TABLE OF CONTENTS

1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement is issued in terms of the Reserve Bank of Zimbabwe Act Chapter 22:15, Section 46, and is also consistent with the position that we stated in January, 2006, that these policy guidelines would now be issued twice a year instead of quarterly as was the case before.

1.2 It is also noteworthy that this Monetary Policy Statement marks the mid point of my term of office as Governor and with 28 months left out of 60, it is clear that the targets this Governor was given upon entry into office in December 2003 have to be achieved within the remaining period and failure to do so is just not a viable **OPTION** for my team at the bank.

1.3 Through this Monetary Policy Statement, therefore, we seek, as the Central Bank, to bring back light, not just at the end of the tunnel, **but right into the tunnel for all Zimbabweans to see their true potential as a people**, and to rekindle hope and belief in ourselves.

1.4 We also, through this statement seek to complement all other national policies and initiatives to bring to the people of Zimbabwe, a better second half of the year than the first.

1.5 Later in this Statement I shall talk about **Sunrise: A New Beginning / Zuva Rabuda / Ilanga Seliphumile,** with the objective of getting ourselves to refocus and get back to work again.

2. CHALLENGES ON THE GROUND...

2.1 A review of the past six months shows that on the ground there is tremendous hardship among the majority of people; majority of workers and students alike; majority of women; the elderly and the frail cannot make ends meet on basics, let alone simple luxuries.

2.2 Specifically, this Policy Statement is coming at a time of severe challenges on the inflation front, limited foreign exchange availability, rising unemployment, and company closures, declining productivity, declining company viability, very low industrial capacity utilisation, diminishing economic patriotism, reduced dignity and growing selfishness in our midst among many other negatives.

2.3 Business and consumer confidence, inward investment and most economic performance indicators on the ground have also shown signs of stress during the last six months.

2.4 Such is the multitude of challenges facing us but surrender, capitulation, self-pity, suicide or running away into foreign lands is neither the solution nor an option. We have just got to face these challenges head-on and self-correct where the ball is in our court while deepening and broadening our engagement efforts with the external world where we feel the ball is in their court. The idea is for us to play the game together... its more fun that way than for the home team to play on or against each other.

2.5 As opposed to seeing gloom and doom everywhere, however this Statement is coming at a time when we in the Bank strongly believe that now is the "**beginning of the end to the proverbial seven years of famine"** and this prophecy is real for some of us.

2.6 On the back of the just ended agricultural season and other positives in the pipeline, we believe that we are now poised to enter an era of **food self-sufficiency and are capable of further raising our performance platform on all fronts provided we take the full course of the medicine we are prescribing and not half measures as before.**

2.7 We owe it to ourselves, more than to anybody else outside our borders, to get back to work as a country, and to regain our confidence as a people.

2.8 Let us get our politics right for those in politics, our economics of production right for those in business, cement these two into economic patriotism, get our social interactions and behaviors right and, our turnaround will not take us long to accomplish.

2.9 In other words, unless **politics appreciates** business and **business appreciates** politics of the day, we will be in this journey for a very long time and arduous one.

2.10 Moving on, I want, at the outset, to **congratulate** and convey our sense of gratitude to all our farmers for a **job well done** this past season. We have shown that despite the many impediments faced along the way, we still managed to produce near enough to feed ourselves.

2.11 Yes, we will still need to import more maize for our strategic reserves this year but the deficit is not as huge as in previous years, a positive development which should lessen our food import burden this year compared to last year.

2.12 His Excellency the President, Cde R. G. Mugabe and the Hon. Minister of Finance, Dr H. M. Murerwa have been very clear and inspiring about some of the key action plans and policies that we ought to take when they delivered their respective Statements to the Nation last week. **Most importantly, they identified the economic challenges we are facing as a nation, identified indiscipline, corruption, speculation and disruptions on farms as some draw backs in our economic efforts and pledged that Government will be more ruthless this time round in dealing with these ills.**

2.13 We **pledge** as Monetary Authorities to do our part in support of those announced action programs and policies which are aimed at not just fighting and winning the battle against inflation, but the **entire war against** all forces pulling our economy down.

3. QUASI-FISCAL OPERATIONS…

3.1 There has been a lot of discussion in many local and international circles about our quasi-fiscal interventions as a Bank and to what extent they have or have not been justified.

3.2 We have done a full analysis of this interventions and the untold story is now told in the supplement entitled: "A Synopsis of the Impact of the Central Bank's Interventions to the Economy from January 2004 to June 2006".

3.3 We admit that in the short-term, our money supply growth numbers have been and remain unhealthy for short-term inflationary outlook; **that** the Bank's quasi-fiscal operations would be best handled within the budgetary framework if it can and that the Central Banks should not micro-manage or compete with market institutions in the allocation of resources.

3.4 **Such is conventional wisdom in orthodox times** and we have no quarrels with this line of thought.

3.5 **But like we have argued before, we continue to call on Zimbabweans to realise that these are not ordinary times for Zimbabwe to entwine itself with orthodox** solutions. That time will come! We are coming out of a **serious dislocative land revolution** whose consequences we shall endure for a while before we are totally forgiven by the dispossessed of yesterday and normalcy returns, before we realise that taking the land was but only the first step; that it is production that counts at the end of the day.

3.6 Land issues the world over have been emotive battles and one only needs to read the Irish Land history, the history of agriculture, civil wars and land battles in the United States of America, in Australia and many other unresolved cases in Africa and the Middle East to understand that each country has had to deal with the issue in a different way and for a period after, **experienced some economic, political and social dislocation.** Some countries in Africa should take a leaf from us and take whatever lessons they want and discard what they do not like but face the challenge they will, with consequences that will throw their theoretical nice wishes into the world of reality where pragmatism will be the key word to drive those economies. We will, God willing, all still be here, graciously ready to offer our help from our experience but that day is coming as sure as the sun is going to rise from the east.

3.7 The challenge before us as Zimbabweans is to now move to the second and final phase, that of bringing **decisive finality and closure to this first important and dislocative chapter and move on to the orderly phase where we focus on restoring the productivity of these assets to positive levels never seen before.** This move, we need not prevaricate for any day longer as Zimbabweans.

3.8 As for the international community, our message is that they should not preoccupy themselves with brooding over what or how this was or was not done properly. **The Land Issue is a done deal and begrudging Zimbabweans or its Leadership over this matter for time immemorial is a monumental waste of reflective energy.** The international community must accept what is irreversible and engage in politics of economics and pragmatism as opposed to personalising these matters.

3.9 We believe as a Bank that there are more troubled spots in the world which should preoccupy world leaders than continue with sanctions imposed on Zimbabwe over this land issue. Sanctions against Zimbabwe are affecting the unborn as badly as they are affecting the living and those unfortunate to die during this period.

3.10 Fuel challenges affect the ambulances destined for the maternity wards as well as elderly homes, school buses, grinding mills in rural areas in as much as they are affecting the funeral parlours. Lack of adequate drugs affect those who need the greatest care among us, the sick, those with malaria, HIV/AIDS and those with child killer diseases, and yet we claim to be a caring world with targeted sanctions.

3.11 **Faced** therefore with the circumstances of **sanctions and lack of international financial support**; **Faced...** with **the drying up** of voluntary funding and support to agriculture by our banks from 2002 onwards due to collateral concerns and stability factors; **Confronted by the need to sustain operations** of certain parastatals while long-term solutions are sought…; and **Faced** with the choice of providing local currency to the Grain Marketing Board to buy maize from our farmers or let that maize rot on the roadside and yet tomorrow be asked to look for scarce foreign currency to feed the nation, and; **Faced** with the inability of conventional budget frameworks and failure of these systems to accommodate and timeously respond to some national emergencies and hyper-inflationary pressures, the Central Bank's **quasi-fiscal interventions** have served the people of this country as a **survival kit** against total economic collapse, against the killer punch of sanctions and as an ongoing test against conventionalism. Without such interventions, only God knows where we would be today and we leave you to speculate.

3.12 Therefore, faced with these challenges over the last 32 months, **we could not,… we cannot… and we will not stand-by as your Central Bank, and let this economy crumble simply because our interventionist policies will go against the grain of certain established norms;** (established by whom you may care to ask?)!

3.13 We call upon Zimbabweans to be authors of new economic development models for a change instead of following what others penned already.

3.14 Accordingly, I want the Nation to know that urgent dam repairs and construction as well as viably structured irrigation infrastructure projects, with capacity to uplift our economic turnaround, **will continue to receive our support for as long as the market is not prepared to take up such challenges.**

3.15 Not everyone amongst us has a very clear vision of how beautiful and economically self-sufficient Zimbabwe can be in a very short space of time. We fortunately do have that clear vision and believe that this is possible.

3.16 We want it known that we will not, if confronted with future challenges of market and budgetary failures**, sit back and fold our arms in despair and self-pity,** letting key economy-wide critical infrastructures collapse **with disastrous consequences** on human life. Ours is a maintenance job when everyone else who is supposed to do their job(s) have relapsed.

3.17 Shortages of foreign currency for the importation of food, fuel, and drugs; for our international debt service programs and for industrial machines and raw material imports cause sleepless nights to this Governor and his team.

3.18 Where we can eliminate such needs and pressures through import substitution and self help efforts, **we will not as your Central Bank,** be found wanting in our support of such efforts.

3.19 In the medium to long-term and **certainly** by the end of 2008, **Zimbabweans will be happy that we endured this infrastructure development pain earlier on rather than later.**

3.20 We are keen to see the Infrastructure Development Bank and other market players get their act together and start playing their developmental roles much sooner rather than later because, quite frankly, some of these interventions squarely belong more to those institutions than to us as a Central Bank.

4. A LEAF FROM THE ECONOMIC HISTORY OF SELECTED COUNTRIES.

4.1 A recent book entitled Macroeconomics in the Global Economy by renowned Economists and Econsultants Jeffrey D. Sachs and Felipe Lorraine B, Practice Hall Publishers (1993) gives us insights into the economic histories of some of the countries we admire today.

4.2 Main causes of hyper-inflation in the majority of countries studied were revolutions, wars, certain economic dislocations and other exogenous natural factor causes which led to money printing and in emergency cases, quasi-fiscal operations.

4.3 In Europe and some parts of Asia, soon after the wars and **revolutions,** high inflation was **decelerated by reparation payments from defeated nations.**

4.4 For the USA, economic history shows us that before the 20th Century, the main cause of inflation, which peaked at an annualised rate of 5570% (monthly 40%) in March 1864, was money printing to finance civil wars. Over 1775 – 1783, a total of 80% of USA total Government spending was from printing money, argued Sachs and Lorraine.

4.5 In the mid-to-late 1980s countries like Argentina, Bolivia, Brazil, Peru, Poland and Yugoslavia went through hyper-inflation episodes, with monthly rates of average price increases ranging between 60-260%.

4.6 Through resolve, policy consistency, clamp-down on corruption and unity of purpose, they managed to extinguish these high levels of inflation to the current low and stable thresholds.

4.7 We too as Zimbabweans can do it. And we must do it without any further delays.

5. THE BIGGER PICTURE...

5.1 It has to be said also, **from the outset,** that economic policies on their own will not do the job as there are other **critical non-economic behavioural and environmental factors** which ought to **form part and parcel** of our action-matrices if we are to fully deliver the economic liberation that we so desire to the majority of our people.

5.2 Stakeholders have often sought our views and commentary on the bigger picture which naturally affects our deliverables. Consequently I hereby offer some reflections on that front.

5.3 We are happy with developments on the political front where efforts are under way to find a lasting solution to the long and sharp stand-off between the United Kingdom (UK) and Zimbabwe which began with disagreements over the land issue.

5.4 A just settlement on that front will lead to a better international deal for Zimbabwe than is the case at present where many nations, become of certain alliance and club rules, having been sucked into taking sides in that dispute.

5.5 We are happy too with the call from His Excellency the President, Cde. R. G. Mugabe for the re-building of bridges with those in the international community interested in such rebuilding.

5.6 We are also pleased with the call by His Excellency the President, for church leaders to peacefully mediate on any internal differences Zimbabweans may have among themselves.

5.7 The recent National Day of Prayer attended and led by His Excellency the President, Government and church leadership as well as thousands of ordinary Zimbabweans showed our commitment to upholding God's Supremacy, infinite wisdom and guidance when dealing with national challenges, acknowledging that no single individual on his or her own can successfully determine the future of this country. But with God, all things are possible.

5.8 We thank His Excellency The President for again leading the Nation in such an exemplary and religious manner. The nation must never tire when it comes to seeking heavenly help towards our problems.

99 Year Leases...

5.9 We are also very happy with the developments on the 99-Year Land Leases where work has begun in earnest to finally resolve this confidence-building issue.

5.10 The exercise should now allow banks to begin funding agriculture without the need for the Central Bank to do so as has been the case to date.

5.11 We pledge to also begin tailing off our involvement in this area as soon as the banks are ready to assume this responsibility.

5.12 We also agree and fully endorse the concept of performance and capability based leases particularly when it comes to A2 commercial farmers.

5.13 The same leases ought to attract hand-over fees based on size of land concerned, government inherited infrastructure such as houses and dams and rainfall region. Proceeds from such fees should form a fund for land utilisation and inspection follow-ups which are necessary to ensure that every potential land is being put to good use. In business, as in any strategic implementation of a programme, you get what you supervise!

Bilateral Investment Protection Agreements (BIPAs)

5.14 We too, are happy with the way forward announced by the Government regarding the compensation framework. Bilateral Investment Protection Agreements (BIPAs) which were inadvertently compromised during the height of the Land Reform Programme.

5.15 We pledge to play our role in crafting win-win payment frameworks for such BIPAs, especially where it involves foreign currency. We expect affected BIPA parties to assist through additional new investments from which their foreign exchange needs can be met and not from current, constrained sources.

National Economic Development Priority Programme (NEDPP)

5.16 We furthermore applaud Government for seeing the need to set up the National Economic Development Priority Programme (NEDPP) framework as the guiding torch around which our turnaround programme is anchored on.

5.17 The inclusive nature of the Programme involving Public and Private Sector players, parastatal units, academics and the media is sure to impact positively on the quality of output therefrom.

Bringing Closure To The First Phase Of Land Reform…

5.18 Zimbabwe embarked on a fulfilling and irreversible Land Reform Programme which all progressive parties including the Central Bank support.

5.19 There have been attempts in certain quarters to mislead the Nation and the international community at large, by suggesting that our vocal stance against indiscipline and farm disruptions mean that we are not supportive of the Land Reform Programme or want it reversed.

5.20 As nothing could be further from the truth, we will continue to ignore such deliberate misinformation and will not relent on our demands for greater productivity on the acquired land and the critical need for all Zimbabweans to observe and abide by the country's laws, order and discipline be it on farms, or non-farming spheres of our lives.

5.21 The revolutionary gains of Land Reform will mean nothing if that land cannot be used as a tool for our economic emancipation, self reliance and food security.

