



**JANUARY 2008**  
**MONETARY POLICY STATEMENT:**  
**CONSOLIDATING ECONOMIC PRODUCTIVITY**  
**AND INFLATION STABILISATION**

Issued

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

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In terms of Section 46 of the Reserve Bank of Zimbabwe Act Chapter 22:15, the Monetary Policy Statement is issued bi-annually, in December/January and in June/July of each year.



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# 1. INTRODUCTION AND BACKGROUND

- 1.1 As is stipulated in the Statutes, this Monetary Policy Statement is issued in terms of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15].
- 1.2 Consistent with the mandate prescribed by the above statute, Monetary Policy Statements provide the Nation with a detailed assessment of the status of the economy; introduce policy interventions to address attendant constraints; as well as proffer advice to Government, the Business Community, Labour and Civil Society in general on how best to deal with our economic circumstances.

## **SURVIVING A DECADE OF SANCTIONS...**

- 1.3 As we forge ahead with various turnaround policy initiatives, our Great Country has amply demonstrated the **UNIQUE RESILIENCE** of its people and economy in the face of virtually a decade of sanctions.
- 1.4 An assessment of global capital flows into the developing world, sub-Saharan Africa in particular, clearly shows that considerable attempts are being made to dismantle Zimbabwe's economic fabric through a combination of the following armoury:
- (a). The freezing of most donor-supported programmes;
  - (b). Withdrawal of commercial external lines of credit;

- (c). Withdrawal of balance of payments support by multilateral financial institutions, such as the IMF and the World Bank;
  - (d). The passing by some countries of legislations that prohibit trade and financial relations with Zimbabwe; and
  - (e). The denial of Zimbabwe's access to the Global Fund for health-related programmes on the back of purely political considerations, leaving millions suffering through the ailments of HIV/AIDS, malaria and tuberculosis.
- 1.5 The subtle nature of some of these sanctions has regrettably escaped the eyes of some stakeholders here at home and many others in the world community who instead are interpreting Zimbabwe's current difficulties as a product solely of domestic policy imbalances.
- 1.6 Ordinarily, however, like any other Central Bank the world over, we see the arrows and spears as they seek to shoot our economy, and in defence, have been and will continue to deploy extraordinary interventions to meet the extraordinary circumstances we are in.
- 1.7 The impact of the decade under sanctions has also clearly taught us that as a Nation, our **survival** depends predominantly on our own **internal capabilities** in the areas of food self-sufficiency; stability of the energy sector; foreign exchange generation; robust railway, telecoms and road network systems; smooth functionality of all our public enterprises and local authorities; and cohesive coordination of work processes across strategic national institutions.

- 1.8 Indeed, the relentless evil intentions by those imposing sanctions against our Nation have taught us that we need to be **better organised as one force**, encompassing Government, Labour, Business and Civil Society.
- 1.9 It is for this reason that we have made repeated calls for stakeholders to **close rank** and marshal an amicable and inclusive **Social Contract** as the **ultimate bridge** towards macroeconomic stabilisation.
- 1.10 Some would want to simply look at our current high levels of inflation, foreign exchange shortages and other constraints and bay for the blood of the Central Bank Governor, but the substance of the matter is that without innovativeness and thinking and acting outside the box, things could have been worse under the decade-long spell of sanctions.
- 1.11 We should, therefore, not mourn and beat ourselves into extinction, failing to see the silver-linnings and achievements we have collectively registered as a People albeit in the midst of seas of global adversity.

## **EXTRAORDINARY SUPPLY SIDE INTERVENTIONS**

1.12 As a direct strategy against the adversity of sanctions, the Reserve Bank's thrust in 2007 was anchored on the overriding objective of evoking positive supply side response through implementation of extra-ordinary measures.

1.13 In the year 2007, the Reserve Bank successfully introduced and implemented the following economic support facilities which were meant to stimulate the supply side of the economy and increase capacity utilization among other objectives:

- (a) Agricultural Sector Performance Enhancement Facility (ASPEF),
- (b) Farm Mechanization Programme,
- (c) Operation Food Security,
- (d) Cattle Herd Restocking Programme,
- (e) Seed Development Programme,
- (f) SMEs Development Programme,
- (g) Rural Business Facility,
- (h) Tourism Development Facility,
- (i) Bio-fuels and
- (j) Basic Commodities Supply Side Interventions (BACOSSI).

# FOOD SECURITY: THE AGRICULTURAL SECTOR PRODUCTIVITY ENHANCEMENT FACILITY (ASPEF)

## Facility Utilization

- 1.14 As at 04 January 2008, a cumulative amount of **\$62.2 trillion** had been disbursed under ASPEF to **25 477 applications**.
- 1.15 Over 90% of the fund was directed to tobacco, other crops and livestock, beef, piggery, poultry and support to the horticultural sub-sector.
- 1.16 Limited access to credit had become the most binding constraint to new farmers, as they sought to firmly establish themselves on the ground.
- 1.17 Without finance no farmer can make meaningful contribution to the country's virtuous goal of food self-sufficiency.

## Operation Food Security (MAGUTA)

- 1.18 The total amount disbursed towards Operation Food Security Programme as at 31 December 2007 totalled, **\$3.038 trillion**, mainly to support the 2006/7 and 2007/8 summer programmes.

## **RAISING FARM EFFICIENCY LEVELS: THE FARM MECHANIZATION PROGRAMME**

- 1.19 With Land in the hands of the people, consistent with Government Policy, the next logical strategic step was to elevate farm efficiency levels through mechanisation.
- 1.20 It is for this reason that the Reserve Bank procured agricultural equipment, which includes combine harvesters, tractors and other farm implements under the Farm Mechanisation Programme, Phases I and II.
- 1.21 The Phases I and II were officially launched by his Excellency, the President, Cde R.G. Mugabe on 11 June 2007 and 8 October 2007 respectively.
- 1.22 Phase III of this on-going Agricultural Sector Mechanisation Programme, together with Phase 1, of the Electric Generator Programme (EGP), conceived by His Excellency The President in June 2007, will be launched during the month of February 2008. Details of these strategic programmes will be announced in due course.
- 1.23 Clearly demonstrating that where there is unshackable will-power there is always a way, Phases I and II, of the Mechanisation programme saw the following machinery and equipment being injected in the country's agricultural sector:

## Summary of Equipment Delivered under Phase I and II

Type of Equipment Delivered	Quantity
Combine Harvesters	85
Tractors	2 125
Ploughs	1 386
Harrows	1 263
Planters	371
Boom Sprayers	541
Vicon Fertilizer Spreaders	378
Animal Drawn Scotch Carts	45 000
Animal Drawn Cultivators	20 000
Animal Drawn Planters	1 000
Animal Drawn Plough	50 000
Chains	200 000
Knapsacks (Chemical sprayers)	70 000
Animal Drawn Harrows	70 000

### Cattle Herd Restocking Programme

1.24 The Reserve Bank, through Fiscorp (Pvt) Ltd has also put in place the National Cattle Herd Rebuilding Programme.

1.25 The main objective of the facility is to increase national cattle herd by **2.1 million** within the next **3-5 years**. Work is already underway on this programme, which also directly addresses the food element in our inflation basket.

## Seed Development Programme

1.26 In line with one of the key thrusts of the country to be food self-sufficient, a **\$495 billion facility** was put in place to promote seed development programmes.

1.27 As at 08 January 2008, a total of **\$469.9 billion** had been disbursed and the following tonnages of seed purchased by the seed companies:

CROP	TONNAGE
Maize	17 411
Soyabeans	7 709
Sugar beans	15. 8
Sorghum	110.9
Cowpeas	104.1

## Dairy Support Programme

1.28 The objective of the Dairy Support facility is to ensure viability at farm level, increase throughput to dairy processors, as well as stimulate growth in the dairy farming sector in general.

1.29 As at 5 January 2008, a total amount of **\$2.196 trillion** had been disbursed under the facility.

## **\$1.5 trillion Women and Youth SME Facility**

- 1.30 The facility was put in place in order to promote economic empowerment of women and youth through the provision of both working capital and capital expenditure requirements for projects and to curb rural to urban migration.
- 1.31 The maximum loan size for each project is \$1 billion and as at 08 January 2008 a total amount of \$227 billion had been disbursed to support 280 projects. This support was over and above that extended to the SME sector.
- 1.32 As at 30<sup>th</sup> October 2007 the Small and Medium Enterprises Revolving Facility had been fully utilised to support **3 056 projects**

## **Rural Business Facility**

- 1.33 The Rural Business Facility which was launched on 1 October 2007, is targeted at the following:
- (a) Wholesalers serving rural retailers;
  - (b) Retail Shops;
  - (c) General Dealers;
  - (d) Hardware Shops;
  - (e) Butcheries buying from licensed abattoirs.
- 1.34 To date, a total of **\$4.0 trillion** was approved for the wholesalers and a total of **2990 retailers** will be restocked under this programme.

## **Tourism Development Facility**

- 1.35 The Tourism Development Facility was initiated to enhance the tourism industry's foreign currency generation capacity through funding of capacity expansion projects.
- 1.36 As the country works to prepare for the 2010 World Cup Games, more coordinated programmes of action need to be implemented to present a comprehensive face-lift to the country's tourism industry.

## **BIO-FUELS**

- 1.37 A bio-diesel plant with a medium term capacity of 90-100 million litres of diesel annually was officially launched in November 2007 as a joint venture between the Reserve Bank and Korean partners.
- 1.38 The Reserve Bank, through Fiscorp, is currently funding two other bio-fuel projects namely Finealt Engineering (Pvt) Ltd and Verify Engineering (Pvt) Ltd, both of which are expected to further boost the import-substitution programme.
- 1.39 With greater stability in the fuel sector, the country's overall production chain's vulnerability to the exogenous shocks of erratic supplies will be mitigated.

## **Basic Commodities Supply Side Intervention Facility (BACOSI)**

- 1.40 In line with the Mid-Term Monetary Policy Review Statement of 1 October 2007, the Reserve Bank established the **Basic Commodities Supply - Side Intervention Facility (BACOSI)** aimed at boosting production through targeted financial support to producers of basic commodities.
- 1.41 For the economy to fully benefit from these initiatives, our farmers must take up the challenge and utilise every inch of arable land to maximise the production of oil seeds enough for consumption and supplies for bio-fuels.

### **ACCESSIBILITY AND IMPACT OF BACOSI**

- 1.42 As at 08 January, 2008 a total of **US\$13.5 million** and **ZW\$18.6 trillion** had been disbursed under the facility.
- 1.43 Monitoring of the first beneficiaries is on-going, with greater focus on price-stability, output growth, employment preservation and creation, capacity utilisation and export expansion.
- 1.44 The BACOSI facility has gone a long way in restoring productivity for beneficiary manufacturers and retailers, some of which were on the brink of closure due to high production and delivery costs.

