exchange Control Regulations,

(b) wanton hiking of rentals, without reference to any macroeconomic fundamentals, and hiding under their intermediary roles between landlords who act on their advice, and tenants who bear the brunt of this advice.

(c) externalizing foreign exchange through abuse of the auction system, and trading in the parallel market.

9.42 To put a stop to these underhand practices, the Reserve Bank, in close cooperation with the relevant bodies, is introducing a comprehensive framework to track sources and applications of funds in the buying and selling of both, residential, commercial and industrial properties, with effect from 1st of August, 2004.

9.43 Consistent with the existing Exchange Control Regulations, the following accommodative conditions apply:

(a) Where non-resident Zimbabweans or foreign investors are bringing in their foreign exchange into the country, where those funds are from services rendered outside the country, such funds will be **free funds and hence NOT subject to any Government 25% foreign exchange surrender requirements**. In other words, the funds will be convertible 100% at the diaspora rate or the auction rate, which ever is higher.

(b) Where former residents have sold their property and wish to remit proceeds abroad, there are formal channels for doing so through the formal banking system.

9.44 The real estate sector is, therefore, called upon to play a positive role in the turnaround program by working within the accommodative regulatory framework.

9.45 Under the enhanced productive sector support, the Reserve Bank would direct more resources towards the construction industry to revive economic activity in the real estate sector.

Airlines

9.46 The Reserve Bank also wishes to guarantee to the airline industry, particularly those incorporated outside the country, that the improving foreign exchange situation has now made it possible for the Bank to timeously honor their requirements for repatriation of ticket proceeds that would have been charged in local currency, at the ruling auction rate.

9.47 The industry is, therefore, encouraged to promote air travel traffic by charging for their tickets in local currency.

10. FINANCIAL SUPPORT TO THE PARASTATAL COMMUNITY

10.1 By the nature of what they do, the parastatal sector is a critical component of the country's economic system.

10.2 In His Address to the Nation on 20 July, 2004, His Excellency, The President affirmed this when he said:

<u>Quote:</u> ***"..our parastatals, once reformed and commercialized, and properly re-oriented, will be the cutting edge of our economic policy" (page 2)***

10.3 As part of the comprehensive framework to strengthen the country's strategic public enterprises, the Reserve Bank set aside resources for access by the parastatal community, with production of full sets of audited accounts and turnaround strategies being the trigger mechanism for access.

10.4 As Monetary Authorities, we wish to applaud ZESA, ZBH, Tel One, Zimpost, IDC, CAAZ, RMS, Air Zimbabwe, and NRZ for putting together their audited accounts for scrutiny. The Bank will expedite the appraisal process to facilitate release of support to these institutions.

10.5 While this development is pleasing, it is however disheartening to note that the bulk of the concessional resources set aside have been lying unused for over three months, and reject the notion that it should take the Reserve Bank to offer a carrot before these institutions put their houses in order.

10.6 Parastatals, by their nature occupy a strategic position in the economy's productive system, such that without their effective turnaround, they would continue to impose constraints, not only directly to the fiscus, but also to the wider economy, through limited service provision.

Facility for Parastatals

Institution	Amount (Z$BN)	Status of submission of audited a/cs & turnaround strategies to RBZ
ZESA	30.0	Met deadline
ZISCO	30.0	Pending
ARDA	25.0	Pending
NRZ	20.0	Met deadline
All Local Authorities	20.0	Pending
Hwange	15.0	Pending
NOCZIM	10.0	Pending
ZUPCO	10.0	Pending
Air Zimbabwe	7.5	Met deadline
ZBH	7.5	Met deadline
Total	**175.0**	--

10.7 It is imperative that the parastatal community put maximum efforts towards turning around their institutions so as to contribute positively to the growth and developmental aspirations of the country.

10.8 Beyond producing turnaround plans and audited sets of accounts, we as Monetary Authorities, will insist on quarterly reports of progress towards the implementation of their turnaround plans and the publishing of their accounts every half year, audited or un-audited. It is one thing to plan but quite another to implement the plan. As a country, we have acquired a reputation for excellent economic planning skills but a record of failure when it comes to walking our talk or implementing those economic plans. We look to the parastatal community Boards and Management to restore our credibility in this area, as a Nation.

