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MISSION STATEMENT

Vision

To become the financial cornerstone around which Zimbabwe's economic fortunes and developmental aspirations are anchored.

Mission

The pursuit of our vision will express itself through leadership in the formulation, implementation and monitoring of policies and action plans for fighting inflation, stabilization of the internal and external value of our currency and of the financial system in a manner that gives pride of achievement to Zimbabweans across the board.

Values

- Fairness and equality in employment opportunity
- Openness without offence
- Honesty, integrity and uprightness
- Transparency in whatever we do in the name of the bank
- Commitment to teamwork and cooperation
- Learning organisation
- Respect for one another without discrimination
- Helpful and approachable
- Client and customer focused
- Involvement and commitment
- Decisiveness, action and results oriented
- Accountability
- Professionalism
- Success-driven
- Time conscious
- Respect for the environment

FOREWORD BY THE GOVERNOR

Dr G Gono
The Governor
Chairman of the Board

1. As Governor of the Central Bank, I wish to extend my appreciation to the Reserve Bank of Zimbabwe Board of Directors for their continued unwavering support during my second full year in office.

2. I am also indebted to all stakeholders for the various roles they have continued to play in our combined efforts to stabilize the economy.

3. I would also like to express my heartfelt gratitude to Management and Staff for the immense contributions and sacrifices they have always made in pursuit of our national objectives.

ECONOMIC DEVELOPMENTS

4. The year 2005 was a challenging year as some of the economic gains realized in 2004 were reversed against the background of drought induced shortages, supply side constraints and sharp increases in international oil prices.

5. Reflecting the above challenges, real GDP growth is estimated to have declined by 4.3% in 2005, compared to a decline of 2.3% in 2004.

6. On a positive note, the economy is projected to grow by between 1–2% in 2006, driven by rebounds in mining (15.2%) and agriculture (9%).

7. On the monetary front, annual broad money supply remained high during the year, rising from 177.6% in January 2005 to 520% in December 2005. This mainly reflected an increase in domestic credit to both Government and private sector.

8. As Governor, I wish to further reiterate the Reserve Bank's call to stakeholders not to be tempted to commit suicide over the country's current transitory setbacks.

9. The noted growth in Money supply, to the extent that its primary source is funding going towards dam construction, irrigation rehabilitation, agriculture production and factory revival, would pay positive dividends through increased output over the medium to long term.

10. Higher aggregate national output would work to anchor the disinflation process.

INFLATION AS A PSYCHOLOGICAL PHENOMENON

11. It is also imperative that as a country, we realise that our high inflation levels have become much more of a psychological end product than underlying fundamentals.

12. During the recent cash change-over exercise under the Sunrise Project, for instance, most retailers, property owners and schools, hiked their charges and prices at high magnitudes that had no bearing on production costs or any other credible push-factor.

13. The collective result of such unilateral, ad hoc practices is there for all to see - continued resurgence of aggregate price increases.

14. In order to break this psychological cancer, it is imperative that as a nation, we reconcile and calm down negative expectations through a binding social contract that involves Government, Labour, Business and Civil Society in general.

15. The economic histories of many countries are full of episodes when social contracts where used successfully to anchor nation-wide moratoriums on prices and incomes increases, which were supported by radical anti-inflation demand and supply management policies.

16. Here in Zimbabwe, we must, therefore, revive the virtuous stakeholder engagement negotiations so as to harness and nurture positive expectations.

17. As Monetary Authorities, we, thus, recommit ourselves to burst the inflation bubble through the combination of supply side support measures and demand management interventions to curb speculation. This will be supported through tightening market liquidity conditions, and enhancing productivity in all sectors of the economy.

EXCHANGE RATE MANAGEMENT SYSTEM

18. The country has since adopted a more flexible exchange rate determined by forces of demand and supply in the foreign exchange market. The year 2005 witnessed a transition from the foreign exchange auction system to a Tradable Foreign Currency Balances System (TFCBS). Under this arrangement, the exchange rate is freely determined in the inter-bank foreign exchange market.

19. We call upon our exporters to now play a supportive role, taking advantage of the broad support now in place.

RE-ENGAGEMENT OF THE INTERNATIONAL COMMUNITY

20. The country re-affirmed its commitment to honouring its international obligations since 2004 by making repayments of US$210.6 million to the IMF in respect of outstanding debt obligations. This was done with a view to regularize the country's external debt obligations, attract capital inflows and enable the country to retain its membership in the community of global financial players.

21. Repayments to the Fund, which were initially US$1.5 million per quarter, were increased in the third quarter of 2005, and ultimately GRA arrears were cleared in January 2006 bringing total GRA repayments to US$210.6 million between January 2004 and January 2006. The country also made modest payments to the World Bank and the African Development Bank, among other international creditors.

22. The country attaches great importance to clearing all its international financial obligations to all trading and financial partners. Consistent with this, a repayment programme to pay off existing international debt was put in place and will be enhanced in line with improvements in the overall balance of payments position.

FINANCIAL SECTOR STABILITY

23. Zimbabwe's banking sector remained safe and sound in the period under review, following the adoption of an effective regulatory and supervisory framework since December 2003.

24. The banking system operated in conformity with international best practices of prudence, alert risk management, as well as sound corporate governance norms, among many other virtuous standards.

25. To ensure that the banking difficulties of 2004/5 would not recur, the Central Bank continued to enhance the supervisory process. The Reserve Bank finalized the risk-based supervision framework and also put in place pre-emptive strategies for market stabilization.

26. Among others, the risk based supervision framework provides for stress testing of individual banking institutions and the entire market. The Reserve Bank has also developed early warning systems to identify problem banks for early intervention.

27. In line with the objective of maintaining financial sector stability, a US dollar linked capital adequacy requirement was put in place which should come into effect from 30 September 2006.

PARASTATALS AND LOCAL AUTHORITIES REORIENTATION PROGRAM (PLARP)

28. Parastatals and Local Authorities have been identified as the structural missing link which had to be addressed so as to unlock meaningful supply response to the various policy interventions we are implementing in the economy.

29. In January 2005, the Bank unveiled the Parastatals and Local Authorities Programme (PLARP) to evoke supply side response through improving capacity and operational efficiency of all the country's Parastatals and Local Authorities. This program has double benefits in terms of enhancement of economic growth and deceleration in inflation.

30. The Parastatals and Local Authorities Programme has a facility with financial provisions capped at $12 trillion (old valuation).

31. Although funding is required for the turnaround, the model that the Reserve Bank adopted under PLARP was anchored on a corporate finance approach to turnaround situations, which puts more emphasis on advisory services than the provision of funding.

32. Parastatals were mainly funded for working capital purposes, debt repayment, and capital expenditure.

33. Satisfactory progress was registered in re-orienting some Parastatals and Local Authorities to the extent where, by the end of 2005, official support and intervention was no longer necessary.

34. The PLARP initiative has yielded some tangible results particularly in easing urban accommodation shortages and improving service provision. Kadoma Nissen Housing (Musanayenzou) Scheme, City of Masvingo Stand Servicing, Ruwa Water Augmentation Project, Gwanda Housing Project and Bulawayo Computerisation/ Billing Project represent notable examples in this regard.

AGRICULTURAL SECTOR PRODUCTIVITY ENHANCEMENT FACILITY (ASPEF)

35. The Agricultural Sector Productivity Enhancement Facility (ASPEF) was unveiled in the May 2005 Post–Elections and Drought Mitigating Monetary Policy Framework and was reviewed upwards from the initial $5 trillion to $7 trillion in August 2005.

36. ASPEF is targeted at enhancing productivity in the agricultural and export sectors through the provision of concessional funding for both capital and working capital requirements.

37. The major objective of the facility is to provide low cost funding to targeted primary producers in the agricultural sector, thereby increasing capacity utilization and infrastructure development, as well as ensuring food security.

38. Disbursements under ASPEF amounted to $5.6 trillion as at 31 December, 2005. This was distributed to a total of 2 647 applicants, with major beneficiaries falling under livestock and other crops accessing $3 115.5 billion; irrigation support, $812.8 billion; and export support, $415.6 billion.

CONTINUED SUPPORT TO AGRICULTURE

39. As Monetary Authorities, we pledge to continue our support to agriculture, through innovative financing programmes, as well as the provision of adequate foreign exchange for the importation of critical inputs such as fuel, fertilisers, agro-chemicals and equipment.

40. This stance is primarily predicated on the following factors:

    a) Production of sufficient food would effectively reduce the country's financing gap on the balance of payments.
    b) Availability of higher supplies of food will be a direct spear against high inflation given the prominence of food in the CPI weighting (32%).
    c) The overall revival of agriculture will relay economy-wide positive impulses through horizontal and vertical linkages. This would uplift overall economic performance as well as employment creation.

41. As Monetary Authorities, we call upon our farming communities to take full advantage of the ASPEF facility which has been rolled over by another 12 months.

CURRENCY REFORMS

42. From 1 August 2006, the Central Bank launched far-reaching currency reforms to achieve the following objectives:

    a) Stemming out speculative activities by making it more viable to deal with the formal financial system.
    b) Reforming the country's currency valuation scale so as to foreclose IT systems instabilities relating to digit handling capacity constraints.
    c) Laying the foundation for the eventual introduction of a new currency.

43. To achieve the above objectives, between 1 August and 21 August, 2006 the Reserve Bank introduced a new set of bearer cheques to replace the entire family of bearer cheques in circulation. The new bearer cheques were issued under the theme: Sunrise - A New Beginning for Zimbabwe.

44. Three zeros were taken off every old bearer cheque to introduce a new family of bearer cheques.

45. From Monday, 21 August 2006, all old bearer cheques became obsolete and valueless.

46. To cater for the needs of rural, outlying communities who, for various reasons were unable to swap old bearer cheques for new cheques, the Monetary Authorities extended the changeover period for rural areas was by a week to 2 September 2006.

47. I am glad to say that the Project Sunrise 1 was a resounding national success. I would like to thank all Zimbabweans for a playing a positive part in the success of this home-grown and home-driven national initiative.

48. This first phase will be followed by other successive sequels which will be implemented at short notices of 24 hours on the back of the vast experience the Reserve Bank has gained under phase 1 of the currency reformes. We, therefore wish to warn members of the public not to once again be tempted to hold cash for speculative purposes, as the risk of losing value looms large.

MONETARY POLICY THRUST FOR 2006 AND 2007

49. Our Monetary Policy thrust in 2006 will be guided by the following objectives:

    a) Implement policies and programs that rein in inflationary pressures, so as to anchor economy-wide macroeconomic stability.
    b) Promote financial sector stability and cultivate a National saving culture.
    c) continue supporting all productive sectors of the economy through direct and/or market instruments of intervention.
    d) appeal for increased productivity and discipline across the board.
    e) support and sustain export generating activities and initiatives.
    f) influence Central Government to gradually reduce and eventually eliminate irrational support mechanisms inadvertently impeding our current input-output valuation models.
    g) fight and win the war against corruption, indiscipline and speculation .

50. In the pursuit of our deliverables in 2006 and 2007 we commit to staying the course and to avoiding policy reversals while at the same time remaining alert to any unintentional negative impacts of our policies.

51. Although the economy is still experiencing economic challenges, as Monetary Authorities, we remain steadfast in our quest to turn it around.

52. In this regard, we commend the Government for launching the all-inclusive National Economic Development Priority Program (NEDPP) in April 2006, aimed at stabilising the economy through implementation of quick win strategies and consolidating the economic development strategies of the country.

Dr. G. Gono
Governor
Reserve Bank of Zimbabwe

BOARD OF DIRECTORS

Top - The Governor Dr G Gono Chairman of the Board
2nd row from the left - Deputy Governors: Mr N Ncube, Dr C L Dhliwayo, Mr E Mashiringwani
3rd row from the left - Non-Executive Directors: Mrs S G Chella, Dr M M Ndubiwa, Dr C Mumbengegwi, Mr L Chihota

Ms J Maguranyanga
Bank Secretary

1 INTRODUCTION

1.1 The Reserve Bank of Zimbabwe (the Bank) upholds best practices in corporate governance. The Reserve Bank has in place internal governance structures and processes that allow the Bank to operate in a transparent, efficient and effective manner, to enable it to meet its goals and objectives and discharge its functions as enshrined in the Reserve Bank of Zimbabwe Act (Chapter 22:15).

1.2 The functions of the Reserve Bank as provided for in the Reserve Bank of Zimbabwe Act are:

- To regulate Zimbabwe's monetary system; and
- To achieve and maintain the stability of the Zimbabwe dollar; and
- To foster the liquidity, solvency, stability and proper functioning of Zimbabwe's financial system; and
- To advance the general economic policies of the Government; and
- To supervise banking institutions and to promote the smooth operation of the payment system; and
- To formulate and execute the monetary policy of Zimbabwe; and
- To act as banker and financial adviser to, and fiscal agent of, the State; and
- Whenever appropriate, to represent the interests of Zimbabwe in international or intergovernmental meetings, multilateral agencies and other organizations in matters concerning monetary policy; and
- To provide banking services for the benefit of:-
  - i) foreign governments; and
  - ii) foreign central banks or other monetary authorities; and
  - iii) international organizations of which Zimbabwe is a party; and
- To participate in international organizations whose objective is to pursue financial and economic stability through international monetary co-operation; and
- To undertake responsibilities and perform transactions concerning the State's participation in or membership of international organizations; and
- To exercise any functions conferred or imposed upon it by or in terms of any other enactment.

1.3 The Reserve Bank has in place internal governance structures and processes such as a Board of Directors, Board Committees and management structures that allow to uphold good corporate governance practices.

1.4 In addition, the Reserve Bank complies with provisions of regional and international best practices in corporate governance. This has enabled the Reserve Bank to strengthen its internal governance structures as well as maintain transparency in discharging its statutory responsibilities.

2 BOARD OF THE RESERVE BANK OF ZIMBABWE

2.1 The Reserve Bank of Zimbabwe Act provides for a Board of the Reserve Bank of Zimbabwe which shall consist of the Governor, the Deputy Governors and not fewer than five and not more than seven directors.

2.2 The Board of the Reserve Bank of Zimbabwe is responsible for formulating the Bank's policy and for supervising the Bank's administration and operations.

2.3 The Governor and the Deputy Governors are appointed by the President after consultation with the Minister of Finance, for a period not exceeding five years and shall not serve in those capacities for more than two terms.

2.4 The Governor is the Chairman of the Board of the Reserve Bank.

2.5 The Act provides for the appointment of not more than four Deputy Governors. Currently there are three Deputy Governors namely, Deputy Governor Mr. N. Ncube, Deputy Governor Dr. C.L. Dhliwayo and Deputy Governor Mr. E. Mashiringwani.

2.6 Deputy Governor Mr. N. Ncube is responsible for the following areas:-
- Economic Research and Policy Enhancement
- Economic Support Facilities
- Precious Minerals (Gold, Platinum, Diamond and Methane Gas)
- Commodities and Futures
- Parastatals Re-Orientation Program

2.7 Deputy Governor Mr. E. Mashiringwani is responsible for:-
- Monetary Aggregates and Liquidity Management
- International Banking and Portfolio Management
- Currency Management and Domestic Debt
- Finance, Accounting, IT Development and Systems Research
- National Payment System

2.8 Deputy Governor Dr. C. L. Dhliwayo is responsible for the following areas:-
- Bank Licencing, Supervision and Surveillance
- Pre-emptive Strategies for Financial Sector Stabilisation and Risk Management
- Procurement and Logistics
- Exchange Control Research and Liaison; and
- Import Facilitation, Validation and Substitution

2.9 The Directors of the Board, who shall be persons with experience in the financial, commercial, industrial or agricultural sectors, are appointed by the President in terms of Section 22 of the Act for a four year period but shall not serve as Directors for more than two (2) terms.

2.10 The Board of the Reserve Bank comprises of:-

Dr. G. Gono	-	Governor and Chairman
Dr. C.L. Dhliwayo	-	Deputy Governor
Mr. E. Mashiringwani	-	Deputy Governor
Mr. N. Ncube	-	Deputy Governor
Mrs. S.G. Chella	-	Non-Executive Director
Dr. M.M. Ndubiwa	-	Non-Executive Director
Dr. C. Mumbengegwi	-	Non-Executive Director
Mr. L. Chihota	-	Non-Executive Director

2.12 The Board may allocate some of its responsibilities to Board Committees.

3 THE BOARD COMMITTEES

3.1 The Board Audit Committee

3.2 The Audit Committee met 4 times during the year under review.

3.3 The Committee's terms of reference include the review of the:-

- Financial reporting process
- Systems of internal control, management of financial risks and issues impacting on going concern.
- Performance of the Bank's internal audit function and external auditors.
- The Bank's compliance with legal and regulatory requirements including the Bank's code of business conduct.

The Committee also reviews the maintenance of good corporate governance practices in the Bank.

3.4 The Audit Committee is chaired by a non-executive director and its membership includes two non-executive directors, and a Deputy Governor. The Division Chief responsible for Finance and Accounts and the Division Chief responsible for Internal Audit and Compliance attend Audit Committee meetings.

3.5 The Internal Audit and* Compliance Division, through a risk based audit methodology, provides an independent assurance service to the Board on the adequacy and effectiveness of internal control systems so as to minimize risk in the Bank's activities and financial reporting process.

3.6 The Internal Audit and Compliance arm continued to discharge its mandate in accordance with the Internal Audit Charter approved by the Board and with Internal Auditing Standards. The function, as an integral part of the risk control framework, provided the Board and Senior Management with independent assurance reports on all mission critical internal control processes in the Reserve Bank and its subsidiary companies thereby enabling management to drive remedial action.

3.6 The internal audit and compliance is an effective management tool in the risk management process, for the Reserve Bank the responsibility of which is that of management. As such, full support was given to the audit function in order to maximize its contribution to the organization's objectives.

3.7 The internal audit function was also strengthened in terms of personnel and audit software to ensure that it assists the Reserve Bank in achieving its overall objectives.

3.8 The Bank Secretary is the Secretary to the Committee.

4 THE BOARD STAFF COMMITTEE

4.1 The Committee met 3 times during the year under review.

4.2 The Committee is chaired by a non-executive director and has a Deputy Governor and two non-executive directors as its members.

4.3 The Division Chief responsible for Human Resources attends the Committee's meetings as a resource person.

4.4 The Bank Secretary is the Secretary to the Committee.

4.5 The Committee considers general issues affecting staff welfare and conditions of service of staff, including but not limited to issues pertaining to staff remuneration.

5 BOARD REMUNERATION COMMITTEE

5.1 The Committee met 2 times during the year under review.

5.2 The Committee is specifically tasked to consider issues pertaining to the conditions of service and welfare of the Governor and of Deputy Governors.

5.3 The Committee is chaired by a non-executive director with two other non-executive directors as members.

5.4 The Bank Secretary is the Secretary to the Committee.

6 WORKS COUNCIL

6.1 In line with the requirements of the Labour Act [Chapter 28:01], the Works Council comprises of an equal number of workers and management.

6.2 The current composition of the Works Council is 16.

6.3 The Works Council meets regularly to deliberate on matters provided for in the Labour Act including but not limited to matters relating to the general interests of staff in the Bank and it negotiates on issues relating to the general conditions of service of staff members.

6.4 The Committee met 4 times during the year under review.

7 INTERNAL CONTROLS AND RISK MANAGEMENT

7.1 In line with best practice, the Bank maintains sound internal control systems designed to provide reasonable assurance as to the integrity and reliability of financial and non financial systems, detect and prevent fraud and other irregularities and to protect its assets and resources. The Reserve Bank also has internal controls that enable it to effectively identify and assess the nature of risks and monitor risks associated with its operations. and to report, monitor and manage the risks.

7.2 The Internal Audit and Compliance Division conducts regular reviews of business units and ensures that there are checks and balances and compliance with the Bank's policies, systems and procedures.

8 STAFF COMMUNICATION

8.1 The Bank, at the operational level, ensures that there are formally constituted organs such as the Workers Committee and Works Council. This is designed to ensure that there is effective communication with staff and also to promote constructive and transparent relationships amongst the board, management and staff. At the policy level, the Board Staff Committee also handles issues relating to staff welfare.

8.2 During the year under review, the Governor took a deliberate initiative of ensuring that all staff members are aware of the Bank's Vision, Mission and Values. The Vision, Mission and Values of the Bank were disseminated to all staff and have been posted on the Bank's official website to ensure that all staff members have unlimited access to them.