5.22 Accordingly, it is time, as we prepare for the forthcoming summer season, for Central Government and provincial structures to declare war on any form of new disruptions on our farms.

5.23 Our law enforcement agents must refuse to be used to break the law or to disrupt operations on farms as has been in some cases, and let me hasten to say that this is not a black and white issue but a productivity war we are facing.

5.24 We thus suggest the urgent need to **bring closure** to the Land Reform Programme by declaring a moratorium to new allocations, new invasions and new disruptions effective 1 September, 2006.

5.25 This would give everyone currently on land or with an offer letter an opportunity to reorganise themselves, source inputs for the coming summer season and be able to get funding from the market to begin ploughing without the fear that someone will emerge from somewhere and claim ownership of the same piece of land.

5.26 Land Reform programmes are a never ending process as long as new people are born, and come of age or personal circumstances change and today's industrialist opts for farming instead of tool-making.

5.27 Unless therefore we declare this moratorium and try to support fully those currently on the land, the programme will turn out to be a slow moving train whose entry and exit doors remain open and the conductor is unable to charge anyone a full fare for the trip.

5.28 We need to follow-up the closure by insisting on minimum specific quantities of output commensurate with size and location of one's farm.

5.29 Those who cannot meet those minimum quantities per season must face stiff penalties meted without fear or favor and these national targets ought to be known, signed for and made public.

5.30 **Such establishments, once targets have been agreed upon, must be viewed as national strategic posts whose disturbance by whoever is to be met with mandatory jail terms akin to attempts to rob a bank.**

5.31 All idle land ought to be brought into production even by those already in possession of one farm but have extra capacity and a passion for farming.

5.32 We suggest a pragmatic approach which will see these idle farms leased out to capable indigenous black farmers for limited periods of time, even on one year leases, until new persons have been identified. This in our view is better than to leave the land idle and sacrifice national food security demands on the alter of an idealist approach that will take time to achieve and perfect.

5.33 This rental or temporal lease approach could be most beneficial to cattle ranching activities, dairy operations, sheep, goat and pig farmers who could make do with the huge CSC/Arda idle farms scattered all over the country and those other farms which were acquired by Government but remain idle.

5.34 Foreign investors from friendly countries ought to be considered for joint-venture leases by Government for them to carry out their intended farming operations for minimum lease periods.

5.35 The same rental/temporal lease program ought to be granted to all corporate farmers who wish to grow crops for their own factory consumption, export and beneficiation.

5.36 As the Central Bank, we can consider case by case frameworks of export proceeds retentions if the corporates choose to use their own excess Zimbabwe dollars for these ventures as opposed to seeking subsidised finances from us.

5.37 This will result in increased mechanisation in the country, new job creation, better use of land, increased exports and a "feel-good" factor that comes with flying over, walking or driving past green-fields, animal fields and evident productivity throughout the country compared to the situation we currently see in some parts of the country as one travels around.

5.38 A land utilisation tax applied through an inverse relationship to production ought to be introduced to penalize large farm holders who produce nothing on their allocated farms. A full credit system would apply to one who has met his/her output quota.

5.39 Last but not least, the country must decontrol farm output prices, reject any form of excuse(s) for non-performance by farmers, intensify and extensify provision of extension services to assist farmers with technical know-how.

5.40 Central Government must declare war against farm equipment, crop and animal theft; declare war against wanton cutting and uprooting of tea and coffee plantations, pine and gum trees all of which take a considerable number of years to grow and bring up.

5.41 All these broader picture issues are certainly poised to impact positively on our economic, social and political turnaround programs.

6. MONETARY POLICY VISION...

6.1 Back to our core business, it is important that we **reiterate the need for unshakable unity** of purpose and a **shared vision** in all that we are attempting to do as Zimbabweans. The Bible is very clear about the **Vision** issue in **Proverbs 29:18.**

6.2 Our vision as Monetary Authorities remains the same as those **aspirations** that have been articulated by Fiscal Policy Authorities and the National Economic Development Priority Programme (NEDPP).

6.3 We seek collectivity and not singularity in crafting and implementing policies that drive Zimbabwe's economic potential to prosperity levels far beyond its highest pe ak registered in the 1990s.

6.4 This we seek to achieve on the back of action programmes that tap into our Agrarian Reform Programme, abundant mining resources, manufacturing capabilities, tourism endowments, high literacy levels in the country and the hardworking culture of our people.

6.5 Our eyes will remain primarily focused on **price stability with single digit inflation expectations by the end of 2008.**

6.6 By December 2008, we envision key economic deliverables which include;

(a) **A secure and stable financial sector with world-class standards.**

(b) **A stable payments** system and a strong currency that would have regained its strength against other regional and international currencies.

(c) **A regime of market-driven,** low interest and stable exchange rates (rates convergence) free of any artificial value determination and capable of withstanding any speculative attacks on the back of positive GDP growth and growing foreign currency reserves.

6.7 We will also strive to craft and implement **supportive** policies that are aimed at ushering in sustained periods of:

(i) **Food** self-sufficiency and **excess for export.**

(ii) **Fuel** self-sufficiency with **excess for export**

(iii) **Electricity** self-sufficiency with **surplus for export**

(iv) **Export Sector Viability** and growth.

(v) **Paying off** our arrears or getting them rescheduled within the context of comprehensive socio-economic programmes.

(vi) **Frameworks** for the much needed Balance of Payments support, international lines of credit on the back of positive international credit ratings with most global economic players and opinion makers.

(vii) **A reduction to single digit proportion in the level of unemployed youths and adult Zimbabweans, as well as those living below the national poverty datum. An aggressive SME programme will be mounted to realize this objective.**

6.8 **We hope too**, by December 2008, to have positively contributed to the **creation** of a sound and friendly investment climate in which all current investor concerns are addressed, making Zimbabwe the most attractive foreign direct investment destination in Africa.

7 IN PURSUIT…

7.1 In pursuit of the above deliverables, our policy thrust is to:

(a) **Implement** policies and programs that reign in inflationary pressures, so as to anchor economy-wide macroeconomic stability.

(b) **Promote** financial sector stability and cultivate a National saving culture.

(c) **continue supporting** all productive sectors of the economy through direct and/or market instruments of intervention.

(d) appeal for **increased productivity** and discipline across the board, from chief executive of company, parastatal or ministry to the farm worker, to the cleaner at the factory floor.

(e) **support and sustain export** generating activities and initiatives.

(f) influence Central Government to gradually reduce and eventually eliminate irrational support mechanisms inadvertently impeding our current input-output valuation models and fair compensating systems of same (*pricing models)* while at the same time encouraging Authorities to remain alert to the need for sustainable support frameworks directed at the needy and the vulnerable Zimbabweans wherever they may be.

(g) fight and win the war **against corruption**, indiscipline and speculation in our midst.

8. COMMITMENT TO IMPLEMENT…

8.1 Our commitment to implement and stay the course in the face of inevitable pain along the way is key to the realisation of our dreams.

8.2 We commit as Monetary Authorities, to avoid policy reversals and remain alert to any inadvertent negative impact of our policies within the confines of our delegated mandates in specific areas.

THREE VICES WEIGHING DOWN THE ECONOMY…

8.3 Over the past 32 months, the turnaround efforts have come face to face with the hazards of the three vices of **indiscipline, corruption and speculation,** which have weighed us down and continue to impose an intolerable burden on the people of Zimbabwe and the economy in general.

8.4 To these three we now add another vice called **bureaucratic inertia.** This disease is depriving the people of Zimbabwe from benefiting from Government programmes and projects due to unnecessary roadblocks that are encountered along the road towards implementation

8.5 A plan or programme implemented two or three years after commitment is unlikely to produce the same results with that implemented timeously, especially in an inflationary environment.

8.6 Often, Central Government has come up with noble projects and policies, but the same have fallen flat at the implementation stage or have suffered from policy reversals, indecision, and contradictions as ministries and parastatals fought turf-wars at the expense of the Nation at large.

8.7 As long as these vices are not dealt with decisively, all our efforts at turning around this economy will count for nothing.

8.8 The ugly head of **indiscipline** has continued to reflect itself through foreign exchange externalization, under-declaration of exports, over-statement of imports, diversion of free funds destined for Zimbabwe, farm disruptions, looting and destruction of farm equipment and infrastructure theft of ZESA copper wire, cables transformer accessories and telecommunication cables, among many others.

8.9 The scourge of **indiscipline** has also shown itself through diversion into grey markets of inputs, such as seeds, fertilizers diesel and soft loans, meant to support farming and other productive activities, as the perpetrators look for quick monetary gains.

8.10 **Speculation** has surfaced at an alarming pace in virtually all sectors of the economy, **with the demand for cash** in the economy rising at astronomical rates, as people are positioning themselves to take advantage of rent-seeking opportunities.

8.11 The vice of **corruption** has continued to show itself at varying levels and in different institutional structures, further undermining the turnaround momentum.

8.12 Examples of corruption that we are having to deal with are:

- (a) Illegal foreign currency dealings
- (b) Smuggling of precious metals and even Kapenta fish in the middle of Kariba by our fishermen,
- (c) Non-payment of third-party insurance by foreign travelers driving through our borders,
- (d) Under-pricing and over-charging of commissions on agricultural exports
- (e) Abuse of payments through the voucher system and non-remittance of other payments that are made offshore in the tourism sector.
- (f) Unrecorded organised illegal hunting and poaching activities.
- (g) Non-performing cross-border investments whose original funding would have been siphoned from Zimbabwe.
- (h) The "Hawala System" type of leakages through money transfers
- (i) Selling and renting properties in foreign currency that is banked outside Zimbabwe,
- (j) Refining of mineral exports outside Zimbabwe and under-declaration of full value, type, quality and volumes.
- (k) These malpractices have denied this economy and people of Zimbabwe full value in foreign currency thereby significantly contributing to:
  - (i) reduced foreign exchange earnings and receipts
  - (ii) shortages of fuel, drugs and working capital needed to uplift production in factories
  - (iii) high inflation
  - (iv) arrears to our international creditors
  - (v) weakening confidence in the economy.

9. BLAME GAME...

9.1 Zimbabwe has approximately 14 million people, all capable of being appointed Central Bank Governors tomorrow. We can therefore change Governors daily for the next 14 million days but none of the newly appointed Governors will be able to change the face of this economy one inch for the better unless at the national level, we take decisive steps to get rid of the endemic corruption which is now part and parcel of the Zimbabwean life, especially among the influential.

9.2 With respect to our ability to fight corruption, the greatest drawback has come from Central Government which has not given sufficient resources to our Ministries of Home Affairs, Justice and the Anti-Corruption Department and Commission.

9.3 In our interaction with these critical arms of Government we have come to appreciate that we cannot expect our police force to discharge their duties on a shoe string budget, on meager allocation of fuel and in some cases, without adequate and suitable transport.

9.4 We have also come to appreciate that we cannot expect our Justice Ministry or the Attorney General's Office to efficiently discharge their investigatory and prosecution duties without adequate transport and financial resources to enable the prosecutors, judicial officers and judges to move from place to place, computers and other essential accessories so necessary to facilitate their brain-work.

9.5 Equally, we have come to appreciate that we cannot expect the Anti-Corruption Crusade to gather momentum and succeed without being well resourced.

9.6 In all these cases, it is as if Central Government is undecided whether or not to allow these arms of Government to discharge their mandate.

9.7 In strategy, it is common knowledge that performance is a product of not just one's motivation, environment and technical ability but also, critically, of the resources put at one's disposal. It is pointless to go into battle with a highly technically competent and well motivated group of soldiers but who have no guns and other forms of artillery and even food and expect that army to win the battle let alone the war! That to us seems to be the case with most critical Government arms.

9.8 **Our advice as Monetary Authorities is that we cannot afford to be half-hearted about these issues. It is either we want to go into the battle to win or else we should not begin.**

9.9 We are pleased though, and it is better late than never that Central Government, through the Minister of Finance, last week announced additional resources to these critical ministries and it is our hope that the resources will be put to good use so we begin to witness improvements all round.

9.10 The Central Bank has had to chip in on a number of occasions with resources to support all the institutions referred to above in one of those quasi-fiscal operations out of joint frustration from ourselves as well as the institutions concerned, particularly after seeing that perpetrators of crime are taking advantage of the glaring lack of resources at these ministries.

9.11 I guess in simple terms, my message to all stakeholders, to Central Government to the media and the generality of Zimbabweans is, this Governor and his team need help – help to stamp out corruption and indiscipline wherever it is so we can achieve our goals in the remaining 28 months of our terms of office.

9.12 It is thus clear to the Central Bank that these vices have become the **biggest millstone around Zimbabwe's neck** and unless we tackle these vices openly and decisively, we will continue with the blame-game and ad-infinitum.

UN-INFORMED VENOMOUS OUTPOURINGS…

9.13 It is also clear to me that **venomous outpourings** by some of our arm-chair critics and boardroom analysts seeking to convince the most gullible amongst us, in their eloquent technical jargon, and retrogressive never-see-good forecasts which seek to lay blame for all our evils on one institution, one person, or one stakeholder constituency, are nothing more than what one writer, described during the Rhodesian era as "**pseudo-economic intellectualism** feeding from reckless dishonesty."

9.14 The time for the blame game is over. My appeal is for this Nation to collectively turn on a new leaf; turn on a new page containing rules of economic repentance, of uprightness, trust in one another and responsibility. Hence our launch of the Concept of Sunrise: A New Beginning.

9.15 The extend, depth and range of misdemeanors in this economy call for self-introspection at the personal, institutional and leadership levels be it in the public or private sector spheres of our operations.

9.16 The setbacks at hand are not soluble with singular efforts at the private sector, or the public sector, Government, parastatals and local authorities, NGO's or the person called you and I. Let us respect and seek God's guidance on the way forward, as we work in unity for the same National objectives.

PRIVATE SECTOR PLEASE REALISE…

9.17 We cannot all be exporters and therefore earners of foreign exchange. Those few in that position, by their sheer ingenuity or privileged station in life must realise that hospitals for example do not, by their very nature, earn much if any, foreign exchange to sustain themselves. Non-exporters do have legitimate expectations that exporters will bring back all their foreign exchange to assist them in their mobilisation of imported drugs, fuel, fertilizers among other requirements.

9.18 The private sector's profit motive must, therefore, not engulf us beyond the reasonable sense of co-existence with the less privileged members of our communities.

9.19 **Monetary Authorities are also not without blame. We may have underperformed in our policy formulation and advice to Government but are ready to make good our shortcomings beginning with this Statement, guided by the invaluable advice stakeholders have and continue to give us.**

10. NO PAIN, NO GAIN...

10.1 Some of our policies are going to be painful, very painful to the wayward and hurtful to speculators, the underground market dealers and their associates.

10.2 In some cases, the pain is going to be sharp and short but the effects will be beneficial to many and the economy in the long-run.