10.9 Zimbabweans deserve to know what use their taxpayers' funds are being put to. This discipline will facilitate commercialization decisions through greater transparency and accountability.

10.10 Again His Excellency's endorsement for the need to enhance operational efficiency and transparency in the parastatal sector was apt, when he said:

Quote: ***"I have urged parent ministries to give closer and tighter supervision to these vital units [parastatals], ensuring all times that accountability is fully met in ways that satisfy international accounting standards and the rigorous reporting calendar of the Zimbabwe Stock Exchange. I am happy that the Reserve Bank of Zimbabwe has now made proof of clean finances a precondition for any form of support from Government" (page 3).***

11. COOPERATION WITH THE INTERNATIONAL COMMUNITY

11.1 As the country consolidates its turnaround strategy, it remains imperative that relentless efforts continue to be put on restoring good relations with our trading partners, and international financiers - especially those against whom we hold long outstanding debts.

11.2 Over the outlook period, the country will enhance its program of repayment of foreign exchange arrears to the international community while at the same time, jumpstarting our engines with whatever little foreign currency coming our way.

11.3 The envisaged improvement in the foreign exchange, decline in inflation, broadening of the turnaround program to the parastatal sector, coupled with avoidance of policy reversals and slackening of the current reform efforts, should all go towards rebuilding the image of our Nation.

11.4 As Monetary Authorities, we want to register our immense appreciation to the International Monetary Fund (IMF), and the World Bank, for the continued support in our turnaround program.

11.5 The six months window of opportunity the country has been given to consolidate its turnaround program, will be fully utilized to further align the policy framework with the Vision of balanced and sustained economic growth and development, including thinking outside the box and experimenting with home-grown development policies which may at first sight appear inconsistent with documented knowledge.

12. ECONOMIC VISION RESTATED…

12.1 As Monetary Authorities, we pledge to stay the course of the turnaround program through policy consistency and progressive elimination of distortions, some of which have been induced to suite the urgent demands of stabilizing the macroeconomic environment.

12.2 Our vision for Zimbabwe is to change the current challenges into opportunities for a prosperous economy, as promised in my maiden Monetary Policy Statement of 18 December, 2003….a Vision whose timeframe is now improved from December 2008 to 2007 when we expect:

12.3 An economy with low and stable inflation;

12.4 An economy with minimal unemployment;

12.5 An economy with food security and capacity to feed the region;

12.6 An economy that deals decisively with transport blues to the people;

12.7 An economy that moves decisively on economic empowerment of fellow Zimbabweans;

12.8 An economy where rural development is central in a healthy Nation, where HIV/AIDS infections are controlled to the barest minimum;

12.9 An economy supported by a solid working infrastructure of roads, railway network, telecommunications and an extensive national electricity grid;

12.10 An economy continuing to offer good and reputable education, supported by a working health system;

12.11 An economy where exporters are rewarded fully for their efforts in generating foreign currency for the Nation;

12.12 An economy with high local and foreign direct investment; … the envy of many – the region and the continent at large.

12.13 As your Central Bank, we also commit to support collective efforts to preserve existing infrastructures on the farms and other industrial entities.

12.14 We encourage relevant authorities to respect existing and future investment protection agreements, as one way towards normalizing our relations with the international community

13 CONCLUSION

13.1 As already stated, in this turnaround program, there are those who will remain in the denial mode and will seek to analyze every positive development until they see a negative; will stop at nothing to rubbish anything positive that comes out of our economy as if Zimbabwe is not also entitled to good times.

13.2 Our message to them is in the form of a plea; a plea TO PLEASE HELP US TURN CHALLENGES INTO OPPORTUNITIES, INTERNAL DISCOURSE INTO COHESION, DESPAIR INTO HOPE, AND OUR DREAMS INTO REALITY.

13.3 History is abound with cases of economies which transformed themselves from abject poverty, however its origins, to enviable positions of prosperity on the back of unity of purpose, educated and determined manpower, vision, discipline and a never-say-die approach to managing the challenges facing them, turning “swords into ploughshares” as His Excellency, President R.G. Mugabe said at independence in 1980. The challenges then were worse than those we are faced with today.

13.4 Until we decide to commit ourselves fully to the turnaround program we have embarked upon, as Zimbabweans, and show a desire to succeed, we should not ask or expect the world to take us seriously, wherever we may geographically be at present.