SENIOR MANAGEMENT

Dr M Kereke
Advisor to the Governor

From top left: Mr M Kunaka, Mr A Marimbe, Mr M Mpofu, Mr E Rwatirera, Mr W Samhungu
Second row: Ms J Maguranyanga, Mr G Chirozva, Mr G Muradzikwa, Mr M Keogh, Mr N Mataruka
Bottom row: Mr B Masoso, Mr F Chasi, Mr S Tarinda, Mr T Musukutwa, Mr S Nyarota

SENIOR MANAGEMENT

From top left: Mr O Masiiwa, Mr W Kavila, Dr M Mombeshora, Mr A Saburi, Mr P Sigauke
Second row: Mr M Zengeni, Mrs W Mushipe, Mr W Manhimanzi, Mr R Chizema, Mr K Sibanda
Bottom row: Mrs A Zanza, Mr E Matiza, Mr H Munyati, Mr S Mabika, Mr J Mverecha

Mr N Ncube
Deputy Governor

ECONOMIC REVIEW

9 REAL SECTOR DEVELOPMENTS

9.1 Economic growth in 2005 was adversely affected by exogenous factors which included drought and rising international oil prices. These adverse exogenous factors precipitated resurgence in inflationary pressures, resulting in the economy declining by 4.3%, in real terms.

Table 1: Annual Growth Rates (Y.O.Y %)

	2002	2003	2004	2005
Real GDP	-5.7	-8.3	-2.3*	-4.3*
End Period Inflation	198.9	598.7	132.8	585.8

*Estimate

Source: Central Statistical Office (CSO) and RBZ Estimation

9.2 Major challenges that adversely impacted on the economy in 2005 included the following:

i) Low rainfall, characterised by dry intra-season spells that seriously affected the agricultural sector and downstream manufacturing;

ii) Foreign currency shortages which affected almost all sectors of the economy;

iii) Resurgent inflationary pressures;

iv) Fuel shortages; and

v) Electrical power outages.

9.3 The above challenges were more pronounced in the second half of 2005.

Table 2: Selected Sectors' Annual Growth Rates (Y.O.Y %)

	2002	2003	2004	2005 Est
Agriculture	-22.7	-1.0	7.0	-12.1
Manufacturing	-13.2	-13.8	-9.5	-7.6
Mining	2.2	-28.7	30.0	-12.1
Distribution, Hotels & Tourism	-4.5	-30.8	-4.0	-1.2
Transport & Communication	-1.0	-8.1	-6.5	-3.4

Source: Central Statistical Office (CSO) & RBZ Estimation

10 AGRICULTURE

10.1 Agriculture contributes about 18.5% of the country's GDP. The sector is estimated to have declined by 12.1% in 2005, mainly as a result of the drought.

10.2 The Agriculture sector faced significant challenges in the 2004-2005 season, which included critical shortages of basal and top dressing fertilizers, inadequate tillage services and fuel shortages.

10.3 Tobacco output increased from 68 million kilograms in 2004 to 74 million kilograms in 2005, largely attributed to specific supportive interventions by the Reserve Bank. A considerable proportion of filler tobacco was, however, produced in 2005, resulting in depressed prices at the tobacco auction floors.

10.4 Maize output is estimated to have declined by 46% to 750 000 tonnes in 2005, from 1.4 million tonnes in 2004. Maize output was adversely affected by long dry spells that were experienced during the 2004/2005 agricultural season.

10.5 Owing to specific Government interventions, wheat production continued on its recovery path, increasing by 69% to 135 000 tonnes in 2005, from 80 000 tonnes in 2004. Wheat benefited significantly from the Winter Wheat Program which ensured timely provision of inputs such as fertilizer and pesticides under the Crop Inputs Scheme. Rehabilitation of irrigation infrastructure also enhanced wheat production in 2005.

10.6 Cotton output is estimated to have declined by about 40%, from 333 000 tonnes in 2004 to 198 000 tonnes in 2005. The long dry spells experienced in the 2004/2005 agricultural season, when the cotton was at maturity stage resulted in the falling off of cotton balls.

10.7 Following the implementation of specific Irrigation Rehabilitation Programs under the Agrigultural Sector Productivity Enhancement Facility (ASPEF) in 2005, horticulture output, which has a short turnaround time, is estimated to have increased from 56 800 tonnes in 2004 to 60 000 tonnes in 2005.

10.8 Challenges Facing the Agricultural Sector

10.8.1 The major challenges faced by farmers in 2005 include the following:-

10.9 Crop Production

i) Limited availability of foreign currency to import essential inputs, such as fertilizers, chemicals and raw materials for irrigation equipment;
ii) Untimely delivery of inputs caused by delayed access to financing, unavailability of some inputs and transport bottlenecks arising from fuel shortages;
iii) Huge and frequent increases in input costs;
iv) Unviable producer prices for controlled commodities;
v) Inadequate irrigation infrastructure which was worsened by vandalism and theft of existing

infrastructure and soaring costs of equipment;

vi) Shortage of farm labour;

vii) Increased incidences of farm disturbances which resulted in over 90 cases being reported to the Bank as at 31 December 2005, with 24 farmers being evicted or ceasing operations;

10.10 **Livestock Production**

The challenges faced in 2005 include:

i) Limited availability of beef and dairy breeding stock in the country;

ii) Animal disease control, particularly the foot and mouth disease;

iii) Beef and dairy production are long term businesses which require loan tenor periods of 18 months for working capital and 36 months for capital expenditure resulting in farmers generally opting for quick returns and shunning beef and dairy projects;

iv) The capital intensive nature of livestock production discouraged some farmers from borrowing;

v) Scarcity and inhibitive cost of stock feeds and veterinary chemicals discouraged prospective livestock farmers from venturing into livestock production;

vi) Insecurity of tenure by a large number of farmers who wanted to invest in beef, dairy and piggery projects. Farmers were therefore, reluctant to venture into long-term business;

vii) Banks were also reluctant to lend to this group of farmers, because of the perceived high risk exposure; and

viii) Lack of expertise for such projects like dairy and piggery.

11 MANUFACTURING

11.1 The manufacturing sector, which contributes about 15.5% of GDP, is estimated to have declined by 7.6% in 2005, compared to a decline of 9.5% registered in 2004.

11.2 The manufacturing sector, which had showed signs of improvement in the first quarter of 2005 on the back of improved fuel and foreign currency availability coupled with stable and low inflation expectations, was severely constrained by shortages of foreign currency, fuel and inputs from the agricultural sector due to the drought during the second half of 2005.

11.3 The negative growth recorded by the manufacturing sector was mainly due to the following challenges: •

- Decline in aggregate demand resulting from dwindling disposable real incomes because of rising inflation
- High production costs;
- Declining capacity utilization; and
- Rising replacement cost which led to front-loading of costs by main suppliers/agents.

12 MINING

12.1 The mining sector, which accounts for about 4.3% of the country's gross domestic product, is estimated to have registered a decline of 12.1% in 2005, following a growth of 30% in 2004. The decline in recorded mining output was largely driven by the reduction in gold deliveries to Fidelity Printers and Refiners.

12.2 Total gold output cumulative to 31 December 2005 was 13 453 kilograms - a 37% decline from the 21 432 kilograms recorded in 2004. The slow down in gold output in 2005 has been partly attributed to a decrease in gold deliveries by small scale producers, who largely resorted to selling the mineral on the parallel market.

12.3 Factors that negatively influenced the outturn of the mining sector in 2005 included, shortages of fuel and foreign currency, high cost of borrowing, high input costs, and power cuts.

13 MONEY MARKET AND STOCK EXCHANGE DEVELOPMENTS

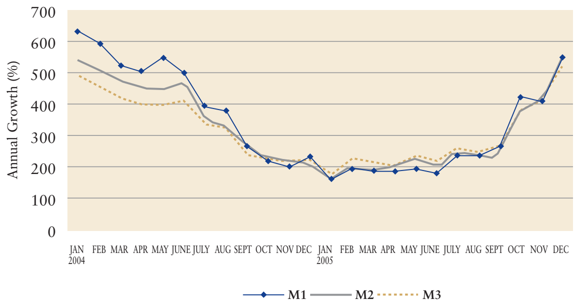
13.1 Money Supply

13.2 From January 2004 to October 2005, Monetary Authorities had been following an eclectic monetary policy framework where a combination of exchange rate management, monetary targeting and interest rates realignment were used to balance the twin objectives of inflation reduction and enhancement of capacity utilization in the productive sectors of the economy. The Monetary Authorities introduced a reserve monetary targeting framework with effect from 20 October 2005.

13.3 Annual money supply growth which trended downwards in 2004 from 490.9% in January 2004 to 177.6% in January 2005 was on the increase, especially during the second half of the year to end the year at 520%. However, with the introduction of the reserve money targeting system, money supply growth is expected to decelerate in 2006.

13.4 This would be achieved through rigorous open market operations (OMO), coupled with other forms of interventions aimed at reducing money supply growth to desired levels.

Figure 1: Money Supply Growth Trends



Source: Reserve Bank of Zimbabwe

14 STOCK MARKET DEVELOPMENTS

14.1 Stock market activity was generally on an upward trend during 2005 mainly due to the generally low money market rates relative to inflation.

14.2 The stock market exhibited a high level of sensitivity to policy announcements. Periods prior and post the announcement of the Monetary and Fiscal policies were characterized by slowdowns in stock market activity.

14.3 During the first three quarters of 2005, stock market activity steadily rose on the back of subdued money market rates and the equities market continued to be an attractive investment destination as inflationary pressures persisted.

14.4 The industrial index rose steadily for the first three quarters of 2005. In January 2005, the main index opened at 1 094 813 points and closed at 18 483 884 points in December 2005. It recorded an all time high of 19 900 543.46 points in November 2005.

14.5 The last quarter of the year was characterized by heavy surges in the equities market due to the resurgence of adverse inflation expectations, subdued money market rates, speculative activities and lack of attractive alternative investment.

14.6 With money market rates lagging behind the inflation rate, most investors opted for the stock market. This resulted in an overall market return of 1 688% and 3 210% for the industrial and mining indices, respectively, in 2005, compared to year end inflation of 586%.

14.7 In the last quarter of the year, the industrial index was driven by dually listed counters, export and financial counters.

14.8 The introduction of the new exchange rate management system (Tradable Foreign Currency Balances System) increased optimism about the availability of foreign exchange in the formal market resulting in renewed interest in exporting counters.

Figure 2: Daily Industrial Indices

Source: Zimbabwe Stock Exchange

14.9 The rise in the mining index was mainly driven by good results by some mining companies, firming international base metal prices and the introduction of the new exchange rate system in October 2005.

14.10 The mining index peaked at 6 450 153.4 points in December 2005, from 200 953.8 points in January 2005.

14.11 Significant gains were recorded in Rio Tinto and Halogen on the back of an increase in gold prices.

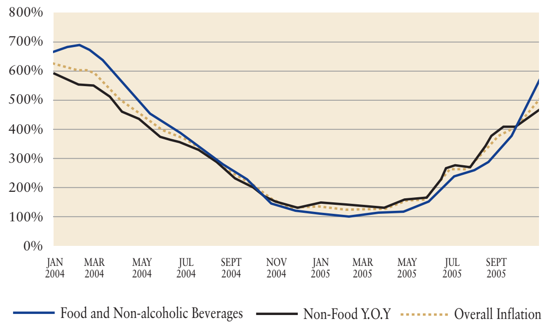
Figure 3: Daily Mining Indices

Source: Zimbabwe Stock Exchange

14 INFLATION

15.1 The improved macroeconomic environment that characterized the year 2004 spilled over into the first quarter of 2005. Against this background, annual inflation declined from 133.6% in January, 2005 to 123.7% in March 2005. It, however was on an upward trend from the second quarter of 2005, increasing from 129.1% in April to 254.8% in July, 2005 and ending the year at 585.8%.

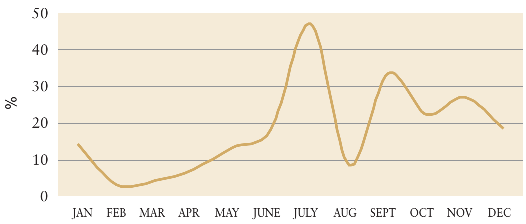
Figure 4: Annual Inflation Profile: Jan 2004 – Dec 2005



Source: Central Statistical Office

15.2 The month-on-month inflation profile indicates that inflationary pressures intensified in the second half of 2005 due to the drought, peaking at 46.96% in July, 2005 and closing the year at 18.27%.

Figure 5: 2005 Month on Month Inflation



Source: Central Statistical Office

15.3 The upward trend in inflation was mainly driven by the following factors:

i) Supply bottlenecks mainly attributed to the drought experienced during the 2004/5 agricultural season;

ii) Drought which had major spill over effects into other sectors of the economy, particularly manufacturing;

iii) Parallel market for basic commodities, fuel and foreign currency;

iv) The surge in international oil prices which resulted in the increase in the local price of fuel. Fuel constitutes about 15% of the total cost of production of which 75% is assumed to be passed on to consumers through price adjustments;

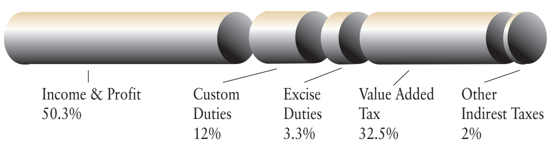
v) Renewed adverse inflation expectations during the second half of the year and high money supply growth.

15.4 Inflationary pressures are expected to dampen in the second quarter of 2006, against the background of tight monetary conditions, fiscal restraint and expected improvement in food supply.

16 PUBLIC FINANCE

16.1 Cumulative revenue collections as at the end of December, 2005 amounted to $33.2 trillion which was 33.7% above the target of $24.8 trillion. Major tax heads contributing to this amount were income and profit taxes, $16.3 trillion and value added tax, $10.5 trillion. Non-tax revenue collections amounted to $918.2 billion, falling short of the target of $1 trillion.

Figure 6: Structure of Government Tax Revenue in 2005

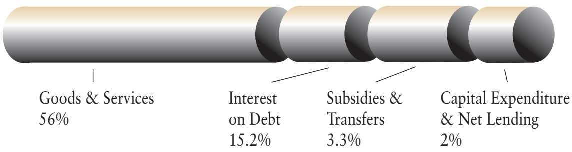


Source: Ministry of Finance

16.2 Total Government expenditures for 2005 amounted to $36 trillion, compared to the target of $35.3

trillion. Recurrent expenditure which amounted to $30.2 trillion, accounted for 85.6% of total expenditure. Of the total recurrent expenditure, employment costs absorbed $13.8 trillion. Capital expenditures amounted to $3.6 trillion or 10.2% of total expenditure.

Figure 7: Structure of Government Expenditure in 2005



Source: Ministry of Finance

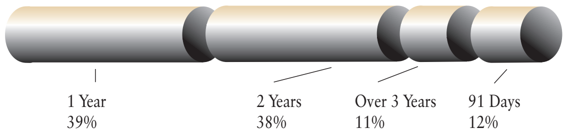
17 DOMESTIC DEBT

17.1 The stock of Government domestic debt, which stood at $7.3 trillion in March 2005, rose to $11.7 trillion by June 2005 and further to $13 trillion by September 2005. The trend continued until the end of the year, with total Government domestic debt increasing to $15 trillion by end December 2005 compared to a total of $2.8 trillion in December 2004.

17.2 Domestic Debt Composition By Tenor

17.3 The composition of domestic debt has continued to be dominated by short-to-medium term debt, particularly Treasury bills. This category of domestic debt accounted for 89% of total domestic debt stock by end December 2005.

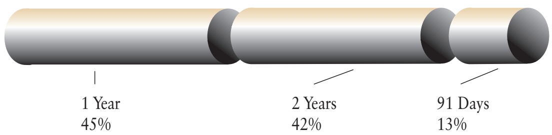
Figure 8: Government Domestic Debt by Maturity: 2005



Source: Reserve Bank of Zimbabwe

17.4 In 2005, out of a total of $13.4 trillion outstanding Treasury bills, 58% or $7.7 trillion was accounted for by Treasury bills with a maturity of 1 year and below.

Figure 9: Government Treasury Bills by Maturity: 2005



Source: Reserve Bank of Zimbabwe

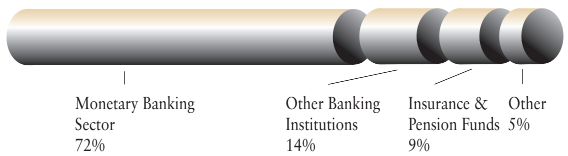
17.5 Long-term debt of a minimum of 3 years and over remained significantly low, on average, accounting for less than 6% of total Government domestic debt, during the year under review.

18 Government Domestic Debt by Holder

18.1 The monetary banking sector remained the major holder of Government domestic debt at 72% or $10.7 trillion. Out of this total debt, commercial banks accounted for about 86% or $9.7 trillion.

18.2 Non-banking institutions were holding about 28% of the total debt or $4.3 trillion.

Figure 10: Government Domestic Debt by Holder: 2005



Source: Reserve Bank of Zimbabwe

18.3 The expenditure and revenue pattern for 2005 resulted in a budget deficit of $2.8 trillion or 3.7% of GDP.

18.4 In the absence of external funding, the financing of the budget deficit was mainly from bank sources.

19 BALANCE OF PAYMENTS

19.1 The 2004/05 drought, coupled with the rise in international oil prices, exerted considerable pressure on the country's balance of payments position. Against this background, exports declined by 6.4% in 2005.

20 EXPORTS

20.1 Underperformance in the export sectors of the economy was underpinned by notable declines in agricultural exports and in agro-based sectors of the economy.

20.2 Overall export performance in 2005 was constrained by the following factors:

i) The drought which adversely affected agricultural production;

ii) The resurgence in inflation from 123% in March 2005 to 585.5% by December, 2005, which severely constrained the capacity of local producers to compete on the world market;

iii) Limited capacity for value addition and dependence on low value primary products, which are vulnerable to variations in weather conditions and fluctuating global demand; and

iv) Shortage of foreign currency to purchase the much needed inputs and raw materials.

20.3 Mineral exports, however, registered positive growth in 2005 spurred by favourable international prices and expansion projects being undertaken at some of the mining houses to boost output.

21 IMPORTS

21.1 Imports declined by 1.6% from US$1 989.4 million in 2004 to US$1 958.2 million in 2005. This marginal decline is attributed to foreign currency shortages, which constrained the capacity of key productive sectors of the economy, to procure external inputs.

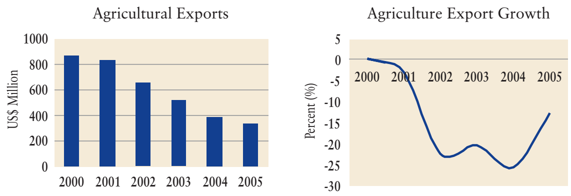
22 AGRICULTURE

22.1 Agricultural exports declined by 12.6% from US$384.2 million in 2004 to US$335.9 million in 2005. This was largely due to underperformance in the tobacco and horticulture sub-sectors which contribute about 60.7% of total agricultural exports.

22.2 About 64.4 million kilograms of tobacco valued at

US$203.8 million was exported in 2005. This represents an 11% decline in tobacco export earnings from the US$226.7 million realized in 2004 reflecting the adverse effects of the drought and shortages of inputs.

Figure 11: Agricultural Exports (US$m) and Agricultural Export Growth



Source: Reserve Bank of Zimbabwe

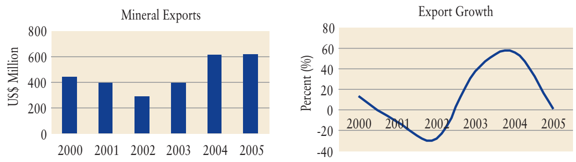
22.3 Horticulture exports declined by 10% from US$84.1million in 2004 to US$75.9 million in 2005. The industry has a sizeable number of new farmers who during the year under review, were still developing appropriate expertise. Most of the new farmers were concentrating on investment and rehabilitation programs which have enhanced prospects for recovery in 2006.

22.4 Measures were, however, taken to enhance agricultural exports. These include the concessional finance through ASPEF earmarked for winter wheat, irrigation rehabilitation and summer cropping.

23 MINERAL EXPORTS

23.1 Mineral exports registered a positive growth of 1.5% from US$608.7 million in 2004 to US$617.7 million in 2005.

Figure 12: Mineral Exports (US$m) and Mineral Exports Growth



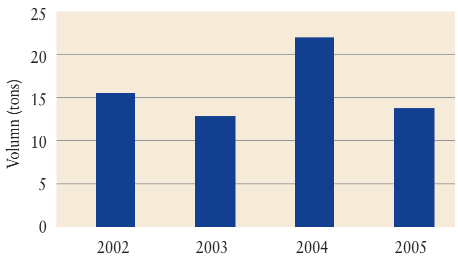
Source: Minerals Marketing Corporation of Zimbabwe (MMCZ)

23.2 Mineral export performance was largely underpinned by favorable mineral prices for gold and platinum, expansion projects undertaken particularly in the platinum and nickel sectors and a more favorable exchange rate.

23.3 Gold Exports

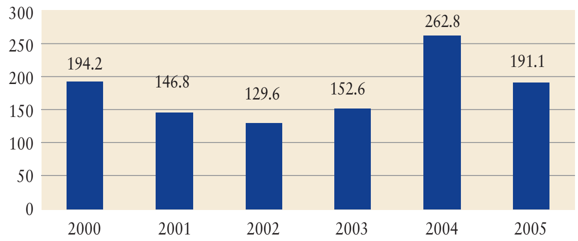
23.4 Gold production declined from 21.3 tonnes in 2004 to 13.5 tonnes in 2005. Export earnings, therefore, declined by 27% from US$262.8 million in 2004 to US$191.1 million in 2005. The reduction in gold exports is also attributable to side marketing and smuggling of precious minerals.