10.3 I ask for your prayers that I and my team do not become physical, intellectual and emotional victims of the ruthless behaviours and tendencies of these speculators as they **begin to taste medicine from hell and start burning** from the inevitably necessary policies we are going to **implement henceforth.**

10.4 You will hear them complain bitterly and loudly in bars, in the press and at secret locations while some will use their ill gotten wealth to sponsor general disorder and targeted malice at the Governor and his team as a way of vending their anger at our policies.

10.5 As fellow Zimbabweans, we have to face these vices and tackle them resolutely, and with no further delay, fear or favour.

10.6 The successful turnaround of this economy is a mission for which some of us have given themselves up to fully accomplish even if we remain without friends, waiting for that promised day when this Governor will be hauled before a tribunal for allegedly destroying this economy or certain businesses.

10.7 If some or all of us resign in capitulation, without doubt, we will prolong the period of pain, and with this, risk total obliteration of raising the standards of living for the majority of Zimbabweans for many years to come. Our future generations would not forgive us, were this to be allowed to happen.

SURVIVAL UNDER SANCTIONS...

10.8 Whilst to some few, the question of whether or not Zimbabwe is under sanctions still remains a debatable subject, it has now become starkly apparent to many that the country is confronting a systematic economic warfare that is being orchestrated by those in the global community who do not agree with us in the various forms and manner of our socio-political and economic spheres of interaction.

10.9 The adverse systematic effects of the so called targeted sanctions are there for all to see and bear, since from the unborn to elderly and the weak, the rural and urbanites alike, women and children, the dying and the dead have all been affected in one way or another. Yet we are contend to regard them as targeted sanctions!

10.10 As Monetary Authorities, we urge those who still regard such sanctions as a tool for change to review and remove them infavour of the Mkapa dialogue/mediation route as this provides for a more sustainable progressive path through dialogue, as opposed to using blunt instruments of sanctions which bloody the masses more than they cut to the ill-conceived objectives.

10.11 In the dark days of colonialism, before our very own eyes, we saw and felt the form and character of such economic warfare, when the wider community of nations, including the United Nations, slapped painful economic sanctions on the then Rhodesian Government following the Unilateral Declaration of Independence (UDI) in 1965.

10.12 Whilst the historical premise for those sanctions is not the point of note here, it is imperative to examine and trace how the country at that time managed to weave itself into a successful and strong economy within the sub-region, even under the strain of sanctions.

10.13 In a compelling recount of Zimbabwe's pre-independence economic history, in the book titled "A Portrait of An Economy Under Sanctions, 1965-1975", John Handford, vividly shows the following factors, as being critical learning points for economic management in extraordinary circumstances of sanctions:

(a). The mindset of the people; the "human spirit" has to be one of self-worth, positive and optimistic in **own capacities to deliver own prosperity.**

(b). Turning the negative impact of sanctions into an opportunity for internal creativity in search of survival, stretching the production possibilities frontier through new ways of doing things at competitive costs.

(c). Making full use of the opportunities presented by the comparative advantages conferred on the country by its natural resources in agriculture, mining and tourism.

(d). Ingenuities in overcoming exogenous factors through inventiveness and forward planning.

(e). Identification, and working closely with a few trusted counterpart countries to germinate growth in investment, exports, and special lines of credit that sustain key sectors of the economy.

10.14 As the free, independent Zimbabwe of today, we are, ourselves, once again faced with the disruptive threat of sanctions, requiring that we invoke extraordinary measures to deal with the attendant extraordinary circumstances.

10.15 It must be said, however, that the combined effects of the above forms of malpractices, corruption, speculation, greed and indiscipline now prevalent in our economy is worse than the effect of sanctions on our economy.

10.16 As argued earlier, Rhodesians survived 25 years of international sanctions and war because they were a united lot, believed in what they stood for as a people, were disciplined as economic actors and had law and order regulations which people defied at their own peril in those dark days.

10.17 **There was a big whip for indiscipline, there was intolerance for ineptitude, dislike for the lazy and an abomination for the corrupt regardless of position in society. There was total obedience to authority and accountability for one's day at the office, in the field and the factory floor. We need the same entrepreneurial values even today.**

10.18 Through non or delayed implementation of agreed Government programmes, we are causing more inflation because, by the time we get round to implementing a project, its cost has doubled or trebled and the result is an increasing population of white elephants without legs throughout the country in the form of half completed projects that become an eyesore to the local population and a drag to the focus, hence inflationary.

10.19 Because managerial effectiveness is judged by the successful implementation of an idea or program, many of us are hiding our inefficiencies and lack of depth in meetings after meetings and after so many years of this approach, we end-up claiming positional seniority wherever we are, in the private sector, in Government or parastatals, yet we are shy when it comes to taking tough decisions on the implementation front.

10.20 Captains of Industry and Commerce as well as Government officials now need to re-assert themselves now more than at any other time in our history, showing direction, vision and determination to implement urgent corrective policies and programs that address Zimbabwe's current set-backs. There should be no excuses for failure.

10.21 It is not the time for too many meetings to plan and write new economic blue-prints. All these are there and apart from changing covers to some of these plans, the rest of the contents is not new, and remains as aptly relevant as it was then.

10.22 To do business as usual, to think as usual, trust as usual, eat and drink as usual will consign us to the dustbins of history and condemn us to perpetual misery!

10.23 We need to streamline and weed out policy inconsistencies.

10.24 We need to creatively prune down our Christmas tree of subsidies, leaving out those who can fend for themselves from our grocery list of Christmas presents for the needy and vulnerable, in the rural and urban and semi-urban settings.

10.25 We need to contain our ministry expenditure appetites to levels consistent with our internal resources.

10.26 We need to take necessary pain directed at the many legs and arms amputating in our economic system that now thrive on nothing else but "deals" and a speculative mentality.

10.27 In doing so, it will be inevitable that many of those who had developed near cults in subversive dealings will incur heavy losses, as we close loopholes for rent-seeking behaviuor.

10.28 In this Monetary Policy Statement, we introduce far-reaching changes, as we implement the first phase of currency reforms to fight off the speculative vices that are draining the turnaround momentum.

10.29 Drastic draconian and painful as some of the prescriptions will be, these measures have become inevitable, so as to lay the foundation for a tranquil and prosperous Zimbabwe.

10.30 In this Monetary Policy Statement we, therefore, lay forth what we believe is the necessary painful medicine we have to collectively swallow as a Nation so as to rid our economy of the burgeoning ills, most of which are within reach of our own remedial means.

10.31 We are, in this Monetary Policy Statement, literally declaring war against speculation through revolutionary payments system reforms.

10.32 We are re-declaring war against inflation.

10.33 We are re-declaring war against those who received targeted concessional financing and diverted it into non-productive uses.

10.34 We are declaring war against cash hoarding in office and house ceilings and in car booths, we are making redundant, useless and obsolete, all Zimbabwe bearer cheques which are illegally circulating in our neighbouring countries having been illegally exported in the first place.

10.35 We call upon all stakeholders to play their role in the stabilisation effort, as only through collective and purposeful action, we can hope to succeed in our righteous endeavors.

10.36 We are re-invigorating the export sector in an unprecedented way and we call upon our exporters, old and new, to open a new chapter by responding progressively to the measures we are putting in place now.

10.37 Also in this Monetary Policy Statement, we take the necessary medicine to drill the death nail on the head of the foreign exchange parallel market, and we say to those who to this day, have been plying this destructive avenue, **their trade is no more**.

10.38 The gravity of the challenges confronting us as a nation also impels that we take far-reaching measures in addressing the excessive demand for cash in the economy, fuelled by the high inflation, as well as hoarding practices by fly by night speculators.

10.39 We have also come to face the disheartening reality that even some large players in the retail and wholesale businesses have become cash-driven barons, electing to stash trillions of local currency in the bellies of their premises basements in order to finance parallel market and other speculative activities.

10.40 In the face of all these adversities, this Monetary Policy Statement invokes the country's Anti-money Laundering laws with greater vigour to make sure that those thriving on peddling dirty money in our economy go out of business overnight.

10.41 It is therefore, necessary that at the onset, we call upon the Nation at large and the business, political and social leadership of our spectrum to bear with us, as we are hereby going to induce the necessary shock therapy which at this stage has become an inevitable course of action.

10.42 In presenting this turning point Monetary Policy Statement at this critical moment in our economic history, we are also breaking away from past norms, where first portions of the Statement dealt with overviews of historical developments.

10.43 In the coming sections, we therefore lay out upfront, the concrete package of measures this Monetary Policy Statement introduces to effectively change the face of our economy for the better.

FIRST NATIONAL BUILDING SOCIETY (FNBS)

10.44 In the 2005 Fourth Quarter Monetary Policy Statement issued on 24 January 2006, FNBS was provided with an opportunity to attract new investors who were supposed to inject capital into the institution by 30 June 2006, after which if the initiative failed, the institution was going to be liquidated.

10.45 In the spirit of fairness and transparency, we wrote letters to the proposed shareholders of FNBS in June 2006, requiring confirmation of their contributions to the $96.59 billion that was required to be deposited with Reserve Bank by 30 June 2006; and demonstration of their capacity to raise the $750 billion minimum capital required by no later than 30 September 2006.

10.46 All the proposed shareholders indicated in writing that they had no capacity to inject the required funding and pulled out of the scheme. The major shareholder proposed to include undeveloped land as capital which is contrary to international best practice and the provisions of the Banking Act and Regulations.

10.47 At an FNBS creditors' meeting held on 17 July 2006, the Chairperson of the creditors' meetings indicated that he would prepare a report for the High Court, to enable the liquidator's lawyers to apply for the discharge of the Scheme of Arrangement, and return the Society to final liquidation.

10.48 As Monetary Authorities we fully endorse the liquidation of the Society as all possible attempts to revive it have failed.

INFLATION DEVELOPMENTS

10.49 Before moving on to the substantive policy measures of this Statement, it is imperative that I present some of the major recent developments on the inflation and monetary aggregate fronts.

10.50 Inflation is still the number one enemy in our turnaround efforts, increasing on an annual basis from 1042.9% in April 2006 to 1193.% in May 2006, before declining to 1185% in June, 2006.

10.51 Apart from the known traditional causal variable of inflation, which is high growth in money supply, Zimbabwe's inflation has also largely been driven by the benchmarking of prices on the **parallel market exchange rate**.

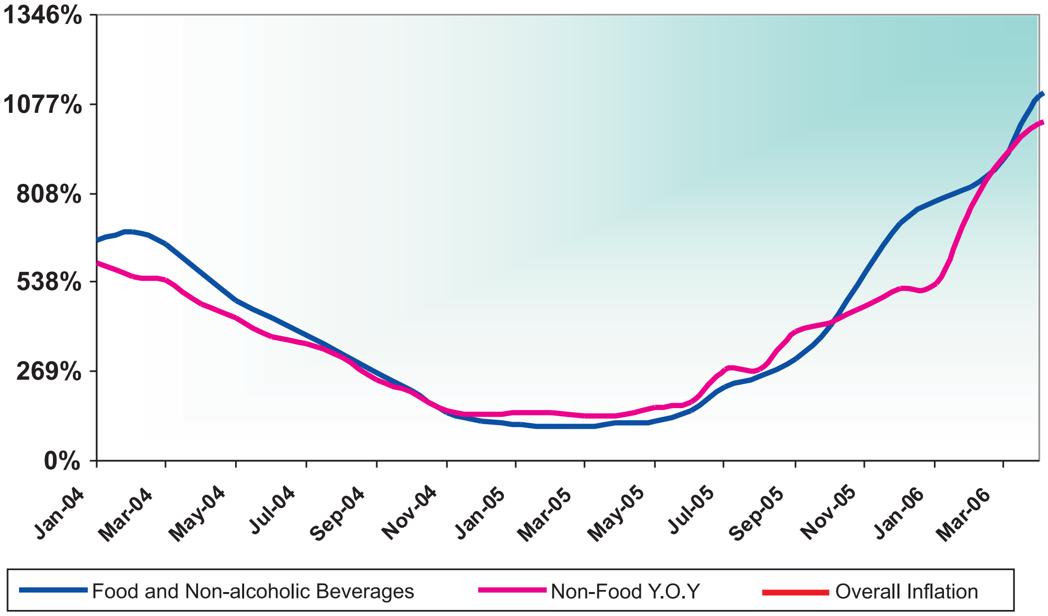
10.52 The vices in the foreign exchange parallel market are, therefore an evil that needs redress through policy realignments, punishment of offenders and decisiveness.

10.53 The **multiple pricing structures** evident in the various sectors of the economy, for example, fuel and grain, have also created price differentials that breed arbitrage opportunities, which in turn spur inflationary pressures.

10.54 We are pleased that Cabinet last week agreed to deal with the issue of fuel, electricity and inputs in a manner that begins to address the issue of multiple prices and related subsidies.

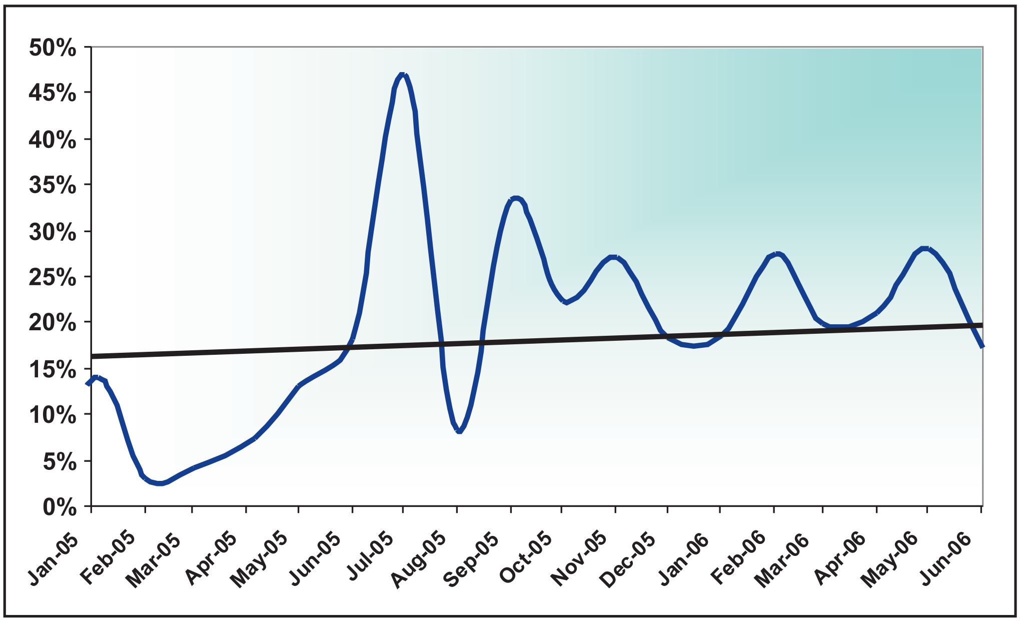
10.55 Figure 3 below shows the annual inflation profile from January 2004 to June 2006.