13.5 Our Vision of turning Zimbabwe into the proverbial land of milk and honey, as I stated in December, 2003, remains unaltered, except that it is increasingly becoming clear to us as Monetary Authorities that we need to quickly own, grow and look after our own milk-cows and honey-bees.

13.6 My generation of Zimbabweans is challenged to come forward and join hands to plant economic trees to complement those already in place, as our contribution to making Zimbabwe the jewel of Africa that it is capable of becoming and;

13.7 As Monetary Authorities, we stand ready to playing our part, so should each and every one of us!

13.8 May God bless our Country, all of you and guide our turnaround journey to prosperity.

I thank you.

G GONO
GOVERNOR

27 July, 2004

APPENDIX 1: REASON WHY MONEY TRANSFER AGENCY (MTA) PAYOUTS IN FOREIGN EXCHANGE HAVE BEEN SUSPENDED

Overall Analysis for May-19 July, 2004 Diaspora Inflows

For the period ending 19 July 2004 Money Transfer Agencies have received foreign currency receipts from the Diaspora amounting to US$22 804 877. The table below shows a breakdown of the funds as per Money Transfer Agency.

MTA	Payout in Zim$, US$ equivalent	Payout in US$	Total
Barnfords	40 822	177 061	217 883
Fredex	3 373 571	8 456 827	11 830 398
Stanbic	460 913	1 327 735	1 788 648
TransAfrik	1 339 986	5 015	1 345 001
Stanchart	1 208 411	2 453 457	3 661 868
I & F	132 258	4 000	136 258
Kingdom	1 021 543	78 952	1 100 495
CFX	1 244 100	175 877	1 419 977
POSB	408 327	290 014	698 341
First Remit	27 489	3 665	31 154
CABS	191 967	0	191 967
Century	101 311	7 403	108 714
ZIMPOST	6 619	0	6 619
Monex	10 582	0	10 582
Union Direct	65 984	0	65 984
Montreaux	115 573	62 997	178 570
NFACO	12 420	0	12 420
Total	**9 761 874**	**13 043 003**	**22 804 877**

- Clearly, the resurgence in parallel market activity has partly been a result of the payouts in foreign exchange by Money Transfer Agencies.

APPENDIX 2: COSTS OF INFLATION

1. High levels of inflation are a cancerous economic imbalance due to the following adverse effects:

   (a) High inflation **directly erodes the purchasing power of incomes**, which effectively shrinks the amount of goods and services that corporates, Government and the general public can afford. **This effect imposes on direct drain on welfare.**

   (b) An environment of high inflation, especially where interest rates offered to depositors are low, relative to that inflation, **destroys the culture of saving**, as corporates and households prefer to spend the money in consumptive and other applications rather than store it for future use. **Low savings undermine the base for future investment, employment creation and economic growth.**

   (c) Perpetual increase in the general level of prices is also **detrimental to predictable, forward-looking planning,** as corporates, households or Government fail to keep pace with ever changing cost structures.

   (d) High inflation **breeds and feeds rent-seeking speculative behavior in the economy**, as economic players seek to profiteer by layering wedges of margins in every transaction. The opium of such rent-seeking behaviour is often intoxicating and diverts resources from productive economic activity, into mere trading of an ever decreasing volume of goods and services.

(e) Episodes of high inflation also **divert resources from the real productive sectors into the money market**, as holders of wealth chase after higher and quick-yielding money market instruments.

(f) Inflation is also hazardous as **it erodes export competitiveness of an economy**. In this purview, export competitiveness has to be looked at in two respects. Firstly, high inflation increases the cost of production and given that most of Zimbabwe's exporters are price-takers, selling at given international prices, **high production costs and fixed revenues entail shrinkage in profit margins.** Secondly, in cases where sellers are not price takers in their line of export business, **high production costs at home would translate into high selling prices** which drive away international demand from the products.

(g) High domestic inflation, relative to trading partners **also puts a strain on a country's balance of payments**, as corporates and households opt for relatively cheaper imported goods. **The resultant surge in the propensity to import leads to foreign exchange shortages** and the attendant emergence of diversionary parallel market trading.