Figure 13: Gold Deliveries



Source: Fidelity Printers and Refiners

Figure 14: Gold Exports (US$ million)

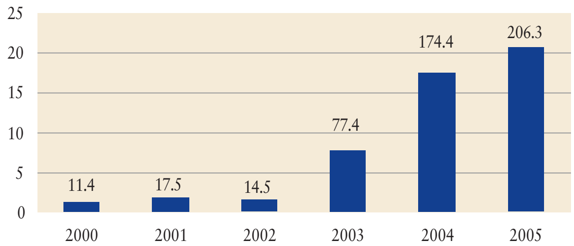


Source: Minerals Marketing Corporation of Zimbabwe (MMCZ)

23.5 Given the strategic importance of the gold industry and the concern for its viability, Authorities have successively reviewed the gold support price in 2005 from Z$130 000/gram at the beginning of 2005, to Z$230 000/gram by July 2005. The support price was, however, eventually removed after the introduction of the Tradable Foreign Currency Balances System (TFCBS) in October 2005.

23.6 **Platinum**

Figure 15: Platinum Exports (US$ million)

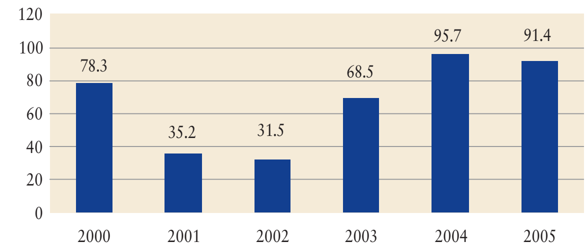


Source: Minerals Marketing Corporation of Zimbabwe (MMCZ)

23.7 Platinum is fast becoming one of the country's major foreign currency earners. Exports increased by 18% from US$174 million in 2004 to US$206.3 million in 2005 due to firming international platinum prices and the expansion programmes undertaken in the platinum industry by Mimosa Mining Company (Pvt) Ltd CA and Zimbabwe Platinum Mines Ltd.

23.8 **Nickel Exports**

Figure 16: Nickel Exports (US$ million)



Source: Minerals Marketing Corporation of Zimbabwe (MMCZ)

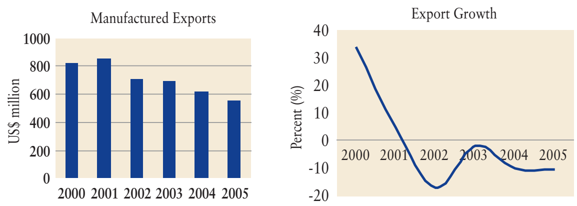
23.9 Nickel exports declined by 5% from US$95.7 million in 2004 to US$91.4 million in 2005 largely due to the slump in nickel prices on the international commodities market. A major contributory factor was the fact that equipment at Bindura Nickel Corporation's smelting plant was not operational in the first half of 2005.

24 MANUFACTURING EXPORTS

24.1 The manufacturing sector's contribution to total export earnings remained constrained by a combination of inadequate domestic inputs, particularly from the agricultural sector and unavailability of imported raw materials.

24.2 Against this background, manufacturing exports declined by 10.6% from US$185.1 million in 2004 to US$157.6 million in 2005.

Figure 17: Manufactured Exports (US$m) and Export Growth



Source: Minerals Marketing Corporation of Zimbabwe (MMCZ) and Reserve Bank of Zimbabwe

24.3 Resurgence of inflationary pressures, coupled with erratic fuel supplies posed challenges to the manufacturing sector in the second half of 2005. The unavailability of raw materials resulted in low capacity utilization and an erosion of the export base.

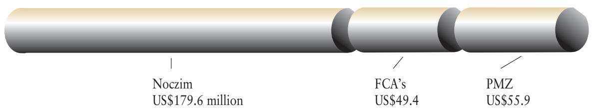
24.4 The resurgence of inflationary pressures in the second half of 2005 eroded export competitiveness. Protracted fuel shortages also constrained the timely movement of manufactured export commodities to export markets.

25 ENERGY IMPORTS

25.1 Fuel

25.1.1 Total fuel imports declined from US$413 million in 2004 to US$363.5 million in 2005 as a result of the general shortage of foreign currency in the economy.

Figure 18: Sectoral Allocation of Fuel Funds-2005



Source: Reserve Bank of Zimbabwe

25.2 Electricity

25.2.1 Local electricity consumption is dependant on local generation which is augmented by imports.

25.2.2 Total electricity imports for the year 2005 amounted to US$62.8 million up from US$49.2 million recorded in 2004, largely due to the allocation of more foreign currency.

25.3 Capital Account

25.3.1 The capital account significantly improved from a deficit of US$234.1 million in 2004 to a surplus of US$2.7 million in 2005. Improved performance in the capital account was underpinned by increased availability of short term facilities in respect of grain and fuel imports. Performance in the capital account remained subdued due to lack of external finance and subdued direct and portfolio investment inflows.

25.4 External Debt Developments in 2005

25.4.1 Zimbabwe's total external debt disbursed and outstanding (including arrears) is estimated to have declined from US$4 071 million in 2004 to US$3 978 million in December 2005, representing a decrease of 2.3%.

25.4.2 This mainly reflects resource repayments on public sector medium to long term debt, particularly to the multilateral financial institutions.

25.4.3 A total of US$176.3 million was paid by the Government of Zimbabwe in 2005 alone, of which 95.9% (US$169 million) significantly reduced the external payment arrears to the International Monetary Fund to US$144.0 million as at December, 2005.

25.4.5 By end of December 2005, the public short term debt amounted to US$106.7 million, representing an increase of 54.6% over 2004.

25.5 External Debt by Maturity

25.5.1 Medium to long-term external debt has continued to dominate the external debt stock, accounting for 95.6% of the total. This category of debt decreased from US$3 927 million in December, 2004 to US$3 805 million in December, 2005.

25.6 External Debt by Debtor Category

25.6.1 Government debt dominated medium to long-term debt stock. Government borrowings accounted for 77% of total debt, public enterprises 20% and private sector 3%.

25.6.2 The new borrowings have been for the purposes of financing ongoing developmental projects such as rural electrification, acquisition of the passenger airplanes and short term trade financing.

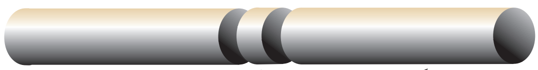
Figure 19: External Debt by Debtor

Source: Ministry of Finance and RBZ

25.7 External Debt by Creditor Type

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

Figure 20: External Debt by Creditor



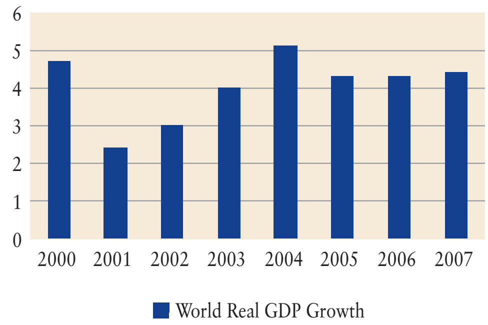
Source: Ministry of Finance and RBZ

26 REGIONAL AND INTERNATIONAL ECONOMIC DEVELOPMENTS

26.1 Global Economic Growth

26.1.1 Global growth is estimated to have slowed down from 5.1% in 2004 to 4.3% in 2005. The slow down in global GDP growth was largely precipitated by higher crude oil prices.

Figure 21: World Economic Outlook



Source: IMF World Economic Outlook

26.1.2 GDP growth in the United States is estimated to have slowed down from 3.2% in 2004 to 2.5% in 2005 due to the adverse effects of high oil prices and the impact of natural disasters such as hurricanes and floods.

26.1.3 In the Euro area, economic activity is also estimated to have slowed down, with GDP declining from 1.6% in 2004 to 1% in 2005. This was attributable to weak domestic demand and external shocks such as high crude oil prices.

26.1.4 Japan continued to record recovery in fundamentals against the background of strong domestic demand and supportive macroeconomic policies. GDP growth is estimated to have averaged 2% in 2005 compared to 2.7% in 2004.

26.1.5 Overall Asian GDP growth is estimated to have remained strong, driven by robust growth from China and India. In 2005, China and India are estimated to have recorded growth rates of 9% and 7.1%, respectively, compared to 8.1% and 6.5%, respectively in 2004.

26.1.6 After a strong rebound in 2004, GDP growth in Latin America slowed down from 5.6% to 4.1% in 2005, largely due to a fall in domestic demand, particularly in Brazil.

26.1.7 Rising oil production and prices, which resulted in improvement in external current accounts and fiscal positions, continued to support economic performance in the Middle East. GDP growth slowed by 5.5% in 2005 compared to 11.4% in 2004.

26.1.8 In the Sub Saharan Africa, GDP growth is estimated to have moderated from 5.4% in 2004 to 4.8% in 2005, partly reflecting higher oil prices, erratic rainfalls and relatively slower increases in non fuel commodity prices.

26.1.9 On the inflation front, global inflation picked up in 2005 in response to higher oil prices, but remained at moderate levels of 4.3% compared to 2.2% in 2004. Inflationary pressures rose somewhat more in emerging markets. Average inflation in sub Saharan Africa is estimated to have increased from 9.3% in 2004 to 9.8% in 2005, mainly on account of rising oil prices.

26.2 International Commodity Price Developments

26.2.1 International commodity prices firmed significantly in 2005 driven by high demand and production constraints across the globe. Notable price increases were registered in platinum and gold.

Table 3: Commodity Prices Trends up to December 2005

Period	Gold	Platinum*	Copper**	Nickel**	Brent CrudeOil**
	us$/oz	us$/oz	Us$/tonne	us$/tonne	us$/barrel
December-04	443.0	850.3	3136.5	13,764.9	40.4
January-05	424.5	858.4	3,172.2	14,558.6	44.2
February-05	423.8	871.1	3,247.8	15,316.8	45.5
March-05	434.1	868.1	3,373.5	16,198	52.6
April-05	429.4	865.4	3,389.7	16,153.8	53.0
May-05 422.1	866.5	3,252.8	16,930.8	49.4	
June-05 431.4	880.9	3,529.1	16,126.3	54.8	
July-05 424.5	874.8	3,619.2	14,610.0	57.4	
August-05	437.3	899.4	3,785.0	14,942.6	63.9
September-05	455.4	913.7	3,843.2	14,191.2	63.6
October-05	469.3	925.9	4,038.8	12,496.2	59.8
November-05	476.3	959.5	4,210.3	11,744.5	56.8
December-05	512.8	978.6	4,583.6	12,477.0	58.1

Source: World Gold Council, *Johnson Matthey and **BBC Business News

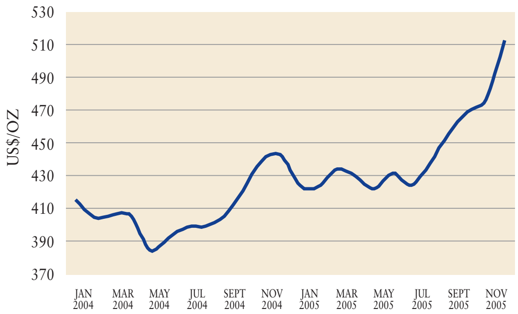
26.3 Gold Price Trends

26.3.1 The price of gold firmed by 16% from US$443.04 per ounce in December, 2004 to US$512.9 per ounce by December, 2005.

26.3.2 The increase in gold prices has been attributable to high demand emanating from jewellery firms, industrial and dental concerns as well as for investment purposes.

26.3.3 Twin deficits in the current account and fiscal budget of the US also underpinned the firming of gold prices as investors preserved their investments by opting for gold as a safe haven.

Figure 22: International Gold Prices



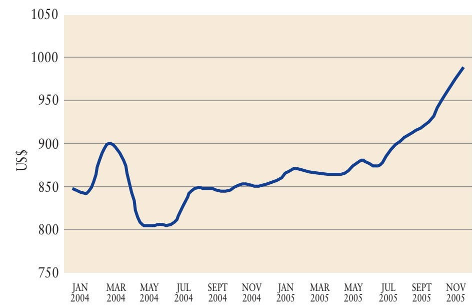
Source: World Gold Council

26.3.4 The upsurge in gold prices presents immense export growth opportunities for countries with abundant gold resources. Zimbabwe has one of the largest known gold ore reserves in Sub Saharan Africa and the country can take advantage of firm prices to exploit this mineral resource.

26.4 Platinum Price Trends

26.4.1 The international price of platinum rose by 15% from US$850.3 per ounce in December, 2004 to US$978.6 per ounce by December, 2005, reflecting high demand coupled with production constraints, notably in North America and South Africa.

Figure 23: International Platinum Prices



Source: Johnson Matthey

26.4.2 The high demand for platinum was due to expansion in the auto-mobile sector, manufacture of computer disks and LCD glass panels in Europe, Japan and China.

26.5 International Oil Price Trends

26.5.1 International oil prices rose by 94% from US$30 per barrel in December, 2004 to US$58.14 per barrel by December, 2005. This was largely in response to excess demand created by floods and storms experienced by some of the world's biggest oil consumers.

Figure 24: International Oil Price Trends (2000-2005)

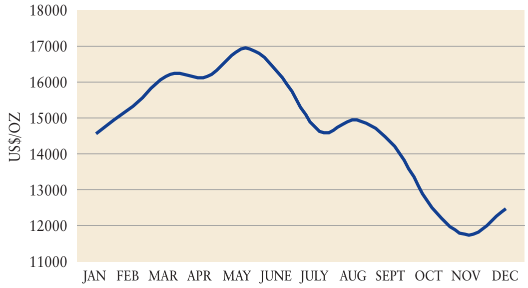
Source: KITCO Bullion Dealers

26.5.2 The marginal fall in crude oil prices towards the end of the year under review was due to the anticipated decline in fuel demand and the expansion projects by Nigeria and Saudi Arabia which were expected to improve crude oil supplies and subdue oil prices further.

26.6 Nickel Price Trends

26.6.1 Nickel prices declined by 11% from US$14 000 per tonne in January, 2005 to US$12 477 per tonne by December, 2005.

Figure 25: International Nickel Price Trends



Source: KITCO Bullion Dealers

26.6.2 This downward pressure stemmed from the cutbacks in stainless steel production, which uses a significant amount of nickel.

26.7 Copper Price Trends

26.7..1 The international price of copper rose by 46% from US$3 136.5 per tonne in December, 2004 to US$4 583.6 per tonne by December, 2005. The increase in the price of copper has been supported by the depletion of the London Metal Exchange (LME) inventories.

27 AGRICULTURAL SECTOR PRODUCTIVITY ENHANCEMENT FACILITY (ASPEF)

27.1 As announced in the May, 2005 Post- Elections and Drought Mitigating Monetary Policy Framework, a $5 trillion ASPEF was put in place. In August, 2005, the facility was increased to $7 trillion.

27.2 The additional amount of $2 trillion was specifically meant for irrigation, in line with the Accelerated National Irrigation Development Programme, thus, bringing the total amount allocated for Irrigation Support to $3 trillion.

27.3 ASPEF was targeted to support and enhance productivity in the agricultural and export sectors through provision of concessional funding for capital and working capital requirements at an all-inclusive interest rate of 20% per annum.

27.4 The broad objectives of the facility were as follows:-

i) To provide low cost production to targeted primary producers in the agricultural sector;
ii) To enhance capacity utilization, infrastructure development and output from the agricultural sector;
iii) To ensure food security and import substitution; and
iv) To generate foreign currency.

27.5 The $7 trillion facility, was allocated as follows:-

Table 4: Allocation of Funds under the $7 Trillion Facility

FACILITY	AMOUNT	INTEREST RATE
Irrigation Support	$3 trillion	20%
Horticulture (export)	$1 trillion	20%
Beef Cattle Support	$750 billion	20%
Dairy Support	$750 billion	20%
Other Crops and Livestock	$1 trillion	20%
Piggery and Poultry Support	$500 billion	20%
Total	$7 trillion	

Source: Reserve Bank of Zimbabwe

27.6 Facility Utilization

27.6.1 A total of 2 647 applicants were allocated $5.59 trillion through commercial and merchant banks under ASPEF as at 31 December 2005.

27.6.2 The distribution of the amount disbursed per facility is shown below: -

Table 5: Distribution of ASPEF loans as at 31 December 2005

Facility	Applications	Amount ($bn)
$3 trillion Irrigation Support	338	812.77
$750 billion Dairy Support	80	158.8
$750 billion Beef Cattle Support	197	395.43
$500 billion Poultry and Piggery	200	335.36
$1 trillion Other Crops & Livestock	1 600	3 115.52
$1 trillion Horticulture Support	167	361.34
Export Support	65	415.55
TOTAL	2 647	5 594.77

Source: Reserve Bank of Zimbabwe

27.7 $1.5 trillion Maize and Sorghum Support Facility for A1 and Communal Farmers - 2005/2006 Season

27.7.1 A facility of $1.5 trillion was put in place to support the production of maize and sorghum for the 2005/2006 agricultural season by A1 and communal farmers. This was in recognition of the important role played by this class of farmers in contributing towards National food security.

27.7.2 Funds were also made available to Government through the Ministry of Agriculture for the purchase of seed and fertilizer, including transport costs, for on lending to farmers at a maximum all-inclusive interest rate of 20% per annum computed on a simple interest basis.

27.8 Maize and Sorghum Delivery Bonus

27.8.1 The producer price of $2.2 million per tonne for maize and sorghum was viewed as unattractive in view of the ever-increasing production costs. This resulted in low deliveries to the Grain Marketing Board (GMB) with some farmers preferring to sell through the informal market.

27.8.2 As a result, a $100 billion Maize and Sorghum Delivery Incentive Facility was put in place in order to encourage maize deliveries to GMB. In this regard, a bonus of $500 000 per tonne was paid to farmers who delivered maize and sorghum to GMB during the 2005 marketing season. Farmers who delivered these crops up to 30 November, 2005 also benefited from the delivery bonus.

27.8.3 A total of $30 billion had been disbursed to GMB as at 31 December, 2005. The facility is an incentive for farmers to produce maize and deliver through official marketing channels.

27.9 $500 Billion Soya Bean Production Facility

27.9.1 A total of $500 Billion was set aside from the $7 trillion ASPEF Facility to support the production of soya beans.

27.9.2 This was in recognition of the importance of soya bean as a food, cash crop, soil improving and industrial raw material crop.

27.9.3 A total of $370.50 billion had been disbursed to cover 37 569 hectares, as at 31 December, 2005. Technical support to growers was being provided by the Soya Bean Promotion Technical Team.

8.10 $600 Billion Winter Wheat Facility

27.9.4 The Reserve Bank put in place a facility of $600 billion as bridging finance for the 2005 Winter Wheat crop to finance 80 000 hectares of wheat.

27.9.5 The purpose of the facility was to make available financial resources to wheat growers, in order to enhance availability of wheat and ease the pressure on foreign currency demand by cutting on food imports.

27.9.6 The facility was meant to finance working capital requirements for the 2005 winter wheat crop and for minor repairs of irrigation infrastructure.

27.9.7 A total of $533.88 billion was disbursed under the facility, of which $420.0 billion was disbursed through Agribank, with the balance of $113.88 billion channelled through Commercial and Merchant banks.

27.9.8 A total of $208.93 billion had been repaid by Agribank and $113.83 billion by Commercial and Merchant Banks as at 31 December, 2005, bringing the total recoveries to $322.76 billion, excluding interest.

27.10 2005 Wheat Purchase Facility

27.10.1 A wheat purchase facility was put in place to facilitate payments to farmers for wheat deliveries. Funds were made available to GMB through the Ministry of Agriculture.

27.10.2 This was meant to encourage farmers to expedite delivery of wheat to GMB, thus, saving foreign currency for the country through substitution of wheat imports as well as encouraging more farmers to grow the crop in future seasons.

27.10.3 According to GMB records, a total of 126 228 tonnes worth $1.25 trillion had been delivered as at 31 December, 2005. A total of $1.08 trillion had been disbursed as at 31 December, 2005 to GMB to pay wheat farmers for deliveries.

27.10.4 Agribank and GMB remitted a total of $208.93 billion net of interest to the Reserve Bank for loan recoveries under the 2005 facility representing a recovery rate of about 50% to date.

27.11 $600 Billion Wheat Delivery Bonus

27.11.1 The Reserve Bank put in place a facility where a bonus of $3 million per tonne was paid to farmers through GMB, in addition to the producer price of $6.9 million per tonne of wheat delivered to GMB, giving a total of $9.9 million per tonne.

27.11.2 Farmers who delivered wheat to GMB prior to the announcement of the facility were also paid the bonus in retrospect.

27.11.3 The incentive was expected to incentivise farmers to increase the area put under wheat during the 2006 season and to encourage farmers to deliver wheat through official markets, thus, saving the country foreign currency.