Year on Year Inflation Profile



10.56 The month-on-month inflation rate has been on a rise, from 19.8% in March 2006 to 28% in May 2006, however it decelerated to 17.3% in June 2006. Figure 2 below shows the monthly inflation developments.

Month on Month Inflation 2005 to 2006



MONETARY DEVELOPMENTS

Money Supply

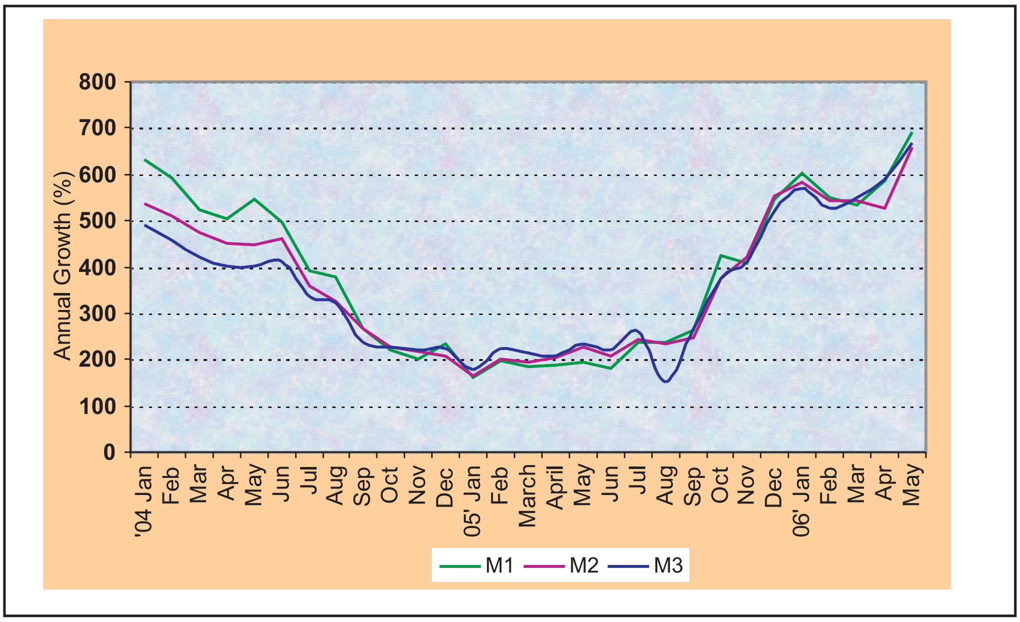
10.57 Broad money supply (M3) growth has been on an upward trend and increased from **528.2%** in February 2006 to **669.9%** in May 2006.

10.58 These high levels of monetary expansion reflect the inevitable interventions that the Central Bank is having to do in the economy to prevent further deterioration of infrastructure, as well as actual overall production, especially in agriculture.

10.59 The increase in broad money supply in May 2006 was underpinned by expansion in domestic credit of 629.3%. The expansion in domestic credit was driven by:

(i) Credit to Government, which grew by 927.5%;
(ii) Credit to the private sector, 455.0%; and
(iii) Claims on public enterprises, 635.5%.

Money Supply Growth Trend



10.60 Credit to Government has been mainly through Treasury bills, to finance inescapable Government expenditures.

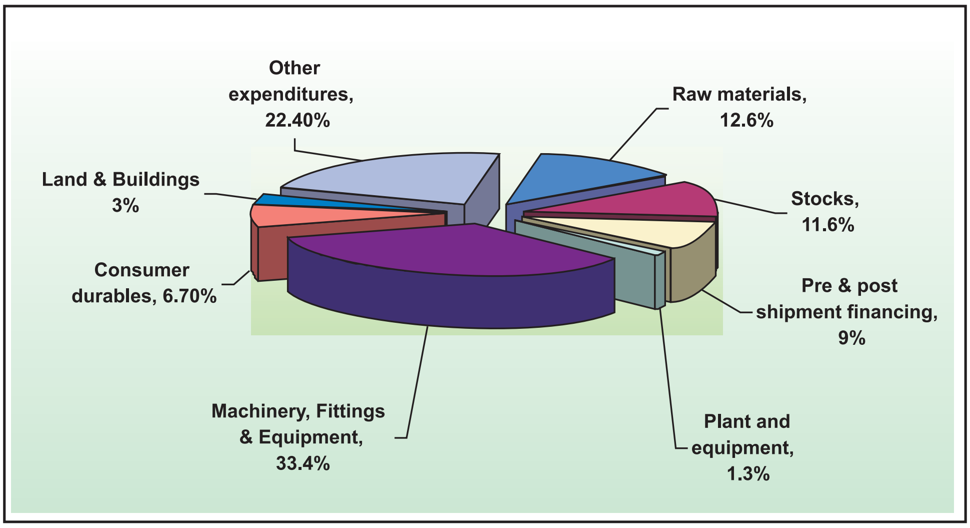
10.61 Lending to the private sector has been growing, increasing from 279.2% in January 2006 to 455.0% in May 2006, mainly through loans and advances from the banking sector.

10.62 The major drivers for the nominal increase in loans and advances are concessional facilities and overdraft loans for working capital.

10.63 Lending by commercial and merchant banks has been mostly to the following sectors, agriculture (inclusive of ASPEF: 22.7%); distribution, (10.7%); manufacturing, (10.1%); and mining (5.7%). However, lending to the agricultural sector (excluding ASPEF) by commercial and merchant banks remained low due to limited availability of collateral and the high cost of money.

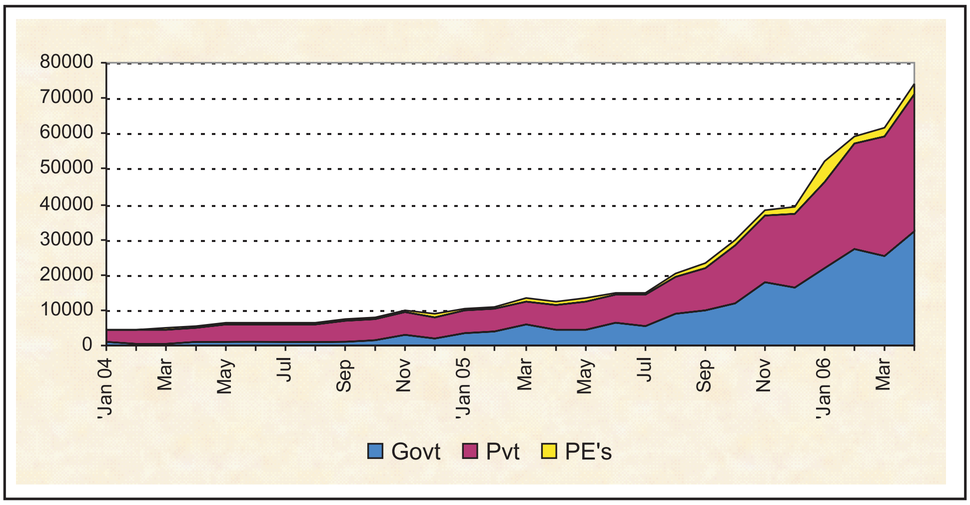
10.64 The Figure below shows the distribution of loans and advances on a sectoral basis.

Utilization of loans by Purpose



10.65 The private sector continues to command the biggest share of domestic credit, 52%, while credit to Government is 43% and public enterprise commands the least share at 4%, as at end of April 2006.

Sectoral Distribution of Domestic Credit



NEW MONETARY POLICY MEASURES

The Need for Extraordinary Interventions

10.66 The collective combination of fiscal expenditure overruns, indiscipline across most sectors of the economy, speculation, half-hearted implementation of set National programmes, corruption and the adversities of the sanctions imposed on Zimbabwe has culminated in a strained socio-economic environment in the economy.

10.67 At the start of the turnaround programme, we committed ourselves to reducing the scourge of inflation to single-digit levels by December 2007. As of May, 2006, the annual inflation rate soared to 1194% before shedding off 9 percentage points to 1185% in June, 2006, a far cry from the single-digit target.

10.68 We also, at the start of our turnaround in December 2003 committed to raising gold production to at least 30 tonnes annually by December, 2005.

10.69 We achieved 22 tonnes in 2004. In 2005, total gold deliveries instead of growing, declined to 13.5 tonnes, and in 2006, the first 6 months to June, we have seen a mere 4.3 tonnes delivered to the Reserve Bank, which is a 33% decline, notwithstanding all attempts to sustain the industry through favorable support prices.

10.70 Instead, the side and **underworld markets of smuggled gold** are reportedly flourishing, right under the country's collective noses, and should we cry from the pain of foreign currency shortages? **The answer is let us declare war against smugglers irrespective of who they are.**

10.71 In agriculture, total export shipments, excluding tobacco, for the six months to June, 2006, also declined by 23%, and this in a year when exceptional rains were received.

10.72 On tobacco, total shipments for the 6 months to June, 2006 declined by 16.3%.

10.73 The question to now ask is, should we continue to tolerate any more farm disruptions? **The answer is a big NO.**

10.74 In manufacturing, again, the first 6 months of 2006 have seen a significant decline in total exports, -13.8% on the same period in 2005.

10.75 On the back of high fiscal outlays, aggravated by expenditure overruns in line ministries, coupled with the quasi-fiscal interventions entrusted on the Reserve Bank to avoid a complete catastrophe in the agricultural sector, monetary growth rates have scaled to high levels, 600% annually, that now have to be curbed without any further delay.

CURRENCY REFORMS

10.76 Developments over the past few months have seen the country registering an unprecedented surge in the demand for cash, with very limited amounts of the same cash being re-deposited back into the banking system.

10.77 Whilst it is a standard reality that under periods of high inflation, economic players require more cash holdings to meet day-to-day transactional requirements, as Monetary Authorities, we have noted with concern the apparent practices by most high-cash businesses and other briefcase middle-traders of stashing cash for speculative purposes.

10.78 Market intelligence, as well as surveillance operations by the Reserve Bank have also revealed that others have smuggled local currency cash into neighboring countries where again, speculative trading practices are being conducted.

10.79 The high inflation environment has also bred and fed looming technical risks on financial information systems stability, with most IT systems fast approaching their programmed digital handling capacity ceilings.

10.80 During our interactive process to compile stakeholders' inputs to this monetary Policy Statement, we received a unanimous clarion call for urgent measures to be taken to foreclose the risk of systems failure due to the escalating high-value transactions.

10.81 This consultative process saw the Reserve Bank holding consultative meetings with the following stakeholders, among many others:

1. Cabinet (CFEA)
2. Some members of Parliament
3. Zimbabwe National Chamber of Commerce (ZNCC)
4. Confederation of Zimbabwe Industries (CZI)
5. Zimbabwe Tobacco Association (ZTA)
6. Horticultural Promotion Council
7. Consumer Council of Zimbabwe (CCZ)
8. Employers' Confederation of Zimbabwe
9. Law Association of Zimbabwe
10. Zimbabwe Council of Trade Unions (ZCTU)
11. Construction Industry Federation of Zimbabwe
12. Indigenous Business Women Organization
13. Zimbabwe Revenue Authority (ZIMRA), and other Government Departments
14. Real Estates Association
15. Institute of Public Relations
16. Zimbabwe Miners' Federation
17. Industrial Development Corporation (IDC)
18. Zimtrade
19. Retailers Association

20. Zimbabwe Tourism Authority
21. Chamber of Mines
22. Commercial Farmers Union (CFU)
23. Zimbabwe Farmers Union (ZFU)
24. Tobacco Industry Marketing Board (TIMB)
25. Zimbabwe Transport Operations Association
26. Tobacco Growers Trust
27. Export Processing Zones
28. Tobacco Growers Association
29. Bankers Association of Zimbabwe (BAZ)
30. Representatives of the non-bank financial institutions
31. The Zimbabwe Federation of Trade Unions (ZFTU)
32. The Zimbabwe National Chiefs' Council
33. Central Statistical Office (CSO)
34. The Accounting and Audit Fraternity
35. Other (individually and institutionally)

10.82 In order to ensure that the aspirations and recommendations of stakeholders on the currency reforms are implemented in the most effective way, the Reserve Bank also sent its teams to carry out in-depth research to learn from some of the countries which have undergone variants of such reforms.

10.83 This saw the Reserve Bank teams going to Turkey and Mozambique from which experiences exchanged.

10.84 The following core lessons, among many others, were noted:

(a) That currency reforms are a fundamental transformation which affects every member of the economy. This requires that there be universal stakeholder buy-in, so as to avoid cross-purpose forces of negation where others, for lack of appreciation of the program at hand may opt to swim against the current and oppose the change.

(b) That the special needs of outlying rural communities need to be given equal attention during the transition period.

(c) That during the change-over period, there is need for close collaborative effort between the Central Bank, the Financial Sector, the Police and other security arms to ensure smooth change-over logistics, as well as fence off potential attempts at defrauding the public by some devious elements.

(d) That the act of actual currency change-over, where a new currency is introduced requires that inflation be initially stabilised and reduced to low and stable levels. In the case of Zimbabwe, we, therefore, have to apply pragmatic flexibility to implement the currency reforms in two phases 1 and 2, with the second phase targeting to completely replace the bearer cheque system with a new currency for Zimbabwe.

(e) That success largely requires wide-spread publicity campaigns anchored on credible macro-economic policies that effectively address the root causes of high inflation and other structured rigidities.

10.85 These lessons were also corroborated by the inputs we got locally from the various stakeholders.

10.86 As we roll out this critical landmark programme, we will rely on the support of all stakeholders, particularly in overseeing the logistical processes and protecting the public from potential abuse by fraudsters who may want to take advantage of the transitional adjustments to reap-off other members of the community.

10.87 On the basis of the said consultations, the Bank adopted, without alteration, stakeholders' aspirations and recommendations that **a new and urgent system be introduced to address the challenges and inconveniences associated with high-value transactions.**

10.88 Predominantly all the private sector representations as well as those from Labour and other Special Interest groups argued that the matter be elevated from a remote "yellow" flag issue into being an urgent, "red-flag" national issue that could not be delayed any day longer.

10.89 Consistent with this, it has, therefore, become necessary that an immediate but far-reaching response be instituted to achieve the following objectives:

(a). **Stemming out speculative activities by making it more viable to deal with the formal financial system,** as well as making it difficult to access loose cash volumes outside the formal channels.

(b). Reforming the country's currency valuation scale so as to foreclose IT systems instabilities relating to digit handling capacity constraints.

(c). Laying the foundation for the eventual introduction of a new currency, as was already announced to the public.

10.90 With immediate effect, therefore, the following measures have been introduced:

SUNRISE- A New Beginning.

10.91 In order to achieve the above objectives, between 1 August and 21 August, 2006, a new set of bearer cheques will be introduced **to replace the entire family of bearer cheques currently in circulation, under the theme: Sunrise – A New Beginning** for Zimbabwe.

10.92 **From Monday, 21 August 2006, all current bearer cheques and other forms of old currency will become obsolete and valueless.**

10.93 We have spent so much energy fighting each other instead of fighting a common enemy. Its name is **INFLATION** and it is robbing every one of us of real value and real savings everyday.

