MONETARY POLICY STATEMENT

Issued

IN TERMS OF THE RESERVE BANK OF ZIMBABWE ACT

CHAPTER 22:15, SECTION 46

By

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GOVERNOR

RESERVE BANK OF ZIMBABWE

20 JULY 2005

In terms of the Reserve Bank of Zimbabwe Act, the Monetary Policy Statement is issued bi-annually, in December/January and in June/July of each year. The dynamics in the macro-economic environment in an economy such as ours, need enabling policies to step up the turnaround of the entire economy. This Statement seeks to consolidate the policy measures set out in previous Monetary Policy Statement.

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1. INTRODUCTION AND BACKGROUND

1.1 In terms of the Reserve Bank of Zimbabwe Act, the Monetary Policy Statement is issued bi-annually, in December/January and in June/July of each year. This statement seeks to consolidate the policy measures set out in previous Monetary Policy Statements.

1.2 As was highlighted in the May 2005 Monetary Policy Statement, year 2005 is confronting a drought situation which has necessitated that, as a Nation, we dedicate some of our foreign exchange resources for the procurement of grain.

1.3 We are pleased to report that the food importation program is progressing satisfactorily, with adequate grain expected to come into the country over the remainder of the year.

1.4 We are also pleased with overtures from the donor community who have indicated willingness to assist the country with some of its drought-induced food requirements which if this materializes, will reduce pressure on the foreign currency resources we have.

1.5 This Monetary Policy Statement seeks to further augment the supportive measures already in place, putting greater emphasis on foreign exchange generation, as well as more prominence on inflation reduction measures.

1.6 As we did commit to the Nation in previous Monetary Policy Statements, as Monetary Authorities, we are leaving no stone unturned to ensure that our exporters remain viable, which in itself is a critical precondition for lasting recovery of our economy.

2. INFLATION TRENDS

Annual Inflation

2.1 Inflation had progressively declined from 623% in January 2004 to 124% by March 2005, before the trend started to reverse, beginning April 2005, when the annual rate increased to 129%.

2.2 The upward trend in inflation continued to May and June, as annual inflation increased to 144% and 164%, respectively.

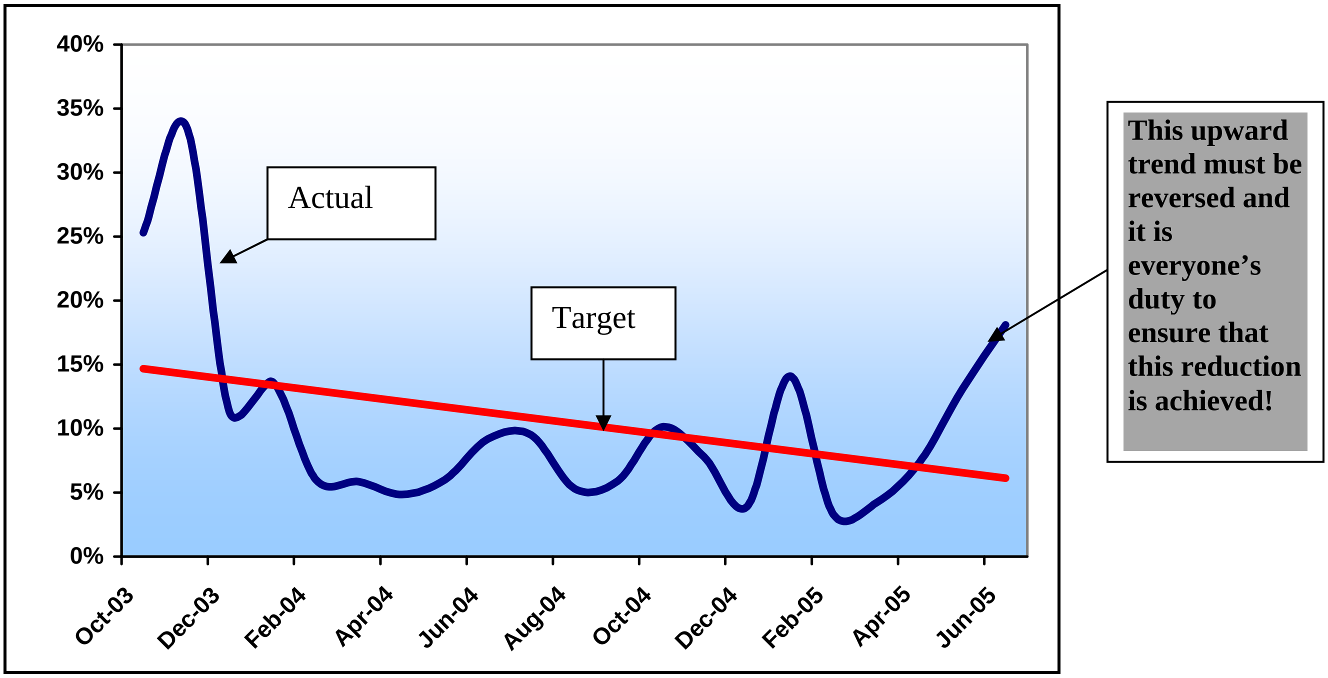
2.3 The transitory upward momentum is expected progress through to September, 2005, before tapering off in the last quarter of the year.

2.4 This recent resurgence in inflationary pressures reflects a combination of the following main factors:

(a) The corrective fuel price adjustment, which saw fuel prices adjust by an average of 178% in June, 2005.
(b) The drought-induced price shocks on the food component of the consumer price index (CPI).
(c) Cost-push effects of wage and salary pressures
(d) School fees, rent and rates; and
(e) The unacceptably high levels of monetary expansion.

2.5 The unfavorable trend is, however, expected to reverse during the last quarter of the year, with annual inflation still targeted to rescind to around 80% by December 2005.