- 1.45 Major suppliers of basic commodities such as National Foods, Blue Ribbon Foods, Lobels, Schweppes, Cottco, Star Africa, Olivine, Unilever SEA, Cairns, Nestle, Circle Cement and others have seen **capacity utilization improving from as low as 10% to as high as 65% on the back of BACOSI funding.**
- 1.46 BACOSI, itself, a crisis management intervention in the aftermath of the mid-2007 price blitz, must however, not be seen as a permanent feature of our Monetary Policy interventions. Instead, this facility was meant to act as an emergency shock-absorber to foreclose the possible collapse of companies which could not restock their production systems or retail outlets.

### **Local Authorities Reorientation Program**

- 1.47 Another dimension of the extraordinary measures the Reserve Bank had to take was the Local Authorities Re-orientation Programme (LARP). This programme financed construction and rehabilitation of key infrastructure as well as income generating projects for the country's local authorities sector.
- 1.48 LARP financed water projects in Gweru, Ruwa, Norton, Chegutu and Makonde Mhangura. Improvement in water supplies in these local authorities has enabled them to attract and retain investments in the towns.
- 1.49 Local Authorities that invested in income generating projects include: Gwanda, Harare, Gutu, Guruve, Mutoko and Goromonzi. These are enjoying significant benefits of increased revenues.

1.50 LARP also financed the construction of houses and servicing residential stands in Kadoma, Victoria Falls, Umzingwane and Masvingo.

1.51 More than 1 300 houses and stands were funded under LARP. This is set to alleviate the Country's housing shortages and dampen the current inflationary pressures the country is experiencing.

1.52 Local Authorities that have embarked on computerization projects include: Kwekwe, Ruwa, Bikita, Bulawayo and Gwanda. The computerization projects have significantly improved their billing, accounting and cashflow management systems.

1.53 The Table below summarizes the benefits of LARP intervention since its inception in 2005.

## PROJECTS FUNDED UNDER LARP

LOCAL AUTHORITY	PROJECT	PROJECT BENEFITS
CITY OF HARARE	Quarry, Clamping, Pest Control	<ul style="list-style-type: none"> <li>• Quarry station project assisting City's road patching and Housing projects.</li> <li>• Vehicle clamping project has restored traffic order in the City.</li> <li>• Pest Control project has improved City's health delivery as well as increased the City's revenue.</li> </ul>
CITY OF BULAWAYO	Vending Bays and Computerization	<ul style="list-style-type: none"> <li>• Accurate and timely billing/bills.</li> <li>• Promotion of small and medium enterprises.</li> <li>• Enhanced revenue collection.</li> </ul>
CITY OF GWERU	Water And Sewer	<ul style="list-style-type: none"> <li>• Project has reduced water losses through leaks from a maximum of 40% of water production to 15%.</li> </ul>
CITY OF MASVINGO	Stand Servicing	<ul style="list-style-type: none"> <li>• The 360 stands serviced are set to alleviate housing shortages in Masvingo.</li> </ul>
CITY OF MUTARE	Water	<ul style="list-style-type: none"> <li>• Project has improved the billing system of the Council and enhanced its revenue collection.</li> <li>• The reservoir constructed improved water availability in the city throughout the day and year.</li> </ul>
RUWA T C	Computerization	<ul style="list-style-type: none"> <li>• The new water treatment plant has increased water supply in Ruwa from 25% of daily requirements to 75%.</li> </ul>
MARONDERA MUN.	Cattle Rearing	<ul style="list-style-type: none"> <li>• Improvement in provision of safe water for domestic use</li> <li>• Cattle project bringing in new revenue for Council.</li> </ul>
GOROMONZI RDC	Poultry Project	<ul style="list-style-type: none"> <li>• Improved revenue generation</li> <li>• Increased employment.</li> </ul>
MUTOKO RDC	Factory Shells	<ul style="list-style-type: none"> <li>• Improvement in Mutoko RDC's revenue base.</li> <li>• Project promotes investment and operations of SMEs.</li> </ul>

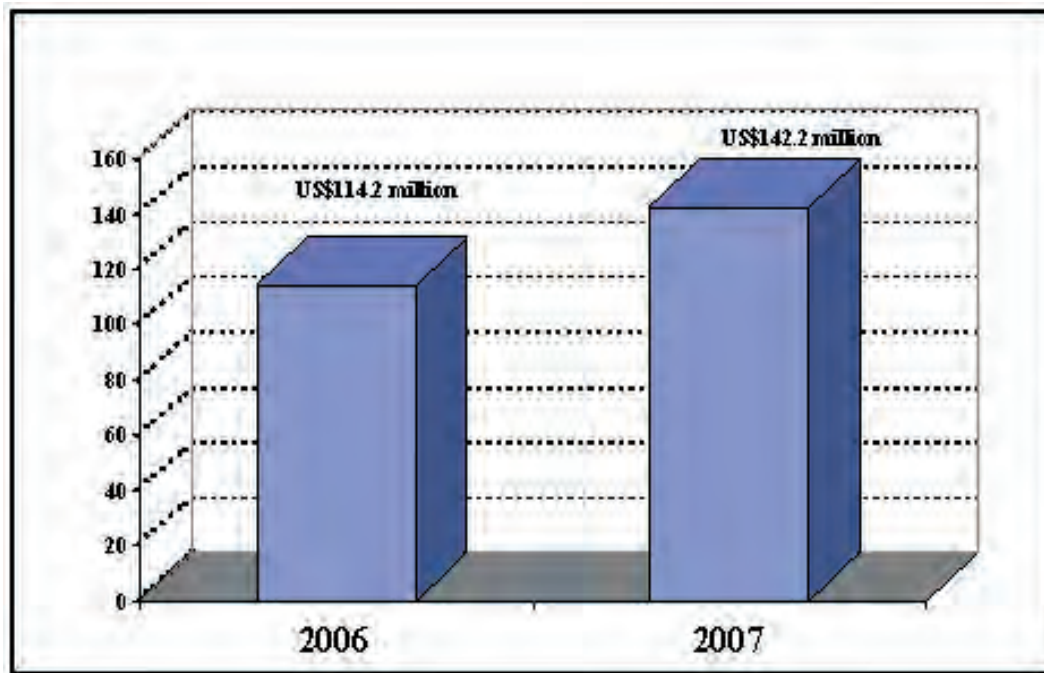
MAKONDE RDC	Water Augmentation	<ul style="list-style-type: none"> <li>• Attraction of investments to the local authority</li> <li>• Improved health delivery for residents,</li> <li>• Improved revenue collection.</li> </ul>
NORTON T C	Water Augmentation	<ul style="list-style-type: none"> <li>• Improved water supply.</li> <li>• Attraction and retention of investments.</li> </ul>
GURUVE RDC	Piggery And Citrus	<ul style="list-style-type: none"> <li>• Extra revenue for the RDC.</li> <li>• The project has boosted employment in Guruve.</li> </ul>
CHIRUMANZI RDC	Irrigation	<ul style="list-style-type: none"> <li>• The project has improved the RDC's revenue.</li> <li>• The project is in line with food security and self sufficiency initiatives.</li> </ul>
VIC FALLS MUN.	Stand Servicing	<ul style="list-style-type: none"> <li>• The 717 stands to be serviced will alleviate housing shortages in the town.</li> <li>• Expansion of Councils' revenue base</li> </ul>
UMZINGWANE RDC	Stand Servicing	<ul style="list-style-type: none"> <li>• Projects will result in an additional 150 housing units being added to the current housing stock.</li> <li>• Expansion of Council's revenue base.</li> <li>• Temporary employment creation – 15 casual workers employed on the project.</li> </ul>
BEIT BRIDGE RDC	Water	<ul style="list-style-type: none"> <li>• Increase in water exports to South Africa from 5 000m<sup>3</sup> to 6 500m<sup>3</sup> per month .</li> <li>• Increased revenue generation and collection to the tune of ZAR 250 000 per month.</li> </ul>
GWANDA MUN.	Brick Moulding and Computerization	<ul style="list-style-type: none"> <li>• Improved income generation.</li> <li>• Billing now timely and accurate.</li> <li>• 9 jobs created by brick molding project.</li> </ul>
GUTU RDC	Abattoir	<ul style="list-style-type: none"> <li>• Project created 11 new jobs.</li> <li>• Council realizing additional income from increased number of cattle using the abattoir.</li> <li>• Abattoir also providing a social service-reduced number of incidence of stock thefts and hygienic conditions of slaughter of animals now prevailing</li> </ul>

BIKITA RDC	Computerization	<ul style="list-style-type: none"> <li>• Project has reduced operational costs due to efficiencies arising from computer system compared to manual one.</li> <li>• Improvement in revenue collection and billing. Timely and accurate financial reports now available.</li> </ul>
MWENEZI RDC	Grinding Mills	<ul style="list-style-type: none"> <li>• Additional income for the Council.</li> <li>• Reduced transport costs by the community in traveling to other business centers for mills.</li> </ul>
BUHERA RDC	Poultry Project	<ul style="list-style-type: none"> <li>• Project realized additional income from chicken sales.</li> <li>• 11 permanent posts were created as a result of this project.</li> </ul>
MUN OF KWEKWE	Computerization	<ul style="list-style-type: none"> <li>• New system improved debtor collection from 60% of debtors being over six months old to 10%.</li> <li>• High speed data transmission.</li> <li>• More data storage that caters for expansion of Kwekwe.</li> <li>• Timeous statements production by Kwekwe</li> </ul>
MUN OF CHEGUTU	Civil Works and Equipment	<ul style="list-style-type: none"> <li>• The ambulance has improved health delivery system in Chegutu.</li> <li>• The dumpers are assisting in refuse collection and will ensure improved sanitation in Chegutu</li> </ul>
SHURUGWI T/BOARD	Brick Moulding	<ul style="list-style-type: none"> <li>• Extra revenue for Shurugwi Town</li> <li>• The project assists in housing construction in Shurugwi and Gweru.</li> </ul>

## Payments for Food Imports

1.54 As part of its extraordinary interventions, the Reserve Bank also mobilised a total amount of **US\$142.2 million**, for food imports to bridge internal shortages. This was a 24.5% increase, compared to 2006 total expenditure of US\$114.2 million, which went towards food imports in that year.

## Food Imports: US \$millions



## Payments for Fuel Imports

1.55 Through the National Oil Company of Zimbabwe, the Reserve Bank also procured fuel amounting to US\$312.2 million. This translates to a 130.6% increase on the 2006 expenditure.

1.56 With US\$312.2 million having been spent on fuel alone in 2007 over and above that spent through Direct Fuel Imports (DFI) arrangements, it is apparent that Zimbabwe is among the hardest hit economies on the back of the sharp increase in international fuel prices.

1.57 It is for this reason that the Central Bank is strongly driving the development of a vibrant bio-fuels sector in the country.

- 1.58 In implementing all these extraordinary interventions, it is the Reserve Bank's modest contribution to what has to be a collective National Agenda.
- 1.59 Ultimate stability, recovery, economic growth and prosperity only comes as an end-product of all-round collaborative efforts by all sectors of the economy.
- 1.60 From the standpoint of assured business viability, our Business Sector must assist through increased capacity utilisation and reasonable price adjustments.
- 1.61 On the part of Government, greater focus should continue to be placed on ensuring that the operating environment and the rules of play promote stable and positive expectations on the sustainability of gainful economic enterprises.
- 1.62 A flourishing business environment has to be anchored on the back of a viable incomes and pricing framework, supported by smooth functionality of key public institutions and infrastructure systems.
- 1.63 Under the prevailing conditions of high inflation, any interventions that fall short of activating the actual supply of goods and services on the market will be scratching on the surface, without providing long-term solutions.