(h) High inflation **has far reaching and debilitating wealth re-distribution effects**. Those segments of our society with fixed incomes, such as pensioners increasingly suffer a real loss of their wealth to sellers of goods and services, as prices increase over time. Also under periods of high inflation, real wealth migrates from creditors to debtors particularly, in cases where sale contracts and/or lending contracts do not have built-in stabilizers to compensate for rising inflation.

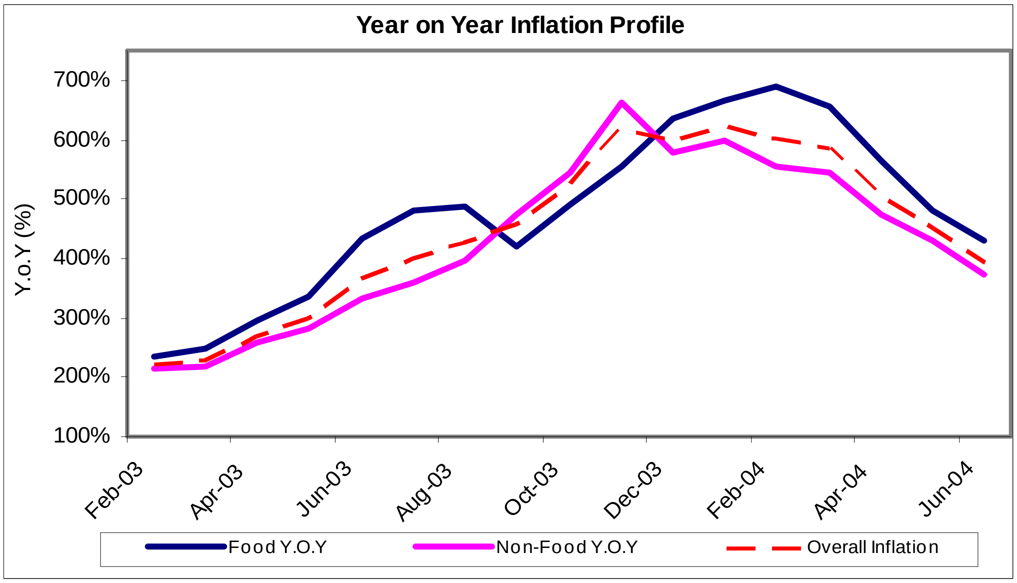
(i) High inflation **also imposes a social burden in the community, as higher unplanned costs distort Government expenditure plans** leading to cuts in social safety nets and other welfare-enhancing outlays.

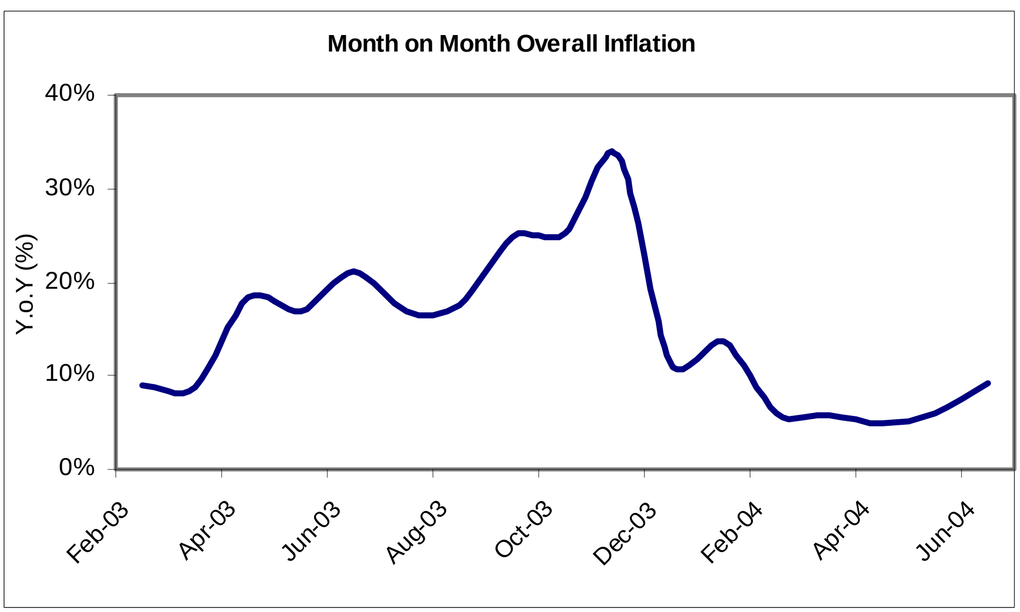
2. This alphabetic exposition of the **corrosive effects of inflation** is deliberate.