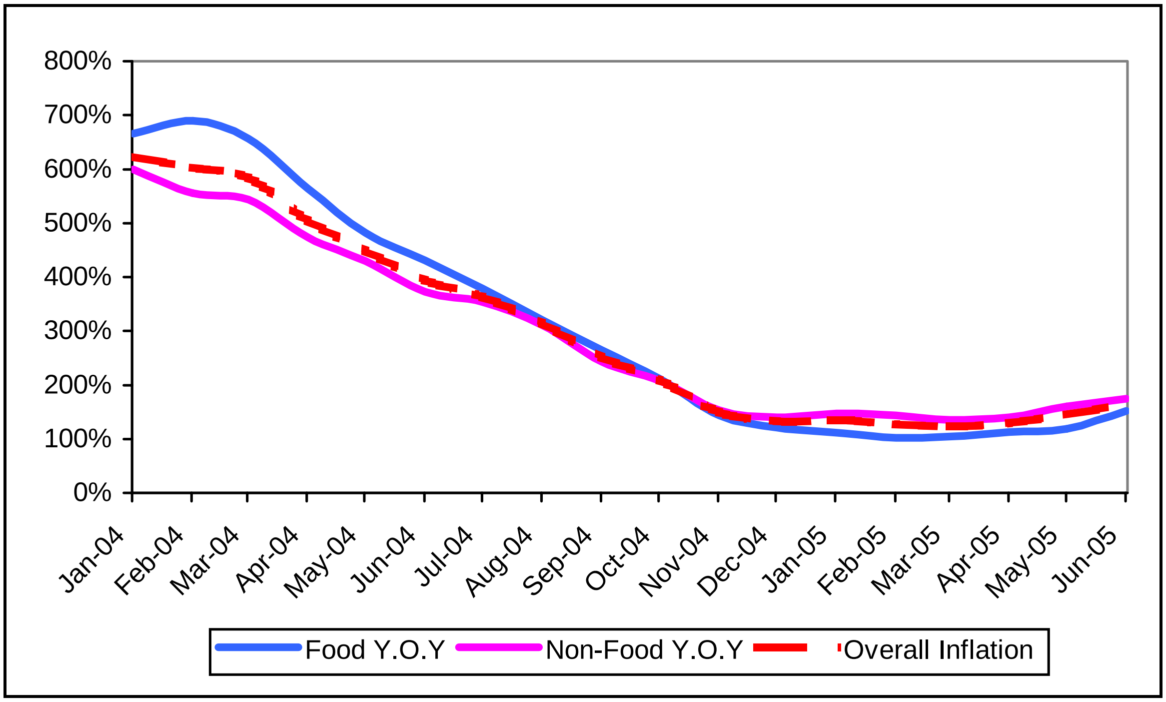
Month on Month Inflation



2.6 The recent upturn in monthly inflation is not sustainable and is at variance with the collective Vision of macroeconomic stability.

2.7 This requires that, as a Nation, we redouble our efforts to contain and tame the inflation scourge.

Year on Year Inflation Profile



3. REBUILDING POSITIVE EXPECTATIONS

3.1 As we elevate our bitter fight against the inflation scourge, it is imperative that Labour, Government, Business, and Civil Society, earnestly recommit to a progressive social contract which anchors a balanced incomes and pricing framework as part of measures to stabilize the macroeconomic environment.

3.2 Under this framework, we call upon stakeholders not to despair or lose hope in the turnaround program by pinning down their wages and salary reviews on pessimistic extrapolations of the current temporary setbacks on the inflation front into the future.

3.3 Equally, we call upon producers and service providers to throw their weight in the inflation fight by aligning price reviews to genuine changes in production costs, as opposed to ad hoc speculative pricing.

3.4 Doing so would only serve to entrench the drought-induced inflationary pressures into a “harder-to-reverse” upward trend, well at variance with our targeted disinflation program.

4. FINANCIAL SECTOR DEVELOPMENTS

Status of the Banking Sector…

4.1 The financial sector remained **generally safe and sound, adequately capitalized, and profitable over the half year ended 30 June 2005.**

4.2 This is a reflection of the relentless supervisory efforts which have resulted in a significant transformation of corporate governance and risk management practices in the financial sector.

Review of minimum core capital requirements…

4.3 Cognisant of the challenging environment in which banks are operating and the key role of capital as a buffer and final line of defense against potential losses, it has become necessary that as Monetary Authorities, we once again review the minimum core capital requirements of banking institutions to fortify the public's confidence in the banking sector.

4.4 A comparative analysis of the country's minimum capital requirements against other supervisory jurisdictions in the region indicates that Zimbabwe's minimum capital requirements are still far below international trends.

4.5 In this regard, we hereby advise, 16 months in advance that with effect from 30 September 2006, the following minimum capital requirements shall apply:

New Capital Adequacy Thresholds [Effective 30 September 2006]

MARKET PLAYERS	**CURRENT (Z$ Billion)**	**NEW CAPITAL REQUIREMENTS (Z$ Billion)**
Commercial Banks	10	100
Merchant Banks	7.5	75
Finance Houses	7.5	75
Building Societies	7.5	75
Discount Houses	5	50
Asset Management Cos.	0.5	10

4.6 The above new capital thresholds are largely derived from the bare minimum outlays required to start up these types of institutions, as well as the need to maintain the public's confidence in the banking sector.

Asset Management Companies …

4.7 As at 30 June 2005, twenty-four (24) asset management companies were under the supervision of the Reserve Bank, down from 31 originally registered in 2004.

4.8 To date, asset management companies have been operating under licenses that are renewable on an annual basis depending on performance.

4.9 As part of the license renewal process, the Reserve Bank is conducting on-site examinations to ensure that **only sound institutions that are operating in strict compliance with regulatory and supervisory requirements will be issued with perpetual licenses.**

ENHANCEMENT OF RISK-BASED SUPERVISION

4.10 The Reserve Bank is in the process of enhancing the risk-based supervision approach which was introduced in 2000.

4.11 To this end, Banking Supervision is conducting a survey on banks' risk management systems with a view to issuing comprehensive Risk Management Guidelines.

4.12 All banking institutions must, therefore, ensure that they have upgraded their corporate governance and risk management practices in line with the said guidelines by 30 September 2005.

INFORMATION TECHNOLOGY SYSTEMS AUDITS

4.13 As previously announced, the Reserve Bank now employs computer based auditing software called ACL (Audit Command Language) during examinations, in order to assess the integrity and reliability of financial reporting by banking institutions.

4.14 We, therefore, call upon financial institutions to ensure that their financial systems are up to standard at all times, in line with prudent risk management and control systems.

ESTABLISHMENT OF A CREDIT REFERENCE BUREAU

4.15 In order to ensure discipline among borrowers in the financial sector the Reserve Bank has initiated the process of establishing a Credit Reference Bureau which will collate information in respect of all loans and advances being generated in our banking system.

4.16 The Credit Reference Bureau will provide a central database which will, among other things, aid lenders in the evaluation of creditworthiness of borrowing clients.