10.94 Inflation's best friend is negative speculation which negatively accelerates the erosion of value of our currency.

10.95 It is tragic that men and women who have honestly worked all their lives or even as you and I have done for the month, to receive a pay cheque that at best for many, just covers the basics.

10.96 Our dignity as Zimbabweans is affected as much as our currency.

10.97 Speculation drives our nation like a national pastime. We are all guilty of casting blame on one party or the other or one individual or the other.

10.98 **Regardless, today, as your Governor, I do not have the luxury of casting blame but the responsibility of dealing with providing all Zimbabweans of all walks of life safer and more convenient way to do business or life.**

10.99 Tomorrow, 1 August 2006 is a new Sunrise; Zuvarabuda; Ilang Seliphumile. All of us would like the sun to set on the dark, speculative world of trading; cash hoarding and skyrocketing inflation so many of us have been conditioned to.

10.100 It is time to rise as Zimbabweans to a new operating environment of trust, decency and stability. It is a new day to celebrate the best of our past and the best of our future and it is coming to you in a tangible new vehicle.

10.101 Tuesday 1st of August 2006, through to 21 August 2006, sees 3 zeros being taken off every old bearer cheque which introduces a new family of bearer cheques that makes much more sense and, I hope, dollars for all of us!

10.102 The period returns us to some stability and convenience. Of course this is just one monetary mechanism to help make commerce and everyday life more convenient.

10.103 You may call it from Zero to Hero during the Heroes month. I am of the particular opinion that ordinary Zimbabweans must be commended for their incredible resilience through the challenges we all face.

10.104 This new currency is a common standard for us all. There is a simple mathematical equation of 1 to a 1000, which we have dubbed "send them off!" which may be rounded up or down to provide the new values.

10.105 Again to emphasise, there will be a transition period for the new bearer cheques to come into effect, which is from the 1st to the 21st of August, 2006.

10.106 **Amounts being returned to be converted to the new bearer cheques are absolutely welcomed. However, beyond these levels, we may wish for ZIMRA clearance that these monies are from legitimate, business or trading activities.**

10.107 We are not asking for angels but we are asking for a common standard for all of us to live by in Zimbabwe. We must not have half the economy working honest jobs, paying honest taxes and facing all the pressures they do while the other half lives in a briefcase and trades in cash and possibly foreign currency. The other group lives under the radar while the other takes it away. And with it large profits that we all pay for. **There will be no fear or favour. Whether you are in Government, private sector or whether you are in hiding, there is one set of rules for one Zimbabwe.**

10.108 Ladies and Gentlemen, the Reserve Bank of Zimbabwe is not the panacea of all things nor as your Governor can I control everything. In fact I submit to you and even if I was not your Governor, we would still face the devastating effects of negative speculation and the resultant inflation in our economy.

10.109 The only way back is more productivity and more of us playing on one team. **This means practically a more open Zimbabwe, that's open for business. We will endeavor to ease as many facilities in favour of increased commerce and trade, but we can only do this when we are working for the same goal.**

10.110 With our new bearer cheques, you lose nothing, but gain a whole new operating environment that I hope encourages easier transactions. I urge you all to embrace this new opportunity. Use your local banks more. Do not horde cash. Cash in itself has no intrinsic value. It is what we build, plant, trade, create, manufacture, invest and provide service for together that rejuvenates our currency's value.

10.111 A new beginning, symbolising the start of macro-economic stability in our midst is therefore, being introduced effective tomorrow.

10.112 The coming up of the new sun is, thus, brings with it a fresh breeze of hope and optimism.

10.113 **Thus, the 21-days of change-over, are the beginning of far-reaching transformations for our economy and beginning of trouble for economic saboteurs who have caused havoc to this economy through their speculative and cash hoarding tendencies.**

10.114 **Again what this means is that post the cut-off date, anyone holding the old family of bearer cheques will be holding worthless pieces of paper, with zero monetary values, and would not be usable as a medium of exchange in Zimbabwe.**

10.115 Also, post the cut off date **it will not be feasible to trade-in the old bearer cheques for the new ones** at any bank, store, supermarket, service station or outlet.

10.116 This necessary course of action is supported by the appropriate legal instruments.

10.117 The new bearer cheques will have the following exchange value, relative to the old bearer cheques:

The Conversion Factor...

- **As pointed out earlier, a conversion factor of $1 000 where the new $1.00 worth of new bearer cheque will equal $1000 worth of old bearer cheques.**

10.118 The effect of this conversion is that all monetary values in all sectors of the economy have been rebased by striking out three zeros (dividing by 1000).

10.119 We call upon stakeholders to appropriately rebalance their valuations, including prices, incomes, contract values, asset prices, among many other monetary measures to reflect this new irreversible change.

10.120 **For example, a good or service which had a price of $1000 under the old system would now cost $1 of the rebalanced bearer cheques, and one which currently costs $1 000 000 (one million dollars) will now cost $1 000 of the new bearer cheques, and so on.**

10.121 The Supplement on Currency Reforms, accompanying this Monetary Policy Statement presents in greater detail, **the operational modalities of this new measure.**

Conversion Deadline (Sunset Clause)

9.122 All holders of the old family of bearer cheques have 21 working days from today, date of announcement to deposit their funds back into the banking system to allow for the change over into the new set of bearer cheques.

10.123 The following strict conditions shall apply in the change-over process:

(a). During the change over period, **if the cash of old bearer cheques being re-deposited exceeds set thresholds for individuals** and corporates, **the holder shall produce proof of source of funds,** as well as ZIMRA clearance certification for tax payment on the transaction underpinning the cash.

- The cash deposit thresholds beyond which the certifications will be required are:
  - **Individuals: $100 million.**(of old bearer cheques)
  - **Corporates: $5 billion.**(of old bearer cheques)

(b). Where the holder of cash **can not prove legitimate source of funds**, the cash will be deposited into **Anti-Money Laundering Zero Coupon Bonds (AMOLAZEBO),** with a **minimum tenor of 2 years.**

- The owner of the cash will hold the bonds pending investigation and/or clearance with ZIMRA, at which point the bonds will be redeemed at face value.
- Where legitimacy is established after funds have already been locked up in AMOLAZEBO, interest at the ruling Treasury Bill rates will be credited to the principal and redemption given.

(c). Those who fail to change over their old bearer cheques within the stipulated period will forfeit value of their holdings. In other words, the old bearer cheques will cease to be legal tender, and hence will be value-less, with holders having no recourse for re-imbursement.

(d). **Around the country's main points of entry, no local currency cash will be allowed into the country if it is beyond** the stipulated allowable cash export limits.

Any excesses of $5 000 000,00 in old bearer notes will be forfeited, with holders being prosecuted for breach of Exchange Control Regulations and Anti-money Laundering Laws, through illegal export of currency in the first place.

(e). On conversion from old to new bearer cheques, the holder will only withdraw cash to the tune of the following set cash withdrawal limits, which shall apply at all times, with the balances being deposited into their bank accounts:

- **Individuals: $100 000 of the new bearer cheques.** (Equivalent for $100 million (one hundred million) of old)
- **Corporates: $750 000 of the new bearer cheques.** (Equivalent to $750 000 000 (seven hundred and fifty million) of old)

(f). **Surveillance programs will be carried out to ensure that economy-wide prices, incomes and asset prices have been properly re-scaled to reflect the new changes.**

(g). **The Reserve Bank will also be carrying out Nation-wide publicity campaigns to educate people on how to circumvent losing their monetary value post the conversion deadline, as well as to avoid being robed by fraudsters wanting to take advantage of the changeover process.**

(h). All corporate to corporate payments in excess of $1 000 000 of the new monetary values will be strictly monitored to ensure that they are done electronically and through ZETSS, the **electronic transfer vehicle and banking sector players are being directed to strictly abide by this requirement** and to report offenders to the Anti-Money Laundering Unit of the Central Bank.

10.124 In implementing this new measure, the Reserve Bank has by no **means changed the currency of the country yet.**

10.125 **Introduction of a new currency will come under phase 2 of the currency reforms, and this will be done to replace all the bearer cheques, with no long prior warning.**

10.126 We, therefore, strongly fore-warn households, individuals and corporates to remain very vigilant in their bearer-cheque holdings, **as the second phase of the currency reforms,** that is, the actual removal of bearer cheques and replacement with a new Zimbabwean currency, **will not be pre-announced**, but will be implemented, with an even shorter change-over period of not more than seven (7) days from date of that announcement.

10.127 Those who will be caught up holding high volumes risk losing their monetary values as would inevitably happen to others who are going to be caught up under the current phase 1 of the currency reforms.

9.128 It is imperative that we inform stakeholders that all the change-over preparatory work for phase 2 has been done, such that the change-over will be swift, backed by experience to be gained from phase 1.

Low Cost Individual Accounts

10.129 As Monetary Authorities, we call upon players in the banking industry to come together and come up with low-cost individual accounts that will enable that:

(a). All employees across all sectors of the economy are paid their salaries through direct transfers to their bank accounts, as opposed to the payment in cash as is still being practiced by some companies.

(b). All holders of old bearer cheques wishing to convert into the new have the ability to open accounts and deposit their cash into bank accounts over the valid change-over period. (before expiration/cutoff date.)

EXCHANGE RATE MANAGEMENT

10.130 The exchange rate remains a central instrument through which real economic activity can be promoted.

10.131 I will announce a separate, specific statement dealing with exchange rate management, in a manner consistent with the new currency reforms introduced.

Gold Trading

10.132 In the past, gold producers have made several representations for their status to be aligned with that of other exporters.

10.133 In order to balance the merits of this noble request with the strategic nature of gold as a reserve asset, the following framework will be introduced with effect from 1 August, 2006.

Gold Foreign Currency Denominated Accounts (FCAs)

10.134 Gold producers can now **retain 70% of their output** in their foreign currency accounts, **just like any other exporter**.

10.135 This means that 30% will be sold to the Reserve Bank whilst the balance 70% is retained by the producers. This measure is being implemented with a view to promoting viability at the mines and in return, we expect increase d output, discipline and a cessation of gold smuggling tendencies.

Gold Declaration Forms (GDF1s)

10.136 Historically, gold producers **were paid upfront** on delivery of raw ore, well before the actual refining and selling of the gold by the Reserve Bank.

10.137 This was meant to recognise the then different treatment of gold producers from other exporters.

10.138 Within the new framework of leveling the playing field, with effect from 1 August, 2006 a Gold Declaration Form1 (GDF1) has been introduced, which will have the following effect:

(a) Gold producers will be given a pre-export payment of 50% of estimated value on delivery to the Reserve Bank.

(b) The balance of 50% will be paid within 21 days, during which period the **delivered gold** will be refined and exported by the Reserve Bank

(c) The 30%/70% split shall apply for both portions, that is the prepayment and the final post-export payment.

Exporters' FCA Retention Period

10.139 Under the current foreign currency retention regulations, **exporters can retain for own use 70% of their export proceeds for up to 30 days,** after which they are obliged to liquidate any unused balance into the interbank market.

10.140 This arrangement has, however, presented some challenges to other exporters whose working capital outlay programmes extended beyond 30 days.

10.141 Against this background, and as an additional measure to bring back normalcy in our operating environment, **all exporters, including horticulture, and gold producers are entitled to keep their FCA balances indefinitely** without fear of forced liquidation by either the Central Bank or the Authorised dealers.

10.142 This will allow exporters to smoothly plan their cashflows, build up resources for larger requirements in future as well as create the necessary conditions for a vibrant interbank foreign exchange trading market.

10.143 We call upon exporters to now play a more prominent role in building this economy and to stop being cry-babies anymore. "Zuva rabuda", the sun has risen and it is time to get on with your core business of exporting.

10.144 In the same vein, we implore on Captains of Industry, Miners Associations, the Horticulture Promotion Council (HPC), the Zimbabwe Tourism Authority (ZTA), the Zimbabwe Council of Tourism and all the other Leadership in our economic system to come up with self-policing codes of ethics that cultivate greater economic patriotism than has been the case todate as liberalisation comes with responsibility.

10.145 Let no-one among yourselves blow away this concession for everyone through unnecessary schemes.

10.146 As Monetary Authorities, we have done our part.

10.147 For the Central Bank to meet the foreign exchange needs of social sectors and other critical Government functions, we depend on generators of that foreign currency.

10.148 Hospitals and schools do not generate foreign currency therefore let us be a responsible economic group to society.

10.149 At the Central Bank, we only produce local currency, and do not have the magical printing press to generate foreign currency.

10.150 Our Government Ministries too must now take up the challenge and take charge in coordinating productive activities in their respective sectors.

10.151 Where blockages arise, the relevant Government Ministries, therefore, ought to assume a much more supportive role to ensure that our producers do what they are best at, and that is to feed and sustain Zimbabwe.

Payments for Hotel Services By Visitors

10.152 As part of maximising foreign currency inflows into the country, it is imperative that Hotel and Lodges operators abide by Exchange Control regulations which stipulate that all foreign visitors pay for such services in foreign currency.

10.153 Over the recent past the Reserve Bank has received overwhelming requests for foreign business visitors to pay for hotel services in local currency. Such requests which had mainly come from both Government Departments and the private sector are now spilling into NGOs and in some instances the Diplomatic Community.

10.154 As the Central Bank we find such requests not only at variance with Exchange Control requirements, but also unusual since most of the visitors would infact have brought foreign currency which they opt to exchange at inflated parallel market exchange rates.

10.155 It is against this background that Harare, for instance, is being rated internationally as among the cheapest destinations for tourists.

INTEREST RATES

10.156 The high inflation environment requires that the Reserve Bank remains vigilant on its interest rate policies.

10.157 This notwithstanding, however, it has become necessary that we fine-tune the current levels of accommodation interest rates, so as to balance the virtues of anti-inflation demand management interventions with continued flow of credit to the productive sectors of the economy.

10.158 With immediate effect, therefore, the following accommodation interest rates will apply:

(a). **Secured accommodation: fine-tuned from 850% to 300%; and**

(b). **Unsecured accommodation: fine-tuned from 900% to 350%.**

10.159 These accommodation rates will be reviewed in line with the inflation outlook.

10.160 As Monetary Authorities, we call upon the Banking Industry to realign their interest rates accordingly, in compound teams, so as to sharpen the transmission mechanism of monetary policy into the rest of the economy's sectors.

10.161 Continued reduction in inflation will trigger and validate further interest rate reductions.

Liquidity Management

10.162 Following fruitful engagements between the Reserve Bank and the Banking Industry, we are pleased to report that the contentious mandatory 2 year paper was abolished, as banks committed to ensuring that they operate a non-segmented interbank money market where those institutions with long positions prudently lend to other players, albeit within their institutional risk management credit limits.

10.163 In order to foreclose potential deviation by some players, the Reserve Bank will operate special sweeping accounts for all clearing banks, into which all surplus funds after settlement are transferred and kept at 0% for 7 working days. This is again, a further improvement in support of banks' liquidity positions as previously the tenor of the 0% NCDs was 30 days.