- 1.64 It is for this reason that as Monetary Authorities, our primary focus remains that of anchoring price stability and inflation reduction on the back of increased economic productivity supported by cautious demand management measures.
- 1.65 The effectiveness of such supply side interventions is however, directly correlated to the degree and extent to which stakeholders deploy the resources towards the intended purposes.
- 1.66 Where others re-route to parallel markets diesel meant to power tractors in the fields, or siphon ASPEF and BACOSI funds into the foreign exchange parallel market, the direct result is that the expected supply response is defeated, whilst inflationary credit expansion surges.
- 1.67 It is for this reason that over the outlook period, greater scrutiny is being done to certify that beneficiaries of well-meant support programmes do not perpetuate economic crises through diversionary practices.

### **Policy Advice...**

- 1.68 Since 18 December, 2003, the Reserve Bank issued acres and acres of policy advice, to Government Ministries, Local Authorities, Parastatals and the Business Community, to underscoring what needed to be done to realign the economy back on the rails of success.

- 1.69 The non-implementation of some of the Policy Advice given to stakeholders especially to Government Ministries, Local Authorities and parastatals remains a sore point for Monetary Authorities as, in the process of filling that gap, the Bank has found itself having to carry the above-mentioned extra-ordinary responsibilities outside its normal core business simply to keep Zimbabwe fed, to keep Zimbabwe oiled and to keep Zimbabwe afloat in terms of certain local and international financial obligations.
- 1.70 Along with this Monetary Policy Statement, we have once again published a separate Supplement presenting a full alphabet of this advice and advance warnings we gave the Nation on the risks of non-implementation of key policy decisions.
- 1.71 As we enter the dawn of the forthcoming combined elections, work is already underway to crafting a robust **Post Elections Economic Blue Print** that will anchor a lasting foundation for price stability, inflation control, investment promotion, as well as revamping the general productivity levels in the economy.
- 1.72 In the meantime, however, it is imperative that our economic policies and interventions guard against the risks of accelerated economic distortions if such programmes haphazardly impair business viability, investor confidence and the sanctity of private property rights.

- 1.73 Specifically, through the work of the National Incomes and Pricing Commission (NIPC), extreme caution should be exercised to ensure that this does not degenerate into yet another unintended catastrophic blitz exercise and fight between Government and business that impairs business operations and breed a spirit of mistrust among stakeholders.
- 1.74 Our recommendation and advice is that the NIPC confines its operations around the 3 controlled products and the 16 nationally agreed products on the monitoring list, and not concern itself with tourism products, air travel, entertainment, beer and other product prices.
- 1.75 Through this focussed approach, the full machinery and expertise of NIPC will be concentrated for maximum beneficial impact, as opposed to the potential risk of this key institution being spread too thinly across too many products, regions and markets, in the end degenerating into a vehicle of disruptive distortions.
- 1.76 On the part of business, our sincere advice is to avoid profiteering in whatever they do and stick to the laws of the land however business may disagree with those laws especially on the exchange rate issue.

## **The 2010 Games...**

- 1.77 In just two years from now, the whole world will converge in Southern Africa for the 2010 World Cup Soccer Games.
- 1.78 As a country, we cannot afford the world to congregate in Southern Africa with our economy being an eyesore among the 14 SADC countries, let alone the eyesore in the whole of Africa in terms of the prices of its goods and services; misaligned exchange and multiple and interest rates; unreliable supply of Municipal utilities, electricity, liquid fuels and coal; inadequate supply of food supplies; rampant corruption; indiscipline and mistrust across the board and the absence of economic patriotism on the part of some Zimbabweans.

## **Post Elections Reforms...**

- 1.79 The Post Elections Monetary Policy Blue Print will encompass a 24 month basis for recovery, running from May, 2008, through to April 2010 and will dovetail into other Government Fiscal and Economic blue prints under preparation by the relevant economic and sector Ministries.
- 1.80 As Monetary Authorities, we have chosen a silent issuance of this Monetary Policy Statement for strategic reasons whilst we prepare for the post-elections policy programme.

## **Economic Imperatives Programme**

1.81 Our economic imperatives programme, post elections in March 2008, will need to focus on and address:

- a) Removal of Economic pricing distortions in areas such as fuel, agricultural inputs and outputs, multiple interest and exchange rates, electricity, water and other municipal; and parastatals service delivery charges.
- b) Subsidies Policy: to remove untargeted general subsidies in favour of targeted and specific subsidies.
- c) Promotion of inward investment from across the globe, with bias towards the East, in line with Government's Look East Policy but without excluding desirable investment which meets the country's criteria from other investors.
- d) Re-modifying investment laws; protection of investment; respect for private property and implementing a sustainable indigenization framework.
- e) Finding common ground for the immediate and long-overdue lifting of sanctions against the country and securing Balance of Payments Support from willing and cooperating partners.
- f) Uplifting productivity through incentives in Mining, Agriculture, Tourism, Manufacturing and other primary and tertiary sectors of the economy.

- g) Infrastructure development in the mining, transport, energy and agricultural sectors.
- h) Building stronger international relations.
- i) Arresting brain drain through skills development and retention programmes.

1.82 Together as a Nation we can all do it!

1.83 The various innovative programmes, interventions and sacrifices that we have made as a country are investments that should now start to bear positive fruits beginning this year, supported by comprehensive policy reforms and implementation of needful structural adjustments in our economic systems.

## **2. FINANCIAL SECTOR DEVELOPMENTS**

### **STATUS OF THE BANKING SECTOR**

- 2.1 Whist in general, the Banking Sector continued to exhibit stability, the industry has been showing disturbing signs of relapsing into the indiscipline and imprudent behaviours as seen in 2003/2004.
- 2.2 The Reserve Bank is, however, taking swift corrective measures to make sure that the adversities of such imprudent practices do not expose the entire financial sector into systemic imbalances
- 2.3 During the last quarter of 2007, the Reserve Bank prescribed additional disclosure requirements as part of its on going efforts to enhance market discipline in the financial sector.
- 2.4 All banking institutions and asset management companies are required to disclose the most recent on-site Capital, Asset Quality, Management, Earnings, Liquidity and general Stability and Solvency (CAMELS) and Risk Assessment System (RAS) ratings, as well as their ratings assigned by accredited Credit Rating Agencies, in their published annual financial statements.

#### **Banking Institutions...**

- 2.5 There were twenty-eight (28) banking institutions comprising of fourteen (14) commercial banks, five (5) merchant banks, four (4) discount houses, four (4) building societies and one (1) finance house, operating in the financial sector as at 31 December, 2007.

## **Asset Management Companies...**

- 2.6 Seventeen (17) asset management companies were operating as at 31 December, 2007.
- 2.7 The Asset Management sub-sector remains an overtraded one and some institutions within the sector are no longer conducting core business. An analysis of the sub-sector's income statements shows that there is resurgence in the tendency by some institutions to rely heavily on income from non-core business. Incomes and investments under management are not sufficient to sustain operations.
- 2.8 Over the past two years, the Central Bank has been calling for asset management companies to consolidate their businesses but only a few institutions have heeded the call.
- 2.9 Once again, we implore institutions in the sub-sector to take-up this advice or risk losing their asset management licences on the back of inadmissible dealings.
- 2.10 In light of the above, the moratorium on the licensing of new asset management companies remains in force.
- 2.11 The Reserve Bank will continue to monitor the sector closely and will take prompt corrective measures where appropriate.

## **Microfinance / Moneylending Institutions...**

2.12 To date, the Reserve Bank has registered 309 microfinance/moneylending institutions. The institutions have in excess of 380 branches countrywide. The licensing of microfinance/moneylending is ongoing and their operating licences are renewed annually in line with the provisions of the Moneylending and Rates of Interest Act.

## **Establishment of a Credit Reference Bureau**

2.13 The Reserve Bank, in collaboration with the Bankers Association of Zimbabwe (BAZ) and Building Societies Association, is setting up a Credit Reference Bureau.

2.14 The Credit Reference Bureau will warehouse valuable credit information on individual and corporate entities' borrowing history and their repayment patterns to facilitate ease access of information for the enhancement of credit risk assessment and management by banking institutions.

2.15 By providing a better and more accurate knowledge of every borrower's credit quality and by facilitating appropriate analysis of their creditworthiness, the Bureau will foster greater transparency and easier access to the credit market on better terms.

2.16 This contributes to raising the stability of the financial system as a whole. The information contained in the Bureau shall constitute one of the most important available mechanisms to address some of the validation, benchmarking and modelling issues that Basel II requires.

2.17 Thus, through the Bureau, the Reserve Bank can help the banking institutions in the progressive adoption of the advanced credit risk measurement approaches advocated under Basel II.

2.18 From a broader perspective, the collection of credit information and the access to it plays an important role in supporting the mechanics of finance, banking and business, and the stability of the economy.

### **Progress on Basel II Implementation**

2.19 As I indicated in the Monetary Policy Review of the 24<sup>th</sup> January 2006, the Reserve Bank has adopted the revised framework of the **International Convergence of Capital Measurement and Capital Standards** (also known as **Basel II framework**).

2.20 The Basel II capital accord provides a comprehensive and more risk-sensitive capital allocation methodology.

2.21 As Monetary Authorities, we confirm that the Reserve Bank long embarked on a **gradual approach** to Basel II implementation since 2004 in order to allow for a **smooth transition** to the new approaches.

- 2.22 To date and in line with Basel II requirements, our banking institutions are required to allocate capital for market and operational risk.
- 2.23 As part of the Basel II implementation process, the Reserve Bank has issued out the following guidelines: **Guideline No. 01-2007/ BSD: SPECIAL PURPOSE VEHICLES, SECURITISATION & STRUCTURED FINANCE** and **Guideline No. 02-2007/ BSD: CONSOLIDATED SUPERVISION FRAMEWORK.**
- 2.24 As Monetary Authorities, we urge banks to prime their structures, systems and processes to allow for smooth transition in the implementation of Basel II.

### **Disclosure Requirements**

- 2.25 Mindful of the existing gaps between disclosure practices and requirements under market discipline (Pillar III) of Basel II, and as part of its ongoing efforts to promote financial stability and enhance market discipline, the Reserve Bank has developed a set of minimum financial disclosure requirements.
- 2.26 To this end, the Financial Disclosure Guideline will be issued to the market by 28 February 2008.
- 2.27 The Guideline is part of the Reserve Bank's ongoing efforts to promote adequate transparency in financial institutions. Transparency strengthens confidence in the banking system by reducing information asymmetry between banks and their clients.