4.17 The Credit Reference Bureau is expected to commence operations on 1 January 2006.

5. MONETARY DEVELOPMENTS

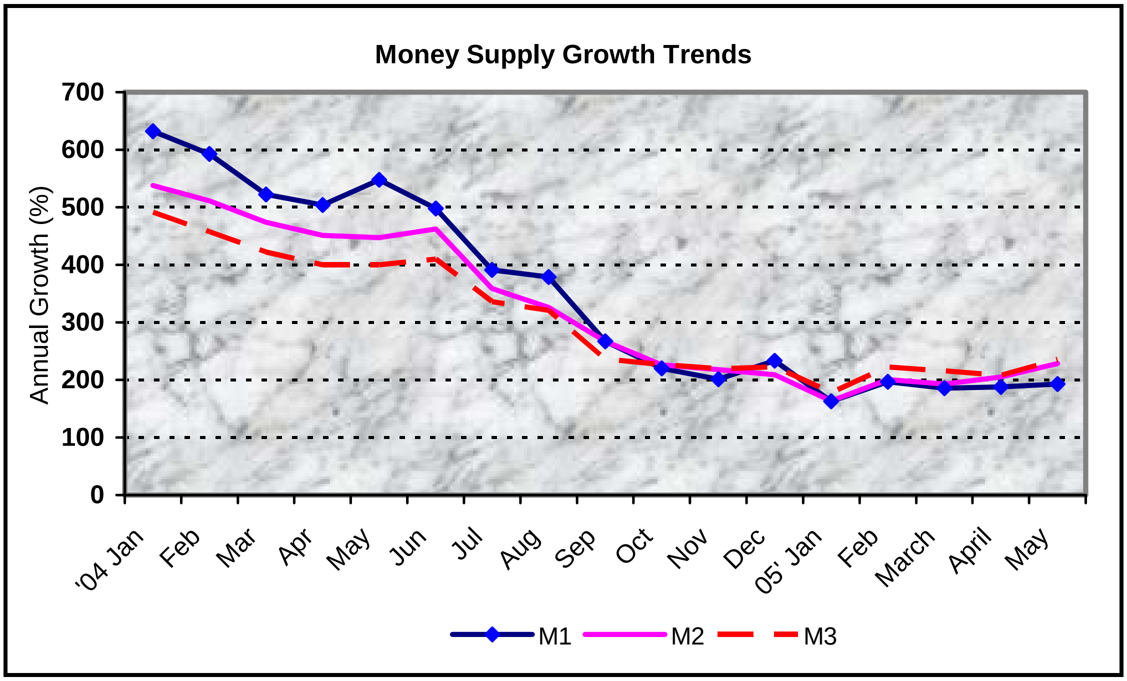
Money Supply

5.1 Monetary control remains a major objective of the Central Bank. Consistent with the anti-inflation drive, money supply growth has trended downwards from **491%** in January 2004 to **235%** in May 2005.

5.2 The major monetary aggregates – M1, M2 and M3 have trended downwards since the beginning of 2004.

5.3 Accounting for the 235% annual growth in money supply (M3) in May 2005 was credit to Government, which grew by 343%, credit to the private sector at 65% and claims to public enterprise, 40%.

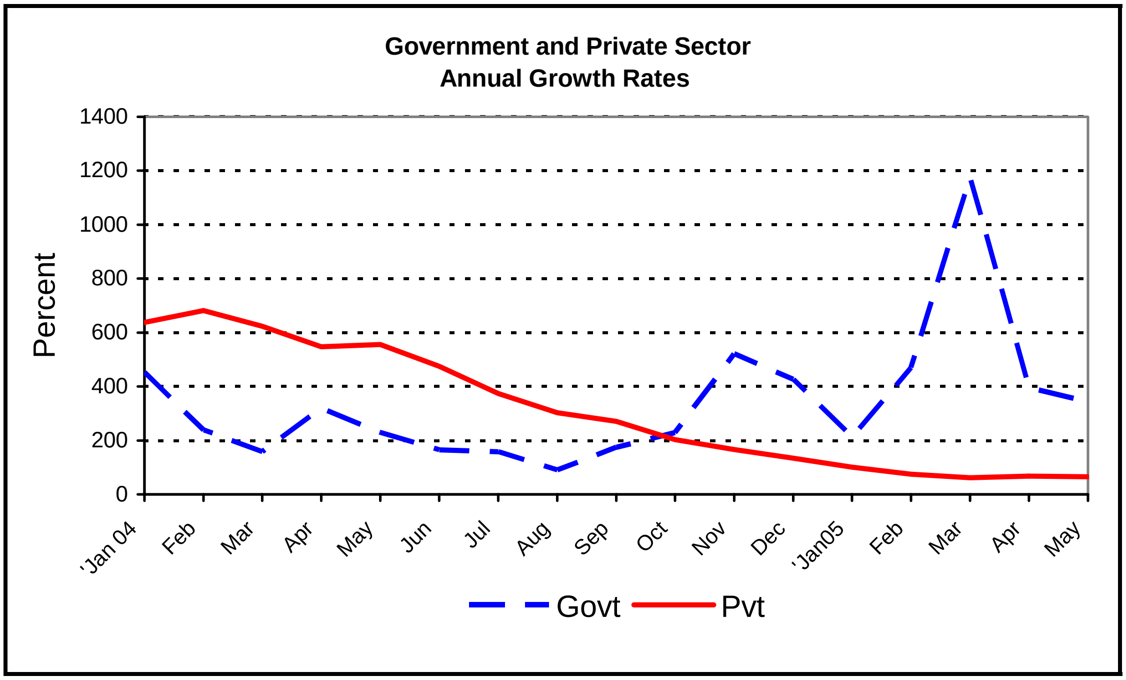
Money Supply Growth Trends



5.4 The increase in credit to Government reflects mainly grain imports to meet the drought-induced deficit, as well as the inevitable costs relating to the March, 2005 Parliamentary Elections, as Government sought to comply with the SADC Principles on Elections.

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

Government and Private Sector Credit Growth



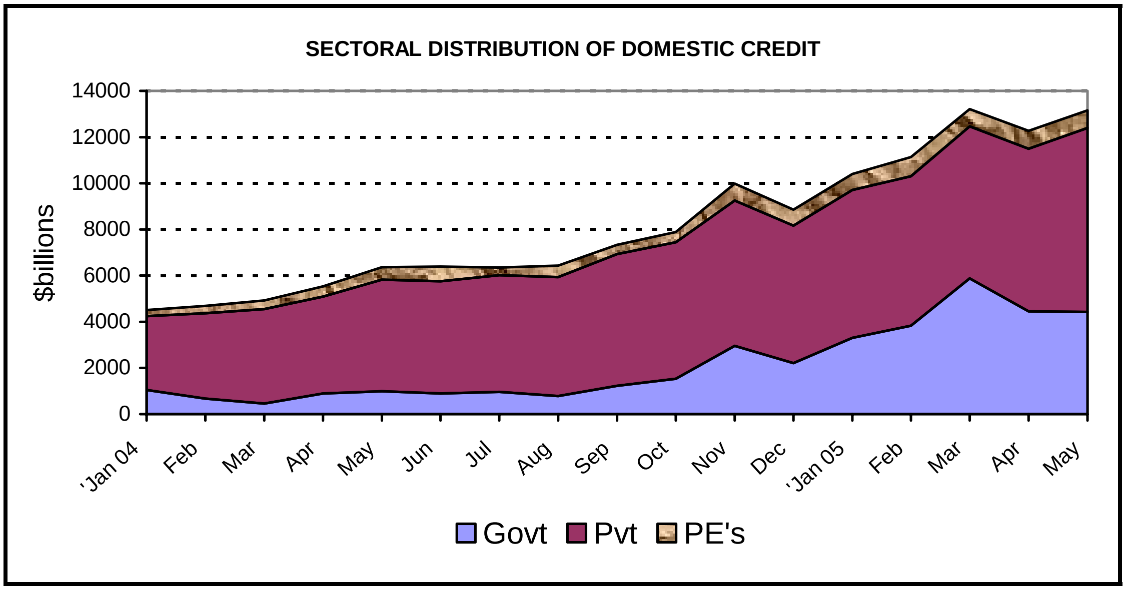
5.6 The growth in credit to private sectors has also trended downwards on the back of the slow down in PSF disbursements.

5.7 The private sector, however, continues to command the biggest share of domestic credit, 61% as at May 2005 up from 54% in April 2005, reflecting the overall importance of the private sector as the engine for growth.

5.8 Credit to public enterprises grew by 40.2% year on year in May 2005, reflecting disbursements being made under the

Parastatal and Local Authorities Reorientation Program (PLARP).