27.12 Operation Food Security

27.12.1 In November, 2005, the Reserve Bank made available a total of $750 billion to support maize and small grains production for the 2005/06 cropping season with a view to enhancing national food security.

27.12.2 The objective of the programme was to put at least 200 000 hectares under maize and sorghum which was expected to produce at least 800 000 tonnes of grain.

27.12.3 The targeted area was, however, reviewed to 35 000 hectares due to the late commencement of the programme and persistent heavy rains in December, 2005 which made it difficult to plough and undertake other field activities.

27.12.4 A total of $248.41 billion was disbursed to service providers and input suppliers under the facility as at 31 December, 2005.

27.13 Irrigation Development

27.13.1 In order for the country to achieve food self sufficiency, there is need to supplement dry land agriculture through irrigation development and rehabilitation programmes. This is particularly so in light of the unpredictable weather conditions.

27.13.2 In this respect, the Reserve Bank put in place initiatives to support the rehabilitation of existing irrigation infrastructure and development of new irrigation schemes.

27.13.4 The facility was specifically meant to finance capital expenditure requirements, with emphasis on increasing hectarage under irrigation.

Table 6: Tobacco Financing Allocations for the 2004/2005 Agricultural Season

Source	Amount $BN
Tobacco Bills	32
Agribond Bridging Finance	200
RBZ	174
Barn Rehabilitation	50
Total	456

Source: Reserve Bank of Zimbabwe

27.13.5 Loans under the facility were for inputs and working capital requirements only at an all-inclusive interest rate of 50% per annum. Disbursement of funds was made through Agribank, Zimbabwe Banking Corporation Ltd, Commercial Bank of Zimbabwe Ltd and Tobacco Industry and Marketing Board (TIMB).

27.13.6 The full amount of $156 billion disbursed direct from the $174 billion Reserve Bank facility was repaid by 30 September, 2005.

27.14 **$550 Billion Grain Marketing Board (GMB) Grain Purchase Facility**

27.14.1 A total amount of $526.9 billion was disbursed to GMB as at 31 March, 2005, $316.9 billion of which was for the purchase of maize and $210 billion for the purchase of wheat.

27.14.2 The amount was made available to ensure the smooth marketing of the two vital grains and avoid inconveniencing farmers through delays in receipt of payments.

27.15 $600 Billion 2004/2005 Summer Crop Programme.

27.15.1 The facility was structured by The Reserve Bank and Government through the Ministry of Finance to ensure that agricultural production was not hampered by the shortage of resources especially on small-scale farmers. The Reserve Bank provided bridging finance amounting to $600 billion.

27.15.2 Disbursements were made directly to input suppliers and service providers to minimize abuse of funds.

27.16 **$1 Trillion National Housing Facility**

27.16.1 The Reserve Bank made available a $1 trillion National Housing Facility, at a concessional maximum all-inclusive interest rate of 20% per annum for the construction of new houses through Building Societies.

27.16.2 The facility is available to prospective home-owners residing in urban centres, which are registered on Municipal housing waiting lists.

27.16.3 The loan size to each borrower was limited to $200 million and $400 million for high and medium density residential houses/flats, respectively.

27.16.4 As at 31 December, 2005, a total of $3.34 billion for the construction of 21 housing units had been disbursed through First Building Society and The Central African Building Society (CABS).

27.16.5 Unavailability of serviced stands in most Local Authorities remains the major challenge towards utilization of the facility.

27.17 **$90 Billion Medical Professionals Fund**

27.17.1 As at 31 December, 2005, a total of $39.77 billion had been disbursed to 34 beneficiaries.

27.17.2 The low take up rate of the facility was attributed to the fact that medical doctors mainly require foreign currency, as most of their raw materials are imported. Most of the medical doctors could fund local requirements from their operations.

27.18 **Phasing Out of the Productive Sector Facility**

27.17.1 The Productive Sector Facility (PSF) was put in place in January, 2004 to provide concessionary finance for working capital and capital expenditure requirements to the productive sectors of the economy.

27.17.2 Cumulative PSF support to the private sector over the period January, 2004 to 30 June, 2005 amounted to $3.09 trillion.

27.17.3 The facility was discontinued on 30 June, 2005.

28 PARASTATALS REORIENTATION PROGRAM AND LOCAL AUTHORITIES REORIENTATION PROGRAM (PLARP)

28.1 On 26th January, 2005, the Reserve Bank unveiled an 18 month Parastatals and Local Authorities Reorientation Program (PLARP), which is firmly anchored on the priorities set out in the Government's 2005 – 2006 Macroeconomic Policy Framework.

28.2 **Parastatals Reorientation Program (PARP)**

28.2.1 The PARP program is premised on the need to rid the economy of inherent structural and supply rigidities, and hence provide an anchor for shoring the supply response of the economy.

28.2.2 A buoyant parastatal sector is expected to dampen inflationary pressure, given that the sector accounts for at least 40% of GDP, and also given the forward and backward linkages with the rest of the economy.

28.2.3 Intervention in the parastatals and local authorities has been specifically aimed at projects that enhance service delivery. The strategies being implemented are aimed at enhancing the role of these entities in economic activity and unlock meaningful positive supply response.

28.2.4 The focus of the program has been that of stirring parastatals and Local Authorities towards sound corporate governance, efficiency, profitability and sustainable long term growth. The program therefore, revolves around a multi dimensional intervention strategy that is timeframe based and focuses on the short, medium and long term thrust of business planning.

28.2.5 The three phases on stabilization of business in the initial stages of intervention followed by strengthening the institution's revenue generation, beyond which sustaining growth becomes a major priority.

28.3 Total PARP Disbursements

28.3.1 The programme had an envelope of $12 trillion upon launch, which was, however, subsequently reduced to $3 trillion in the 3rd Quarter Monetary Policy Review for 2005.

28.3.2 Up to the end of 2005, the program had disbursed cumulatively $2.890 trillion to Parastatals as shown in the table below.

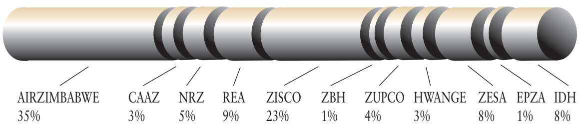
Table 7: Parastatals Allocations and Disbursement as at 31 December 2005

INSTITUTION	AMOUNT ALLOCATED ZW$ billion	AMOUNT DISBURSED ZW$ billion	OUTSTANDING AMOUNT ZW$ billion
AIR ZIMBABWE	1100	979,280	590.58
CAAZ	300	73.434	226.55
NRZ	1100	125,208	1030.95
REA	500	235,614	437.15
ZISCO	1000	667,256	388.16
ZBH	100	16,596	83.41
ZUPCO	300	116.579	257.41
HWANGE	400	74.237	360.70
ZESA	1,000	223,513	641.88
EPZA	36	16.398	29.59
IDC	800	216.421	700.63
KINGSTONS	100	0	100
TRANSMEDIA	350	0	350
TELONE	500	0	500
NET ONE	0	0	0
ZIMPOST	250	0	250
NOCZIM	0	0	0
ZIANA	150	0	150
TOTAL	7 936,0	2 890,9	5 594,8

Source: Reserve Bank of Zimbabwe

28.3.3 Of the $2.89 trillion, Air Zimbabwe accounts for 35% of the disbursements, followed by Zimbabwe Iron and Steel Company Limited (ZISCO), 23%, and Zimbabwe Electricity Supply Authority (ZESA), 8% as shown in Figure 26 below.

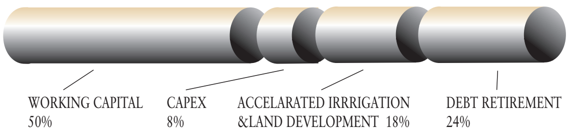
Figure 26: Distribution of Disbursements for the year to 31 December 2005



Source: Reserve Bank of Zimbabwe

28.3.4 The funding advanced to parastatals was mainly for the purposes of working capital, accounting for 61%; debt repayment, 29%; and capital expenditure, 10%. The deployment of the bulk of the funds for working capital is reflective of the initial phase of stabilization which was characteristic of most parastatals. As the parastatals graduate from this initial phase, it is expected that they will shift significant resources towards capital expenditure in a bid to enhance their productive capacities.

Figure 27: Disbursements by Purpose for the year to 31 December 2005



Source: Reserve Bank of Zimbabwe

28.3.5 Some of the parastatals such as Zimbabwe United Passenger Company (ZUPCO), Civil Aviation Authority of Zimbabwe, Industrial Development Corporation (IDC) and Agricultural and Rural Development Authority (ARDA) recorded positive developments. Underperformance at Air Zimbabwe, Zimbabwe Iron and Steel Company Limited (ZISCO) and Hwange Colliery is, however, a major cause for concern.

- ZISCO steel's challenges that have manifested themselves through low plant capacity use, have accounted for the major dip in production late into 2005.

28.3.6 Hwange Colliery Company's performance in the period of analysis has been largely affected by inadequate funding.

28.4 Local Authorities Reorientation Program (LARP)

28.4.1 The local authorities on their part were characterised by lack of strategic focus, delays in the production of audited financial statements and high wage bills. Such a scenario demanded a major paradigm shift that focused on resolving the financial woes which affected quality of service delivery by local authorities.

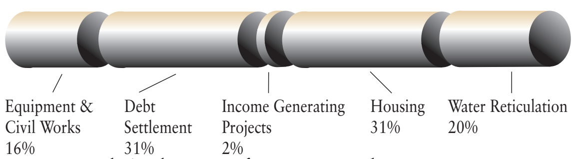
28.4.2 LARP covers all the country's 86 Local Authorities of which 58 are Rural District Councils and 28 are Urban Councils. A comprehensive risk assessment framework which emphasises sound corporate governance practices and availability of tangible, measurable and deliverable performance benchmarks in the turnaround plans was put in place.

Disbursements

28.4.3 Up to the end of 2005, a total of $126.9 billion had been disbursed under the LARP initiative. This represents only 13.7% utilisation of the facility.

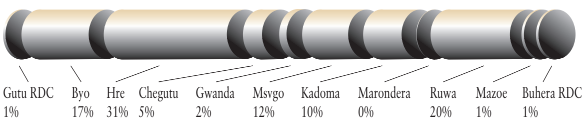
28.4.4 The major challenge that led to low utilisation of the facility by the Local Authorities sector lies in failure by some of the institutions to meet pre-financing requirements of the programme. These include failure to produce audited financial statements, weak corporate governance and work culture issues, failure to produce Turnaround documents in time, unbankable projects and poor performance of Local Authorities Suppliers.

Summary of LARP Disbursements By Use as at 31 December 2005



28.4.5 Local Authorities for cities such as Harare, Ruwa, Chitungwiza Kadoma, and Chegutu channelled significant amounts of resources accessed under the LARP initiative to clear mounting housing backlogs, settlement of debt and the revamping of their water reticulation systems.

LARP Disbursements By Local Authority as at End 2005



28.4.6 Major beneficiaries of the LARP disbursements include Harare, Ruwa, Bulawayo and Masvingo which cumulatively accounted for 80.8% of total disbursements in 2005.

Progress

28.4.7 The extension of concessional finance to Local Authorities for income generating projects significantly reduced their reliance on rates as a source of revenue. This has reduced pressure to frequently review rates, thus dampening inflationary pressures, given that rent and rates constitutes 4.5% and 2.5%, respectively, to overall inflation.

28.4.8 The LARP initiative has positively contributed to easing urban accommodation shortages and improved service delivery by Local Authorities.

Mr E Mashiringwani
Deputy Governor

FINANCIAL MARKETS

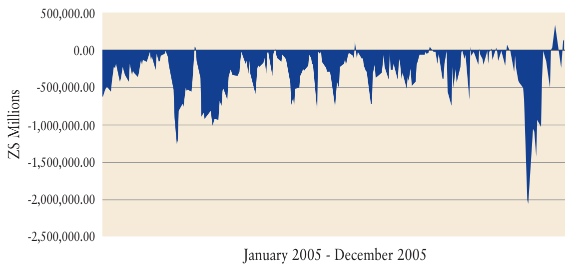
29 LIQUIDITY MANAGEMENT AND DEALING OPERATIONS

29.1 Liquidity Management

29.1.1 Throughout 2005, the money market remained persistently short, on the back of aggressive Open Market Operations (OMO) by the Reserve Bank, aimed at draining excess liquidity from the market.

29.1.2 Daily money market shortages peaked to $2.1 trillion in early December, 2005, before narrowing down towards the end of the year.

Figure 28: Daily Money Market Conditions



29.1.3 Liquidity injections largely emanated from maturing treasury bills, which were effectively rolled over, resulting in generally short conditions throughout the year.

29.1.4 In addition to daily OMO bill tenders to Primary Dealers, open tenders and other liquidity sterilization strategies were employed to rid the market of unwarranted excess liquidity, which would otherwise fuel inflationary pressures in the economy.

29.1.5 Enforcement of statutory reserve requirements and intensified revenue collection by Government also withdrew liquidity from the market, thus reinforcing the Reserve Bank's liquidity mopping up operations.

29.2 Market Accommodation

29.2.1 The Reserve Bank's overnight rate was gradually adjusted upwards, throughout 2005, primarily in response to surging inflationary developments.

29.2.2 The rise in annual inflation, from 133.6% in January, 2005, to 585.8% in December, 2005, saw the Reserve Bank accommodation rates being gradually adjusted from 95-105% in February, 2005, to 540-550%, by December, 2005.

29.2.3 The level of overnight loans, however, decreased significantly during the year, as banks endeavoured to avoid the punitive overnight window, which is meant only to be a last resort facility.

29.2.4 Throughout the year, banks continued to make use of the intra-day credit facility, which is meant to unlock temporary payment gridlocks and smoothen the national payments system.

29.2.5 End-of-day residual surpluses continued to be accommodated through 2-year Special Treasury Bills, which helped to lock unwarranted excess liquidity for longer periods. The interest rate on this 2-year paper was, however, increased from 17% to 120%, effective 20 October, 2005.

29.3 **Management of Statutory Reserve Requirements**

29.3.1 Compliance with statutory reserve requirements remained a critical reinforcing factor in the Reserve Bank's liquidity mopping up efforts.

29.3.2 The Reserve Bank, however, adjusted the frequency of statutory reserve payments, from daily to weekly, with effect from 8 November, 2005.

29.3.3 The change to weekly payments helped smoothen fluctuations in market liquidity, which were associated with daily payment of statutory reserves.

29.3.4 Under the new payment arrangement, however, compliance with statutory reserve requirements is still on a daily basis, although payment is now once a week, based on the daily average positions of the entire week.

29.3.5 With effect from 20 October, 2005, the Reserve Bank also reduced statutory reserve requirement ratios for deposit taking institutions, so as to reduce the implicit tax on financial institutions.

29.3.6 Call and demand deposits now attract 45%, down from 60% on savings and time deposits, 30% down from 37% while the ratio was reduced to 30% for building societies.

29.4 **Money Market Rates**

29.4.1 Notwithstanding short market conditions, money market rates remained generally depressed for the greater part of 2005.

29.4.2 In particular, interest rates on the short end of the market, most notably the inter-bank and call money rates, remained softer, around 30-50%, for the larger part of the year.

29.4.3 Other market rates such as 90-day bankers' acceptance rates, treasury bill rates and other short-term rates, however, firmed to around 300%, towards the end of the year, in response to upward adjustments in the Reserve Bank overnight accommodation rates.

29.4.4 The banks' minimum lending rates were also increased from 168% in January, 2005, to around 400% by December, 2005, although the level of bank lending at those rates remained low, or even decreased.

30 INTERNATIONAL BANKING AND PORTFOLIO MANAGEMENT

30.1 Exchange Rate Management

30.1.1 The Reserve Bank introduced the foreign exchange auction system in January 2004 as an interim step towards restoring stability in the foreign exchange market as well as allocating scarce foreign currency resources to productive sectors of the economy.

30.1.2 The Auction exchange rate was allowed to periodically adjust in line with the inflation developments, to preserve exporter viability.

30.1.3 Year 2005 witnessed a transition from the Auction system to a more market determined exchange rate management system.

30.1.4 On 20 May, 2005, the following major policy changes were put in place: -

i) In order to encourage foreign exchange inflows from non-traditional sources such as Homelink (Pvt) Ltd, Non Governmental Organisations, Embassies and International Organisations, the Diaspora support price was adjusted from Z$6 200/US$ to Z$9 000/US$.
ii) The Carrot and Stick Export Incentive Scheme was revised in order to reward exporters who repatriate their export proceeds in the shortest possible time frames.
iii) Exporters who repatriated their export proceeds beyond 90 days, without prior Exchange Control approval, were expected to surrender 100% of the export proceeds to the Auction at the ruling auction rate.
iv) In order to boost deliveries of gold as the country's strategic reserve mineral, the gold support price was increased from Z$130 000/gram to $175 000/gram.
v) The tobacco top up support price was increased from Z$2 000/kg to Z$5 000/kg.
vi) As a result of the strategic importance of cotton as a foreign exchange earner, a support price of Z$3 500/kg was introduced to the cotton growers, over and above what they had been paid by cotton buyers.
vii) In an effort to enhance export viability, the 15% FOB Export Incentive Scheme was adjusted to a range of 0 - 25% FOB value of actual foreign exchange repatriated into the country.

30.1.5 With effect from 21 October, 2005, the Foreign Currency Auction System ceased to operate and was replaced by the Tradable Foreign Currency Balances System (TFCBS).

30.1.6 The following major policy changes were introduced:

i) Under the TFCBS regime, a dual exchange rate system prevailed, where inter-bank market transactions were conducted at a market determined exchange rate and critical Government payments at the auction exchange rate, which was at ZW$26 004.45 to the US$ (Official Exchange Rate).

ii) All exporters retained in their Foreign Currency Accounts 70% of their export proceeds, and sold the remaining 30% to the Reserve Bank at the prevailing Official Exchange Rate.

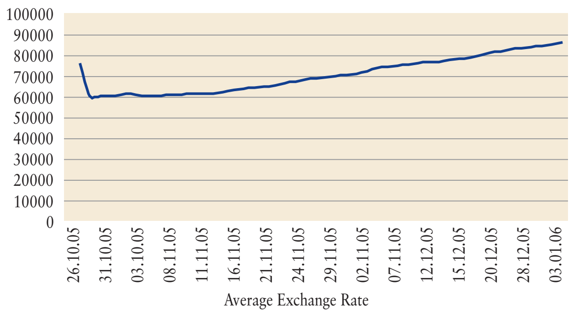
iii) Exporters were given up to 45 days to utilize the 70% retained in their Foreign Currency Accounts, after which the funds would be liquidated onto the Inter-bank Foreign Exchange Market.

30.1.7 With effect from 28 October, 2005, exporters with Export Processing Zone status and with 25% or more foreign ownership were now required to sell 20% of their export proceeds to the Reserve Bank at the Official Exchange Rate, as was applicable to other exporters.

30.1.8 Trading on the Inter-bank foreign exchange market began on the 24th of October, 2005.

30.1.9 Trading on the inter-bank foreign exchange market since inception was characterized by low volumes of trade and continuous depreciation of the currency. The exchange rate depreciated by 10.7% from ZW$76 024.90/ US$ on 24 October, 2005 to ZW$85 158.02/US$ on 30 December, 2005.

Figure 29:Inter-bank rate Developments



Source: Reserve Bank of Zimbabwe

30.1.10 Cumulative Purchases during the period 24 October, 2005 to 30 December, 2005 amounted to US$42.6 million, while sales amounted to US$39.2 million, resulting in a net balance of US$3.4 million.

31 BANKING OPERATIONS

31.1 Retail Banking

31.1.1 The Reserve Bank successfully installed a new and modern cheque processing platform supplied by Unisys Africa. The first phase consisting of the basic functionality has been operating smoothly since October, 2005.

31.1.2 The second phase consisting of critical risk management functionality was still being implemented by year end.

31.1.3 Benefits from the new system are already being realized by the Reserve Bank. These include improved operational efficiency, reduced head count and enhanced capacity.

3.1.4 The Unisys technology selected by the Reserve Bank has capabilities for component upgrades as compared to wholesale replacement and is ready to be integrated into the automated clearing house currently under consideration by the National Payment System (NPS).

31.2 Core Banking System – Globus

31.2.1 In 2005, considerable time was taken to meticulously compile current and future business expectations from an envisaged new banking system. These requirements will culminate in invitations to various banking software suppliers, evaluations and selection of the best system for the Reserve Bank.

31.2.2 Implementation of a replacement banking system is expected to commence in 2006. This follows the successful implementation of new and upgrades of old peripheral systems in 2004 and 2005, which will have to be interfaced to a new core banking system.

31.3 Foreign Exchange Purchase Centres

31.3.1 The Reserve Bank has thirteen (13) fully operational Foreign Exchange Purchase Centres (FEPC) at eight locations across the country. As at 31 December, 2005, the total amount of foreign exchange purchased through these centres amounted to US$2. 8 million. This is almost twice the US$1.6 million achieved in 2004.