10.164 Over the outlook period, the Reserve Bank will continue to maintain a tight monetary policy framework until the inflation battle is won.

10.165 Again, the Banking Industry is called upon to ensure that they adeptly manage their liquidity positions to avoid unnecessarily coming onto the Central Bank's punitive window for accommodation.

10.166 As a Central Bank, we are basically saying to the Banking Industry, "due to high inflation prevailing in the economy, please do not come to borrow from the Reserve Bank".

Minimum Statutory Reserves

10.167 As part of the Central Bank's efforts to further support the Banking Industry's liquidity conditions in the lead-up to the 30 September, 2006 recapitalisation deadline, the minimum statutory reserves thresholds were successively reduced from 60% to 45%, for demand and call deposits; from 45% to 35% for building societies, savings and time deposits; and from 30% to 20% for Finance Houses deposits.

10.168 To further consolidate the banking sector's liquidity positions, with immediate effect, the following statutory reserves ratios will apply:

(a). **Demand and call: 40%, thus cumulatively down by 20 percentage points from 60% prior to the recent adjustments.**

(b). **Building societies, savings and time: 30%, cumulatively down by 15 percentage points from 45% prior to the recent adjustments.**

(c). **Finance houses: 15%, cumulatively down by 15 percentage points from 30% prior to the recent adjustments.**

Lending to Productive Sectors

10.169 It is imperative that players in the Banking Industry reciprocate these supportive efforts by also deploying their freed funds into productive lending.

10.170 As Monetary Authorities, we prefer to be persuasive in encouraging the market to expand their productive sector lending through voluntary credit risk assessments and resource allocation frameworks that recognise the developmental role of banks, as opposed to instituting statutes that prescribe and impose directed lending requirements.

10.171 Whilst the 99-year lease programme's full implementation is being finalised, the Banking Industry is encouraged to work out creative interim financing programs that put more weight on funding projects based on projected cash flows of those projects, as opposed to mere balance-sheet lending.

10.172 This framework is more effective, particularly in respect to lending into foreign exchange generating activities, such as tobacco, horticulture, cotton, paprika, coffee, tea, and many others. The foreign exchange leverage creates an inbuilt stabiliser to the underlying economic activity to be financed, which greatly mitigates against credit risk to the lending bank.

10.173 As was announced in previous Monetary Policy Statements, and in line with the refinements made in this Statement, the ASPEF window, which will run through to December, 2008, will now operate as a fixed revolving fund, under the new framework of managing quasi-fiscal outlays as detailed later in this Statement.

Performance-Based ASPEF Roll-overs

10.174 Recommendations and persuasive representations from the banking industry have pointed on the need to minimise the processing turnaround time frame for ASPEF loan applications.

10.175 Against this background, with immediate effect, the Reserve Bank, in collaboration with the banking sector, will be implementing a performance-based ASPEF roll-over framework under which farmers meeting the set criteria would be allowed to roll-over part of their existing ASPEF loans for another cropping season, **with a maximum threshold of one year.**

10.176 The qualification criteria is that:

(a) The farmer must present proof of actual production and marketing of the previous season crop funded by ASPEF.

(b) The farmer ought to have demonstrated a track-record of timely debt service with their bank on existing ASPEF facilities.

(c) The bank's overall assessment, backed by objective facts is that the applicant is engaged in serious production activities in agriculture.

New Minimum Capital Requirements

10.177 With two months remaining before the 30 September, 2006 deadline for banking institutions to meet the new minimum capital requirements, as Monetary Authorities, we call upon the Banking Industry to ensure that this deadline is observed.

10.178 Equally important, the adjustment in the exchange rate, in line with the new currency valuation arrangements, directly imposes a requirement that banking institutions put in motion internal processes to further expand their capital levels.

10.179 As we did call for during our previous Monetary Policy Statements, it is imperative that shareholders also take a keen interest in anchoring the stability of their institutions through fresh capital injections.

10.180 In order to allow greater stability and robust adjustment to the new capital levels the previously announced potential 31 December, 2006 capital top up have been moved forward to a later date to be announced at the appropriate time.

10.181 The market is once again reminded that the Reserve Bank has no intentions to create unnecessary pain to our financial institutions but rather, is keen to ensuring that the overall financial system remains safe and sound.

TOBACCO DEVELOPMENT

10.182 The country's tobacco industry has historically served as a major source of foreign exchange and National pride, with Zimbabwe's tobacco being renowned for its high quality.

10.183 Over the recent years, however, the tobacco sector has continued to register sustained decline, accentuated by the apparent lack of systematic programs that support research and development in the sector.

10.184 Consideration of various options to support the sub-sector have shown that an appropriate intervention is one which rewards and motivates those who have the interest in this specialised sector to expand their productive capacities.

10.185 Against this background, with immediate effect, the Reserve Bank has introduced a Tobacco Performance, Research and Development Facility, which rewards growers for actual production.

10.186 Under this facility, growers will get additional support of 65% of sale value of actual deliveries sold onto the auction floors, evaluated at the old interbank exchange rate of Z$101000/US$ retrospectively from start of this season to end of August, 2006.

10.187 This support over and above the 35% already in place.

10.188 We call upon the Tobacco Industry to take full advantage of this program and restore the glitter of our tobacco sector.

TOBACCO MERCHANTS' SUPPORT TO GROWERS PROGRAMS

10.189 In previous Monetary Policy Statements, it was clarified to the tobacco industry that Merchants with access to uncommitted foreign exchange facilities are encouraged to draw down on such windows and support growers with pre-export financing.

10.190 Using this avenue, Merchants can help tobacco growers with the importation of spare parts, seeds, fertilizers and chemicals, among other working capital requirements. Such support can also extend to include agricultural equipment upgrading.

10.191 Under this program, the Reserve Bank will allow Merchants to then net-off their grower support loans from export inflows upfront.

10.192 It is also important to note that for purposes of keeping a complete picture on these initiatives, the Reserve Bank would like to register all such special financing arrangements.

TOBACCO FCAs

10.193 To further support the tobacco industry, it has become necessary that the Reserve Bank re-introduces the 15% FCA retention facility for the tobacco industry from next season, beginning April, 2007.

10.194 Such FCAs will be held in growers' FCAs indefinitely, with no liquidation expiry time-frame.

10.195 This arrangement is expected to provide relief to tobacco growers through easier access to foreign exchange to meet critical import requirements.

QUASI-FISCAL OPERATIONS

10.196 Against the background of the transitory phase of the Land Reform Programme and the adverse effects of declared and undeclared sanctions on the country's external resources mobilisation capabilities, the Reserve Bank of Zimbabwe, under the direction of the country's Leadership and parent Ministry of Finance, has been engaging in various supportive quasi-fiscal operations since January, 2004.

10.197 These included:

- Funding of country-wide dam construction.
- Concessional financing to the productive sectors of the economy, particularly agriculture for both working capital and infrastructure development.
- Financing of parastatals, both of their local currency and foreign currency requirements. This included financing of ZESA, NOCZIM, Air Zimbabwe, Hwange, ZISCO, ZINWA, NRZ, ARDA, AREX, CAAZ, and IDC among many others.
- Provision of foreign exchange to some key social Ministries, such as Health and Child Welfare.
- Repayment of Government debt, including that to the IMF, among others.
- Payment for other National strategic interests.

10.198 By their nature, the bulk of these quasi-fiscal operations inevitably led to high levels of money supply growth, which in turn, as is standard knowledge, leads to demand-pull inflation.

10.199 With the Land Reform Programme now completed, it has become imperative that as a country, we graduate from the crisis management phase, more towards settled, consistent policy programmes.

10.200 Against this background, the Reserve Bank will, in due course, create a separate entity, called “The Zimbabwe Monetary Stabilisation Unit (ZMSU)”, whose main mandate will be to:

(a). Warehouse all the stock of quasi-fiscal operations carried out by the Reserve Bank since January, 2004.

(b). Actively make follow-ups, through intensive audits and verification spot checks to ensure effective utilisation of all financial resources disbursed to various beneficiaries since January 2004 to date.

(c). Act as uncompromising debt collectors to recover all loans extended under the various concessional lending programmes since January, 2004.

(d). Work closely with Agribank and other players in the Banking Industry, to come up with revolving financing programmes for lending into agriculture.

(e). To work with relevant Government Ministries in mapping out turnaround programmes for the parastatal sectors.

(f). Carry out any other special activities as would be directed from time to time.

10.201 It is important to underscore that the new entity will operate, free from any additional funding from the Reserve Bank, other than the initial working capital, as would be set on opening, which aspects are still under consideration.

10.202 With the inception of the new entity, all the concessional financing facilities will only operate out of the autonomous institution, with a set ceiling of funding, which will operate on a revolving basis.

10.203 This way, we are working to anchor our anti-inflation initiatives, at the same time, minimising disruptive transitions on the financing side for targeted priority sectors of the economy.

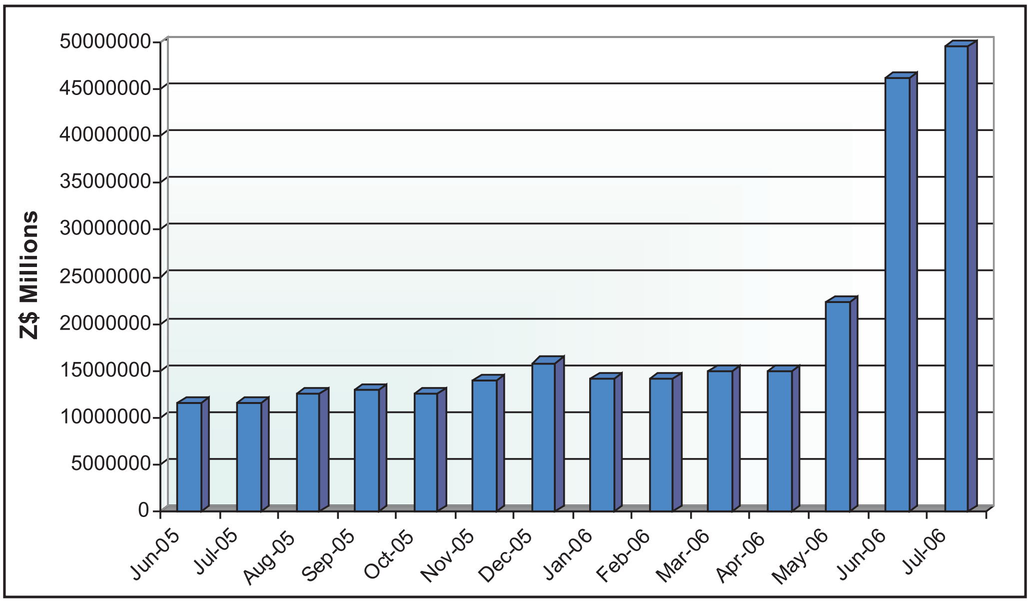
10.204 Thus, over the outlook period, the Reserve Bank’s balance sheet will be much more geared to reigning in any further expansion in high-powered money supply (reserve money), consistent with the inflation targets.

Government Domestic Debt

10.205 As has already been highlighted, it is imperative to streamline fiscal expenditures to minimum guaranteed revenue streams in order to ensure debt sustainability. This would help limit excessive borrowing from the domestic banking sector, which tends to crowd out the financing of the productive sectors of the economy.

10.206 The graph below shows the domestic debt profile from June 2005 to July 2006. Domestic debt has increased by **327% from $11.7 trillion in June 2005 to $50 trillion by mid July 2006.**

Central Government Domestic Debt (Z$ Millions)



10.207 The graph above shows that Government domestic debt would escalate to astronomical levels if the other debt components including Parastatals and Local Authorities debts, and other Government liabilities in arrears are taken into account, including the amounts owed under various inevitable quasi-fiscal outlays.

10.208 More importantly, efforts should be made to restructure domestic debt so that long term instruments are issued as opposed to short term debt instruments in order to ease pressure on debt servicing.

External Debt

10.209 The total external debt of Zimbabwe includes loans from government, parastatals and the private sector. The principal amount has almost been static at US$4 billion for the last 5 years since Zimbabwe cannot access offshore loans at the moment.

10.210 However, the country has been accumulating arrears amounting to US$2 billion, and as part of the turnaround programme, export growth and investment promotion should ensure that we meet all our financial obligations to international creditors.

10.211 As our economic performance level improves, Government is, thus, urged to continue making regular repayments to the creditors so as enhance the country's creditworthiness and relations with the international financial community.

Privatisation

10.212 We complement Government for making the decision to privatise some Parastatals, as part of the strategic macroeconomic programme.

10.213 We reiterate that the key pillars of the privatisation programme ought to include:
- Transparency;
- Zero tolerance on corruption; and
- The achievement of maximum monetary value from national assets.

10.214 We urge Government to expedite the implementation of this privatisation programme, proceeds of which should go a long way in complementing Government financial requirements under the reform programme.

Energy Sector

10.215 In this era of rising fuel prices, it is critical for the economy to **substitute crude oil** with other sources of fuel. We are, therefore, urging the speedy finalisation of the bio-diesel extraction and liquid fuels projects, whose objective should go beyond producing for the local market but also exporting future surpluses into the region.

10.216 Current estimates are that the Southern African Region will **face a shortage of power** and this will be mostly felt as from in 2008. The Zimbabwe Electricity Supply Authority (ZESA) is urged to speedily implement projects that will increase total generation capacity of both hydro and thermal power at Kariba and Hwange, taking advantage of the various joint venture agreements already in place with strategic external partners.

10.217 The country has the potential to install new electricity generation capacity at Gokwe North and the Batoka project on the Zambezi river, and such potential must be exploited with minimum bureaucracy.

10.218 **Hwange Colliery** should also continue to place prominence on enhancing operational effectiveness due to its strong and multiple linkages with the rest of the economy and the power generation sector in particular.

11 SUPPORTIVE MEASURES

11.1 For the above Monetary Policy Measures to bear fruit, it is imperative that the following supportive measures be implemented:

Model For Managing Subsidies

11.2 At the centre of Government interventions in the form of price guidelines and controls in specific targeted sectors are the objectives of price stability, equitable sustenance of welfare of the majority poor, as well as the elimination of punitive discretionary price increases by unregulated monopolists.

11.3 It is, however, imperative that the country's subsidies framework be constantly reviewed in a manner that minimises the aggregate burden on the fiscus, as well as narrowing the disruptive adverse effects of price arbitrage opportunities in creating havens for rent-seeking behavior which discourages actual economic production.

11.4 It is against this background that we applaud the current on-going efforts, under the NEDPP framework to work out modalities to streamline the country's existing price misalignments in the pricing of fuel, selected agricultural crops, fertilizers, local authorities and other utilities' prices, and interest rates to targeted sectors of the economy.

11.5 Along with this Monetary Policy Statement we have published our recommendations on what we see as the most sustainable way forward in managing the country's subsidies framework.