Sectoral Distribution of Domestic Credit



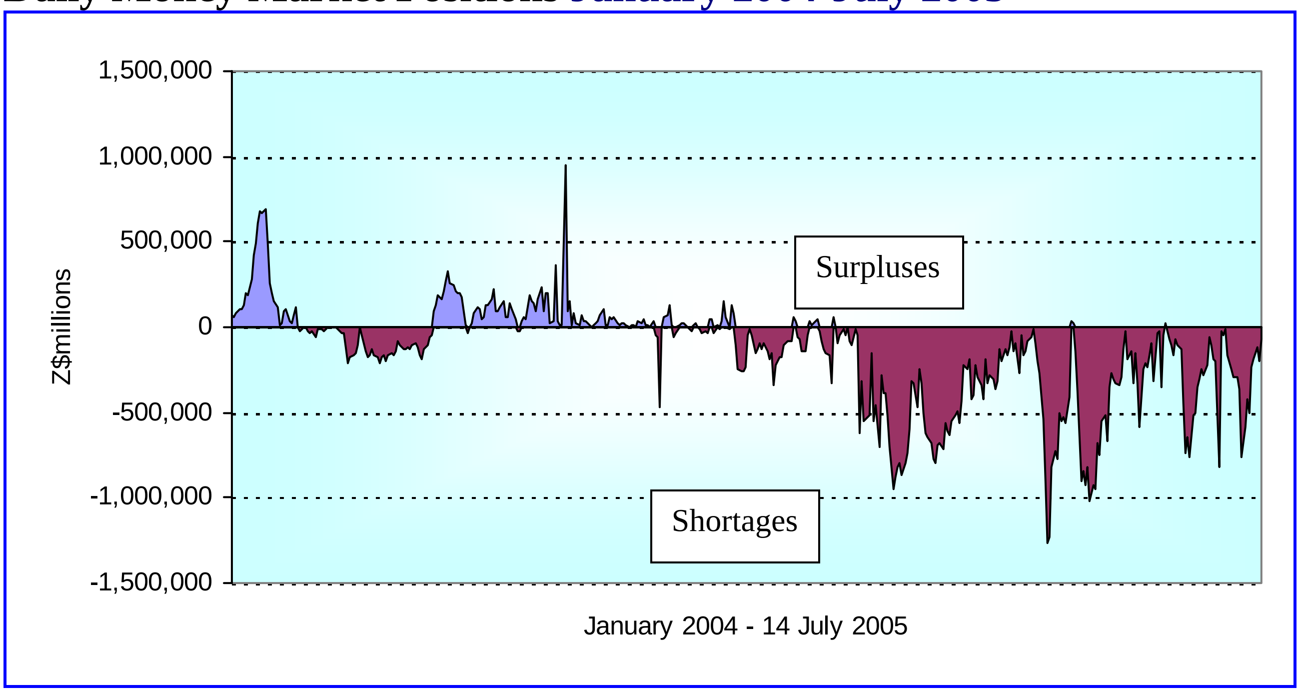
6. LIQUIDITY MANAGEMENT

Money Market Position

6.1 The Bank's liquidity management program continues to target maintenance of short market positions, in line with efforts to contain inflation.

6.2 During the first half of 2005, daily market shortages averaged $352.9 billion, peaking at $662.4 billion in March, 2005.

Daily Money Market Positions January 2004-July 2005



7. INTEREST RATE POLICY

7.1 Inflation reduction remains the Reserve Bank's overriding objective.

7.2 Against this background, Monetary Authorities will continue to maintain a tight monetary policy stance over the outlook period.

7.3 With immediate effect, therefore, the Reserve Bank's accommodation rates will be:

(a). Secured accommodation: 180%.

(b). Unsecured accommodation: 190%.

7.4 As Monetary Authorities, we are fully aware that this tight interest rate framework will tempt some market players into an arbitrage mood and with the objective of abusing the targeted concessional special facilities through money market investments.

7.5 The market is, therefore, strongly warned that rigorous follow ups will be effected on all cases where producers benefit from the special facilities.

8. FOREIGN EXCHANGE MARKET DEVELOPMENTS

Growth in Export Performance

8.1 Against the background of the significant progress that had been achieved in slowing down inflation over the past 18 months, as well as increased capacity utilization, total export shipments, as reflected through Forms CD1 raised, amounted to **US$ 877 million,** a **7%** growth in approved exports for the period January to 15 July 2005.

8.2 This compares to **US$822.4 million** recorded over the same period in 2004.

Total Shipments

Month	2004 USD Value	2005 USD Value	Variance
January	116,310,220.46	112,856,624.62	(3,453,595.84)
February	159,577,472.22	163,153,480.28	3,576,008.06
March	162,733,891.70	117,540,227.59	(45,193,664.11)
April	85,626,391.09	138,404,152.12	52,777,761.03
May	112,790,525.91	151,397,856.84	38,607,330.93
June	134,127,091.87	135,739,574.82	1,612,482.95
July	51,185,653.42	57,433,798.58	6,248,145.16
TOTAL	**822,351,246.67**	**876,525,714.85**	**54,174,468.18**

Export Proceeds

8.3 Acquitted Forms CD1 between 01 January 2005 and 16 June 2005, realized a total of **US$569.7 million**, as compared to **US$490.8 million** received over the same period in the year 2004. This represents a ***16.08%*** growth in terms of export receipts.

Export receipts performance

Month	2004 USD Value	2005 USD Value	Variance (USD)
January	153,258,139.81	116,859,199.70	(36,398,940.11)
February	37,261,058.84	110,919,669.30	73,658,610.46
March	133,703,474.95	90,912,692.64	(42,790,782.31)
April	62,109,308.61	120,745,958.45	58,636,649.84
May	71,934,678.46	85,937,826.98	14,003,148.52
June	90,531,967.26	132,487,895.24	41,955,927.98
July	29,176,946.62	86,042,806.55	56,254,472.81
TOTAL	**577,975,574.55**	**743,906,048.85**	**165,319,087.19**

POSITIVE GROWTH IN MINING SECTOR

8.4 The past 18 months have also seen remarkable improvement in mining sector performance.

Growth in Approved exports for the First Half of 2005 (US$)

Product	First Quarter 2004	First Quarter 2005	Variance
Ferrochrome	60,368,124.85	44,542,683.66	(15,825,441.19)
Platinum & Nickel	65,026,458.59	77,169,904.28	12,143,445.69
Asbestos	320,171.71	6,186,254.61	5,866,082.90
Granite	4,223,450.85	4,068,210.00	(155,240.85)
Others	6,318,451.04	17,870,782.45	11,552,331.41
Total	**136,256,657.04**	**149,837,835.38**	**13,581,178.34**

8.5 Mineral exports in the first quarter of 2005 have increased by 10% compared to the same period in 2004 as illustrated below.