31.4 Foreign Currency Cash Sold Through Authorised Dealers And Money Transfer Agencies (MTAs)

31.4.1 Foreign currency cash sold to the Reserve Bank through Authorised Dealers and MTAs also increased steadily since the beginning of year 2005. The amount of foreign currency cash purchased through Authorised Dealers and MTAs up to 31 December, 2005 amounted to US$37.6 million.

31.5 Diplomatic Centre

31.5.1 The Diplomatic Centre continued to successfully acquire new clients as well as retain its existing client base. It contributed US$44 million to the Reserve Bank's foreign currency mobilization drive in 2005. This compares favorably to the US$25.3 million mobilised in 2004.

32 NATIONAL PAYMENTS SYSTEM

32.1 Overview of Payment Systems

32.1.1 One of the primary objectives of the Central Bank is to ensure financial systems stability through the establishment of a sound, stable and efficient payment system. This objective is achieved by various means which include the following:

i) Oversight of the payment system;
ii) Ensuring continued public confidence in the use of payment instruments like cash, cheques and electronic means of payment;
iii) Ensuring a reliable, secure and efficient interbank settlement mechanism that guarantees finality and irrevocability;
iv) Clarifying roles of various stakeholders and participants within the interbank system;
v) Overseeing the creation of national standards and ensuring that they are in line with international best practice; and
vi) Providing general guidance in the payment systems modernization initiatives.

32.2 Clearing and Settlement Issues

32.2.1 In any economy, trading that takes place has to be settled at some stage in order to ensure completion. Settlement usually involves the exchange of an item against the transfer of funds through an acceptable payment system.

32.2.2 Since the introduction of the Real Time Gross settlement (RTGS) system in 2002 popularly known as the Zimbabwe Electronic Transfer and Settlement System (ZETSS), the banking industry has come to realise that ZETSS was more than just the implementation of a computer system but a tool that can be efficiently utilized to manage risk within the payment system.

32.2.3 Real time processing brought about a paradigm shift in the way banks operate and manage their payment processes. Changes in treasury management practices were noted as the industry realized that in RTGS, payments are not equal and have to be prioritized during processing.

32.3 **Market Settlement**

32.3.1 Notwithstanding shortages that prevailed in the money market during 2005, banks were generally able to fund their clearing and settlement obligations in ZETSS without any challenges.

32.3.2 The intra-day credit facility which was reintroduced by the Central Bank in August, 2004 helped in maintaining an even flow of liquidity through the system, as well as enhance the timely and smooth operation of ZETSS.

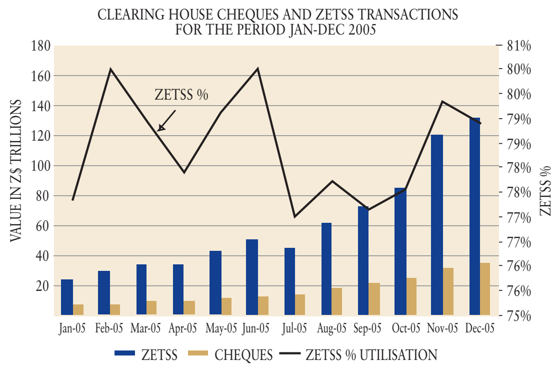
32.4 **Zimbabwe Electronic Transfer and Settlement System (ZETSS) and Clearing House Activities**

32.4.1 There was a general increase in both values and volumes of transactions handled through the Clearing House in 2005. From a total of Z$7.1 trillion recorded in January, 2005 the transaction values peaked at Z$35.1 trillion in December, 2005, an increase of 394%. The total cheque transactions for the year increased by 272% to Z$200.2 trillion, compared to Z$73.5 trillion registered in 2004.

32.4.2 ZETSS transactions increased from Z$24.2 trillion in January, 2005 to Z$50.2 trillion in June, 2005 peaking at Z$131.3 trillion in December, 2005. Overall, the value of transactions processed through ZETSS increased by 309% from $178 trillion recorded in 2004 to $728 trillion in 2005.

32.4.3 ZETSS percentage utilization averaged 78% for the greater part of the year, an improvement from the 71% utilization recorded in 2004.

Figure 30: Clearing House Cheques and ZETSS Transactions for the period Jan- Dec 2005



Source: Reserve Bank of Zimbabwe

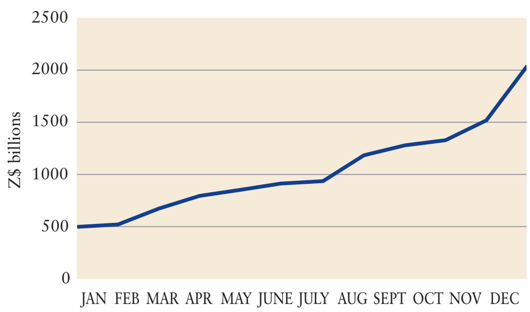
32.5 **Card Payment Stream Activity**

32.5.1 Although Zimbabwean consumers are notably heavy users of cash, information from the financial sector revealed that in value terms, there was a significant growth in card usage during the period under review. Total value of card based transactions in 2005 was Z$12.5 trillion, an increase of 212.5% from Z$4.01 trillion recorded in 2004.

32.5.2 Of the Z$12.5 trillion, transactions processed through Automated Teller Machines (ATMs) amounted to Z$10.6 trillion with the remaining Z$1.9 trillion being processed through Point of Sale (POS) machines.

32.5.3 The Central Bank, in collaboration with the banking industry, continued with efforts aimed at encouraging the use of electronic means of payment, in particular ZETSS and POS machines.

Figure 31: Card Payment Activity in 2005



Source: Reserve Bank of Zimbabwe

32.6 Payment Systems Projects

32.6.1 Electronic Financial Surveillance (EFS)

13.6.1.1 In response to the ever increasing pressures on compliance issues and international standards in the fight against money laundering and the financing of illegal and suspicious activities, the Reserve Bank introduced the Electronic Financial Surveillance (EFS) system on the 2nd of November, 2005. Apart from increasing the Central Bank's capacity to monitor money flows within the financial system, this system brings Zimbabwe a step closer in meeting compliance issues which are no longer optional.

32.7 Central Securities Depository (CSD) system

32.7.1 As part of the ongoing efforts to support financial market activities through robust and efficient infrastructures, the Reserve Bank made a decision in July, 2005 to implement a Central Securities Depository (CSD) system for Government securities. The project successfully went through various implementation stages in 2005 and is expected to go live during the first quarter of 2006.

32.7.2 The CSD system will be interfaced with the ZETSS system, to facilitate better management of credit facilities in the ZETSS system and achievement of Delivery versus Payment (DvP). The latter ensures unconditional delivery of securities against simultaneous irrevocable transfer of payment.

32.8 Collaborative Efforts with the Zimbabwe Stock Exchange

32.8.1 In order to ensure that modernization efforts by the Zimbabwe Stock Exchange (ZSE) fit into the overall national payment systems reform strategy and are in line with international best practice, the Reserve Bank continued to maintain dialogue with ZSE. The Reserve Bank remains committed to working with the ZSE in their reform initiatives.

32.9 Straight Through Processing (STP)

32.9.1 The STP Forum was established as a joint initiative with the banking industry to spearhead discussions on the implementation of STP within the industry. Implementation of STP will facilitate end to end processing of transactions with minimal human intervention. The Forum's major focus during the year under review was on standardization issues which form the basis on which successful STP can be built.

32.10 Automated Clearing House

32.10.1 The Reserve Bank also initiated banking industry discussions on the setting up of an automated clearing house (ACH) which would help enhance efficiency in the cheque clearing system currently characterized by manual and paper based processes.

32.11 Government Tax Collections

32.11.1 In order to facilitate efficient collection of tax revenue for Government using the ZETSS platform (through financial institutions), the Zimbabwe Revenue Authority (ZIMRA) initiated a project which the Reserve Bank fully supported to ensure timely collection and realization of revenue due to Government. This initiative involves the extraction of all tax payment information from the ZETSS system during the day and the compacting of the same into an electronic file that is then sent to ZIMRA at the end of the day. The project is expected to be launched during the first quarter of 2006.

32.12 New Payment Systems Initiatives

32.12.1 The Reserve Bank continued to provide guidance on new payment systems proposals presented by private sector entities for consideration. The Central Bank has an interest in ensuring that such initiatives are properly coordinated and that they do not introduce unnecessary risk to the overall payment system.

32.13 Regional and International Developments in Payment Systems

32.13.1 Southern African Development Community (SADC) Payment Systems Project

32.13.1.1 Active participation in the Southern African Development Community (SADC) Payment Systems Project was maintained throughout the year. The main focus of the project was on the Financial Sector Assessment Program (FSAP) self evaluation initiative. This was designed to ensure that SADC countries assist each other in evaluating the quality of their payment systems in preparation for possible evaluation by payment systems experts from international bodies like the International Monetary Fund (IMF) and World Bank.

32.13.1.2 The exercise is meant to assess SADC member countries' payment systems observance by the Bank for International Settlement (BIS) Core Principles for Systemically Important Payment Systems which have become generally accepted as the guiding standards upon on which payment systems are designed.

32.13.1.3 The output of the self evaluation exercise will provide input to a consolidated regional report for the IMF/World Bank on the status of the payment systems in the SADC region.

Dr C L Dhliwayo
Deputy Governor

33 BANKING SUPERVISION

33.1 Overview Of The Banking Sector

33.1.1 The bank under review sector witnessed relative calm during the year and remains generally safe and sound. This followed bold and decisive measures instituted by the Reserve Bank underpinned by the adoption of international supervisory best practices, and enforcement of sound risk management and corporate governance practices.

33.1.2 Determined efforts by the Reserve Bank to promote a stable financial system yielded positive results vis-à-vis financial stability. Stringent supervision also enhanced the standard of market discipline in the banking sector.

33.1.3 The Reserve Bank continued to apply various supervisory enforcement actions to address irregularities and challenges in the financial sector. The severity of irregularities and/or challenges, as well as the level of commitment by the shareholders of the affected institution, determined the type of supervisory enforcement action that was applied.

33.1.4 The various strategies that were adopted which were aimed at providing a holistic and lasting solution to troubled banking institutions, are now bearing fruit. In some instances, the Reserve Bank was supportive of market initiatives aimed at resuscitating institutions that were placed under curatorship in 2004. This was epitomized by the commencement of full scale operations at three (3) banking institutions namely, Intermarket Building Society, Intermarket Banking Corporation Limited, and Intermarket Discount House Limited, following the successful implementation of rehabilitation strategies.

33.1.5 In pursuance of its core mandate of maintaining financial stability, the Reserve Bank also took prompt and appropriate supervisory action on asset management companies that were indulging in non-permissible and illegal activities. Consequently a total of twelve (12) asset management licences were cancelled during 2005.

33.2 **Performance of the Banking Sector**

33.2.1 **Balance Sheet Structure**

33.2.1.1 As at 31 December, 2005, the aggregated balance sheet of the banking sector in Zimbabwe was at \$102.93 trillion, compared to \$19.86 trillion as at 31 December, 2004 and \$6 trillion as at 31 December, 2003. This represents a nominal growth of 420% over year 2005, compared to 389% asset size growth recorded in 2004.

33.2.1.2 On-balance sheet assets accounted for 92% of total assets, which was a marginal increase from 89% in 2004 and 90% in 2003.

33.2.1.3 The increase in total assets during 2005 was largely due to inflationary pressures and growth in assets of commercial banks which was influenced by concessionary funds advanced under the Agricultural Sector Productivity Enhancement Facility.

33.2.1.4 The aggregate deposits in the banking sector surged to \$52.97 trillion in 2005 from \$8.27 trillion in 2004 and \$5.30 trillion in 2003. This was largely due to growth in domestic public deposits, which remained the primary source of funding.

33.2.2 **Capital Adequacy**

33.2.2.1 During the year under review, Zimbabwean banks remained adequately capitalised. Although the average capital adequacy ratio for the sector decreased from 54.18% at the end of December, 2004, to 25.05% during the year ended December 2005, it remained above the statutorily required level of 10%.

33.2.2.2 The decline in the average capital adequacy ratio in 2005 was mainly attributed to the introduction of the regulatory capital charge for market and operational risks inherent in banks' operations.

33.2.3 **Asset Quality**

33.2.3.1 The asset quality of the banking sector improved in 2005, as reflected by the decline in the ratio of adversely classified loans to total loans ratio from 18.52% in December, 2004 to 8.52% in December, 2005.

33.2.3.2 The improvement in asset quality is attributable to the concessionary interest rates for productive sector facilities which had a potentially greater positive impact on borrowers' viability and therefore loan repayment capacity, as well as a general improvement in banks' credit risk management practices.

33.2.3.3 Investments and securities were the largest portion of earning assets in 2005, reflecting a shift from the traditional loans and advances. Although banking institutions attributed this development to the adverse macroeconomic environment characterized by high inflation and interest rates, the disintermediation tendencies had a negative impact on economic growth and development.

33.2.4 **Profitability**

33.2.4.1 The banking sector's earnings performance improved marginally over the year under review as evidenced by an increase in return on assets from 8.1% to 8.9%. The improvement was largely a result of income from investments and securities, generated mainly in the third quarter of 2005. Most banks invested in high yielding short-dated government securities.

33.2.4.2 Banks maintained cost containment measures as reflected by the cost to income ratio of 58.8% as at 31 December, 2005, compared to 59.4% for the year ended December, 2004.

33.2.4.3 Average net interest margin declined from 33.3% in 2004 to 18.8% as at 31 December, 2005. The decline is largely attributable to reduced interest rate spreads due to concessionary productive sector funding.

33.3 **Performance of the Asset Management Sector**

33.3.1 **Funds Under Management**

33.3.1.1 Total funds under management for the sector increased by 1 375% from $5.14 trillion as at 31 December, 2004 to $75.8 trillion as at 31 December, 2005. The registration and continued supervision of the sector by The Reserve Bank resulted in clients' renewed confidence in the sector.

33.3.1.2 The increase in funds under management was partly attributed to share price increases on the Zimbabwe Stock Exchange which resulted in inflated values of equity investments.

33.3.1.3 The bulk of the funds were invested in equities which accounted for 90% of total funds under management.

33.3.2 **Capital**

33.3.2.1 The sector's average net capital base increased by 559% from $2.38 billion as at 31 December, 2004 to $15.68 billion as at 31 December, 2005, on the back of increased retained earnings and the new minimum capital requirement of $10 billion effective from 31 March, 2006.

33.3.3 **Earnings**

33.3.3.1 The sector recorded a total income of $538.47 billion for the year ended 31 December, 2005, representing a 380% nominal increase from the prior year's total income of $112.2 billion.

33.3.3.2 The increase in total income emanated from increased business volumes as reflected by the upward trend in funds under management.

34 **DEVELOPMENTS IN THE BANKING SECTOR**

a) Licensing Activities

34.1 **Banking Institutions…**

34.1.1 The challenging macroeconomic and business environment that obtained during the year under review, and the continuous review of the minimum capital requirements for banking institutions resulted in less appetite for banking licenses. There were no new licenses issued in 2005, while existing institutions concentrated on consolidating their operations in response to the rising cost of doing business. A number of institutions in group structures merged operations through divisionalisation of some business lines.

34.2 Asset Management Companies…

34.2.1 In 2005, the Reserve Bank developed and applied an enhanced license renewal framework for asset management companies. All asset management licenses which had been issued in 2004 were expiring in 2005. As at 31 December, 2005, seventeen (17) asset management companies had been issued with perpetual licenses while a few applications were still under consideration.

34.3 Microfinance and Money lending Institutions…

34.3.1 A cumulative total of 291 new applications for licensing were received by 31 December, 2005. Two hundred and thirteen (213) licenses were issued. Thirty six (36) applications were withdrawn or rejected, while the remaining applications were at various stages of the licensing process.

34.3.2 In addition to the new applications, 31 applications were received by 31 December, 2005, for the renewal of moneylender's licenses that had been issued in 2004, and of these, eight renewal licenses were issued.

34.4 Review of Minimum Capital Requirements

34.4.1 In order to promote financial stability and enhance public confidence in the banking sector against the background of financial challenges in 2003/2004, the Reserve Bank reviewed minimum capital requirements for banking institutions and asset management companies. The adjustments were made in the Monetary Policy Review Statement of July, 2005. Further adjustments were made and announced in the 2005 4th Quarter Monetary Policy Review Statement of January, 2006, for implementation in September, 2006.

34.4.2 A survey of comparative minimum capital requirements in the region, carried out in July 2005, indicated that minimum capital requirements in Zimbabwe were in real terms, below regional and international levels. In this regard, the capital requirements for banking institutions and asset management companies were increased as follows:

Table 8: New Minimum Capital Requirements

SECTOR	NEW MINIMUM CAPITAL With effect from 30 September, 2006
Commercial banks	Z$1 trillion
Merchant banks	Z$750 billion
Finance Houses	Z$750 billion
Building Societies	Z$750 billion
Discount Houses	Z$500 billion
Asset Management Cos.	Z$100 billion

Source: Reserve Bank of Zimbabwe.

34.4.3 The Reserve Bank will continue to monitor the minimum capital requirements in order to ensure that, in real terms, the levels do not fall below USD 10 million for commercial banks, USD 7,5 million for merchant banks, finance houses and building societies, USD 5 million for discount houses and USD 1 million for asset management companies.

34.4.4 As at 31 December, 2005, twenty-five (25) out of thirty-two (32) banking institutions were already complying with the new minimum capital requirements. Nine (9) asset management companies had capitalised to the then new minimum capital requirement of $10 billion whilst the remainder had proffered acceptable recapitalization plans.

b) Development of the Microfinance Sector

34.4.5 Microfinance is often defined as the provision of financial services, savings and small loans that are repaid within short periods of time, to low income households and the entrepreneurial poor.

34.4.6 There is an increasing realization throughout the world of the importance of microfinance as a component of the overall financial system, providing crucial services to those communities lacking access to the formal financial sector, and playing a facilitating role in sustainable economic development.

34.4.7 The Reserve Bank, together with other microfinance stakeholders, constituted a National Task Force on Microfinance in August, 2005.

34.4.8 The main mandate of the National Taskforce is to spearhead the development of an appropriate legal and supervisory framework for the microfinance sector in Zimbabwe, which embraces an acceptable interest rate regime and consumer protection policy, and ensures sustainability and viability, without stifling innovation.

34.4.9 This holistic approach towards the development of a robust and sustainable microfinance industry was prompted by the inadequate, outdated and fragmented legislation, exploitative interest rates, and inadequate consumer protection characterizing the sector.

34.5 **The Microfinance Survey….**

34.5.1 In order to facilitate the drafting of a policy that is entrenched in current and relevant information, the National Task Force commissioned a survey of the microfinance sector. The finalized survey report is expected within the first quarter of 2006.

34.5.2 Stakeholders of the microfinance industry envisage the formulation of a National Policy on Microfinance and the drafting of the regulatory and supervisory framework for the sector by the end of 2006.

c) Credit Reference Bureau

34.5.3 Pursuant to the announcement made in the Monetary Policy Review Statement of 21st July, 2005, considerable progress was made towards the establishment of a credit reference bureau.

34.5.4 Preliminary consultative meetings were held with associations of banking institutions, as well as with privately owned credit reference bureaux.

34.5.5 Once an enabling legal framework has been finalized, the Reserve Bank will, in conjunction with the financial sector, establish the Credit Reference Bureau in 2006.

34.5.6 The establishment of the Credit Reference Bureau is expected to facilitate financial deepening, market expansion and enhanced credit risk management in the financial sector.

d) Basel II Implementation

34.5.7 The Reserve Bank is implementing the revised framework for the International Convergence of Capital Measurement and Capital Standards, popularly known as Basel II.

34.5.8 An implementation framework was developed which covers, among other issues, the following:

i) Minimum capital requirements for credit, operational and market risks;
ii) Minimum qualifying conditions for the use of Basel II advanced approaches;
iii) Outline of issues of national discretion; and
iv) Target dates of the implementation of the identifiable phases.

34.5.9 In order to ensure a smooth transition from the current capital measurement approaches to the new methodologies under Basel II, the Reserve Bank will continue to engage the financial sector on the road map to successful implementation.

34.6 **Enhanced Supervisory Process**

34.6.1 **Risk-Based Supervision**

34.6.1.1 In order to facilitate the effective evaluation of the safety and soundness of banks, the Reserve Bank continued to refine the risk-based supervision (RBS) framework.

34.6.1.2 A number of workshops on the risk-based supervision approach were conducted for Bank Licensing, Supervision and Surveillance staff in 2005.

34.6.1.3 Going forward, all examinations will be risk-based.

34.6.1.4 The implementation of the risk-focused supervisory framework presents notable benefits to the supervisory authorities, as well as the supervised entities. The benefits include higher quality examinations, increased efficiency, and reduced on-site examination time. The supervised entities on the other hand, derive value from the incisive risk-based supervision reports and recommendations.