11.6 The currency reforms as unveiled in this Monetary Policy Statement, together with the new exchange rate regime, set a solid foundation for the concept of "one commodity one price" to prevail in the following areas:

- Diesel prices
- Petrol prices
- Exchange rate
- Electricity tariffs
- Municipality tariffs and charges
- Maize prices

11.7 We implore the relevant Government Ministries and Departments to ensure that convergence obtains in these and other commodity lines, so as to graduate the economy more towards a sustainable, subsidy-free path.

11.8 We also strongly recommend to Government that in the few areas where subsidies are deemed essentially critical, such support be given as reward for actual production, as opposed to pre-production free handouts which, in most observed cases, have tended to be abused through side marketing and non-productive use.

11.9 The round-tripping currently taking place in the maize market is a case in point some "innovative" holders of positions of authority are known to be buying maize from the GMB at the Government subsidised price of $600 000/tonne, under the pretex that the maize so purchased would be entirely milled and marketed at the intended low cost to the people.

11.10 Instead, however, some of these creative "millers" are shuffling some maize back to the GMB and resale at the $31,4 million buying pride to make a predatory margin of per tonne. This can not be allowed to persist unchecked if we are to sustain lasting macroeconomic stabilisation.

11.11 We have also come to know that the same regressive "ingenuity" is being practiced in the market for the diesel meant to propel the country's farming activities.

11.12 Again, this cannot be sustained into the future, as the intended benefits are under cut by self-enrichment practices.

11.13 Together with the process of consolidation and removal of subsidies, we however also wish to underline that concepts of full-cost recovery be based on true reflections of production costs, as opposed to cases where what are presented and levied to the consumers are overheads of inefficiencies or profiteering margins.

Fiscal Consolidation

11.14 Fiscal expenditures have to be streamlined to be in line with the economy's revenue generative capacity. Monetary financing of the fiscal budget, directly or indirectly through quasi-fiscal outlays at the Reserve Bank is a boon for high inflation.

11.15 We implore all Government Ministries to stick to the resource allocation votes as articulated in the refocused National Budget as announced by the Hon. Minister of Finance recently.

11.16 It is imperative that as we work to entrench a strong culture of fiscal discipline, as a Nation we also self-appraise and work to closing the failings of yester-year in our budgetary formulation process.

11.17 Such a reflective mode allows us to clear our lenses so as to elevate the national budget and its implementation as a powerful tool to direct and influence the country's economic growth and developmental programmes.

11.18 Top on the agenda in such a reflective process ought to be:

(f) Measures that ramp up revenue collection efficiencies and closure of evasion loopholes.

(g) Notable attachment of greater weight on capital formation, supported by belt-tightening on recurrent outlays.

(h) A steadfast commitment at ensuring that real expenditure levels in key social sectors such as health and education are defended and grown over time.

(i) Realistic revenue expenditure targets are set in a manner that recognises the extraordinary circumstances currently confronting the Nation. Through this realism, scope will be created to allow the fiscal side to take on board some of the inflationary quasi-fiscal outlay being inevitably discharged through the Reserve Bank as a "second-best" survival intervention.

Stakeholder Commitment

11.19 The productive sectors of the economy, under the stewardship of their various associations, should play a supportive role and come up with binding codes of ethics that restrain deviations into illegal subversive practices, such as foreign exchange externalisation, over-pricing of goods and services, and hoarding of produce to inflict price-shocks in the system.

11.20 More than ever before, as Zimbabweans, we need to realise that we are our own saviors, with external parties merely expected to come in as equal business partners. We need to rise above political, religious, ethnic or any other differences, and think and act National, in the best interests of Zimbabwe.

Anti-Corruption Drive

11.21 As a country, we need to shun corruption in all its forms. Merely committing to fight corruption in words alone will not do. We need to capacitate the Anti-Corruption Commission with adequate resources and tools with which to effectively carry out their critical mandate.

Shopping Trips

11.22 As a Nation, we need to introspect and start to concentrate more on economic activities that create real wealth for the economy, as opposed to generating millions of paper wealth, borne out of non-productive trading.

11.23 The multitudes of some of us who fly in droves to international destinations, purely to go and buy trinkets, which are later sold here at punitive prices should start to focus more on creating real wealth for the country.

11.24 Yes, some would argue that such trips are on the back of high unemployment levels. But, we need to take a leaf from experiences elsewhere in other countries that have managed to self-develop through systematic entrepreneurial development in areas that promote domestic production.

11.25 We have land. Working capital facilities are being made available by the Government.

11.26 Why then must we reduce our economy into a trading hive, particularly when such trade is coming at the expense of factories that yester-year employed people gainfully.

11.27 We call upon the relevant authorities in Government to introduce deliberate developmental policies that refocus activity more towards creative and productive activities and less on mere shopping escapades.

Foreign Exchange Leakages

11.28 At the heart of the current foreign exchange shortages is also the endemic diversionary practices by some generators of foreign exchange.

11.29 With the keen desire to inform the Nation, we have documented the various forms of leakages that are draining the economy in a dedicated supplement.

11.30 We plead with the relevant authorities to please help us.

11.31 We can not continue to pay a blind eye to the smuggling of gold that continues to take place.

11.32 In the past, a lot of it was under cover of nightly darkness. Now it is happening in broad day light.

11.33 We can not continue to pay a blind eye to the delays being experienced on dealing with known delinquent exporters, who openly flout our Exchange Control Regulations.

11.34 Indeed, we cannot continue to watch helplessly on the parallel market activities that are evolving under our noses in the foreign exchange market.

11.35 Others have sought to earn a living through the crevices of the Stock Exchange, taking advantage of dually listed counters to ply the parallel market.

11.36 Certainly it would be a sad day when we have to be forced to go in reverse gear by disallowing dual listing.

11.37 As your Central Bank, our clarion call is: Please Zimbabweans, let us unite and do what is right for our Nation; for our economy; and what is good for future generations to come.

Stability in Agriculture: Food Security and Agriculture Preparedness

11.38 Among the competitive advantages this country has over many other countries, is prime land, supported by good potential irrigation infrastructure and the numerous well stacked dams.

11.39 For this reason, Zimbabwe has historically been the bread basket of Southern Africa. Therefore, agriculture can only be the most feasible starting point of our economic development.

11.40 The Land Reform Programme has come and gone.

11.41 What remains to be done is to improve productivity on the farms through appropriate policy frameworks, capacity building and implementation.

11.42 Our National development policies should ensure that agriculture is a viable business that is attractive to the investing public through the removal of subsidies on inputs, but paying this subsidy on the output end through compensatory pricing policies on the farm outputs.

11.43 As was also highlighted earlier, the conclusion of the lease program is also imperative. This ought to involve the issuing of leases based on the farmer's potential to produce and the experience gained in agriculture production, which should be determined by a thorough land usage audit.

11.44 There is, therefore, an urgent need for greater stability to return in our agricultural sector. As Monetary Authorities, we are pleased to report that recently, the relevant Ministry was given the needed local currency financing to roll out the implementation of the 99-year lease programme, which would give immense impetus to the agricultural sector.

11.45 Success in agriculture also requires that appropriate financing structures continue to be put in place, so as to ensure that farmers accesses working capital and funds for procuring capital equipment, as well as other infrastructural developments. Such financing schemes must, however, increasingly wean farmers away from over-dependency on Government leaving targeted support only to specific vulnerable groups, such as our A1 farmers.

11.46 It is also important that the land distribution audit recommendations be implemented as a matter of urgency, with orderly administration of all residual cases.

11.47 Stabilisation of agricultural production also requires that greater efforts continue to be placed in fighting crime on the farms currently being perpetrated by a few who are bent on tarnishing the virtues of the Land Reform Programme.

11.48 As Monetary Authorities, we are pleased that the Zimbabwe Republic Police is registering remarkable progress in this respect, under their strategic plan: "Vision 2008, Policing for National Economic Revival." Already, this programme has seen the rate of stock theft cases declining across virtually all provinces.

Capacity Building in Agriculture

11.49 Capacity building is essential to ensure agriculture productivity. Whilst the government has been playing a big part in this regard, this can not be left to the Government alone. The following issues, therefore, need special consideration:

a) Increasing capacity utilisation by fertilizer and other input producing companies through appropriate pricing structures.

b) Identification of strategic partners with appropriate technology to do joint ventures with local engineering companies to manufacture farming equipment.

c) Enhancement of the distribution capacity for inputs and collection of output from farmers. The commercial distribution channels would guarantee greater accessibility.

d) The concept adopted by operation Maguta, that of concentrating effort on specific irrigation rehabilitation projects should be enhanced, rather than spreading limited resources thinly across too many projects, ending up with virtually all of them half completed.

Implementation of Agro-policies

11.50 In order to fortify growth in the agricultural sector, there is also need for:

a) Timely and efficient provision of inputs to farmers through appropriate distribution channels.

b) Removal of bureaucracy in implementation of set programs.

c) Spirited, dedicated, and results based civil servants and technical experts in positions meant to monitor programs.

Strengthening the Judicial System

11.51 It is also imperative that our Judicial system be further strengthened through provision of adequate resources for them to discharge their duties within reasonable turnaround time-frames. Where cases of economic crimes remain pending for over two years, it becomes highly difficult to get the needed response from surveillance and Exchange Control enforcement activities of the Central Bank.

Continued Parastatal Reforms

11.52 Under the momentum already built by the NEDPP program, we need to fully reorient all our parastatals in a way that will ensure that:

- Their corporate structures are lean, and agile enough to operate like commercial private sector entities.
- Their pricing frameworks are reflective of true costs of production/service delivery.
- They adequately streamline their capital structures and financing regimes to enable them to operate independent of Central Government funding.
- They enter into strategic joint ventures and partnerships with resources private sector players, local and/or foreign, who would infuse fresh capital injections as well as new ways of efficient management.
- They become more accountable, through overhauls of some of their corporate governance structures. Parastatal boards must be well empowered and independent from political interference.

11.53 We are encouraged by the progress that Government has registered in restructuring critical entities such as ZUPCO, ZESA, Air Zimbabwe, ZBH, and ARDA, among others.

Parastatal Dividends

11.54 As we impress upon the Parastal sector to fully implement resolute turnaround programs we call upon the relevant Government Ministries to ensure that our parastatals help fight against inflation by extinguishing the borrowings at the Reserve Bank first prior to the declaration of dividends.

11.55 As a Nation, we will risk entrenching our institutions in the regressive mentality of window dressed turnaround programs that consume dividends on the back of unpaid highly concessional funding.

Mining

11.56 As Zimbabweans we continue to sell a lot of our minerals raw, which is partly accounting for the decline in the manufacturing sector.

11.57 In order to arrest this trend, joint ventures are required to acquire relevant technologies that enable value-addition on local minerals for the country to export semi-finished or finished products.

11.58 It is for this reason that as the Central Bank, we strongly commend the current initiatives under the NEDPP to promote joint ventures with foreign investors in the mining industry, with some of the programmes seeking to build the country's internal capacity to add value on its minerals.

11.59 The handicap of indiscipline, particularly in respect of smuggling of precious minerals continues to limit the country's foreign exchange generative capacity.

11.60 We implore the relevant authorities in Government to consider declaring mining areas high security zones, so that greater surveillance and deterrent frameworks can be put in place to plug off leakages.

NATIONAL SME DEVELOPMENT SUPPORT PROGRAM

11.61 As a developing country, Zimbabwe's future lies in our collective ability to harness the potential in the Small to Medium Scale Enterprise sectors (SMEs).

11.62 In countries that have managed to evolve their developmental programmes in a manner that benefited the wider low income communities, they did so on the back of systematic programmes that supported entrepreneurial growth at the grassroots levels.

11.63 Examples of countries which come to mind in this respect are; India, Malaysia, Singapore, South Korea, China, and Russia, among many others.

11.64 Developmental studies have shown that socio-economic ills such as crime, the spread of HIV/AIDS, corruption, and other demerit social trends are strongly positively correlated with the prevalence of unemployment.

11.65 Zimbabwe has long been recognised to offer very strong education and vocational training. But without programs that are geared towards entrepreneurial development and job creation, our educational and training programmes will go to waste, as other economies will reap the benefits of our efforts more than ourselves.

11.66 Our youths leaving schools and technical colleges must actively play a role in the mainstream economy.

11.67 With Zimbabwe's declining HIV/AIDS statistics as revealed by the Minister of Health and Child Welfare Dr. David Parirenyatwa recently, we feel it is imperative to support that trend by keeping our young people occupied through SME projects.

11.68 We encourage the relevant authorities in the Education sector to constantly orient our curricula more towards courses that are closely linked with real life applications in the productive sectors of the country.

11.69 Against this background, it has become necessary that a seed fund be created to cater for a National SME Development Support Programme. With immediate effect, therefore, the Reserve Bank has put in place a **$16 trillion SME Development Fund**, which will be administered through SEDCO and the Banking sector.

11.70 To benefit from this facility, applicants will need to meet the following criteria:

(a). Have to be in the construction industry, OR

(b). Have to be engaging in specific foreign exchange generating projects, OR

(c). Should be in agro-processing, with strong synergies with the Agrarian Reform Programme; OR

(d). Mining sector development.

11.71 The facility will be accessed at a concessional interest rate of 70% per annum.

11.72 We call upon the banking sector to take advantage of the reduced statutory reserves by also matching this SME Development Support wallet, dollar for dollar, though the applicable interest rates need not necessarily be at the official 70% level to reflect the banks' overheads and related costs.

11.73 As a way of stretching the SME fund across many beneficiaries, we call upon business leaders in the communities to group potential beneficiaries into group projects, so as to expand the incomes multiplier effects.

11.74 In order to ensure that the SME development program bears maximum impact to the wider communities, with a fair geographical spread across the country, the $16 trillion facility has been split in Provincial Wallets, based on the country's demographics as published by the CSO from their latest surveys, and adjusted for known concentrations of economic activity in mining, manufacturing, agriculture and other productive activities.

Provincial Shares in the SME Fund

Province	SME Fund ($trillions) In old bearer cheque equivalence
Harare (Metropolitan)	2.5
Bulawayo (Metropolitan)	1.5
Matebeleland South	1.5
Manicaland	1.5
Midlands	1.5
Masvingo	1.5
Mashonaland West	1.5
Mashonaland East	1.5
Mashonaland Central	1.5
Matebeleland North	1.5
TOTAL	**16.0**

11.75 This programme is expected to have profound positive economy-wide multiplier benefits.

11.76 Provincial assessments of economic activity have shown that around 100 000 projects will be sustained or created. Assuming that 5 – 10 people will be employed per project and each person supporting, say two dependants, it is estimated that up to 2 million people would benefit. This excludes the downstream impact through vertical and horizontal sectoral linkages.

11.77 As a Nation, we seem to have resigned caring about the welfare of our school-leavers post completion of their grooming in schools.