## **Financial Inclusion**

2.28 In the January 2007 Monetary Policy Statement, the Central Bank unveiled the Financial Inclusion Framework whose main objective was to facilitate eradication of financial exclusion and increase access to financial services by all Zimbabweans, particularly the rural marginalised populace.

2.29 In this regard, a National Microfinance Policy, which articulates at the National level, our vision and strategy for the development of the microfinance industry in Zimbabwe, will be issued in due course

### **Expansion of Branch Networks...**

2.30 Pursuant to the provisions of the Financial Inclusion Framework of January 2007, the banking sector has made tremendous efforts in combating financial exclusion through increase in the provision of financial services to the previously unbanked or marginalized communities.

2.31 To date, six banking institutions have opened a total of thirty-seven (37) branches, twenty-two (22) agents and five (5) mobile units countrywide as indicated in the table below:

## Additional Bank Branches

INSTITUTION	NO. OF NEW BRANCHES OPENED	LOCATION
<b>Agribank</b>	2 new branches	Chibuwe, Kwekwe
	4 National Banking offices refurbished into fully fledged branches	Mtoko, Checheche, Nyika and Chivhu
<b>ZIMPOST</b>	2 new branches	Lususlu, Chiendambuya
	18 postal outlets	2 per province excluding Harare
<b>POSB</b>	5 new branches	Zvishavane, Centenary, Bindura, Karoi, Gokwe
	5 new mobile units	Masvingo, Chimanimani, Mtoko, Hwange, Mt. Darwin
<b>Barclays</b>	11 branches	Chitungwiza, Nkulumane, Westgate, Borrowdale, Msasa, Gokwe, Byo L. Takawira, Highfield, Makoni Shopping Centre, Chinhoyi
<b>CBZ</b>	13 branches	Chirundu, Karoi, Kariba, Chinhoyi, Beitbridge, Nyika, Chimanimani, Chipinge, Muzarabani, Mt. Darwin, Lupane, Plumtree, Murehwa
<b>CFX Bank</b>	2 branches	Ngezi, Vic. Falls
<b>ZABG</b>	1 branch	Mtoko,
<b>ZB Bank</b>	1 branch	Triangle

2.32 As Monetary Authorities, we continue to urge banking institutions to deepen this noble programme by opening more branches in rural and peri-urban areas in order to stimulate economic activity.

## 3. EXPORT SECTOR DEVELOPMENTS

### GLOBAL EXPORT PERFORMANCE

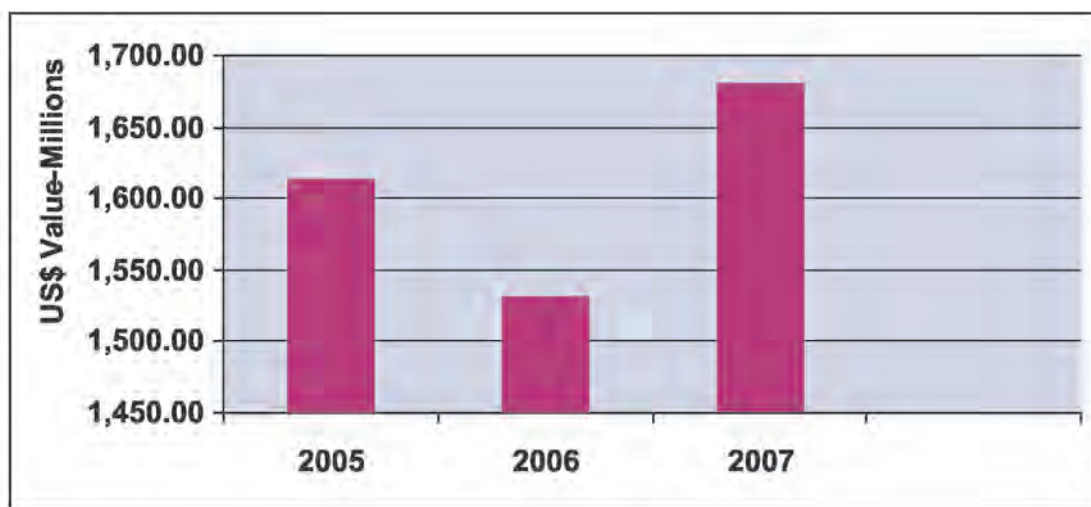
#### Shipments

3.1 For the year 2007, total export shipments amounted to **US\$1,680,393,200.49** representing a **9.6% increase** over the previous year, which recorded **US\$1,533,150,097.84**.

#### Total Monthly Export Shipments (US\$)

Month	2005	2006	2007	2007 – 2006 % Change
January	111,847,392.34	111,654,853.12	180,460,441.70	61.62
February	164,931,372.64	103,376,167.75	115,767,448.60	11.99
March	126,249,086.94	133,267,963.89	135,155,197.27	1.42
April	139,782,976.79	93,612,310.71	109,088,447.42	16.53
May	144,237,766.29	134,157,125.38	154,131,705.45	14.89
June	141,415,754.46	131,323,449.45	141,935,998.63	8.08
July	116,648,044.38	125,483,887.79	156,562,752.46	24.77
August	120,236,356.78	152,510,435.67	125,873,052.92	(17.47)
September	173,246,720.87	121,633,189.42	104,961,691.04	(13.71)
October	127,465,953.33	138,845,849.18	146,178,219.31	5.28
November	147,857,965.01	168,478,998.57	178,480,928.28	5.94
December	99,576,547.72	118,805,866.91	131,797,317.41	10.94
<b>Total</b>	<b>1,613,495,937.55</b>	<b>1,533,150,097.84</b>	<b>1,680,393,200.49</b>	<b>9.60</b>

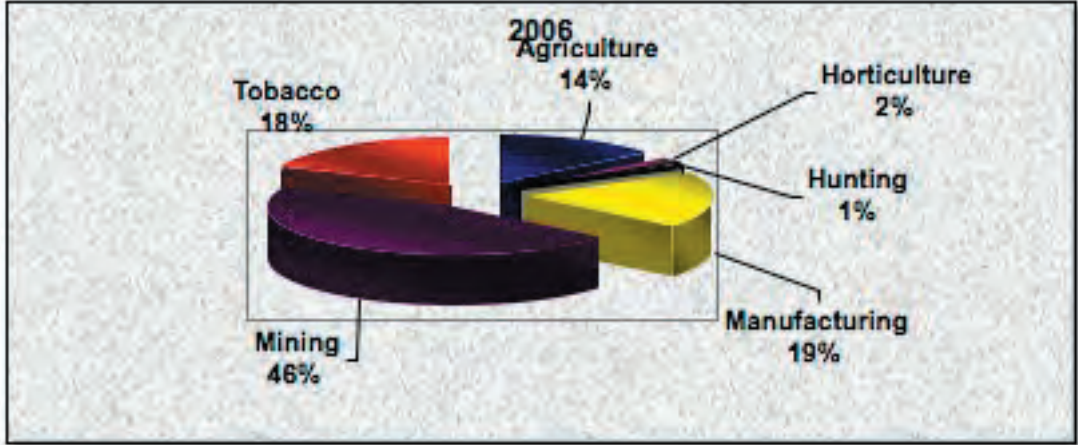
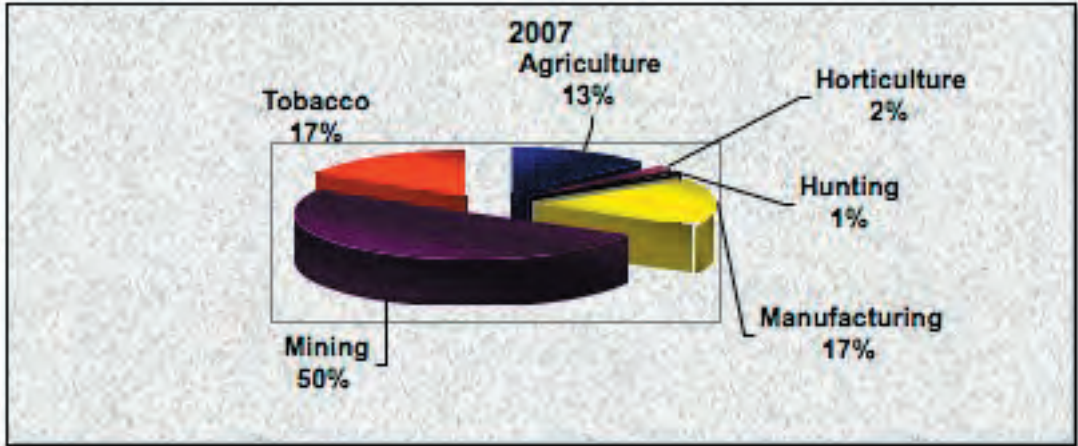
## Shipments for the Years 2005 – 2007



## Export Performance by Sector for the Year 2007 (US\$)

Sector	2005	2006	2007	2007 – 2006 % Change
Agriculture	249,310,331.87	215,984,268.98	224,051,998.67	3.74
Horticulture	43,215,928.05	32,202,479.21	30,225,737.66	(6.14)
Hunting	10,000,000	12,081,799.93	12,873,313.00	6.55
Manufacturing	306,317,854.23	290,862,892.15	282,822,486.46	(2.76)
Mining	733,124,979.54	702,220,177.96	849,591,280.54	20.99
Tobacco	281,522,898.86	279,798,479.61	280,828,384.16	0.37
<b>Total</b>	<b>1,613,493,997.55</b>	<b>1,533,152,103.84</b>	<b>1,680,395,207.49</b>	<b>9.60</b>

### Sector Contributions to Export Shipments



3.2 The mining sector continued to lead in shipments in the year 2007, contributing 50% to the total shipments, compared to 46% during the year 2006, followed by tobacco and manufacturing, tied at manufacturing 17%.

## TOTAL RECEIPTS

3.3 The Table below shows the total export acquittals indicating that **US\$1,573,011,265.69** was acquitted in the year 2007, compared to **US\$1,260,853,122.99** in the year 2006, representing a 24.76% increase.

### Total Export Acquittals (US\$)

	2005	2006	2007	2007 – 2006 % Change
January	134,710,401.46	141,078,531.08	178,318,932.08	26.40
February	123,353,790.84	128,368,443.68	182,014,804.68	41.79
March	103,760,728.42	90,830,428.52	118,915,088.17	30.92
April	123,156,412.05	74,496,470.40	123,379,095.27	65.62
May	98,047,222.58	113,057,959.43	145,379,491.79	28.59
June	68,512,785.30	116,123,182.17	132,732,688.70	14.30
July	161,300,560.26	66,341,316.43	95,825,758.83	44.44
August	111,849,091.61	65,075,610.23	144,294,848.25	121.73
September	142,959,192.04	163,334,019.65	87,747,902.07	=(46.28)
October	100,047,198.37	84,709,776.07	78,350,330.28	(7.51)
November	101,585,488.87	126,704,137.98	155,769,345.97	22.94
December	74,086,320.38	90,731,241.35	130,280,972.60	43.59
<b>Total</b>	<b>1,343,371,197.18</b>	<b>1,260,853,122.99</b>	<b>1,573,011,265.69</b>	<b>24.76</b>

### Agriculture Sector

3.4 The Agricultural Sector is split into 3 administrative sub-sectors namely, General Agriculture, Horticulture and Tobacco. Exports approved under the three Agriculture Sub-sectors are indicated in the Tables below.