34.6.2 **Prompt Corrective Action Framework**

34.6.2.1 The Reserve Bank put in place a programme for prompt corrective action (PCA) which will be initiated for all banks which exhibit financial or operational weaknesses, unsafe and unsound practices, non-compliance with applicable laws and regulations, or lack of adherence to prudent standards of operation.

34.6.2.2 The system of taking PCA, which is based on prestructured early intervention, will be used as part of efforts to enhance the supervisory regime in Zimbabwe. This will be introduced as a rule based addition to existing supervisory measures.

34.6.2.3 PCAs will be tailored to the severity of inherent weaknesses. In general, the least restrictive / least punitive regulatory response which is still sufficient to produce the desired results, will be pursued.

34.6.3 **Stress Testing and Early Warning Systems**

34.6.3.1 The Reserve Bank developed early warning systems and other monitoring tools for early identification of challenges in financial institutions. These included working on stress test models that encompass risk factors such as interest rate, exchange rate, credit, liquidity, and operational risk shocks.

34.6.3.2 The major objective is to assess the impact of shocks on a bank's earnings (income effect) and (ii) capital (economic value of equity effect.)

34.6.3.3 To that end, the Reserve Bank adopted and appropriately modified the IMF's Scenario Analysis Model which is based on asset quality, foreign exchange rate, credit, liquidity and operational rate shocks.

34.6.4 **Risk Management Survey and Guidelines**

34.6.4.1 In line with international best practice in financial sector supervision, the Reserve Bank is increasingly placing greater reliance on sound risk management systems in financial institutions. Accordingly, financial institutions are expected to establish robust control systems and to enhance their capacity to adequately identify, measure, control and mitigate all material risks.

34.6.4.2 The Reserve Bank undertook a survey of the risk management systems in the financial sector between August and September, 2005. The aim of the study was to assess the adequacy of banking institutions risk management practices.

34.6.4.3 Although banking institutions risk management systems were considered to be generally adequate, a number of deficiencies were noted in some institutions including the following:

i) The absence of clearly defined non-credit risk management policies; and
ii) Inadequately resourced risk management functions, including the absence of specific budgetary allocations to fund risk management activities.

34.6.4.4 Following up on these findings, the Reserve Bank is working on comprehensive risk management guidelines which will be issued to the financial sector in 2006.

34.6.5 **External Credit Ratings**

34.6.5.1 In the Monetary Policy Review Statement of April, 2004, the Reserve Bank announced that, with effect from January, 2005, all banking institutions would be subject to compulsory ratings by internationally recognized rating agencies.

34.6.5.2 The new requirements were meant to improve transparency, enhance disclosure and strengthen market discipline in the financial sector.

34.6.5.3 As at 31 December, 2005, the majority of banking institutions had been rated. Ratings for a few institutions were still to be finalized. In some instances the delay in obtaining ratings has been attributed to the fact that to date, only one credit rating institution has been accredited to conduct credit ratings assessment of banking institutions.

35 CORPORATE GOVERNANCE & COMPLIANCE

35.1 During the year 2005, the Reserve Bank continued to focus on enhancing and enforcing sound corporate governance practices within the financial sector. Sound corporate governance contributes to market discipline, financial sector stability and economic growth.

35.2 Increased Scrutiny...

35.2.1 In line with global trends, the Reserve Bank continued to put in place mechanisms to ensure that both legislative and self-regulatory corporate governance requirements were implemented and observed.

35.2.2 This included increased scrutiny of the integrity and oversight function of management, increased scrutiny over Board composition and independence, Board oversight and effective use of control functions such as compliance, internal and external audit functions, and a requirement for higher levels of disclosure and transparency.

35.3 Fit and Proper Person Assessments...

35.3.1 The Reserve Bank introduced an enhanced vetting criteria focusing on the fitness and probity of those entrusted to run our banking institutions. This ensures that banking institutions are run by competent people of impeccable integrity that investors and the general public can trust.

35.4 Board and Director Evaluations. . . .

35.4.1 In order to promote effective Board oversight, and as a follow up to the Corporate Governance Guideline No. 01/2004 BSD which was circulated to the market in September, 2004, a Framework on Board and Director Evaluations was circulated to the market in February, 2005.

35.4.2 Despite the initial negative sentiments by some market players, largely relating to the length of the framework, the exercise proved to be very useful in promoting Board effectiveness on an ongoing basis.

35.4.3 A few institutions were unable to meet the 14 March, 2005 deadline for the submission of the Board and Director evaluations. In all cases, ,acceptable justifications were given. Going forward, we envisage 100% market compliance for the 2005/6 evaluations.

35.5 Corporate Governance Irregularities. . .

35.5.1 The number of banking institutions with outstanding management and shareholder irregularities remained low.

35.5.2 Irregularities pertaining to corporate governance observed included improper Board compositions, failure to appoint substantive principal officers, failure to balance the proportion of independent to non independent Directors as per the regulatory requirements, and directorships in other companies in excess of the regulatory maximum of seven.

35.6 **Compliance Irregularities. . . .**

35.6.1 The Reserve Bank continued to monitor compliance with the various statutes that fall under its purview, in line with the culture of strict compliance.

35.6.2 Of note, the introduction of the Tradable Foreign Exchange Balances System in October, 2005 saw a marked increase in foreign currency denominated exposures held by some banking institutions relative to their capital bases. As a result, some banking institutions found themselves in violation of Part V of the Third Schedule to the Banking Regulations [Statutory Instrument 205 of 2000], pertaining to foreign currency exposure limits. Banking institutions are required to continuously monitor their capital adequacy requirements and ensure that they assume risks, regardless of the nature and source of the risks, which are adequately covered by their levels of capitalization.

35.6.3 Asset managers found to be engaging in non-permissible activities in contravention of the Asset Management Act [Chapter 24:26] had their licenses cancelled, or were issued with corrective orders depending on the specific circumstances.

36 EXCHANGE CONTROL OPERATIONS

36.1 Administration of Exports

36.1.1 In 2005, Exchange Control Exports Division processed Forms CD1 for export shipments amounting to US$1,4 billion. This amount was for shipments under contracts of sale only.

36.1.2 Export shipments performance by sector were as follows: - Agriculture including horticulture and tobacco crops - US$514 million (US$680 in 2004) Manufacturing (including hunting trophies and curios) – US$278 million (US$327 million in 2004) and Mining – US$635 million (US$525 million in 2004).

36.1.3 Forms CD1 acquittals totaled US$1.35 billion, while non acquittals amounted to US$50 million. In 2004, Forms CD1 acquittals totaled US$1.2 billion, while non acquittals amounted to US$194.9 million.

36.1.4 Some of the reasons for non acquittals of Forms CD1 were: -

i) Bad debts;
ii) Contracts under litigation; and
iii) Offsetting of export proceeds against imports without prior Exchange Control approval.

36.1.5 Performance of other sectors of the economy was as follows: Tourism (consumptive – hunting), US$17 million, (US$37.4 million in 2004); Tourism (non consumptive), US$28 million, (US$22.9 million in 2004); Transport, US$45 million, (US$43.8 million in 2004) and Post and Telecommunication, US$5.8 million plus SDR 2.7 million.

36.1.6 In 2005, the Carrot and Stick Framework was consolidated such that exporters who had prepayment arrangements with their consignees were allowed to retain 80% of the export proceeds in their Foreign Currency Accounts (FCAs) and sold the remaining 20% at the ruling Auction rate or at the Diaspora Floor Price of Z$ 6200 / US$ whichever was higher. Those who repatriated export proceeds within 1-30 days retained 75% in their FCAs and sold the remaining 25% to the Auction at the ruling auction rate or the Diaspora Floor price whichever was higher. Those exporters who repatriated export proceeds within 31 – 90 days retained 70% of the proceeds in their FCAs and sold 30% to the Auction.

36.1.7 Exporters who repatriated their export proceeds beyond 90 days without prior Exchange Control approval, sold 75% of the proceeds to the Auction at the auction rate and 25% at Z$824/US$.

36.1.8 The Tobacco Support price was increased from Z$750/Kg to Z$2 000/Kg.

36.1.9 A 15% Foreign Currency Retention Scheme (Pooled FCA) for tobacco growers for the purpose of importing inputs was put in place.

36.1.10 In order to fully account for all foreign currency receipts generated by the Post and Telecommunication Sector, a Form PTS1 was introduced.

36.2 Applications for Payments

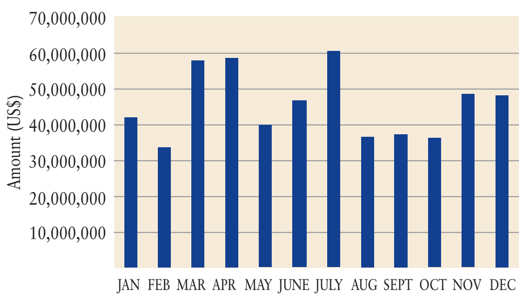
36.2.1 Exchange Control Foreign Payments Section (now Import Facilitation Validation & Administration Division) continued to process all foreign exchange applications for payment in terms of the priority list introduced through directive RD346 of November, 2002. The directive was issued to the market after the Minister of Finance had highlighted in his Budget Statement an urgent need to come up with an allocative mechanism to direct the scarce foreign currency resources towards the productive sectors.

36.2.2 Under this directive, in 2005, Exchange Control processed and approved foreign currency payments amounting to US$2.7 billion, representing a 17% increase from 2004. These payments were prioritized as follows:

i)	Category A –	US$544.2 million	(20.2%)
ii)	Category B –	US$1.9 billion	(69.7%)
iii)	Category C –	US$7.7 million	(0.2%)
iv)	Category D –	US$261.8 million	(9.7%)

36.2.3 Although there was a general increase in approved payments, Foreign Currency Account (FCA) (Category A) payments dropped by 4% US$568.2 million in 2004 to US$544.2 million in 2005. This was attributed to a decline in exports and a rise in outstanding forms CD1 or liquidation of exporters' retention.

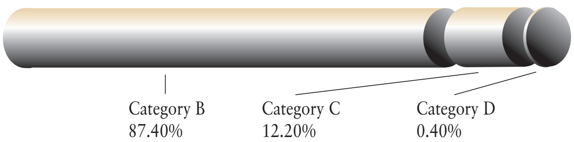
Figure 32: FCA Payments for the year 2005



Source: Reserve Bank of Zimbabwe

36.2.4 An analysis of approved Auction/Interbank payments shows that allocative efficiency was achieved as indicated in the pie chart below. Category B payments which are meant for non-exporters' productive activities with a statutory limit of 60% in the priority list, accounted for 87% of the total market funds. Only 13% was allocated to categories C & D meant for service related expenses for productive activities and individuals' non-essentials respectively, which is below the statutory limit of 40%.

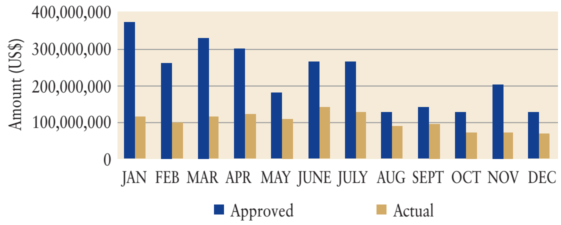
Figure 33: Approved Market/ Auction Payments for 2005



Source: Reserve Bank of Zimbabwe

36.2.5 Although there was efficiency in the allocation of market/auction funds, category B, C and D payments which were supposed to be funded from the Market amounting to US$2.1 billion only managed to get US$670.5 million of which US$622.8 million was allocated from the Auction before introduction of the TFCBS on 21st of October, 2005 whilst payments amounting to US$47.7 million were funded from the Interbank Market in October, November and December, 2005. Figure 34 below shows approved market payments against actual payments made.

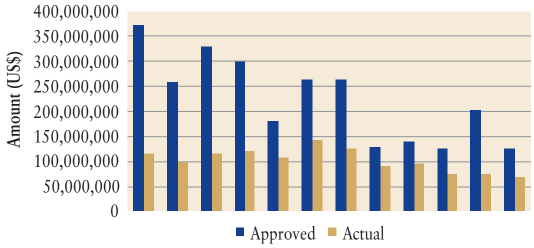
Figure 34: Market/ Auction Payments for 2005



Source: Reserve Bank of Zimbabwe

36.2.6 Comparison between approved payments and actual payments (both from FCAs, Auction and Interbank Market) showed that the country continued to face foreign currency shortages as evidenced by the failure to meet importers' demand as shown in Figure 35 below. Total approvals amounted to US$2.7 billion whilst actual payments amounted to US$1.2 billion. This means that 55% of the approved payments were not paid for.

Figure 35: Approved Payments vs Actual Payments (FCA & Market) for 2005



Source: Reserve Bank of Zimbabwe

36.3 Import Demand Structure

36.3.1 An analysis of imports in terms of composition showed that in 2005, consumption goods accounted for 44% of total approvals compared with 42% in 2004. Capital goods imported however, declined to 15% of total approvals compared to 20% in 2004. A summary of import demand is given in table 9.

Table 9: Import Demand Based on Exchange Control Approvals

Category	% of Total 2004	% of Total 2005
Consumption Goods	42%	44%
o/w Fuel	17%	3%
Raw Materials	38%	41%
Capital Goods	20%	15%
Total Demand	100%	100%

Source: Reserve Bank of Zimbabwe

36.3.2 The increased demand for consumption goods coupled with a decline in imported capital goods may be attributed to the fact that industry is operating below capacity and is not producing enough consumption goods to meet local demand.

36.3.3 This is a cause for concern as it shows that the nation, instead of importing capital equipment and raw materials with the view of boosting local production and possibly generating more foreign currency, is heavily relying on goods of a consumptive nature which do not contribute to production and exports.

36.3.4 In year 2005, the country thus continued to face acute foreign currency shortages against a background of increasing demand for imported raw materials, capital equipment, services and finished products.

36.3.5 In light of the persistent nature of these shortages, a number of policy changes were made in order to

Table 10: Summary of Inflows (US$m) 2005

Source of Foreign Currency	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	Cum 1 Jan 05 to 31 Dec 05	Share in Total (%)
Export Proceeds	250.0	283.6	245.0	259.0	1 037.7	60.9
Loan Proceeds	4.2	48.9	72.4	29.7	155.2	9.1
Market Purchases	5.3	3.5	4.1	2.3	15.3	0.9
Free Funds	38.7	63.1	65.6	88.9	256.2	15.0
Homelink/MTAs	6.1	2.5	1.8	1.7	12.1	0.7
Fuel Coupons	0	0	0.2	0.4	0.6	0.0
Income Receipts	3.2	4.9	4.0	4.1	16.1	0.9
Capital Investments	1.6	2.2	0.9	1.4	6.1	0.4
Gold Receipts	68.4	48.1	43.3	43.8	203.7	12.0
Total	377.7	456.7	437.3	431.2	1 702.9	100.0

Source: Reserve Bank of Zimbabwe

Table 11: Treatment of Receipts (US$m) 2005

Application of Foreign Currency	1st Quarter 2005	2nd Quarter 2005	3rd Quarter 2005	4th Quarter 2005	Cum 1 Jan 05 to 31 Dec 05	Share in Total (%)
Allocated to Gvt/RBZ	5.4	1.7	0.0	0.0	7.1	0.4
Allocated to Auction	71.9	114.4	122.5	86.6	395.4	23.2
Exporters' FCA Retention	151.4	137.5	87.4	117.2	493.5	29.0
100% Tobacco Draw downs	0.0	29.4	40.1	0.1	69.6	4.1
Held in Suspense	0.0	0.0	0.0	0.6	0.6	0.0
100% to EPZ	9.3	15.8	17.2	13.1	55.4	3.3
Offshore Loan Repayment	2.3	6.5	4.9	13.7	27.3	1.6
100% to Gold Producers	5.4	7.0	9.4	11.0	32.8	1.9
Other Loan Draw downs	4.2	13.0	24.4	29.6	71.2	4.2
100% to Individuals, NGOs,	38.7	63.1	65.6	88.9	256.2	15.0
Exemptions	0.0	0.0	0.2	0.0	0.2	0.0
Other	14.5	17.8	20.4	24.6	77.3	4.5
Homelink	6.1	2.5	1.8	1.7	12.1	0.7
Fuel Coupons	0.0	0.0	0.2	0.4	0.6	0.0
Gold (Financial Markets)	68.4	48.1	43.3	43.8	203.7	12.0
Total	377.7	456.7	437.3	431.2	1 702.9	100.0

Source: Reserve Bank of Zimbabwe

Table 12: Summary of Inflows (US$m) 2004

Source of Foreign Currency	1st Quarter 2004	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	Cum 1 Jan 05 to 31 Dec 05	Share in Total (%)
Export Proceeds	200.7	292.4	302.2	296.3	1 091.6	64.0
Loan Proceeds	1.1	20.8	25.0	10.9	57.8	3.4
Market Purchases	26.4	23.6	16.3	8.4	74.8	4.4
Free Funds	26.2	34.6	40.9	45.5	147.3	8.6
Homelink/MTAs	0.0	16.3	18.4	11.6	46.3	2.7
Fuel Coupons	0.0	0.0	0.0	0.0	0.0	0.0
Income Receipts	1.7	3.8	2.3	2.5	10.3	0.6
Capital Investments	0.1	0.2	1.6	2.8	4.7	0.3
Gold Receipts	67.9	73.3	69.2	63.4	273.8	16.0
Total	324.1	465.1	476.0	441.4	1 706.6	100.0

Source: Reserve Bank of Zimbabwe

Table 13: Treatment of Receipts (US$m) 2004

Application of Foreign Currency	1st Quarter 2004	2nd Quarter 2004	3rd Quarter 2004	4th Quarter 2004	Cum 1 Jan 05 to 31 Dec 05	Share in Total (%)
Allocated to Gvt/RBZ	40.9	40.0	19.4	12.4	112.7	6.6
Allocated to Auction	71.3	97.3	123.5	92.9	385.0	22.6
Exporters' FCA Retention	85.8	149.3	158.1	176.5	569.7	33.4
100% Tobacco Draw downs	0.6	3.5	0.0	0.0	4.1	0.2
Held in Suspense	6.1	1.7	0.5	0.0	8.2	0.5
100% to EPZ	5.3	20.4	9.1	8.1	42.9	2.5
Offshore Loan Repayment	8.5	0.4	0.8	0.7	10.4	0.6
100% to Gold Producers	2.4	5.1	5.9	5.2	18.6	1.1
Other Loan Draw downs	0.5	13.7	16.2	10.9	41.2	2.4
100% to Individuals, NGOs,	24.8	34.9	41.1	45.5	146.4	8.6
Exemptions	0.0	1.0	3.0	0.0	4.0	0.2
Other	10.0	8.3	10.8	14.3	43.3	2.5
Homelink Paid out in ZWD	0.0	8.2	11.0	11.6	30.8	1.8
Homelink Paid out in USD	0.0	8.1	7.4	0.0	15.5	0.9
Gold (Financial Markets)	67.9	73.3	69.2	63.4	273.8	16.0
Total	324.1	465.1	476.0	441.4	1 706.6	100.0

Source: Reserve Bank of Zimbabwe

ensure efficient allocation of the scarce foreign currency resources to productive and critical sectors of the economy.

36.4 Policy Developments

36.4.1 Exchange Control effected the following policy changes in the year under review:

i) Liberalization of Free Funds Administration

36.4.2 In order to allow free inflow of free funds, the Import Tracking Control System was suspended with effect from the 21st of July, 2005. Holders of free funds from offshore sources are now allowed to freely bring imports on a no questions asked basis.

ii) Sale of Fuel in Foreign Currency

36.4.3 On the 18th of August, following the Monetary Policy Statement of 20 July, 2005, designated service stations were allowed to sell fuel in foreign currency to individuals with free funds as well as corporates with FCAs.

iii) Validation of Import Payments

36.4.4 In order to ensure that the country realizes true and fair economic value for its payments and mitigates externalization of foreign currency, monetary authorities assumed the responsibility of carrying out rigorous ex-ante and ex-post validation of imports through physical visits to companies and ensuring the discharge of import documents. These measures are set to start on 16 January, 2006.

36.5 Exchange Control Surveillance

36.5.1 An Exchange Control Surveillance framework has been put in place to ensure compliance with Exchange Control policies.

36.5.2 During the year 2005, widespread inspections were carried out and certain violations were established. Corrective measures were taken, where possible.

36.6 Sources And Applications Of Funds

36.6.1 The twelve month period from January, 2005 to 31 December 2005 saw foreign exchange inflows into the formal market amounting to US$1 702 934 497, compared to a total of US$1 706 614 402 in 2004, representing a decline of 0.22%.

36.6.2 Loan receipts increased by 168.6% in 2005 as compared to 2004. This was mainly due to acute foreign currency shortages that resulted in corporates sourcing financing outside to satisfy their intermediate raw material importation demand. Financing was in the form of mostly direct loans resulting from company relationships for export financing.

37 HUMAN RESOURCES MANAGEMENT

37.1 The Reserve Bank had a busy year with the realignment of its overall structure to better realize its Vision, Mission and Values. In view of this, more emphasis was placed on recruitment and selection, skills development, occupational health and safety, and Labour Law/Labour Relations.