8.6 On a wider scale, the exports of minerals in the first half to 15 June 2005 have **increased by 44.11% compared to the same period in 2004. Exports have fluctuated on a monthly basis with a general upward trend.**

Growth in Approved exports for the First Half of 2005 (US$)

Monthly	First Half 2004	First Half 2005	Variance
January	24,195,026.62	51,568,549.20	27,373,522.58
February	47,944,969.18	40,311,626.96	(7,633,342.22)
March	65,522,771.73	59,912,601.65	(5,610,170.08)
April	31,633,866.16	87,732,938.53	56,099,072.37
May	36,811,317.97	70,524,374.17	33,713,056.20
June	51,582,387.03	56,571,402.33	4,989,015.30
July	12,958,739.59	31,151,992.72	8,193,253.12
TOTAL	270,649,078.28	397,762,220.73	127,124,407.27

8.7 The Mining sector has contributed about 42% of the export inflows generated since January 2005. There is greater potential for the mining sector to increase the proportion it contributes to export earnings, benefiting from increased support to mining houses.

8.8 The Platinum sub-sector constitutes the greatest proportion of projected earnings, contributing 16.2%.

8.9 Sustained growth in the mining sector has been driven by the availability of the concessional productive and export sector funding facilities that is available to mining houses.

Manufacturing Exports

8.10 Manufacturing sector receipts have also remained robust, registering growth during the first half of 2005.

Manufacturing Receipts up to 22 June 2005

Month	Value US$ 2004	Value US$ 2005	Variance US$
January	18,724,900.17	24,907,693.69	6,182,793.52
February	22,708,071.59	23,481,976.53	773,904.94
March	22,648,623.15	22,146,515.88	(502,107.27)
April	12,846,949.21	20,548,152.64	7,701,203.43
May	14,209,508.50	17,601,374.67	3,391,866.17
June	18,153,548.21	26,945,474.77	8,791,926.56
July	11,001,020.43	9,697,531.54	(1,303,488.89)
TOTAL	**120,292,621.26.**	**145,328,719.72**	**25,036,098.46**

Foreign Exchange Cash Inflows into the Reserve Bank

8.11 During the first half of 2005, foreign exchange inflows to the Reserve Bank amounted to a cumulative total of US$630.3million. This compares with US$771.5 million received during the same period in 2004.

8.12 Gold sales during the first 6 months of 2005 realized a total of US$116.5 million, compared to US$141.1 million during the same period last year. In the comparable period in 2003, gold sales fetched US$80.1 million.

Sources and Application of Foreign Exchange

Summary of Inflows (US$ m) in 2005

	Jan 2005	Feb 2005	Mar 2005	Apr 2005	May 2005	Jun 2005	TOTAL Jan-*Jun 2005	Revised Jan-Dec 2005 TARGET
Auction Purchases[1]	75.3	70.6	66.4	71.9	60.0	105.3	**466.2**	**1 250.0**
Gold	18.3	24.0	26.1	12.0	17.9	18.2	**122.4**	**275.0**
Tobacco[2]	0.0	0.0	0.0	2.1	6.8	15.8	**28.2**	**65.0**
MTA/Diaspora[3]	2.8	5.6	4.1	1.1	0.3	1.0	**14.9**	**60.0**
Other[4]	0.0	5.4	0.0	0.0	19.3	0.0	**24.7**	**250.0**
TOTAL	**96.4**	**105.6**	**96.6**	**87.1**	**104.3**	**140.3**	**656.4**	**1900.0**

Notes:

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

Summary of Inflows (US$ m) in 2004

	Jan 2004	Feb 2004	Mar 2004	April 2004	May 2004	Jun 2004	TOTAL Jan-Jun 2004	TOTAL Jan-Dec 2004
Auction Purchases	35.9	71.1	105.9	92.8	99.6	127.5	**532.8**	**1 223.2**
Gold	25.5	18.7	23.6	22.8	22.4	28.1	**141.1**	**273.8**
Tobacco	0.0	0.0	0.3	2.7	8.1	13.5	**24.6**	**49.9**
MTA/Diaspora	0.0	0.0	0.0	0.1	15.7	8.1	**23.9**	**54.8**
Other	24.8	0.0	24.3	0.0	0.0	0.0	**49.1**	**109.1**
TOTAL	**86.2**	**89.8**	**154.1**	**118.4**	**145.8**	**177.2**	**771.5**	**1 710.8**

Summary of Inflows (US$ m) in 2003

	Jan 2003	Feb 2003	Mar 2003	April 2003	May 2003	June 2003	TOTAL Jan-Jun 2003	TOTAL Jan-Dec 2003
Auction Purchases	3.3	3.3	7.2	3.4	3.4	3.1	**23.7**	**45.3**
Gold	14.9	14.4	9.7	4.9	25.2	11.0	**80.1**	**152.3**
Tobacco	0.0	0.0	0.0	3.7	6.8	15.1	**25.6**	**45.9**
Other	4.1	3.1	3.1	13.7	3.6	3.7	**31.3**	**58.2**
TOTAL	**22.3**	**20.8**	**20.0**	**25.7**	**39.0**	**32.9**	**160.7**	**301.7**

Summary of Outflows (US$ m) in 2005

	Jan 2005	Feb 2005	Mar 2005	Apr 2005	May 2005	June 2005	TOTAL Jan-*June 2005
Auction Payments[1]	57.7	46.9	55.5	36.5	37.5	54.2	**288.3**
NOCZIM	4.2	15.6	18.3	17.0	24.3	22.9	**102.3**
ZESA	8.3	2.5	3.4	6.6	8.8	5.0	**34.6**
Government[2]	22.7	43.9	20.1	24.1	11.1	28.2	**150.1**
IMF	0.0	3.0	2.0	0.0	0.0	9.0	**14**
Afreximbank	9.6	7.9	8.2	9.4	8.2	--	**43.3**
Gold Producers	1.5	1.9	2.5	2.7	3.3	3.2	**15.1**
Other	14.8	1.6	13.3	1.0	1.0	9.8	**41.5**
TOTAL	**118.8**	**123.3**	**123.3**	**97.3**	**94.2**	**132.3**	**689.2**

Notes:

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

Summary of Outflows (US$ m) in 2004

	Jan 2004	Feb 2004	Mar 2004	Apr 2004	May 2004	June 2004	TOTAL Jan-June 2004	TOTAL Jan-Dec 2004
Auction Payments	24.3	63.3	72.0	58.0	68.3	80.7	**366.6**	**869.1**
NOCZIM	0.0	2.0	4.0	14.1	9.1	23.4	**52.6**	**155.6**
ZESA	0.0	0.0	1.6	3.0	4.9	13.1	**22.6**	**92.4**
Government	12.6	4.8	11.4	12.0	26.6	25.9	**93.3**	**254.4**
IMF	1.5	1.5	3.0	0.0	3.1	0.0	**9.1**	**22.6**
Afreximbank	10.2	12.3	10.1	12.0	20.6	0.2	**65.4**	**122.9**
Gold Producers	6.4	3.4	6.0	4.0	2.8	2.1	**24.7**	**39.6**
Other	3.9	2.7	3.3	6.4	4.0	5.8	**26.1**	**58.7**
TOTAL	**58.9**	**90.0**	**111.4**	**109.5**	**139.4**	**151.2**	**660.4**	**1 615.3**