3. It is deliberate so as **to draw the attention** of producers, retailers, policy makers and civic society in general, to the need for double collective efforts in clamping down the inflation scourge.

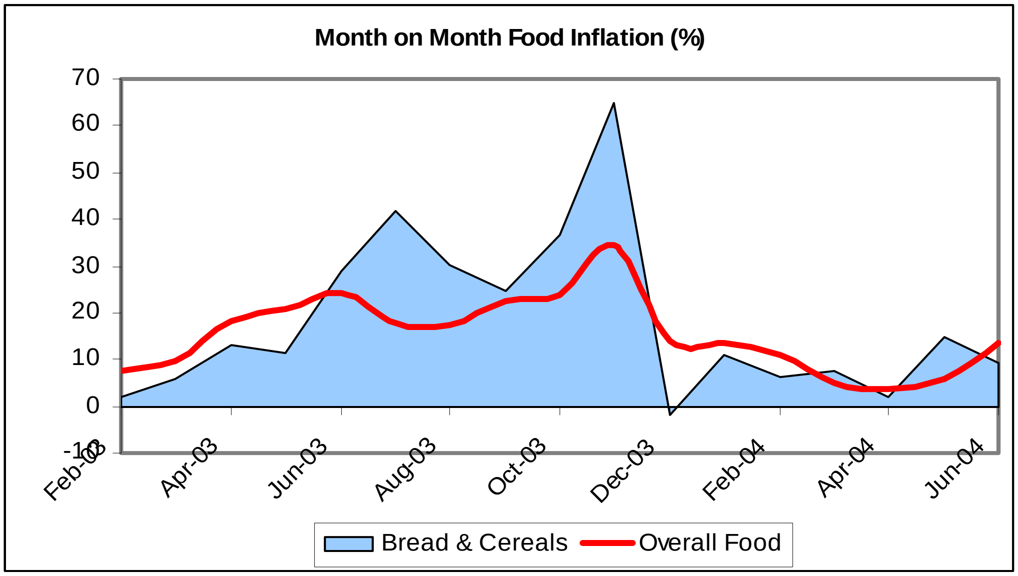