37.2 The realignment exercise saw the Reserve Bank losing some of its qualified staff, who were lured to other financial institutions. As a result, the Reserve Bank was involved in a concerted recruitment effort to fill vacancies created by the exodus through retrenchment and resignation.

37.3 In view of the above, the Reserve Bank continues to improve its skills base by selecting appropriate development programmes for its staff. The Reserve Bank believes this is a good source for staff multi-skilling.

37.4 As part of the ongoing efforts to ensure that the Reserve Bank adheres to Human Resources best practices, the Division adopted a consistent integrated framework and approach to manage its human resources. However, the Reserve Bank faced many challenges during the year under review. Skills development could not cope with the demand for new skills and competencies, as was expected.

The Reserve Bank, therefore, had to intensify its training programs to upgrade skills levels. An Annual Training Programme was put in place and staff attended local and regional training courses and conferences. At the same time, senior members of staff were also used as resource persons at regional training and development seminars.

37.5 The high inflation rate that characterized the past year was one aspect that adversely affected staff morale and motivation. Strategies to enhance staff morale against the background of worsening inflation continue to be reviewed to optimize productivity and performance.

37.6 The provision of primary health care, health education and counseling to staff saw attendances at work improving. A major reason for this was the high cost of medical services outside the Bank. Counseling was on the increase as some staff faced increased social and work related stress.

37.7 The Bank is updating its Labour Relations policies to comply with the provisions of the pending Labour Amendment Bill.

37.8 Towards the end of 2005, the Bank decided to establish an Academy of Economic Turnarounds, Research and Development Studies. Work to restructure St. Lucia Park for this purpose is still in progress.

39. INFORMATION TECHNOLOGY

39.1 During the year under review, the Reserve Bank embarked on various key strategies towards the economic turnaround for Zimbabwe. The strategies included wide, targeted consultations with national stakeholders. Notable consultations during the year were the outreach programmes in the provincial capitals and the Strategic Planning Seminar held in September, 2005.

39.2 One significant factor in most of the national and internal projects was the high content of Information Technology (IT) based solutions. This was in line with international trends of exploiting Information Systems and Emerging Technologies which are relevant to Emerging Markets and Business Operations.

39.3 The economic turnaround agenda was always dynamic and flexible, thus placing a great demand on the IT Function to be responsive and ready to promptly deliver the required solutions for both the Reserve Bank, the Financial Sector, Government, and other key stakeholders such as the Zimbabwe Revenue Authority (ZIMRA) and National Economic Conduct Inspectorate (NECI).

39.4 In turn, a number of both local and international IT Service Providers had to be mobilized to deliver critical support services. These included, telecommunications in the form of international gateways, data networks and internet services, plus hardware and software solutions.

39.5 **Core Deliverables for Iformation Technology**
In all situations, the IT initiatives had to comply with, and add value to the business operations and expectations as well as be identified within the Five Core Deliverables of the IT Function.

These are :-

i. Provision of Business Applications and Solutions used for the processing of the Reserve Bank's transactions and the country's National Payment Systems
ii. Provision of a nationwide, robust and speedy communication network used by all branches and regional offices of the Reserve Bank as well as participants in the financial sector
iii. Security systems to secure the Reserve Bank's information and physical assets
iv. Provision of Disaster Recovery Systems (DRS)
v. Availability of Business Continuity and Contingency arrangements to ensure minimum disruption to the Reserve Bank's operations.

The major developments during the year can best be described within two main categories, namely; Economic Support and Internal Support systems.

39.6 **Economic Support Systems**
The main stakeholders in the economic group were the financial sector, importers, exporters and the diaspora.

39.7 **Banking Supervision Application (BSA)**
This is a regionally coordinated online system for automated returns from all supervised financial institutions. In Zimbabwe, the system was launched in September, 2004 and went live in March, 2005 for commercial banks and July, 2005 for asset management companies and microfinance

institutions. The system quickens the submission of returns in a secure and efficient process. Notable challenges include the internet speed which heavily relies on the available public data network capacities. Service providers in the relevant sectors were engaged to enhance the availability of service, capacity and speed of processing the anticipated volumes of data.

39.8 **Foreign Currency Application System**

Computerised Exchange Control Batch Application System (CEBAS)

The online system is used for processing and tracking applications for foreign currency by importers. The primary users are the Reserve Bank, Authorised Dealers, ZIMRA and NECI. During 2005, the system was integrated with the Auction System to allow for the seamless update of approved payments in the Auction System. The Import Tracking Control Number (ITCN) was also introduced to improve the monitoring and confirmation of appropriate use of allocated foreign currency at each port of entry. Plans are underway to provide direct Internet Services from the Bank in order to eliminate bottlenecks being experienced with commercial Internet Service Providers (ISPs).

39.9 **Export Payments System**

Computerised Export Payments Exchange Control System (CEPECS)

CEPECS is an online system that is applied to manage the life cycles and proceeds of exporters' forms CD1 forms. The system has been enhanced to incorporate bulk and consignment exports. The objective is to monitor flows of commodities from Zimbabwe when the goods are not shipped simultaneously, that is, over a period of time. The system will therefore cater for dispatchment of goods from Zimbabwe to an offshore warehouse. The system is also being upgraded to cater for Hunting and Transport Operators forms TR1, TR2 and CD3. As for the imports system, CEBAS, plans are underway to provide direct Internet Services from the Bank in order to eliminate bottlenecks being experienced with commercial ISPs.

39.10 Homelink Housing Development Scheme (HHDS)

An IT system was developed and implemented to process applications and manage local mortgages for Zimbabweans in the Diaspora. The system is internet-based and went live in April, 2005.

39.11 **Central Securities Depository (CSD)**

The Bank of International Settlements (BIS) defines a CSD as a facility for holding securities which enables securities transactions to be processed electronically by book entry.

39.12 In July, 2005, the IT Division in conjunction with relevant business units, embarked on a project to implement a new CSD system in Zimbabwe. The system will be used to administer Treasury Bills and Reserve Bank Financial Bills in place of the current stand alone book entry system. Participants will effect transactions from their premises via the SWIFT network which they are already using for realtime settlement transactions on Zimbabwe Electronic Transfer and Settlement System (ZETSS).

39.13 **ZIMRA e-Taxation**

The Reserve Bank and Zimra embarked on a project to provide an electronic direct banking system that enables Zimra clients to pay taxes through the banks. The initiative is in line with Zimra's continued efforts to enhance client services to levels and standards commensurate with modern business practice. The system is cost effective, eliminating the need for clients to visit Zimra offices for tax payments. Payments are effected via the ZETSS interbank settlement system where an interface with Zimra database systems has been developed. Once a payment has been confirmed in Zimra's bank account at the Reserve Bank, Zimra will dispatch a tax payment confirmation in the form of a receipt to the client.

39.14 **National Intervention Projects**

Within the economic turnaround agenda, there were a number of projects aimed at transforming local authorities, parastatals, the productive sector and agriculture. The IT division developed solutions for the financial management and business operations related to the projects. The main projects were :-

39.14.1 **Productive Sector Facility (PSF)**

39.14.2 Agricultural Sector Productivity Enhancement Facility (ASPEF)

39.14.3 Local Authorities Reorientation Program (LARP)

39.14.4 Parastatal Authorities Reorientation Program (PARP)

39.15 **Foreign Exchange Purchasing Centres (FEPCs)**

Four more FEPCs were opened during the year under review to increase the geographical spread of offices for purchasing the much needed foreign currency from the public.

These were :-

- Mutare City
- Forbes Border Post
- Nyamapanda and
- Kariba

39.16 **Internal Support Systems**

In support of the core business operations and in alignment with the business strategies, the following system developments were achieved during the year under review.

39.17 **Item Processing System Replacement**

The National Cash Register (NCR) cheque processing system which served the Reserve Bank well over the years had reached the end of its life cycle and was replaced by a state of the art Unisys system.

39.18 **Positive Pay**

The system enables archival and confirmation of the details of issued cheques to minimize the chances of honouring and paying out fraudulent cheques.

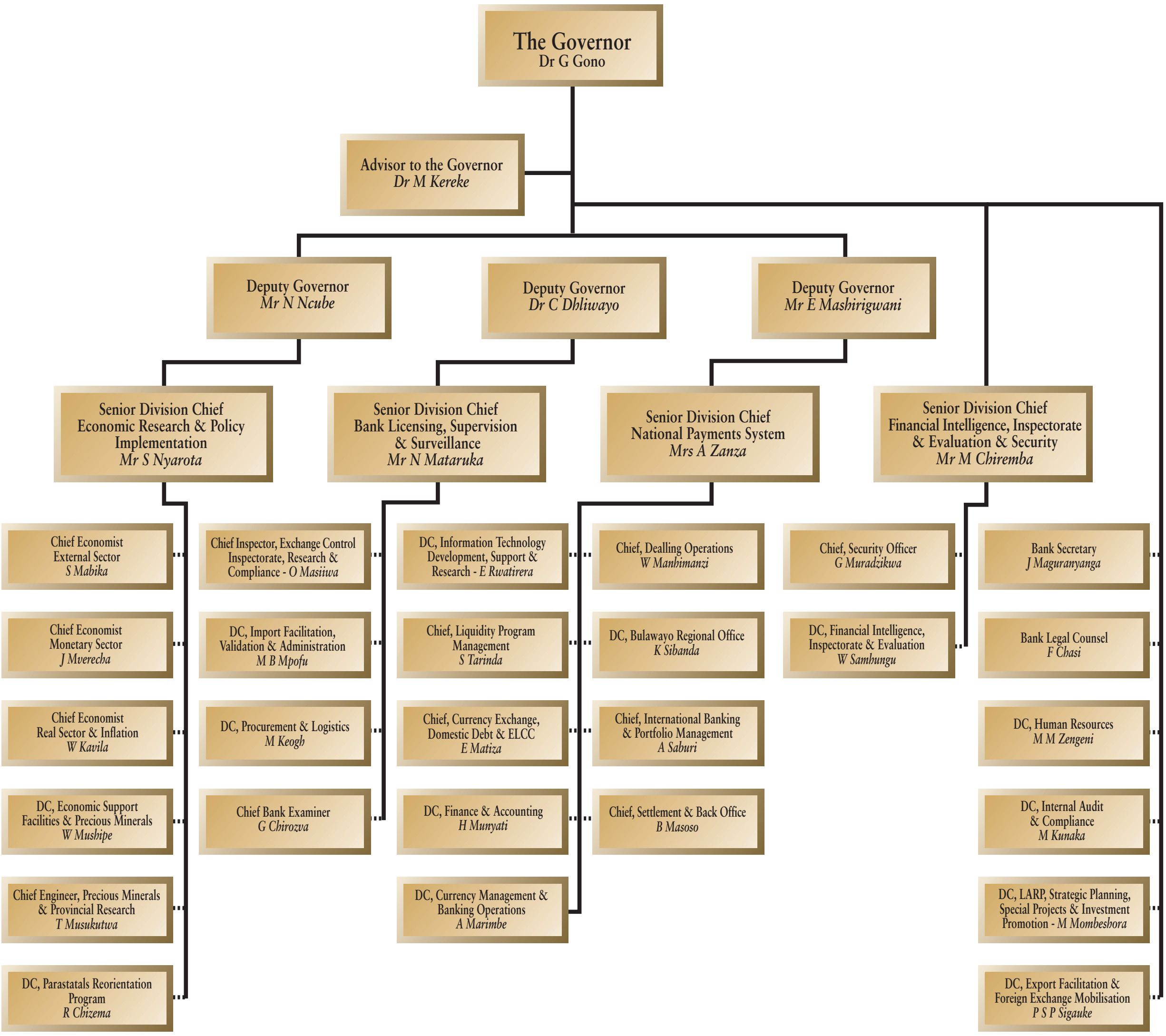
39.19 **Auditing Tools**

To enhance auditing operations, Audit Command Language (ACL) was deployed for the auditors.

39.20 **Planned Maintenance & Asset Management**

A new system is being implemented to replace the present operations for Asset Management, Control, and Planned Maintenance of the Reserve Bank assets.

RESERVE BANK OF ZIMBABWE STRUCTURE



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**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF
RESERVE BANK OF ZIMBABWE**

We have audited the financial statements of the Reserve Bank of Zimbabwe for the year ended 31 December 2005 set out on pages 72 to 95.

Respective responsibilities of board members and auditors
The financial statements are the responsibility of the Bank's Board Members. Our responsibility is to express an opinion on the financial statements based on our audit.

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing, which require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, the assessment of the accounting principles used and significant estimates made by management, and the evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We draw your attention to the following:

Compliance with International Financial Reporting Standards
The basis of accounting and the presentation and disclosures contained in the financial statements are not intended to, and do not comply with all the requirements of all International Financial Reporting Standards and all the applicable interpretations of the International Financial Reporting Interpretations Committee or the former Standards Interpretation Committee.

Compliance with the Reserve Bank of Zimbabwe Act (22:15)
The Bank's non-compliance with Section 7(2) of the Reserve Bank of Zimbabwe Act (Chapter 22:15) as more fully described in note 9(2) to the financial statements; and to the non-compliance with Section 33(2) of the same Act as more fully explained in note 24 to these financial statements.

Opinion on the financial statements
Except for the matters referred to above, in our opinion the financial statements are properly drawn up in accordance with the provisions of the Reserve Bank of Zimbabwe Act (Chapter 22:15) so as to give, in all material respects, a true and fair view of the financial position of the Bank as at 31 December 2005 and of the results of its operations for the financial year ended on that date.

Deloitte & Touche

DELOITTE & TOUCHE
Harare

28 March 2006

The Board Members have pleasure in submitting their report for the financial year ended 31 December 2005.

NATURE OF BUSINESS

The Reserve Bank of Zimbabwe is established under the Reserve Bank of Zimbabwe Act (Chapter 22:15). The principal activities of the Reserve Bank of Zimbabwe are:

a) the conduct of monetary policy, the issuance of currency, the management of the official foreign currency reserves and acting as the banker and financial agent of the Government of Zimbabwe and;
b) the regulation and supervision of the banking sector.

The main subsidiaries of the Bank are involved in the following activities:-

i) Fidelity Printers and Refiners (Private) Limited
   - printing of currency and securities
   - gold refining
ii) Aurex (Private) Limited
   - production of gold jewellery
iii) Export Credit Guarantee Corporation
   - insures Zimbabwe's exports
iv) Finance Trust of Zimbabwe (Private) Limited
   - investment company
v) Homelink (Private) Limited
   - to mobilize foreign currency from Zimbabweans in the diaspora.

The Bank does not consolidate the results of its subsidiary companies.

BOARD MEMBERS' RESPONSIBILITY STATEMENT

It is the responsibility of Board Members to prepare annual financial statements that fairly present the state of affairs and financial results of the Bank.

In order to meet the above requirements, the Board Members are responsible for maintaining adequate accounting records and internal controls to safeguard the assets of the Bank and to prevent and detect fraudulent activities. The internal control systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the Board Members to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements were prepared in accordance with the provisions of the Reserve Bank of Zimbabwe Act (Chapter 22:15). The financial statements were prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The financial statements were audited by independent auditors, Deloitte & Touche who were given unrestricted access to all the accounting records and supporting documentation.

An Audit Committee has been in existence for several years and consists of mainly non-executive Board Members. This committee meets regularly with the Bank's internal and external auditors and Executive Management to review accounting, auditing, internal control and financial reporting matters.

The internal and external auditors have unrestricted access to the Audit Committee.

BOARD MEMBERS

The composition of the Board of the Bank is provided for in terms of the Reserve Bank of Zimbabwe Act (Chapter 22:15)

As at 31 December 2005 the composition of the Bank's Board was as follows:

Dr. G. Gono*
Mr. L.P. Chihota**
Dr. M.M. Ndubiwa**
Ms. S.G. Chella**
Dr. C. Mbengegwi**
Dr. C.L. Dhliwayo***
Mr. E. Mashiringwani***
Mr. N. Ncube***

* Chairman and Governor
** Non-Executive Director
*** Deputy Governor

ACCOUNTING STANDARDS

Adoption of International Financial Reporting Standards (IFRS)

The Reserve Bank of Zimbabwe has unique functions and responsibilities, which differ from other financial institutions. The Reserve Bank of Zimbabwe is policy driven and not profit driven. Whilst commercial financial institutions' financial statements focus primarily on profitability, liquidity and solvency issues, central banks do not have the similar requirements.

In order to enhance transparency of its own financial reporting, the Reserve Bank of Zimbabwe's Board Members have approved the adoption of International Financial Reporting Standards as the basis of preparing the Bank's financial statements in future reporting periods.

The Board Members recognise the magnitude of the challenges and the complexities of fully applying all the requirements of International Financial Reporting Standards in Central Banks.

Although the Reserve Bank of Zimbabwe 2005 financial statements are not compliant with IFRS they represent a significant improvement from the statutory reporting of previous years. Progress has been made in the process of moving the Reserve Bank of Zimbabwe to be fully compliant with International Financial Reporting Standards.

The Board is committed to ensuring that the Bank's financial statements are International Financial Reporting Standards compliant as soon as is practical.

Areas of Bank's non-compliance with International Financial Reporting Standards which would have had a significant impact on Financial Statements

International Accounting Standard (IAS) 27 (Revised) Consolidated and Separate Financial Statements

The Bank does not consolidate the results of its subsidiary companies.

The subsidiaries carry out ordinary commercial operations and their main objective is to generate profit. On the other hand the main objective of the Reserve Bank of Zimbabwe is the formulation and implementation of monetary policy and not the generation of profit.

In accordance with IAS 27 (Revised), a subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. In the case of Reserve Bank of Zimbabwe, there is a difference in main business purpose of the Bank rather than the types of activities undertaken.

Furthermore, some of the subsidiaries have different reporting deadlines. Reliable updated information is not available from the subsidiaries at the time of reporting for the Bank in line with the statutory deadline set in the Reserve Bank of Zimbabwe Act (Chapter 22:15).

IAS 7 Cash Flow Statements

The definition of cash, in terms of IAS 7 is not wholly applicable to the Reserve Bank of Zimbabwe. The Reserve Bank of Zimbabwe has no cash and cash equivalents on its balance sheet.

The Bank possesses the legal monopoly to generate or withdraw cash flows both by means of issuance of currency and through regulation of the money markets.

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 29 requires that information subject to disclosure in financial statements and any other information relating to prior periods must be expressed in terms of the measuring units current as at the balance sheet date.

The Board Members are of the opinion that the preparation of financial statements in terms of IAS 29 would be of no value to users of the financial statements and consequently the historical cost figures have not been restated.

IAS 39 (Revised) Financial Instruments: Recognition and Measurement

The Bank has not fully complied with IAS 39 (Revised). The objective of the standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Bank has recognised most of its financial instruments at cost. This approach contradicts the requirements of IAS 39 (Revised) as a majority of these debt instruments were issued at interest rates that are significantly below prevailing market interest rates.

Valuation of Government and Statutory Bodies debt instruments at fair value would have had the most profound effect on the Balance Sheet and the Statement of Income and Expenditure, had IAS 39 (Revised) been adopted.

The principles applied in the measurement and recognition of financial instruments are still subject to wider technical consultations in so far as their applicability to central banks is concerned. Therefore the effects of adopting the standard have not been formally established. Having comprehensively considered the practical implications of adopting this standard as well as international guidance on the reporting frameworks for central banks, the Bank will consider full compliance with the requirements of the standard.

CONTRACTS

There were no contracts entered into during the year in which directors or officers of the Bank had interests.

CAPITAL AND RESERVES

The authorized share capital of the Bank is $2 000 000, divided into 2 000 000 ordinary shares of the nominal value of $1 each, of which the whole amount is issued and fully paid.

As at 31 December 2005 the Bank had negative equity of $28 164 105 million (2004: $1 207 413 million).

RESULTS

The Bank incurred a deficit for the year of $30 880 037 million (2004 restated: $1 207 421 million) after provisions of $7 520 888 million (2004: $97 691 million).

The deficit was caused by high interest incurred on Open Market Operations (OMO) bills. OMO bills were used to mop excess liquidity from the money market. Money raised through OMO bills was sterilized. There were no corresponding interest earning assets created.

The Bank generated relatively low interest income. Majority of loans and advances made by the Bank were at subsidized interest rates.

Significant debtor balances on the Bank's Balance Sheet were non-interest earning.

FOREIGN EXCHANGE LOSSES

IAS 21 (Revised), The Effect of Changes In Foreign Exchange Rates requires that all foreign gains and losses, realised and unrealised should be recognized in the statement of income and expenditure. In terms of the Reserve Bank of Zimbabwe Act (Chapter 22:15) Section 34 (1) exchange gains and losses arising on the settlement of currency transactions are for the account of the Government of Zimbabwe. As at 31 December 2005 cumulative outstanding exchange losses on the Balance Sheet were as follows: -

	2005 $ millions	Restated 2004 $ millions
Realised	3 806 073	3 012 936
Unrealised	19 377 597	634 376
	23 183 670	3 647 312

LOANS AND ADVANCES TO GOVERNMENT AND TO STATUTORY BODIES

As at 31 December 2005 loans and advances to Government and Statutory Bodies were $32 836 830 million (2004: $2 762 476 million). Section 7(2) of the Reserve Bank of Zimbabwe Act limits the amount the Bank can lend or advance to the Government and to Statutory Bodies to twenty percent of the previous year's ordinary revenues of the state. The Bank exceeded this limit for both 2004 and 2005.