Summary of Outflows (US$ m) in 2003

	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	June 2003	TOTAL Jan-June 2003	TOTAL Jan-Dec 2003
NOCZIM	1.9	0.0	4.7	2.3	11.4	8.2	**28.5**	**37.0**
ZESA	0.0	0.0	0.0	0.1	6.6	0.1	**6.8**	**6.8**
Government	2.4	8.8	1.0	2.0	6.9	8.3	**29.4**	**63.4**
Afreximbank	2.5	2.3	5.8	3.5	3.1	6.7	**23.9**	**52.3**
Gold Producers	1.8	1.9	0.1	0.8	2.9	1.1	**8.6**	**35.4**
Other	7.3	4.7	8.7	14.7	6.3	2.1	**43.8**	**65.5**
TOTAL	**15.9**	**17.7**	**20.3**	**23.4**	**37.5**	**26.5**	**141.3**	**260.4**

9. Foreign Exchange Auction System

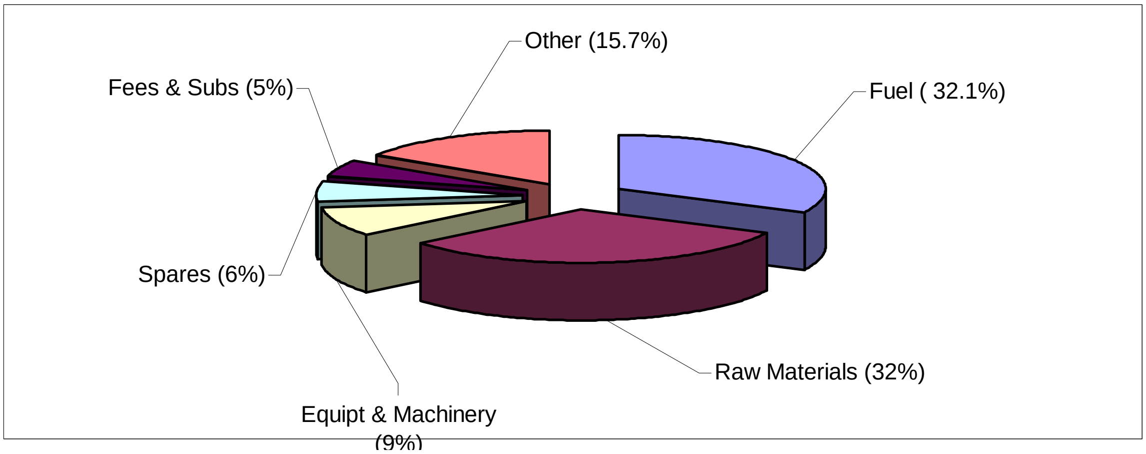
9.1 Over the period January 2005 to 14 July 2005, a total of 51 Main Auctions were conducted. In addition, the Bank also held 28 Small to Medium Enterprises (SMEs) and Individuals Auctions.

9.2 Reflecting improvements in foreign exchange inflows, the amount on offer at the auction was increased from US$11 million per auction, to US$12.5 million, since 1st of June 2005.

Sectoral Utilization of Auction Foreign Exchange

9.3 Usage of the foreign exchange allocated at the Auction remained biased towards the importation of fuel (32.1%) raw materials (31.8%) and equipment, machinery and spares (15.2%).

Usage of Foreign Exchange by Purpose



Analysis of Allotted Auction Amounts by Purpose

Purpose	Cumulative Allocation to 7 July 2005 (US$ Million)	Proportion to Total (%)
Fuel & Petroleum Products	421.5	32.1%
Raw Materials	417.5	31.8%
Equipment & Machinery	117.4	9.0%
Spares	81.5	6.2%
Fees & Subscriptions	65.7	5.0%
Chemicals	48.6	3.7%
Motor Vehicles & Bicycles	45.6	3.5%
Manufactured Goods	37.1	2.8%
Education	25.5	1.9%
Travel	9.1	0.7%
Dividends	8.2	0.6%
Loan Repayments	8.1	0.6%
Reimbursements	1.8	0.1%
Other*	23.5	1.8%
Grand Total	**1 311.1**	100.0%

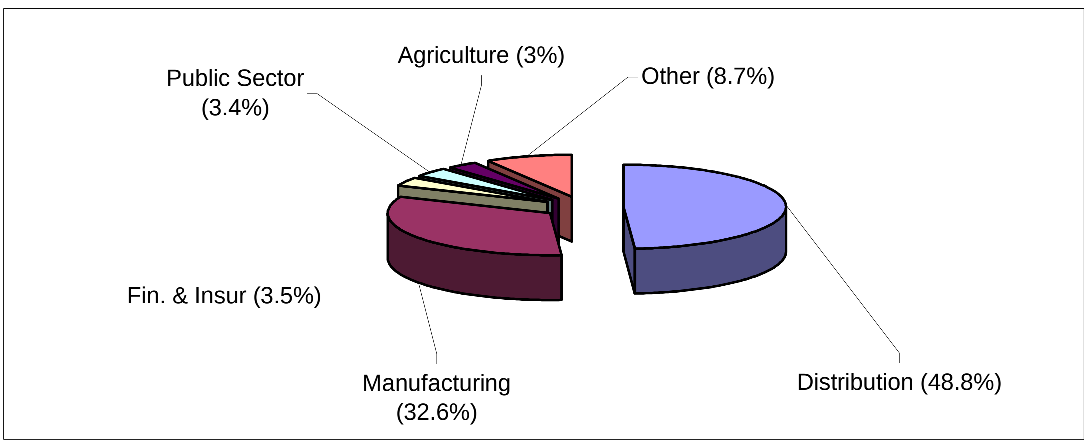
Other transactions include; pharmaceuticals, maize, seeds, drugs, aircraft and freight

9.4In terms of sectoral allocations, the distribution sector took up the largest share of resource allocations, at 48.8% of total.

9.5 This largely reflects allocations to fuel companies, as well as importation of raw materials on behalf of other sectors such as manufacturing and agriculture, through agro-dealers and franchised chemical distributors.

9.6 Allocations to the manufacturing sector, at 32.6%, were largely in respect of importation of raw materials, machinery, spares and chemicals.

Usage of Foreign Exchange by Sector



9.7 The share of agriculture, at 3.1%, however, reflects the fact that most importation requirements in this sector are sourced through agro-dealers, and in some cases, imports come as raw materials for further processing by the manufacturing sector.

Analysis of Allotted Auction Amounts by Sector

Sector	Cumulative Allocation to 7 July 2005 (US$ m)	Proportion to Total
Distribution	639.4	48.80%
Manufacturing	427.2	32.60%
Finance & Insurance	45.5	3.50%
Public Sector	44.5	3.40%
Agriculture	40.4	3.10%
Transport	37.8	2.90%
Individuals	28.5	2.20%
Services	19.6	1.50%
Communication	10.4	0.80%
Construction	9.2	0.70%
Mining	7.8	0.60%
Tourism	0.4	0.00%
Electricity and Water	0.4	0.00%
Grand Total	**1 311.1**	**100.00%**

9.8The widening gap between cumulative demand for foreign exchange and the amount on offer at each auction, however, remains a challenge for the Foreign Exchange Auction System.

9.9On average, the Bank processes about 6 000 to 10 000 bids per auction, with values ranging from US$150 million to US$200 million, against US$12.5 million on offer.