Appendix 3

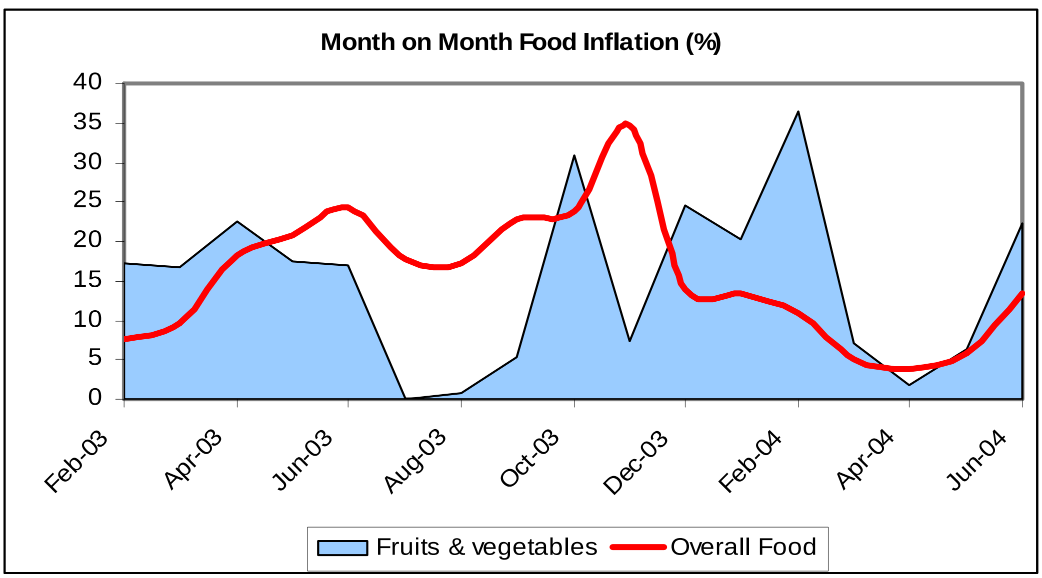
Overall Inflation Profile

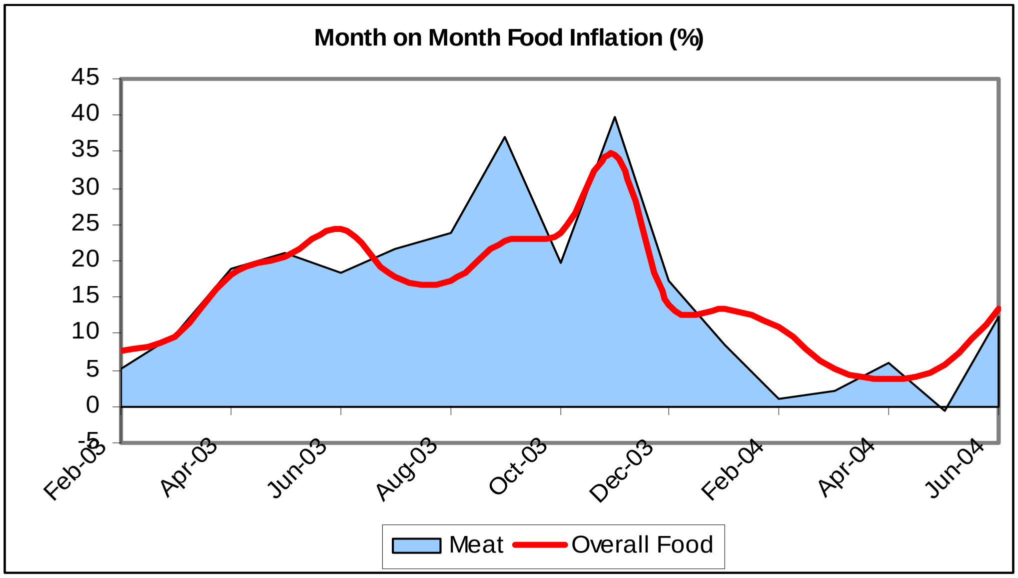




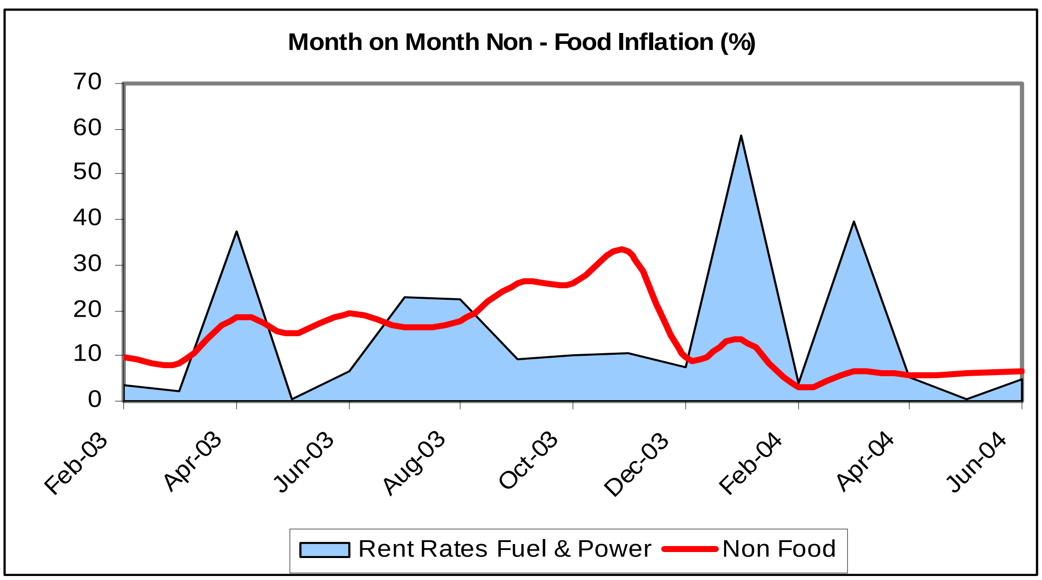
Month on Month Inflation for Major Food Sub-categories