## General Agriculture Export Shipments

	Value of Forms CD1 Approved (USD) 2007	Value of Forms CD1 Approved (USD) 2006	Variance	2007 on 2006 %Change
January	18,366,956.08	11,349,999.14	7,016,956.94	61.82
February	17,538,111.94	8,673,364.32	8,864,747.62	102.21
March	13,559,517.94	12,517,099.41	1,042,418.53	8.33
April	8,463,705.99	8,707,152.26	(243,446.27)	(2.80)
May	13,862,241.89	16,148,282.28	(2,286,040.39)	(14.16)
June	19,359,330.82	23,781,375.27	(4,422,044.45)	(18.59)
July	28,264,995.14	29,105,767.09	(840,771.95)	(2.89)
August	28,459,491.25	23,059,306.97	5,400,184.28	23.42
September	18,961,125.74	25,790,127.00	(6,829,001.26)	(26.48)
October	21,316,306.38	19,417,798.02	1,898,508.36	9.78
November	25,448,216.92	24,343,425.44	1,104,791.48	4.54
December	10,451,998.58	13,090,571.78	(2,638,573.20)	(20.16)
<b>Total</b>	<b>224,051,998.67</b>	<b>215,984,268.98</b>	<b>8,067,729.69</b>	<b>3.74</b>

3.5 For the period 1 January to 31 December, 2007, export shipments under the general Agriculture sub-sector amounted to **US\$224,051,998.67** compared to **US\$215,984,268.98** worth of exports for the same period in 2006. This represents an increase in exports of 3.74%.

3.6 This reflects the positive impact of the concessionary support the Sector has been receiving from the Reserve Bank over the past four years.

## Horticulture Export Shipments

	<b>Value of Forms CD1 Approved (USD) 2007</b>	<b>Value of Forms CD1 Approved (USD) 2006</b>	<b>Variance</b>	<b>%Change 2007 on 2006</b>
January	2,706,890.12	2,707,885.73	(995.61)	(0.04)
February	2,910,612.92	2,944,812.85	(34,199.93)	(1.16)
March	2,786,637.73	2,387,815.29	398,822.44	16.70
April	2,956,863.56	2,058,783.83	898,079.73	43.62
May	3,116,089.47	3,902,943.75	(786,854.28)	(20.16)
June	2,457,508.53	3,324,285.09	(866,776.56)	(26.07)
July	2,438,015.98	1,816,965.37	621,050.61	34.18
August	2,026,544.18	2,225,388.41	(198,844.23)	(8.94)
September	2,306,185.54	3,049,428.63	(743,243.09)	(24.37)
October	2,402,631.73	3,381,580.90	(978,949.17)	(28.95)
November	2,380,817.90	2,492,702.91	(111,885.01)	(4.49)
December	1,736,940.00	1,909,886.45	(172,946.45)	(9.06)
<b>Total</b>	<b>30,225,737.66</b>	<b>32,202,479.21</b>	<b>-1,976,741.55</b>	<b>(6.14)</b>

3.7 As of 31 December 2007, US\$30,225,737.66 million worth of horticulture exports (shipments) had been registered. This represents a 6.14% decrease over 2006 exports in a similar period.

## Tobacco Sub-sector

3.8 For the period January to 31 December, 2007, tobacco exports amounted to US\$280,828,384.16 compared to US\$279,798,479.61 worth of exports in the same period in 2006.

	<b>Value of Forms CD1 Approved (USD) 2007</b>	<b>Value of Forms CD1 Approved (USD) 2006</b>	<b>Variance</b>	<b>%Change 2007 on 2006</b>
January	77,111,640.23	28,021,364.55	49,090,275.68	175.19
February	17,993,464.68	33,113,775.12	(15,120,310.44)	(45.66)
March	13,128,871.84	34,479,366.34	(21,350,494.50)	(61.92)
April	7,389,776.17	7,118,524.24	271,251.93	3.81
May	9,927,706.05	13,751,452.73	(3,823,746.68)	(27.81)
June	6,246,725.76	6,918,524.72	(671,798.96)	(9.71)
July	6,404,146.66	8,975,806.84	(2,571,660.18)	(28.65)
August	14,715,561.50	23,586,255.30	(8,870,693.80)	(37.61)
September	18,424,563.82	15,505,006.43	2,919,557.39	18.83
October	30,595,813.18	31,042,196.44	(446,383.26)	(1.44)
November	45,220,774.94	48,949,588.77	(3,728,813.83)	(7.62)
December	33,669,339.33	28,336,618.13	5,332,721.20	18.82
<b>Total</b>	<b>280,828,384.16</b>	<b>279,798,479.61</b>	<b>1,029,904.55</b>	<b>0.37</b>

3.9 Owing to the support the tobacco sector has received from the Reserve Bank, production in 2007/2008 season is expected to surpass the 63 million kgs realized in 2007.

3.10 Increase in production levels results in increased exports, as merchants have enough tobacco to blend.

## Manufacturing Sector

3.11 Exports recorded under the Manufacturing Sector are as indicated in the Table below:

### Manufacturing Export Shipments

	Value of Forms CD1 Approved (USD) 2007	Value of Forms CD1 Approved (USD) 2006	% Change 2007 on 2006
January	17,950,428.54	17,397,167.35	3.18
February	19,130,433.89	18,573,450.89	3.00
March	22,716,094.93	22,675,966.48	0.18
April	18,003,823.39	35,043,669.13	(48.62)
May	40,136,748.32	22,584,665.59	77.72
June	30,575,016.41	29,196,511.43	4.72
July	21,043,014.11	19,910,343.29	5.69
August	34,372,794.10	35,350,338.02	(2.77)
September	17,703,671.79	22,904,928.43	(22.71)
October	20,517,296.13	22,427,749.15	(8.52)
November	26,361,869.48	26,829,546.36	(1.74)
December	14,311,295.37	17,968,556.03	(20.35)
<b>Total</b>	<b>282,822,486.46</b>	<b>290,862,892.15</b>	<b>(2.76)</b>

3.12 For the period 1 January to 31 December 2007, export shipments under the Manufacturing Sector amounted to **US\$282,822,486.46** compared to **US\$290,862,892.15** worth of exports for the same period in 2006. This represents an overall 2.76% decrease in manufactured exports, largely occasioned by capacity underutilisation, raw material shortages and power cuts.

## MINING SECTOR

### Mineral Shipments

3.13 Cumulative mineral shipments, excluding gold, for the period 1 January to 31 December 2007 were US\$849,591,281 compared to US\$702,220,178 in 2006, representing a 283% increase in mining export shipments.

### Mineral Shipments

	Value of Forms CD1 Approved (USD) 2007	Value of Forms CD1 Approved (USD) 2006	Variance	% Change 2007 on 2006
January	63,439,096.80	52,159,363.35	11,279,733.45	21.63
February	57,072,187.21	39,616,821.78	17,455,365.43	44.06
March	81,878,781.41	60,152,097.73	21,726,683.68	36.12
April	71,409,704.82	39,649,266.32	31,760,438.50	80.10
May	86,083,102.85	76,986,314.21	9,096,788.64	11.82
June	81,944,450.44	67,198,947.44	14,745,503.00	21.94
July	97,473,410.80	64,341,175.00	33,132,235.80	51.49
August	45,433,507.97	67,370,109.37	(21,936,601.40)	(32.56)
September	46,388,677.53	52,894,385.87	(6,505,708.34)	(12.30)
October	70,356,447.30	60,983,172.35	9,373,274.95	15.37
November	77,604,369.66	64,114,226.43	13,490,143.23	21.04
December	70,507,543.75	56,754,298.11	13,753,245.64	24.23
<b>TOTAL</b>	<b>849,591,280.54</b>	<b>702,220,177.96</b>	<b>147,371,102.58</b>	<b>282.95</b>

3.14 The year 2007 recorded positive monthly growth in shipments (except for July and August) compared to the previous year owing to the upward momentum in metal prices on global markets.

3.15 However, Nickel had the biggest knock after its price rose astronomically to US\$55,000/ton in May 2007 and then falling to an average of US\$30,000/ton in July and August 2007. Nickel prices ended the year with an average price of about US\$25,000/ton.

## TRANSPORT SECTOR

3.16 The Table below shows monthly Forms CD3 declarations for 2006 and 2007.

### Forms CD3 Declarations (Road-freight)

Month	US\$ Value 2007	US\$ Value 2006	Year 2007 – 2006 % Change
January	4,366,634.45	4,500,769.57	(2.98)
February	7,379,473.74	6,259,694.95	17.89
March	5,729,235.83	7,444,924.61	(23.05)
April	5,518,617.90	3,349,046.40	64.78
May	4,073,691.42	5,768,476.55	(29.38)
June	5,546,710.63	7,917,000.84	(29.94)
July	6,894,297.83	4,250,860.16	62.19
August	3,098,307.98	3,425,274.81	(9.55)
September	7,218,531.22	9,050,056.70	(20.24)
October	7,178,100.12	10,826,683.69	(33.70)
November	6,436,765.49	8,593,033.08	(25.09)
December	4,206,390.65	5,514,072.67	(23.72)
<b>Grand Total</b>	<b>67,646,757.26</b>	<b>76,899,894.03</b>	<b>(12.03)</b>

3.17 Total declared Forms CD3 for the whole of 2007 amounted to **US\$67,646,757.26** as compared to **US\$76,899,894.03** during the same period in 2006 representing a 12.03% decline.

3.18 The shortage of fuel since 2004 has impacted heavily on the operations of cross border transporters. As a result, a decline in earnings is being temporarily experienced during the third quarter of in subsequent years.

### **Tourism Sector**

3.19 Total receipts for the Tourism sector as declared on Forms TR1 & TR2 for the year 2007 amounted to **USD49, 332,036.56** representing a decline of 17% compared to **USD59,209,858.44** for the same period in 2006. However, the figure represents a 45% Form TR 1 compliance level of designated tourism facilities.