9.10 Cumulative demand for foreign exchange at the auction, however, is inflated by resubmissions, splitting of proforma invoices, use of different suppliers for same invoices, use of different variations of company names and use of subsidiary companies and middle dealers.

9.11 Resubmissions, which used to account for less than 50% of the value of bids during the first 9 months of 2004, have risen to about 85-90%, since the beginning of 2005.

9.12 On average, therefore, new demand for foreign currency amounts to about US$20 million per auction, implying that the US$12.5 million on offer is sufficient to cater for 62.5-70% of new demand for foreign currency – which also mirrors the estimated capacity utilization levels in the economy.

10. EXPORT SUPPORT MEASURES

ENHANCED CARROT AND STICK

10.1 In order to further support exporters, Monetary Authorities are pleased to report that, with immediate effect, the following enhanced carrot and stick framework will apply to exporters:

FCA RETENTION CARROT AND STICK

ACQUITTAL PERIOD: (days post shipment)	FCA RETENTION THRESHOLD		APPLICABLE FLOOR PRICE
	All non-Horticultural Exports	Horticultural Exports	All Exports (Z$/US$)
0-30	50%	50%	**17, 500**
31-60	45%	35%	**17, 500**
61-90	40%	30%	**17, 500**
Over 90	15%	10%	**17,500**

10.2 The above framework replaces the 25% FOB bonus scheme, so as to streamline administrative efficiencies under the support package.

NGOs, EMBASSIES, INTERNATIONAL ORGANIZATIONS, AND THE DIASPORA

10.3 In order to level the playing field, NGOs, Embassies, International organizations, diasporans and all sellers of free funds will sell their foreign exchange at the upper support threshold of Z$17, 500/US$.

10.4 It is imperative to note that the Foreign Exchange Auction system will continue to operate as per current arrangements.

FCA LIQUIDATION FACILITY

10.5 As part of the foreign exchange mobilization program, all exporting companies, individuals and organizations currently holding foreign exchange in their FCAs, can also liquidate their foreign exchange at the enhanced support price of Z$17,500/US$.

TARGETED FUEL SALES IN FOREIGN EXCHANGE

10.6 Over the past few months, the Reserve Bank has been conducting feasibility studies on the possibility of allowing some designated fuel filling stations to sell their petrol and diesel in foreign currency.

10.7 With effect from 1 August, 2005, therefore, the motoring public can access fuel at designated service stations, which will be announced in due course by the Ministry of Energy and Power Development, through payment in foreign exchange, at an initial price of US$1 per litre.

10.8 This intervention will go a long way in relieving the foreign exchange pressures in the market.

FOCUSED SUPPORT ON INCREMENTAL EXPORTS.

10.9 Analysis of the country's export basket reveals that the top 100 exporters, account for 90% of our total export receipts, clearly demonstrating the potency of a strategy that focuses on enhancing these producers' viability.

10.10 The enhanced exchange rate regime should give further impetus to these exporters, as well as those still in their developmental stage.

10.11 Over the first half of 2005, the top 100 exporters brought in a total of US$467 million, excluding gold, which brought in US$104.2 million.

10.12 The above intervention is expected to **bring in monthly inflows of around US$350 million over the next 5 months to December, 2005, or a total of US$1.75 billion.**

10.13 In order to support increased orientation of the country's productive system more towards exports, producers generating incremental exports will be entitled to higher retention of their export proceeds in foreign currency through FCA holdings.

10.14 Under this framework, the following carrot and stick FCA retention structure will apply on all incremental exports:

ENHANCED FCA RETENTION ON INCREAMENTAL EXPORTS

PERIOD	**FCA Retention of Incremental Exports**
August 2005 to December 2006	80%
January 2007 to December 2007	60%

10.15 As Monetary Authorities, we call upon the corporate sector particularly those with huge local currency resources, to enter into foreign currency generating business, as every effort will be made to ensure that exporting remains viable and rewarding.

GOLD SUPPORT PRICE

10.16 In order to further uplift the performance of the gold sector, the gold support price has been, with immediate effect, increased to Z$230,000/gram, from the current Z$175,000/gram.

TOBACCO SUPPORT PRICE

10.17 In order to simplify the administration processes of supporting tobacco farmers, the Z$5000/kg support has been, with immediate effect, replaced by the enhanced support exchange rate of Z$17 500/US$, at which tobacco growers will be paid for their tobacco deliveries on the auction floors.

10.18 It is important to note that this new dispensation DOES NOT apply in retrospect.

COTTON GROWERS' SUPPORT PRICE

10.19 In order to reflect the continued importance of the Cotton Industry, as well as the fact that growers do not directly interface with the export markets, and hence do not directly benefit from the new support foreign exchange rate, the cotton top up support price has been, with immediate effect, increased to Z$5000/kg, from the current Z$3500/kg.

10.20 Farmers should also note that this adjustment DOES NOT apply in retrospect.

EXPORTERS'S SPECIAL BORROWING FACILITY

10.21 As Monetary Authorities, we are pleased to report that our consultations with industry players, as well as representative bodies of exporters over the past quarter lead to mutual convergence of mind on the need to rationalize the support being extended to exporters through the exchange rate instrument.

10.22 Consistent with this, the current adjustment in the exchange rate also took into account the previous benefits exporters were deriving from the 5% special exporters' fund.

10.23 **With immediate effect, therefore, the 5% borrowing facility has been set aside, with exporters' viability concerns now being addressed through the exchange rate.**

10.24 **The 20% agriculture facility, however, remains in place as announced in the May 2005 Monetary Policy Statement.**

LIBERALIZATION OF FREE FUNDS ADMINISTRATION

10.25 In order to allow for the free inflows of free funds which, for one reason or another, found their way into offshore markets, the Reserve Bank is pleased to announce that the program of **Import Tracking Control Numbers (ITCN) has been suspended with immediate effect.**

10.26 Holders of free funds from offshore sources are, therefore, with immediate effect, free to bring in imports, particularly those of a productive nature, on a no questions asked basis.

10.27 The Reserve Bank’s Exchange Control Unit will, however, continue to carry out close surveillance to ensure that holders of corporate FCAs do not abuse the privilege by importing trinkets, at the expense of essential productive usage of foreign exchange resources.

11. PARASTATALS AND LOCAL AUTHORITIES REORIENTATION PROGRAM (PLARP).

11.1 As Monetary Authorities, we are pleased to report that the PLARP program is progressing according to plans, with most parastatals having lodged their turnaround programs with the Reserve Bank.

11.2 Reflecting the need to contain inflationary pressures, as well as the rigorous nature of the turnaround screening process, to date only $1.5 trillion (or 12.5%) of the total $12 trillion facility envelope has been disbursed.

11.3 We call upon the relevant authorities in Government to maintain the momentum high on ensuring that the parastatal and municipal communities operate under strict, sound corporate governance systems, as well as proper accounting practices.

11.4 This program will also be buttressed through the promotion and support of joint ventures between targeted parastatals and strategic regional and/or international investors.

12. INVESTMENT PROMOTION

12.1 As Monetary Authorities, we once again amplify our "war-cry" for the need to promote investment growth in the economy, both domestic and foreign.

12.2 An analysis of Zimbabwe's main sectors reveals immense potential, particularly in mining, manufacturing, agriculture and tourism.