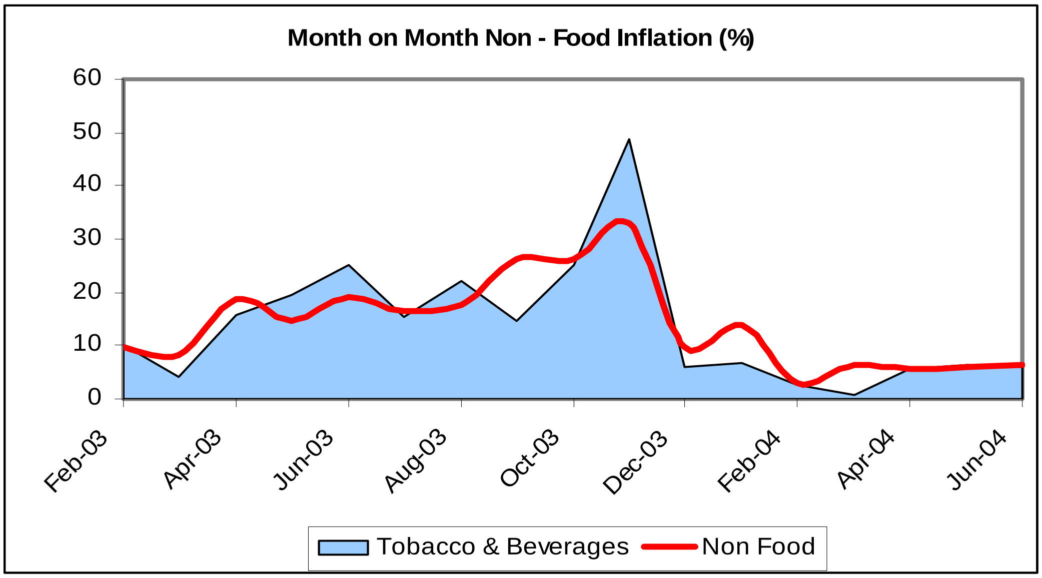




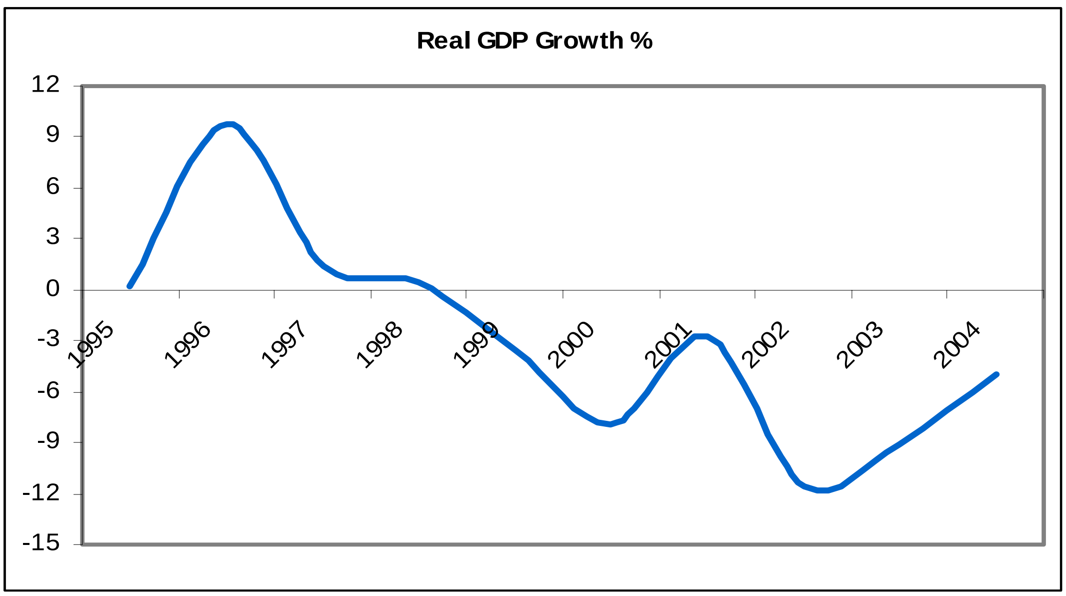


Month on Month Inflation for Major Non-Food Sub-categories





REAL GDP GOWTH



RESERVE BANK OF ZIMBABWE

JULY 2004