### **Non Consumptive Tourism Receipts (Forms TR1)**

3.20 The Table below shows tourism receipts accounted through declarations on Forms TR1 from the non consumptive sector.

3.21 Receipts in the sector have remained generally stable in the US\$30-32 million per annum range.

## Tourism Receipts

Month	2005 Value of Exports US\$	2006 Value of Exports US\$	2007 Value of Exports US\$
January	3,826,491.04	2,488,811.46	3,834,476.22
February	2,777,905.15	1,913,248.58	3,727,552.60
March	2,858,296.69	2,986,711.50	3,628,027.18
April	3,077,445.73	2,907,156.35	2,477,821.38
May	3,178,963.28	3,437,256.64	3,029,293.46
June	2,832,254.08	3,109,444.64	2,435,305.17
July	2,504,340.93	3,603,731.88	3,604,452.11
August	3,077,196.34	3,224,766.47	2,964,812.24
September	2,299,074.21	4,387,932.88	2,308,895.52
October	2,506,694.37	3,464,556.17	2,330,073.13
November	3,032,996.58	4,691,178.36	1,531,930.79
December	2,901,265.25	Pending	Pending
<b>Total</b>	<b>31,971,658.40</b>	<b>32,990,028,46</b>	<b>30,340,709.01</b>

## Consumptive Tourism Receipts (Form TR2)

3.22 Total receipts for the sub sector for the year 2007 amounted to **USD 17,370,881.81** as shown below.

## Hunting Receipts

Month	2005 Value of Exports US\$	2006 Value of Exports US\$	2007 Value of Exports US\$
January	7,692.00	24,358.00	13,461.00
February	104,775.00	121,601.50	148,993.00
March	653,846.50	745,800.50	678,425.20
April	1,185,113.70	1,606,162.95	1,651,711.90
May	2,338,359.55	2,444,687.46	2,598,117.96
June	2,980,535.09	2,675,102.49	3,026,382.20
July	3,259,685.20	3,276,040.17	3,340,858.25
August	3,471,434.60	3,225,487.01	2,483,198.60
September	2,614,943.35	2,592,298.80	1,879,096.50
October	1,895,762.31	1,461,894.87	1,264,996.70
November	441,862.50	661,783.20	280,110.50
December	172,407.00	101,495.00	5,530.00
<b>Total</b>	<b>19,126,416.80</b>	<b>18,936,711.95</b>	<b>17,370,881.81</b>

3.23 Generally there has been a decline in the hunting receipts in 2007 as compared to the same period in 2006.

3.24 The poor performance of the hunting industry is due:

- (a) To the high incidences of under declaration by Safari operators
- (b) General decline of trophy quality due to increased cases of rampant poaching
- (c) Continued effects of negative publicity and travel bans which have resulted in numerous cancellation of hunting bookings

## GLOBAL FOREIGN EXCHANGE PAYMENTS

3.25 From January to 31 December, 2007, total global foreign exchange payments amounted to US\$1.5 billion.

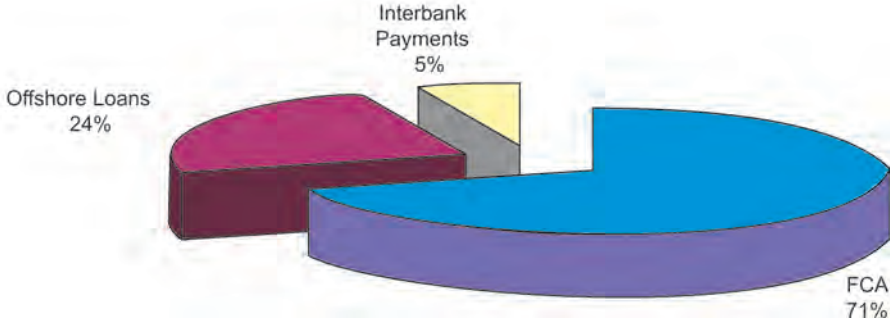
### Approved and Actual Payments (January to December 2007)

Month	Approved Payments	Total Actual Payments	Pipeline/ Funding Shortfall	Shortfall (%)
January	147,506,367.00	111,585,230.00	35,921,137.00	24%
February	160,656,023.00	125,793,825.00	34,862,198.00	22%
March	152,612,344.00	114,773,747.00	37,838,597.00	25%
April	128,268,728.00	98,825,423.00	29,443,305.00	23%
May	148,798,715.14	127,140,339.51	21,658,375.63	15%
June	161,010,349.55	138,206,587.99	22,803,761.56	14%
July	177,278,966.61	139,163,796.62	38,115,169.99	22%
August	162,460,568.00	120,893,561.61	41,567,006.39	26%
September	163,368,197.00	160,386,013.36	2,982,183.64	2%
October	202,137,804.00	146,873,875.10	55,263,928.90	27%
November	236,341,877.00	145,543,442.81	90,798,434.19	38%
December	154,568,770.00	105,842,213.97	48,726,556.03	32%
<b>Total</b>	<b>1,995,008,709.30</b>	<b>1,535,028,055.97</b>	<b>459,980,653.33</b>	<b>23%</b>

### Sources of Funding for Actual Payments (Jan-Dec 2007)

3.26 Of the US\$1.5 billion recorded in 2007 for various imports, 70% was paid from exporters' foreign currency retention with the balance being financed from offshore loans (24%) and interbank market (6%).

### Sources of Funding for Actual Payments (Jan-Dec 2007)



### GLOBAL FOREIGN CURRENCY RECEIPTS

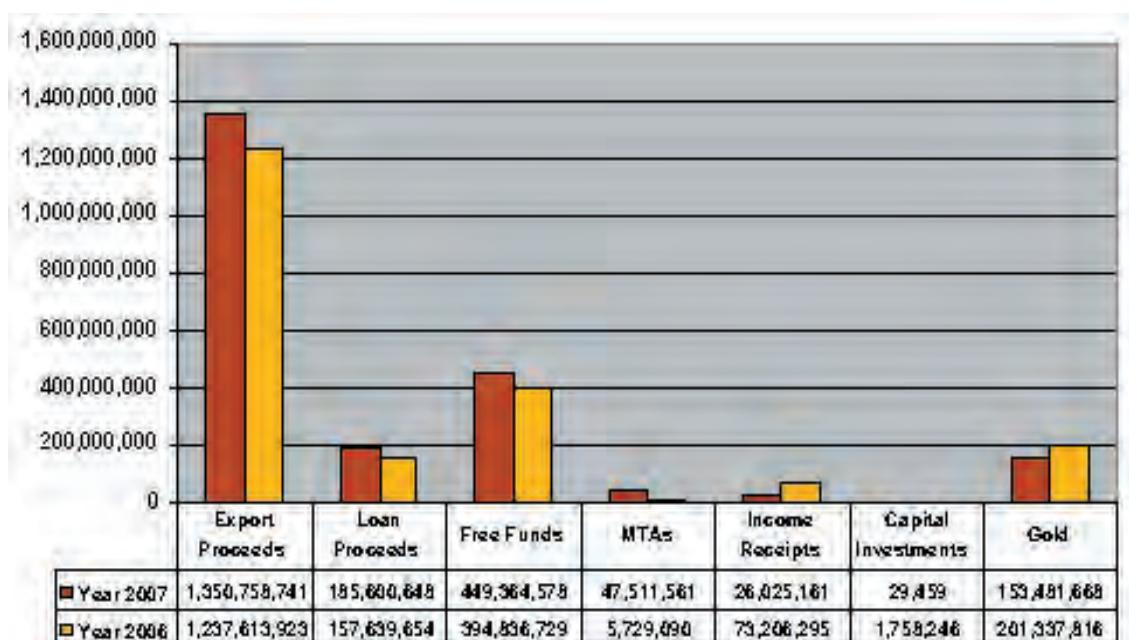
3.27 From 03 January 2007 to 31 December 2007, Global Foreign Currency receipts amounted to **USD2 212 771 814**. For the same period last year Global foreign currency receipts amounted to **USD2 072 121 753** representing a **6.79%** increase.

3.28 The global foreign currency receipts for period January to December 2006 and 2007 are shown in the Table below.

## Global Foreign Currency Receipts for January –December 2006 and 2007

TYPE OF RECEIPT	YEAR 2006	% CONTR	YEAR 2007	% CONTR	% CHANGE
Export Proceeds	1 237 613 923	59.73	1 350 758 741	61.04	9
Loan Proceeds	157 639 654	7.61	185 600 648	8.39	18
Free funds	394 836 729	19.05	449 364 578	20.31	14
Homelink	5 718 992	0.28	47 511 561	2.15	731
Income receipts	73 206 295	3.53	26 025 161	1.18	(64)
Capital investments	1 758 246	0.08	29 459	0	(98)
Gold Receipts	201 337 816	9.72	153 481 668	6.94	(24)
<b>TOTAL PER YEAR</b>	<b>2 072 111 655</b>	<b>100</b>	<b>2 212 771 815</b>	<b>100</b>	<b>7</b>

## Comparison of Global Foreign Currency Receipts for Years 2006 and 2007



## **Use of International Credit Cards by Foreign Visitors**

- 3.29 Monetary Authorities fully appreciate the need for fast, reliable and efficient methods of settling foreign currency transactions by foreign visitors.
- 3.30 It has, however, been noted with disappointment that some banks pulled off from the market, their Processing Data Quickly Machines (PDQMs) for processing international credit cards.
- 3.31 This development has a negative effect on tourism considering that the whole region is preparing for the influx of foreign visitors for World Football Show case in 2010.
- 3.32 The Central Bank has noted that some tourists are crossing into our neighbouring countries in order to utilise their credit cards, as well as, services in those countries, depriving our country of the much-needed foreign exchange.
- 3.33 To this end, Authorised Dealers are encouraged to install or reinstall PDQMs, to facilitate payment by use of international credit cards by foreign visitors.
- 3.34 The Reserve Bank will facilitate timeous reimbursement of the Zimbabwe Dollars to banks so that they do not incur unnecessary costs.
- 3.35 In addition to those Authorised Dealers who wish to procure the necessary resources to reinstall PDQMs, the Reserve Bank will

consider their applications for the requisite foreign exchange resources for this purpose.

## **4. REAL SECTOR DEVELOPMENTS**

### **GDP GROWTH**

- 4.1 The economy is estimated to have declined by about 6% in 2007. This contraction in economic activity has been mirrored in output decline in all sectors of the economy with the exception of a marginal increase in agricultural output.
- 4.2 Production has been constrained by a critical shortage of foreign exchange for the procurement of essential raw materials, equipment and machinery. Frequent power outages, coupled with high production costs are adversely affecting economic activity.
- 4.3 Price controls which were instituted in June 2007 adversely affected the viability of manufacturing and distribution sectors of the economy.

### **AGRICULTURE**

- 4.4 Notwithstanding drought conditions experienced during the 2006/2007 cropping season, a real growth of 1.4% is estimated for the agricultural sector in 2007. The sector is expected to grow by 12.4% in 2008 on the back of good rains and enhanced mechanisation of the sector.

- 4.5 Tobacco and soya beans were among the major crops contributing to 2007's overall positive agricultural performance.
- 4.6 Tobacco farmers were able to increase output from 55 000 tons in 2006 to 73 000 tons in 2007, due to better preparations and grower support for the crop by Government which resulted in improved yields. Area planted also increased from 40 000 hectares in 2006 to 48 000 hectares in 2007.
- 4.7 With regard to growth in the other crops, groundnuts output rose from 83 000 tonnes to 125 000 tonnes, soya beans from 70 000 tonnes to 102 000 tonnes and sunflower from 20 800 tonnes to 25 700 tonnes.
- 4.8 The above positive performances offset the drought induced decline in maize production. Maize output fell from 1 485 000 tons in 2006 to 953 000 tons in 2007.
- 4.9 Winter wheat production, however, suffered extensively from power supply interruptions. These compromised irrigation operations, thus reducing overall wheat yields. This, notwithstanding, a commendable crop of 144 000 tonnes was estimated for 2007, compared to 163 000 tonnes for 2006.
- 4.10 Improved access to a wide range of farm machinery and equipment, and inputs such as fertilisers, seeds and chemicals during the 2007/2008 farming season, is expected to bolster agriculture activity.