12.3 We are pleased to report that consultations with the investor community over the past few months have opened avenues for strategic joint ventures in the following areas:

(a). The setting up of a platinum refinery in Zimbabwe.
(b). Extraction of coal bed methane. Zimbabwe holds the largest known coal bed methane deposits in Eastern and Southern Africa.
(c). Electricity generation.
(d). Processing of liquid fuel from coal.

12.4 Other areas where focus should be placed include, among many others:

(a). Infrastructure development.
(b). Setting up of value-adding manufacturing plants.
(c). Tourism, especially given the 2010 World Cup Soccer competition which will be hosted by our neighbors in South Africa.
(d). Telecoms.
(e). Airline services.
(f). Steel manufacturing at ZISCO.

The 99-year Lease Program

12.5 As part of creating a lasting foundation for a sound take off in agricultural production, it is imperative that the issue of land tenure be brought to finality, with the due implementation of Government's policy of 99-year leases on all re-allocated land.

12.6 As Monetary Authorities, we continue to call for the urgent implementation of this critical pillar, as this is an indispensable pre-requisite for the financial sector to play a meaningful supportive role in agriculture.

Bilateral Investment Protection Agreements (BIPAs)

12.7 In previous Monetary Policy Statements, the Reserve Bank passionately called upon the relevant authorities in Government to open up a new progressive chapter of investment promotion through signing of BIPAs with friendly regional and international business partners, as well as remedying those BIPAs which were inadvertently infringed upon during the emotive stage of the Land Reform Program.

12.8 It is deeply pleasing that our Leadership share this progressive Vision, as reflected by the commitment by His Excellency, The President during His address to the Nation on the occasion of the opening of the Sixth Parliament of Zimbabwe, towards rectification of all residual BIPA infringements.

12.9 As Monetary Authorities, we call upon and urge all arms of Government to ensure that the Leadership's Vision for mutual cohesion with our investor community is nurtured and turned into reality.

13. INTERNATIONAL RELATIONS

13.1 As Monetary Authorities, we remain committed to ensuring that Zimbabwe remains an active player in regional and international financial markets, so as to optimize the country's benefits from the globalizing marketplace.

13.2 It is for this reason that the past 18 months have seen the following remedial measures being ardently implemented to restore good relations and the country's standing with the International Monetary Fund:

Repayment of Arrears

13.3 Over the past 18 months Zimbabwe has progressively escalated its repayments to the IMF from US$1.5 million per quarter, to the current level of US$9 million per quarter, giving a cumulative total repayment of US$36.6 million.

13.4 As Monetary Authorities, we pledge to further escalate the repayments over the outlook period.

Cooperation on Consultations

13.5 As Monetary Authorities, we are also pleased to report that the past 18 months have seen a marked improvement and commitment of the country towards engagement with the IMF, culminating in the meeting between His Excellency The President and Mr Bio-Tchane, the IMF Director for the Africa Region in November, 2004.

13.6 This spirit of close cooperation has also been carried through in all the Article IV consultations the country has had with the IMF teams.

Macroeconomic Policies

13.7 Reflecting the importance of export recovery in turning around the fortunes of the country, the past 18 months have also seen the country vigorously uplifting exporter viability through allowance for greater flexibility in the exchange rate.

13.8 This saw the rate adjusting from Z$824/US$ at the start of 2004 to the current level of Z$17, 500/US$ or a twenty-one-fold adjustment in 18 months, well in excess of thresholds consistent with the purchasing power parity (PPP) principle of exporter viability.

13.9 An analysis of Zimbabwe's PPP using the June, 2005 inflation out-turn, yield a PPP-consistent exchange rate of around Z$15, 000/US$, implying that our exporters are more than compensated for competitive loss arising out of developments on the inflation front.

13.10 As Monetary Authorities, we are also pleased that, the effects of the drought notwithstanding, the fiscal sector has been managed well in line with budgeted parameters, as reflected by the above-average performance results for 2003 and 2004.

13.11 During their recent Article IV visit, the IMF Staff did express concern on both the interest rate and the exchange rate frameworks.

13.12 As the adverse effects of the drought dissipate, and the economy responds to the various market interventions being implemented, Monetary Authorities commit to ensure sooner convergence in interest rates by December, 2006.

13.13 Sustaining the current turnaround program also requires that as a country, we continue to work closely with regional and international business partners, particularly in the areas of trade and investment.

13.14 As Monetary Authorities, we are committed to ensuring that this cooperative spirit is maintained as an integral part of the turnaround program.

14. CONCLUSION

14.1 As the Nation takes in the new measures introduced in this Statement, it is imperative that we collectively build a conducive environment for the restoration of confidence and goodwill in the economy.

14.2 We call upon the relevant authorities in Government to hasten the reconstruction phase, particularly that of low-cost housing structures, as well as orderly factory shells and market stalls for SMEs, so as to integrate this critical constituency in the mainstream formal economy.

14.3 As Monetary Authorities, we stand ready to play a facilitatory role in ensuring that the necessary resources are mobilized from the market, through appropriate, tailor-made financial instruments.

14.4 Fellow Zimbabweans, as a Nation, our experience over the past 18 months has demonstrated the virtues of working together, with one common objective.

14.5 The past 18 months have also equally shown the futility of needless conflict among us.

14.6 As your Governor, I did warn the Nation on the absolute and non-negotiable need for the Nation to remain vigilant and united, not forgetting the excruciating pain and inconvenience associated with fuel and other shortages. The recent experiences in this respect should be a nightmare we want to resolve and forget about sooner rather than later and this Monetary Policy Statement is our contribution in that direction.

14.7 Logically, therefore, as Zimbabweans, let us awaken to the reality that ONLY US, and OURSELVES alone can emancipate our economy from the yoke of macroeconomic instability through policy cohesion and constant improvement, persistence and determination, especially when it comes to implementation of agreed programmes.

RE-ORIENTATION ON ENERGY CONSUMPTION

14.8 As we work to bury the current challenges facing us, we need to also wake up to the realities that are unfolding on the wider global marketplace for fuel, where increasingly, non-oil producing countries, are being forced to absorb ever rising exogenous price shocks.

14.9 We need to accept the reality that being a non-oil producing country, and therefore a price-taker, the ever increasing oil prices over the past few years necessarily means that our hard earned foreign exchange is buying less and less of the much needed fuel.

14.10 This realization should amply demonstrate and convince every soul among us that as a country, our bill could end up taking more than a third of our foreign currency earnings

14.11 I therefore, wish to make a passionate call to all Zimbabweans to re-orient our mindsets and fuel consumption patterns, and the sooner we begin to align them with the universal realities on the ground, the better for all of us.

14.12 Equally, I wish to end by calling the relevant authorities in Government, as well as our centers of technical learning to break the technology barriers and expedite the development of alternative sources of fuel for the betterment of our longterm economic prospects in a world that is increasingly becoming penal to non-oil producing countries. As Monetary Authorities, we stand ready to play our part in this initiative.

14.13 Together as a Nation we will achieve our Vision of a prosperous Zimbabwe by the end of 2007

14.14 In God's Hands I commit this Monetary Policy Statement.

Thank You.

DR G GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE
20 JULY 2005