11.78 In the majority of cases, Government sponsors and nurtures students for at least 11 years (7 years is at primary and 4 years at secondary education levels), and yet post this, no visible National programmes are there to turn the 11 years of investment into National wealth.

11.79 Through the comprehensive introspective work done within the NEDPP Task Forces, shocking revelations have come about where out Tourism Sector has been found to be infested with some operators who are literally refusing to be licensed, preferring to operate unaccounted for like stars of the sky.

11.80 For this reason, the Tourism Sector will only qualify for support once the Zimbabwe Council of Tourism has exhaustively sorted out its house, through full registration of all operators. We urge that they do so urgently, so as not to needlessly punish those already compliant.

11.81 The operational modalities of the SME Development Fund will be made available to stakeholders by the 1st of September, 2006 for immediate activation thereafter.

11.82 In the meantime, potential applicants should prepare their business plans accordingly.

Monitoring and Surveillance Program

11.83 The Reserve Bank's Experience in concessional financing facilities over the past 31 months has amply taught us on the need for close monitoring and follow-ups to ensure productive utilization of these facilities by the beneficiaries.

11.84 Against this background, the Reserve Bank will be strengthening its Provincial Monitoring teams, supported by Nationwide awareness programmes to stakeholders on the need for effective utilisation of these facilities.

11.85 We call upon the relevant Government Departments and Provincial Leadership to play a supportive role to these initiatives.

Tourism

11.86 Tourism has great potential for growth, but largely depends greatly on the perceived image of the country. It is for this reason that as Monetary Authorities, we once again call for programmes that promote the image of the country within the region and beyond.

11.87 Such programmes ought to encompass pragmatic measures, comprising appropriately targeted information strategies at local, regional and international levels on the vast opportunities existing in the country.

11.88 With the 2010 World Cup thrill coming to our neighbours in South Africa, the Tourism Industry should now be full throttled in positioning their systems to take advantage of this rare opportunity.

REGAINING OUR YESTER-YEAR GLITTER

11.89 Successful turnaround of the economy also requires that the country regains its yester-year competencies and glitter in the production of high quality products in a wide range of areas.

11.90 Examples that come to mind include; among many others:

(a) Tobacco;
(b) Coffee;
(c) Tea;
(d) Plantations (citrus and industrial timber);
(e) Horticulture, including cut flowers, fruits and vegetables;
(f) Gold mining;
(g) Clothing and textiles; and
(h) Sugar – In April, 2005, the World Trade Organization (WTO) Appellate Body ruled against the 1975 Lome Agreement which accorded ACP countries of which

Zimbabwe is a member, favourable prices on sugar exported to the EU. **The consequence of this WTO ruling will see sugar exports into the EU facing a 36% reduction, effective July/August, 2006, and as a country, we need to create new and better markets, as well as implement a direct national sugar industry stabilisation strategy to cope with this exogenous shock.**

11.91 In His Excellency The President Cde R.G. Mugabe's Address to the Nation on the opening of the 2nd Session of the 6th Parliament of Zimbabwe on the 25th of June, 2006, a clear foundation was set upon which the country should be cleansed of all manner of indiscipline, farm disruptions, corruption and other acts of economic sabotage.

11.92 In this process of redirection, it is also imperative that at the individual, household, village, provincial, regional, corporate and Government Ministerial levels, we commit to doing things differently and progressively, supported by a unified war-cry against these vices of indiscipline, corruption and non-productive speculative activities.

12 RELATIONS WITH THE INTERNATIONAL COMMUNITY

12.1 Seven years down the road of protracted strained relations with some members of the international community, it has become imperative that the macroeconomic stabilisation efforts be hoisted towards success through mutual realisation on the part of both, us Zimbabweans and the International Community that perpetual conflict can only serve to entrench socio-economic hardships, especially to the defenseless low income majority of the population..

12.2 It is heartening that Zimbabwe's Leadership have long extended a warm hand of invitation for the building of bridges of dialogue and cooperation.

12.3 Under the current initiatives to hasten the return to normalcy in agriculture, we are pleased that Government has laid to rest the general apprehensions and misunderstandings that surrounded the treatment of farms protected under Bilateral Investment Protection Agreements (BIPAs).

12.4 In his 21st of June, 2006 Address to the Diplomatic Community in Zimbabwe, the Minister of Lands, Land Reform and Resettlement, Hon. D.N.E. Mutasa clearly articulated Government policy as:

Quote: *"The general policy of the Zimbabwean Government with regards to land owned by foreign nationals under Bilateral Agreements is to respect and honour our obligations. However, under the current Land Reform Programme, because of the national demand for land in those unavoidable cases where land owned by foreign nationals under the Bilateral Investment Agreements is occupied and the persons cannot be resettled elsewhere the Government will pay full compensation in terms of the Agreement"*. [pp. 11 of Hon. Minister D.N.E. Mutasa's speech on 21 June, 2006].

12.5 As we work to create lasting stability in agriculture the Utete Commission Report should continue to be the bedrock policy document, as its findings and recommendations are undoubtedly progressive.

12.6 We call upon members of the International Community to understand and recognise the sincerity of Zimbabwe's policy programmes.

12.7 This call for the International Community to have a re-look at their foreign policy and stance on economic cooperation with Zimbabwe also goes to the European Union, which on 18 February, 2002, declared Council decisions which largely curtailed financial support to Zimbabwe. These adverse decisions, which, as the Central Bank, we have long argued are economic sanctions on Zimbabwe need to be set aside as part of rebuilding cooperative bridges.

12.8 We wish, however, to recognise the modicum of support that the EU has continued to give to Zimbabwe's social sectors, which in 2005 amounted to Euro70 million.

12.9 Through continued dialogue and a spirit of mutual cooperation, these social programmes can be further enriched.

12.10 As a Central Bank, we also remain steadfast in our call for international institutions of global financial influence, such as the IMF and the World Bank to re-define and re-focus their modes of intervention in developing countries with critical needs for balance of payments support.

12.11 This re-look should also ensure that more emphasis is placed on genuine desires by these global institutions to bear positive impact on ailing economies rather than beating them into more acute crises through the shifting of goal posts and adverse commentaries that sway the minds of international capital beyond redemption.

12.12 On our part, we commit to constantly reassess our internal macroeconomic policies in ways and means that seek to address the realities peculiar to the Zimbabwean economy.

13. INVESTMENT PROMOTION

13.1 Significant stimulation of the country's productive sectors, as well as creation of employment requires that greater focus be also placed on the promotion of investment.

13.2 Thus, without wishing to **prematurely disclose** specific details of the expected inward investment projects, from the multiplicity of efforts that the NEDPP Task Forces, we are pleased to report that the following sectors are set to benefit from inward investments:

Energy

13.3 The energy sector should see the materialisation of investments in:

(a). **Bio-diesel** production, with beneficial implications to the country's fuel supply situation and the chemical industry.

(b). **Coal sector,** with beneficial implications to electricity generation capacity enhancement, as well as general relief to the demand pressure on coal availability for other economy-wide uses.

(c). **Methane gas drilling**, with beneficial implications in the power generation sector, as well as agro-chemical industry.

(d). **Hydro-power generation**, which again would have a favorable supply side impact in the electricity market. The country's 128 dams form an important springboard for the construction of mini-hydro power generation stations, which should be brought to fruition under the various serious agreements already signed with potential investors.

(e). Thermal power sector, which is also expected to be boosted by agreements already signed.

13.4 The combined effect of these imminent developments is to immensely stabilise the power sector in Zimbabwe, with projected capacity for the country to start entering the electricity export market ahead of the forecast power shortages in the region, beginning 2008.

13.5 As the Central Bank, we are confident that the various agreements are not fly-by-night notional documents, but are rather concrete investment propositions that Government is fully supporting as part of the turnaround program.

13.6 We are also deeply encouraged by the fact that some of these projects are coming in as a result of efforts by our very own Zimbabweans in the diaspora who are leveraging their access to international markets to channel beneficial investments into the country. We thank them for seeing value in wanting to invest in the well-being of their country.

Transport

13.7 The transport sector is also poised to benefit from the concrete agreements entered into for the revamping of the National Railways of Zimbabwe, under joint ventures with foreign investors.

13.8 Progress has also been made in concluding agreements where Air Zimbabwe will go into smart partnerships with renowned airlines and international marketing agencies.

Mining Sector

13.9 The Government has entered into strategic joint venture arrangements with a number of foreign investors, with the following specific mining sub-sectors set to benefit:

- Platinum
- Gold
- Chrome
- Iron
- Copper
- Tantalite
- Emeralds; and
- Diamonds, among others.

Telecommunications

13.10 We are also happy to note the progress that has been made towards the conclusion of investments in this sector.

13.11 We urge the relevant authorities to expedite the finalisation of the asset valuations, which would trigger the conclusion of the imminent investments.

Agriculture

13.12 As the Government consolidates the Land Reform Programme into the high productivity phase, we are encouraged by the on-going negotiations for strategic external partners to enter into smart partnerships with locals in the production of agricultural products with quick foreign exchange generating capacity, such as horticulture.

13.13 As the Central Bank, we also a pleased to report that a number of suppliers contracts, backed by structured financial facilities have been concluded, which would see a marked improvement in the availability of machinery, spare parts and inputs.

13.14 The facilities that have been arranged will also ensure that fuel supplies, especially diesel for tillage is available in sufficient quantities to meet the requirements of the farming sector.

13.15 In all these imminent positive developments, we wish to underscore that final fruition will not be a matter of an overnight event.

13.16 Zimbabwe is a country literally under siege, requiring that stakeholders focus more on doing what is right in building momentum towards the strengthening of sectoral complementarities.

13.17 Instead, some have been quick to discount the efforts under the NEDPP, reflecting that in their own preferences and psychological constructs, mega financial deals ought to be as passively easy as walking in a grocery store to buy candy.

13.18 There has been some speculation over whether or not NEDPP target of mobilising USD2,5 billion in cash or inward foreign direct investments into Zimbabwe were met by the deadline of 30 June, 2006. The answer is a big **Yes**.

13.19 The Nation will in due course witness on the ground results of these efforts and promises. Time for too much talk before programmes materialise on the ground is over.

13.20 As the Central Bank, we welcome all the investors who have seen the sincerity in our call for joint ventures and beneficial business partnerships.

13.21 Indeed, of what use would it be for others to come to give Zimbabwe an umbrella when the torrential rain of setbacks has receded? As a country we should not accept that umbrella any more at the time when we will have passed the current rough patch.

13.22 To this end, we call upon investors currently sitting on the sidelines waiting for other speculative events to happen, that come now and join in the current mutually beneficial drive to promote investment opportunities in our Great country.

13.23 It is, therefore, imperative that those wishing to do business in Zimbabwe come now, for by not doing so, they risk losing the boat, and catching up will be much more difficult.

Positioning Zimbabwe as The Regional Launch Pad.

13.24In inviting potential investors to Zimbabwe we are also presenting to them an opportunity to take advantage of Zimbabwe's strategic location and endowments which make the country an ideal launch pad for investors to penetrate the whole of Southern and Eastern Africa.

13.25 To our credit as a Nation, we already have the pivotal infrastructure backbone, encompassing road, rail, power grid lines and Air Terminals all of which make it easier for Zimbabwe to be the hub from which International Investors can penetrate the sub-region.

13.26 It is therefore, imperative that as a Nation we collectively package these immeasurable comparative advantages and systematically market them regionally and internationally with one positive voice.

Our Past Mistakes

13.27 As Governor of the Reserve Bank, I am on record as having repeatedly said that as Zimbabweans, we are by no means direct descendants of Saint Peter, or Saint Paul and others.

13.28 As mortal human beings, we did make our mistakes in the past, but, who or which country on this planet has not made mistakes?

13.29 As a people, we have learnt our lesson from our past shortcomings and are already taking actions to remedy the set-backs in the economy.

13.30 It is, therefore, not fair for some members of the international community to proffer a holier that thou attitude to Zimbabwe and to continue judging and vilifying Zimbabwe based on past events, for which we are already taking progressive steps to remedy.

14 CONCLUSION

14.1 The socio-economic setbacks confronting our economy today are surmountable, as long as we Zimbabweans harness our collective efforts towards the turnaround programme.

14.2 In working to arrest the current high levels of inflation, we need to attach greater weight on ensuring that as a country, we have food security through stability and vibrancy in agriculture.

14.3 Without adequate food, pressure will only be on foreign exchange, through higher import requirements, but also on inflation, driven by shortage induced price increases.

14.4 Successful stabilisation of the economy also requires that we further integrate the Zimbabwean economy in the global arena through the promotion of export growth and offshore investment attraction.

14.5 To achieve this, our investment climate has to be conducive to the flourishing of private capital, as well as the necessary incentive schemes that benefit investors who would come to sink their resources in medium to long-term productive projects in our economy.

14.6 In working ourselves out of the current challenges, we need to remain alert and vigilant on the fact that Zimbabwe is under siege, and as such, a business as usual strategy can never deliver the intended results.

14.7 Across all sectors of the economy, leaders in Government, Industry and Commerce, Mining, Agriculture, Tourism sector, Labor, as well as Civil Society ought to speak and act in progressive ways that promote cohesion, as well as concentration of effort in production.

14.8 The Zimbabwean economy has vast potential across major sectors, with most of the natural resources endowments remaining largely untapped, particularly in mining and land usage.

14.9 It is for this reason that we are saying to our targeted willing investors, come now to invest in Zimbabwe whilst the opportunities are still abundant.

14.10 Coming much later down the road would be of no use, as the country would have recovered, with no need for inflows to kick-start the various profitable opportunities in our mining, manufacturing, tourism and agricultural sectors.

14.11 The measures undertaken in this Monetary Policy Statement will ensure that over the remainder of the year, inflationary pressures decline, whilst on the foreign exchange front, the adjustment in the exchange rate should see inflows improve remarkably.

14.12 We call upon Civil Society, Employer Bodies, Labor Unions, Government Ministries and the International Community to see the virtues of these Monetary Policy measures and commit to playing a positive and complementary role, as opposed to aspiring, through thoughts and deeds, to destroy Zimbabwe.

14.13 Through resilience, full implementation of own programmes and avoidance of policy reversals and inconsistencies, the Zimbabwean economy will no doubt stabilise over the next six months, laying the foundation for positive growth and lasting prosperity.

14.14 The successful turnaround of our economy is a battle we must go for, prepared to pay the price for that success while boldly facing our past shortcomings without biased remorse.

14.15 Fellow Zimbabweans, ours is a just cause, a just turnaround, a test of unity of purpose and an obligation thrust upon all of us living today, inside and outside Zimbabwe, the young and the old, men and women, to ensure that we work twice as hard, twice as honest, to bequeath a better economy and a better Zimbabwe to posterity than we found it ourselves. It is a war we cannot afford to lose and for which FAILURE, ladies and gentlemen, is just not an option!

14.16 I commit this Monetary Policy Statement in the hands of His Almighty, our God.

14.17 I thank you.

DR G GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE

31 JULY 2006

NOTES

NOTES