- 4.11 Farmers are accessing inputs through the country-wide GMB depots. In the case of seed maize, measures are in place to provide for the estimated shortfall of 15 000 tons through imports. Seed houses have availed 35 000 tons of seed maize.
- 4.12 The incessant rains from the onset of the 2007/2008 agriculture season have, however, adversely affected planting and the already planted crops.

## **MINING**

- 4.13 Notwithstanding the general surge in global mineral prices, the mining sector remains depressed.
- 4.14 The mining sector faces major challenges which include reduced production, against the background of leakages and escalating mining costs. Furthermore, inadequate foreign exchange and electricity supply interruptions have exacerbated the decline in production levels.
- 4.15 Platinum production was maintained at previous year levels, which stood at 5 300 kgs.
- 4.16 Nickel production also benefited from the opening up of new mines and is estimated to have increased from 8 800 tons in 2006 to 9 000 tons in 2007.

4.17 The major challenges facing the mining sector are as follows:-

- i. Frequent electricity outages;
- ii. Fuel shortages;
- iii. Foreign currency shortages to import critical inputs;
- iv. Delays in issuing licenses;
- v. Brain drain; and
- vi. Uncertainty surrounding the provisions of the Mining and Minerals Amendment Bill.

4.18 Gold production for 2007 stood at 6,798 tonnes, against a background of increased parallel market activities and operational constraints faced by the sector.

## **MANUFACTURING**

4.19 The manufacturing sector continues to face a number of challenges which include, among others, rising production costs, foreign currency constraints and electricity supply interruptions.

4.20 As a result, most companies were operating at capacity levels of below 30% before the introduction of the Basic Commodity Supply Side Intervention Facility (BACOSSI) on 1 October 2007. Most beneficiaries under BACOSSI increased capacity utilisation from levels well below 30% to around 50%.

## TOURISM SECTOR

4.21 The tourism and distribution sector is estimated to have declined by 13%, mainly as a result of the negative growth in the distribution sub-sector. The distribution sub-sector was negatively affected by price controls as well as continued fuel shortages.

4.22 The tourism sub-sector has, however, been on the mend since 2006. Tourist arrival figures up to the third quarter of 2007, depicted a 25% growth, compared to the same period in 2006.

### Tourist Arrivals

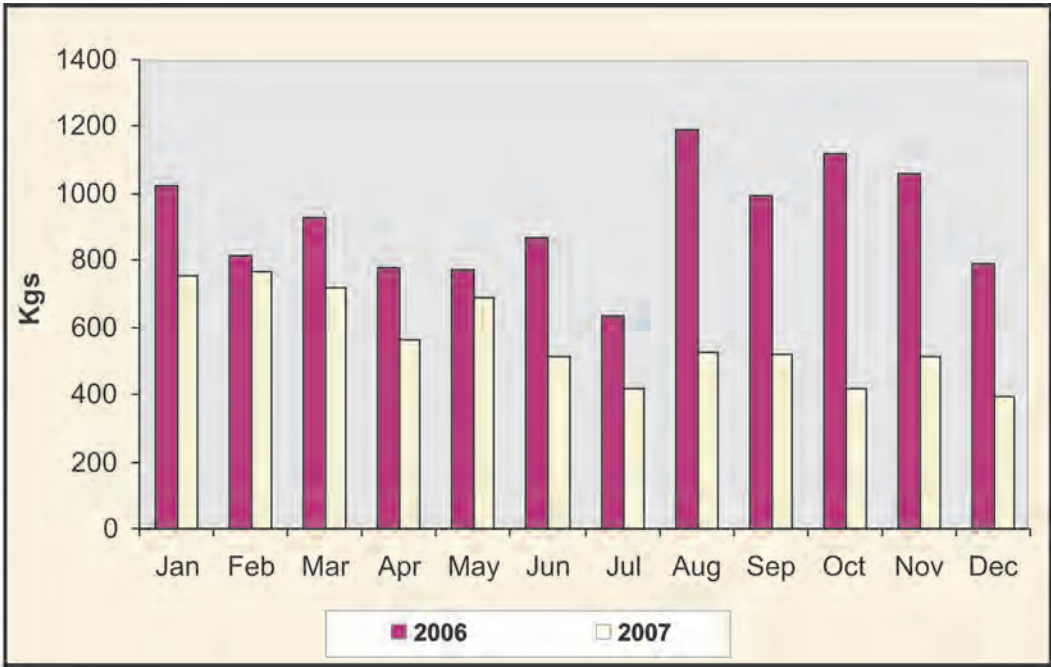
	Africa	Europe	America	Asia	Oceania	Total
Mar-05	394,953	34,618	12,059	7,577	3,408	452,615
Jun-05	674,369	55,417	18,952	11,902	6,346	766,986
Sep-05	953,759	88,234	31,909	20,557	9,909	1,104,368
<b>Dec-05</b>	<b>1,357,063</b>	<b>112,608</b>	<b>43,976</b>	<b>13,814</b>	<b>31,040</b>	<b>1,558,501</b>
Mar-06	407,956	24,501	11,780	11,330	4,409	459,976
Jun-06	917,326	48,438	23,878	20,849	9,323	1,019,814
Sep-06	1,451,566	70,276	33,171	28,255	13,221	1,596,489
<b>Dec-06</b>	<b>2,083,017</b>	<b>96,849</b>	<b>44,746</b>	<b>39,887</b>	<b>21,073</b>	<b>2,285,572</b>
Mar-07	560,509	47,314	19,049	12,317	7,993	647,183
Jun-07	1,132,575	44,301	48,236	29,104	8,684	1,262,900
Sep-07	1,844,881	58,359	54,928	36,058	11,728	2,005,954

4.23 In terms of hotel utilization, bed and room occupancy for the 3<sup>rd</sup> quarter of 2007 increased from 23% to 30% and 33% to 41%, respectively, compared to the same period in 2006.

4.24 The increase in tourist arrivals and ultimately the tourism sector is attributable to aggressive country image building programmes by the whole tourism fraternity since 2006, supported by the general peace and stability prevailing in the country.

## GOLD DELIVERIES

### Gold Deliveries 2006 & 2007



4.25 Gold deliveries declined significantly by 38% from 10.9 tonnes in 2006 to 6.8 tonnes in 2007.

4.26 Gold production has largely been constrained by the following factors:

- ⊙ Escalating production costs;
- ⊙ Frequent power outages;
- ⊙ Shortages of critical inputs such as cyanide, explosives, spare parts and mining equipment;

- ⊙ Lack of capacity to open new and closed mines;
- ⊙ Depletion of surface gold ore and lack of appropriate equipment by small scale mining production;
- ⊙ Scaling down of mining development programs; and
- ⊙ Endemic smuggling.

## **INFLATION DEVELOPMENTS**

- 4.27 At an annual rate, according to Central Statistical Office (CSO) figures of 26, 470.8%, in November, 2007, inflation continues to be arguably the most devastating macroeconomic imbalance in the country, as its adverse effects are cutting across all sectors.
- 4.28 As Monetary Authorities, our philosophy on how to successfully destroy the inflation dragon remains that of deploying a combination of demand management policies, supported by structural reforms, as well as deliberate strategies to invigorate the supply side of the economy.
- 4.29 We need to produce more food to fight inflation... Simple.
- 4.30 We need to build more houses for the people to reduce the penal rentals that are fuelling overall inflation... Simple.
- 4.31 We need to produce more foreign exchange through higher exports and foreign investment inflows. With more foreign exchange, we will better preserve the external value of our local currency, which in turn minimises imported inflation... Again Simple.

4.32 We need a general uplift in the availability of goods and services in the economy, so as to take out the prevailing shortage-induced arbitrage opportunities.

4.33 A policy framework that removes major pricing distortions in the area of foreign exchange, interest rates, fuel, agricultural inputs and outputs, municipal and parastatals services in the main will do the trick while at the same time the Nation puts in place policies that cushion the vulnerable poor against the adverse impact of market forces.

## MAJOR FACTORS DRIVING INFLATION

4.34 The Table below highlights the major Consumer Price Index (CPI) categories and the respective weights:

### Major CPI Categories

ITEM	WEIGHT
Food and non alcoholic Beverages	31.9
Alcoholic Beverages	4.9
Clothing and Footwear	5.7
Housing, Water, Electricity, Gas and other fuels	16.2
Furniture, Household Equipment and maintenance	15.1
Health	1.3
Transport	9.8
Communication	1.0
Recreation and Culture	5.7
Education	2.9
Restaurants and Hotels	1.5
Miscellaneous Goods and Services	3.9
<b>All Items</b>	<b>100</b>

4.35 Since the food category contributes 32% of the CPI basket, decline in food output is a major driver of our inflation, and as a Nation, we must redouble our thrust on agricultural production.

## **DATA COMPILATION AND PUBLICATION...**

4.36 As Monetary Authorities, we call upon those whose role it is to collect, compute and publish economic statistics to do so timeously so as to preserve credibility of national accounts, as well as enabling proper business planning.

4.37 Yes, our inflation is the highest in the world, but this should not tempt us to sweep our blemishes under the carpet.

4.38 Where there is no information, markets will tend to fill in the gaps through distorted and imprecise wild guesses, which cause more damage than would be the case when the actual information is made known to the public on time.

4.39 For instance, whereas others were forecasting Zimbabwe's inflation to end 2007 at over 150, 000%, latest actual data indicates that inflation in November, 2007 was 26, 470.8%.

4.40 The work of inflated insinuations, combined with the sinister invisible hand seeking to drive Zimbabwe's economy down the cliff, therefore, explains the vast discrepancy between the guesses and reality.

## 5. MONETARY DEVELOPMENTS

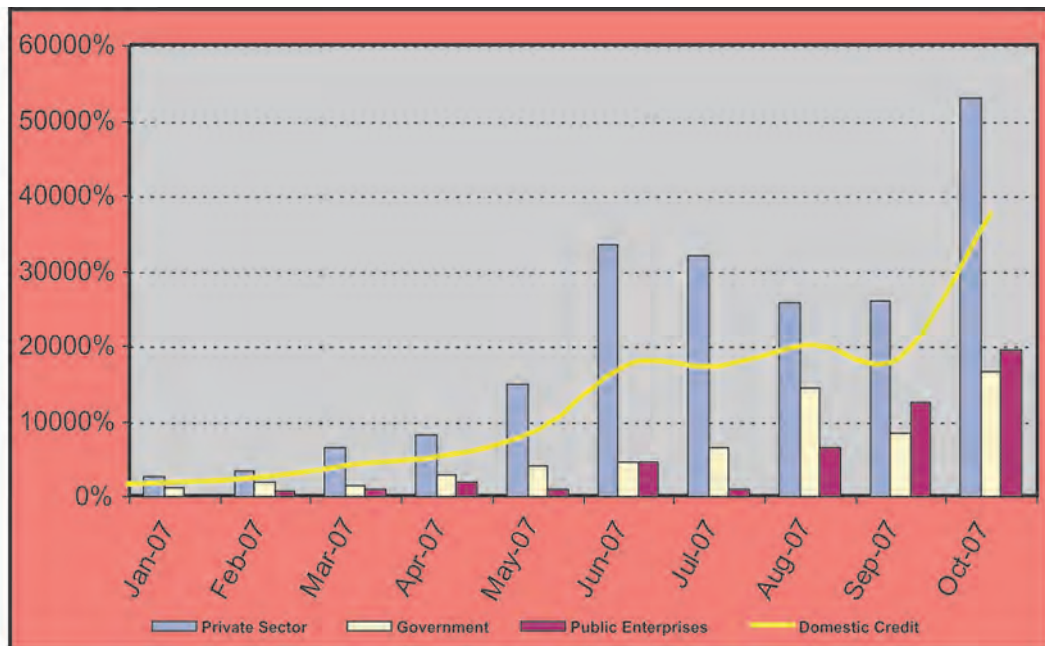
### MONEY SUPPLY

- 5.1 Annual broad money supply (M3) growth continued on an upward trend, increasing from **1 638.4%** in January 2007, to **24 463.6%** in October 2007.
- 5.2 By any standards, these levels are too high for the size of our economy, and it is for this reason that drastic measures are being adopted to contain any further excessive growth.

### MONEY SUPPLY GROWTH TREND

- 5.3 The rapid growth in broad money supply is attributable to an annual expansion in domestic credit of **37 894.6%**, largely driven by growth in:
- (i) Credit to the private sector, 52 963.6%;
  - (ii) Claims on public enterprises, 19 611.3%; and
  - (iii) Credit to Government, 16 585.8%.

## Domestic Credit – Sectoral Annual Growth Rates



### Credit to the Private Sector

5.4 Credit to the private sector, which continues to be the dominant component of domestic credit, recorded an annual growth rate of **52 963.6%**, from **\$246.6 billion** in October 2006 to **\$130.8 trillion** in October 2007.

5.5 In real terms, credit to the private sector has gone up by about 200% mainly due to the prevailing hyperinflationary environment that has seen most companies channelling funds towards recurrent expenditures and working capital, impacting negatively on productivity.

## Net Credit to Government

- 5.6 During the month of October 2007, the annual growth rate in credit to Government was **16 585.8%**, largely attributable to the **3-year Variable Coupon Insurance Industry Bond** worth **\$4.3 trillion**, which was issued during the month of October 2007.
- 5.7 The high Government expenditure requirements, in the absence of external support, resulted in continued reliance on inflationary domestic bank sources to finance the national budget deficit.
- 5.8 Government domestic debt amounted to **\$21.2 trillion** as at 4<sup>th</sup> January 2008. The component of 365-day Treasury bills, which has been the main vehicle through which the Government borrows from the domestic money market, declined from a share of **99.4%** in January 2007 to **36.5%** in December 2007.
- 5.9 The decline in the component of short term debt is consistent with Government's thrust to restructure its debt instruments, from short to long term.
- 5.10 As at 4<sup>th</sup> January 2008, interest on outstanding Treasury bills amounted to **\$5.9 trillion**, which translates to **27.8%** of the total outstanding Government domestic debt.

## **Credit to Public Enterprises (PEs)**

5.11 Credit to public enterprises recorded an annual growth of **19 611.3%**, from **\$10.1 billion** in October 2006 to **\$2 trillion** in October 2007.

5.12 Lending to public enterprises largely benefited Agricultural Parastatals and Zimbabwe Electricity Supply Authority (ZESA), particularly with respect to working capital requirements.

## **6. NEW MONETARY POLICY MEASURES AND FOLLOW-UP PROGRAMMES**

6.1 The unfavourable and difficult business environment that is characterising our economy requires that considerable Monetary Policy positions be modified.

6.2 Of necessity, previous Monetary Policy Statements had to place significant focus and emphasis on arresting further declines in the key sectors of the economy.

6.3 With the pervasive threat of rising inflation remaining high, this Monetary Policy Statement introduces measures that seek to lay the foundation for price stabilisation and inflation reduction.

6.4 Against this background, the following New Measures have been introduced.

## **FOLLOW-UPS ON ASPEF AND BACCOSSI**

- 6.5 Having sustained our farmers over the past four years, through access to concessional finance, under the ASPEF window, it has now become necessary that our farmers be gradually weaned out to self-sustenance, supported by tailor-made financial packages from their bankers.
- 6.6 The primary motivation out of which ASPEF was born, was to hold our farmers' financial hands to cross over the grey era of apprehensions and general inertia by the banks to lend into agriculture during the emotive stages of the land reform programme.
- 6.7 With the land redistribution programme now fully accomplished, it has become necessary that the Reserve Bank now tightens its monetary management programmes to contain inflationary pressures.
- 6.8 To this effect therefore, the current ASPEF programme will be reviewed at the end on 30 June, 2008, and all beneficiaries will be expected to show that they put all the support given to productive use.
- 6.9 Banks are called upon to re-modify their credit policies and post-lending follow-ups so as to adapt to the unique needs of the agricultural sector.

6.10 Consistent with this tightened Monetary Policy stance, the transitory BACCOSSI window, which was also introduced as a temporary measure will run through to 30 June, 2008.

6.11 Companies that benefited under this facility are, therefore, being called upon to reposition their financial systems for continued smooth functionality post BACCOSSI.

## **INTEREST RATES**

6.12 The continued threat of high inflation warrants that interest rates be periodically realigned to discourage speculative borrowing and inflationary credit expansion.

6.13 To this effect, therefore, with immediate effect, the following accommodation rates shall apply.

- **Secured:** 1200%, up from 975%
- **Unsecured:** 1650%, up from 1500%

6.14 As Monetary Authorities, we once again wish to reiterate to the Banking Sector that the Reserve Bank has no appetite for injecting inflationary liquidity into the system through the accommodation window.

6.15 In order to promote discipline in the banking sector's assets-liabilities management regimes, all interest for previous accommodations have to be paid in full prior to any new borrowings or roll-overs of past loans.

## **GOLD SUPPORT PRICE**

- 6.16 As was previewed in earlier sections to this Statement, the gold sub-sector continues to perform unsatisfactorily.
- 6.17 In order to provide added support to this strategic sector, the gold support price was recently increased from \$10,000,000/gram to \$100,000,000/gram, which should make our mines viable.
- 6.18 The Reserve Bank will continue to assess the operational viability concerns of this critical sector on an on-going basis.

## **CHEQUE TRANSACTIONS**

- 6.19 In order to promote the use of cheques as an alternative payment channel, with immediate effect, both individuals and corporates can write cheques up to a maximum threshold clearing house limit of \$10 billion, beyond which transactions have to be through RTGS.

## **INDIVIDUAL FOREIGN EXCHANGE ACCOUNTS**

- 6.20 Under the existing Exchange Control Regulations, a US\$2000 daily “no questions asked” deposit limit applies, beyond which the depositor is expected to declare source of funds.
- 6.21 In the interest of promoting foreign exchange deposits, with immediate effect, individuals can deposit up to US\$9,999 (nine thousand, nine hundred and ninety nine USD or its equivalent) without the need to declare source of funds.

6.22 The declaration will, therefore, set in at deposits of US\$10,000 and above.

## **EXCHANGE RATE MANAGEMENT**

6.23 Exchange rate management remains a critical lever through which Monetary Policy seeks to achieve a positive supply response in the economy.

6.24 Accordingly, therefore, the current framework where exporters and other generators of foreign exchange are benefiting from enhanced overnight accommodation investment returns will be maintained at the new revised overnight unsecured accommodation interest rates.

6.25 This will give exporters and other generators of foreign exchange a lucrative investment opportunity, through the Reserve Bank's accommodation window.

## **STATUTORY RESERVES PAYMENTS**

6.26 In order to support the realignments in banking sector asset portfolios, it has become necessary to re-calibrate the statutory reserve thresholds across the various deposit classes.

## STATUTORY RESERVE THRESHOLDS

### INSTITUTION

<b>COMMERCIAL BANKS</b>	<b>Existing %</b>	<b>New % Effective 01/02/08</b>
Demand Deposits	<b>50%</b>	<b>40%</b>
Call Deposits	<b>50%</b>	<b>40%</b>
Savings Deposits	<b>45%</b>	<b>35%</b>
Time Deposits	<b>45%</b>	<b>35%</b>
Repos/Buybacks	<b>45%</b>	<b>35%</b>
<b>MERCHANT BANKS</b>		
Demand Deposits	<b>50%</b>	<b>40%</b>
Call Deposits	<b>50%</b>	<b>40%</b>
Savings Deposits	<b>45%</b>	<b>35%</b>
Time Deposits	<b>45%</b>	<b>35%</b>
Repos/Buybacks	<b>45%</b>	<b>35%</b>
<b>DISCOUNT HOUSES</b>		
Total Net Liabilities	<b>45%</b>	<b>35%</b>
<b>FINANCE HOUSES</b>		
Total Net Liabilities	<b>30%</b>	<b>20%</b>
<b>BUILDING SOCIETIES</b>		
Total Net Liabilities	<b>10%</b>	<b>10%</b>

### Liquidity Management Bonds

6.27 In order to consolidate the assets-liabilities management positions in the banking sector, with immediate effect, the tenor on the excess liquidity management, zero coupon bonds has been reduced from 270 days to 7 days.

## 7 CONCLUSION

- 7.1 Successful macroeconomic stabilisation, growth and development will come as products of tangible implementation of consistent policies in a holistic manner.
- 7.2 Where policies are cherry-picked for one reason or another, the overall impact of turnaround initiatives is blunted.
- 7.3 As Monetary Authorities, we strongly reiterate on the need for a quick return on the negotiation table for the establishment of an amicable Social Contract; one which will allow for a moratorium on prices and income increases.
- 7.4 We need ZESA, ZINWA, ARDA, Hwange, TELOne, NRZ, Air Zimbabwe, and our local authorities, among many other public entities to be functional as preconditions for meaningful recovery.
- 7.5 As we enter the Elections, our advice to all the various political parties is that let us all think and act Zimbabwe First, where Zimbabwe encapsulates every national, every business, the land, all our minerals and every aspect of our flora and fauna.
- 7.6 We should not, therefore, choose the path of self-mutilation as did happen elsewhere here in Africa where brothers and sisters, sons and fathers, daughters and mothers are decapitating each other all in the name of politics.

7.7 Let us show political maturity and chose the path of peaceful progression into the future.

7.8 Like seasons of the year, elections come and go, but people's lives will self-perpetuate throughout the generations.

7.9 IN GOD'S HANDS I COMMIT THIS MONETARY POLICY STATEMENT.

**Thank You.**

A handwritten signature in black ink, appearing to be 'G. Gono', written over a horizontal line. The signature is stylized and cursive.

**DR G GONO  
GOVERNOR  
RESERVE BANK OF ZIMBABWE**

**31 JANUARY 2008**