GOLD, FOREIGN ASSETS AND FOREIGN LIABILITIES

Total gold and foreign assets as at 31 December 2005 was $9 698 855 million (2004: $1 583 420 million). Total foreign liabilities as at 31 December 2005 was $29 862 181 million (2004: $2 426 700 million). Section 33 (2) of the Reserve Bank of Zimbabwe Act requires that the value of the reserve of gold and foreign assets convertible into gold be at least 40% of the Bank's foreign liabilities.

As at 31 December 2005 the percentage of gold and foreign assets convertible into gold to the Bank's foreign liabilities was 32% (2004: 65%). The ratio for 2005 was below the minimum required by Section 33 (2) of the Reserve Bank of Zimbabwe Act.

The financial statements which appear on pages 72 to 95 were approved by the Board of Directors on 28 March 2006 and were signed on its behalf by: -

Dr. G. Gono

Mr. E. Mashiringwani

Mr. N. Ncube

Dr. C.L. Dhliwayo

For the year ended 31 December 2005

	Notes	2005 $ millions	Restated 2004 $ millions
Operating account			
Interest and commission income	3.1	4 908 720	2 488 899
Interest and commission expense	3.2/2.17	(25 619 161)	(3 119 134)
Net interest and commission expense		(20 710 441)	(630 235)
Other income	3.3	21 115	17 146
Net interest and commission expense after other income		(20 689 326)	(613 089)
Operating costs	3.4	(2 669 823)	(496 641)
Deficit for the year before provisions		(23 359 149)	(1 109 730)
Provisions	4	(7 520 888)	(97 691)
Deficit for the year after provisions	2.17	(30 880 037)	(1 207 421)

BALANCE SHEET

As at 31 December 2005

	Notes	2005 $ millions	Restated 2004 $ millions
Assets			
Non-current assets			
Property and equipment	5	1 473 832	127 293
Investment property	6	181 000	-
Investments in subsidiaries	7.1	339 019	21 140
Other investments	8	2 983 028	5 896
Amounts due from the Government of Zimbabwe and from Statutory Bodies	9	27 342 993	637 796
Loans and advances	10	1 700 663	-
Total non-current assets		34 020 535	792 125
Current assets			
Amounts due from subsidiaries	7.2	794 185	168 746
Other investments	8	708 044	539 559
Amounts due from the Government of Zimbabwe and from Statutory Bodies	9	21 677 507	5 771 992
Loans and advances	10	6 073 187	4 932 378
Gold and foreign currency assets	11	9 698 855	1 583 420
Inventory		199 984	39 671
Debtors and other accounts	12	411 717	45 727
Total current assets		39 563 479	13 081 493
Total Assets		73 584 014	13 873 618
Equity and Liabilities			
Shareholders' equity			
Share capital	13	2	2
Revaluation reserve	14	1 370 035	-
Equity fair value adjustment reserve	15	2 553 310	-
General reserve fund	16	6	6
Accumulated deficit		(32 087 458)	(1 207 421)
Total equity		(28 164 105)	(1 207 413)
Liabilities			
Non-current liabilities			
Currency in circulation	17	11 578 051	1 889 360
Bills payable	18	2 166 515	42 197
Total non-current liabilities		13 744 566	1 931 557
Current liabilities			
Bills payable	18	38 222 238	6 495 325
International Monetary Fund facility	19	10 854 216	734 144
Foreign loans	20	11 730 481	852 724
Deposit accounts	21	26 705 678	4 991 830
Creditors and other accounts	22	490 940	75 451
Total current liabilities		88 003 553	13 149 474
Total liabilities		101 748 119	15 081 031
Total Equity and Liabilities		73 584 014	13 873 618

DR. G. GONO GOVERNOR	DR. C. L. DHLIWAYO DEPUTY GOVERNOR	MR. N. NCUBE DEPUTY GOVERNOR
MR. E. MASHIRINGWANI DEPUTY GOVERNOR	MS. J. MAGURANYANGA BANK SECRETARY	MR. H. M. MUNYATI DIVISION CHIEF, FINANCE

28 March 2006

For the year ended 31 December 2005

	Share capital $millions	Revaluation reserve $millions	Equity fair value adjustment reserve $millions	General reserve fund $millions	Accumulated deficit $millions	Total $millions
Balance at 31 December 2003 and at 31 December 2004 as previously stated	2	-	-	6	-	8
Adjustment due to restatement (note 2.17)	-	-	-	-	(1 207 421)	(1 207 421)
Restated balance at 31 December 2004	2	-	-	6	(1207 421)	(1 207 413)
Deficit for the year after provisions	-	-	-	-	(30880037)	(30 880 037)
Fair value adjustment on "available for sale" investments	-	-	2 553 310	-	-	2 553 310
Revaluation surplus on revaluation of certain immovable property	-	1 370 035	-	-	-	1 370 035
Balance at 31 December 2005	2	1 370 035	2 553 310	6	(32 087 458)	(28 164 105)

1. Nature of business

The Reserve Bank of Zimbabwe ("the Bank"), was established under the Reserve Bank of Zimbabwe Act, (Chapter 22:15) ("the Act"). The principal activities of the Bank are:

a) the conduct of monetary policy, the issuance of currency, the management of the official foreign currency reserves and acting as the banker and financial agent of the Government of Zimbabwe and
b) the regulation and supervision of the banking sector.

2. Summary of significant accounting policies

The financial statements of the Bank are based on accounting records maintained under the historical cost convention as modified by the revaluation of freehold and investment properties and quoted equities, and in accordance with the provisions of the Reserve Bank of Zimbabwe Act (Chapter 22:15).

The principal accounting policies adopted by the Bank are set out below.

2.1 Accounting convention

The financial statements are prepared in terms of the historical cost convention, except for the revaluation of freehold and investment properties and quoted equities. Procedures are not adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

2.2 Hyperinflation

The Board Members of the Bank are of the opinion that the preparation of the financial statements in terms of International Accounting Standard 29 - Financial Reporting in Hyperinflationary Economies would be of no value to the users of the financial statements and consequently have not restated the historical cost figures.

2.3 Consolidation

The financial statements of the subsidiary companies of the Bank are not consolidated. Similarly, associate companies are not accounted for on an equity basis. The Board Members of the Bank are of the opinion that there is a difference in the main business purpose of the bank in relation to its subsidiaries. Therefore, the Directors are of the opinion that consolidation would not present the information relevant to the Central Bank's operations. This is not in accordance with International Accounting Standard 27 (Revised) Consolidated and Separate Financial Statements.

Investments in companies in which the percentage shareholding would ordinarily qualify the companies to be classified as subsidiaries but which are held with a view to disposal in the short-term are treated as available for sale investments and recorded as short-term investments on the balance sheet.

2.4 Investments in subsidiaries

Investments in subsidiaries are stated at historical cost.

2.5 Revenue recognition

Interest income

Interest income arises from the Bank's lending and money market activities.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

Fee and commission income

The Bank recognises fees and commission income on an accrual basis in accordance with the substance of the underlying transaction.

Dividend income

Dividend income from investments is recognised when the Bank's right to receive the dividend has been established.

Other income

Other income arising from the provision of services to clients is recognised on the accrual basis in accordance with the substance of the underlying transaction.

2.6 Financial instruments

2.6.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Bank's balance sheet when it becomes a party to the contractual provisions of the instrument. Management determines the appropriate classification at initial recognition of the financial instrument.

2.6.1.1 Financial assets

The Bank's main financial assets are debtors and other accounts, amounts due from subsidiaries, foreign assets, amounts due from the Government of Zimbabwe and Statutory Bodies, investments and loans and advances.

Debtors and other accounts

Debtors and other accounts are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Amounts due from subsidiaries

Amounts due from subsidiaries are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Foreign assets

Foreign assets are recognised at the rate of exchange ruling when they are acquired and subsequently restated using the mid rates of exchange. Gains and losses arising from movements in fair value of foreign assets are for the account of the Government of Zimbabwe.

Amounts due from the Government of Zimbabwe and Statutory Bodies
Amounts due from the Government of Zimbabwe and Statutory Bodies are stated at cost.

Investments
Investments are initially stated at cost, including transaction costs. Investments have been classified as either, available-for-sale or held-to-maturity. Investments that are classified as available-for-sale are restated at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of at which time the cumulative gain or loss previously recognised in equity is included in the statement of income and expenditure.

Investments that have a fixed maturity date and the Bank has the intention and ability to hold on to them until maturity, have been classified as held-to-maturity investments. Held-to-maturity investments are stated at historical cost.

2.6.1.2 Financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

The Bank's main financial liabilities include creditor and other accounts, currency in circulation, foreign loans, bills payable and deposit accounts.

Creditor and other accounts
Creditor and other payables are stated at cost.

Currency in circulation
Currency in circulation is stated at cost.

Non-interest bearing deposit accounts
Non-interest bearing deposit accounts are stated at cost.

Foreign loans, bills payable and interest bearing deposit accounts
Foreign loans, bills payable and interest bearing deposit accounts are stated at cost.

2.6.2 Hedge accounting
The Bank did not apply hedge accounting on any transactions for the year under review.

2.6.3 Offsetting financial instruments
The Bank offsets financial assets and financial liabilities and reports the net balance in the balance sheet where there is a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously and the maturity date for the financial assets and liabilities are the same and the financial assets and liabilities are denominated in the same currency.

2.6.4 Derecognition of financial assets and financial liabilities

The Bank derecognises a financial asset when it loses control over the contractual rights that comprise the financial asset and transfers substantially all the risks and benefits associated with the financial asset. This arises when the rights are either realised, or they expire or are surrendered.

The Bank derecognises a financial liability when the obligation specified in the contract is either discharged or cancelled or expired.

2.7 Property and equipment

Land and buildings held for use in the provision and supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by an appraisal undertaken by independent professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. It is intended that revaluations will be performed with sufficient regularity such that the carrying amount does not differ materially from the fair value determined at the balance sheet date. Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the statement of income and expenditure to the extent of the decrease previously charged.

A decrease in carrying amount is charged as an expense to the extent that it exceeds the balance if any held in revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the statement of income and expenditure. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to the accumulated deficit.

Furniture, equipment and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	25 years
Machinery	4 years
Furniture and equipment	4 - 10 years
Motor vehicles	4 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

2.8 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the statement of income and expenditure in the period in which they arise.

2.9 Foreign currency translation

These financial statements are expressed in Zimbabwe dollars.

Transactions in foreign currencies are recorded at the ruling market mid-rate on the transaction date.

Non-monetary assets and liabilities carried at fair values that are denominated in foreign currencies are translated at the ruling market mid-rate the date when the fair value was determined. Monetary assets and liabilities that are denominated in foreign currencies are translated at the ruling market mid-rate at the balance sheet date.

Unrealised exchange gains and losses arising on the retranslation of non-monetary foreign assets and liabilities are transferred to the Unrealised Exchange Gains and Losses account which is disclosed under Amounts due from the Government of Zimbabwe and Statutory Bodies on the balance sheet. Once realised, these unrealised exchange gains and losses are transferred to the Gold and Foreign Currency Adjustment account.

In terms of Section 34(1) of the Act, any realised exchange gains and losses arising on the retranslation of monetary foreign assets and liabilities and / or the settlement of non-monetary foreign assets and liabilities are for the account of the Government of Zimbabwe and are recorded in the Gold and Foreign Currency Adjustment account which is disclosed under Amounts due from the Government of Zimbabwe on the balance sheet. Transactions in foreign currencies undertaken on behalf of the Government of Zimbabwe are undertaken at the Government rate. Realised foreign exchange gains and losses resulting from difference between the ruling market mid-rate and the Government rate are transferred to the Gold and Foreign Currency Adjustment account, which is disclosed under Amounts due from the Government of Zimbabwe on the balance sheet. The mid-market rate and the Government rate ruling at 31 December 2005 are as follows:

	2005	2004
Market mid-rate	$84 588/US$1	$6 200/US$1
Government rate	$26 004/US$1	$824/US$1

2.10 Gold

Gold is held by the Bank as part of its foreign reserves.
Gold is stated at market value.

In terms of Section 34(1) of the Act, gains and losses arising from changes in the value of gold and from gold trading are for the account of the Government of Zimbabwe and are transferred to the Gold and Foreign Currency Adjustment account which is disclosed under Amounts due from the Government of Zimbabwe on the balance sheet.

2.11 Inventory

Inventory is stated the lower of cost, as determined on a first-in first-out basis, and net realisable value.

Inventory comprises of currency paper and ink that is to be used in the printing of bank notes.

2.12 Taxation

The Bank is exempt from income tax in terms of the Income Tax Act (Chapter 23:06).

2.13 Cash flow

In the opinion of the Board Members' of the Bank, the definition of cash, in terms of International Accounting Standard 7 - Cash Flow Statements is not wholly applicable.

Due to the Bank's role in the creation and withdrawal of currency in circulation, it has no cash and cash equivalents on its balance sheet and has the ability to create cash when needed.

2.14 Retirement Benefit costs

Payments to a defined contribution scheme are charged as an expense as they fall due. Payments to a state-managed retirement benefit scheme are dealt with as payments to a defined contribution scheme where the Bank's obligations under the scheme are equivalent to those arising in a defined contribution retirement scheme.

2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2.16 Operating leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases.

Rental income and expenditure under operating leases is accounted for through the statement of income and expenditure on the accruals basis according to when the respective receipts and payments are due.

2.17 Deferred market stabilisation costs

Previously the Bank had an accounting policy that deferred costs incurred in stabilising the financial markets. It was envisaged that the benefit to the economy of these costs would impact over a number of years. These costs were transferred to the Deferred Market Stabilisation Costs account on the balance sheet and were to be amortised over the period the benefits were expected to accrue. As this accounting policy was not consistent with International Financial Reporting Standards a decision was made by the Board Members of the Bank to retrospectively withdraw it. This decision resulted in the following restatements of the Bank's prior year figures:

	2004 Before $ millions	2004 After $ millions
Deferred market stabilisation costs	1 207 421	-
Accumulated deficit	-	1 207 421
Interest and commission expense	1 911 122	3 119 134

3. Income and expenditure

3.1 Interest and commission income

	2005 $ millions	2004 $ millions
Interest income		
- bills	292 316	177 196
- loans and advances	4 460 306	2 237 314
- other	85 458	20 298
Commission income	70 640	54 091
	4 908 720	2 488 899

3.2 Interest and commission expense

	2005 $ millions	2004 $ millions
Interest expense		
- bills and bonds	23 573 088	2 852 320
- loans and advances	1 177 460	216 961
- other	107 428	16 224
Commission expense	761 185	33 629
	25 619 161	3 119 134

3.3 Other income

	2005 $ millions	2004 $ millions
Dividends from local shares	16 156	7 284
Dividends from foreign shares	-	1 291
Profit on disposal of property and equipment	-	926
Sundry	4 959	7 645
	21 115	17 146

3.4 Operating expense

Operating expenses include:

	2005 $ millions	2004 $ millions
Auditors' remuneration	11 324	2 626
Depreciation	58 772	10 551
Directors' fees	37	41
Loss on disposal of property and equipment	612	-
Notes and coins	811 364	67 697
Staff costs	773 770	172 316

4. **Provisions**

Movement in provisions comprises:

Provision for doubtful debts (see note 9)	7 000 000	-
Provision for doubtful debts (see note 10)	520 888	97 098
Provision for doubtful debts (see note 12)	-	593
	7 520 888	97 691

5. **Property and equipment**

	Land $ millions	Buildings $ millions	Machinery $ millions	Furniture and equipment $ millions	Motor vehicles $ millions	Total $ millions
Cost/valuation						
Balance at 31 December 2003	12	763	-	4 545	1 233	6 553
Additions	-	32	-	122 215	11 096	133 343
Disposals	-	-	-	-	(254)	(254)
Balance at 31 December 2004	12	795	-	126 760	12 075	139 642
Additions	138	10 973	800	134 011	73 211	219 133
Revaluation	-	1 370 035	-	-	-	1 370 035
Transfer to investment property	-	(181 263)	-	-	-	(181 263)
Disposals	-	-	-	(590)	(3 530)	(4 120)
Balance at 31 December 2005	150	1 200 540	800	260 181	81 756	1 543 427
Accumulated depreciation						
Balance at 31 December 2003	-	224	-	1 467	180	1 871
Charge for the year	-	32	-	10 095	424	10 551
Disposals	-	-	-	-	(73)	(73)
Balance at 31 December 2004	-	256	-	11 562	531	12 349
Charge for the year	-	284	3	45 458	13 027	58 772
Transfer to investment property	-	(263)	-	-	-	(263)
Disposals	-	-	-	(68)	(1 195)	(1 263)
Balance at 31 December 2005	-	277	3	56 952	12 363	69 595
Net book value						
Balance at 31 December 2005	150	1 200 263	797	203 229	69 393	1 473 832
Balance at 31 December 2004	12	539	-	115 198	11 544	127 293

Land and buildings were revalued at 31 December 2005 by independent professional valuers not connected with the Bank on the basis of market value. The valuations were conducted in accordance with International Valuation

Standards and were based on prevailing arm's length market transactions.

Had the land and buildings other than investment property of the Reserve Bank of Zimbabwe been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been $12,996 million (2004 - $551 million).

		2005	2004
		$ millions	**$ millions**
6.	**Investment property**		
	Transfer from property and equipment	181 000	-

The Bank's investment property comprises various properties that were previously classified as buildings under property and equipment and revalued at 31 December 2005 by independent professional valuers not connected with the Bank, on the basis of market value. The valuations were conducted in accordance with International Valuation Standards and were based on prevailing arm's length market transactions.

The transfer from property and equipment to investment property was performed on 31 December 2005.

7. Investments in subsidiaries

7.1 Investments

	Ownership Interest and Voting power		
Shares at cost:			
Fidelity Printers & Refiners (Private) Limited	100%	141 857	20 619
Aurex (Private) Limited	100%	133 943	36
Export Credit Guarantee Company	100%	25 485	485
Finance Trust of Zimbabwe (Private) Limited	100%	-	-
Homelink (Private) Limited	100%	37 734	-
		339 019	21 140

All the above subsidiaries are incorporated in Zimbabwe.

Fidelity Printers & Refiners (Private) Limited refines gold and prints currency and securities.
Aurex (Private) Limited manufactures gold jewellery.
Export Credit Guarantee Company guarantees export credit facilities.
Finance Trust of Zimbabwe (Private) Limited is an investment company.
Homelink (Private) Limited mobilises foreign currency from Zimbabweans in the diaspora.

		2005 $ millions	2004 $ millions
7.2	**Amounts due from subsidiaries**		
	Fidelity Printers & Refiners (Private) Limited	767 250	56 950
	Aurex (Private) Limited	11 165	111 793
	Finance Trust of Zimbabwe (Private) Limited	3	3
	Homelink (Private) Limited	15 767	-
		794 185	168 746

The amounts due from subsidiaries represent payments and purchases made on their behalf. These amounts attract interest rates of between 20% and 50%, have no fixed terms of repayment and are unsecured.

		2005 $ millions	2004 $ millions
8.	**Other investments**		
	Available for sale		
	- At cost	429 718	5 896
	- Fair value adjustment	2 553 310	-
		2 983 028	5 896
	Held to maturity		
	- At cost	708 044	539 168
	Other		
	- At cost	-	391
		3 691 072	545 455
	Comprising:		
	Non-current	2 983 028	5 896
	Current	708 044	539 559
		3 691 072	545 455
9.	**Amounts due from the Government and from Statutory Bodies**		
	Loans and advances to Government	15 096 078	2 483 463
	Gold and Foreign currency Adjustment account	3 806 073	3 012 936
	Subsidies paid on behalf of Government	2 775 356	275 593
		21 677 507	5 771 992
	Loans to Parastatals, Local Authorities and Statutory Bodies	14 965 396	3 420
	Provision for doubtful debts	(7 000 000)	-
		7 965 396	3 420

No guarantee has been provided by the Government of Zimbabwe for the balance of $7 965 396 million.

		2005 $ millions	2004 $ millions
	Unrealised net foreign exchange losses	19 377 597	634 376
		49 020 500	6 409 788

	2005 $ millions	2004 $ millions
Comprising:		
Non-current	27 342 993	637 796
Current	21 677 507	5 771 992
	49 020 500	6 409 788

9.1 Terms and conditions

Counter party / loan type	Repayment terms	Security
Loans and advances to Government	No fixed terms	Unsecured
Gold and Foreign Currency Adjustment account	In terms of Section 34(2) of the Act	Unsecured
Subsidies paid on behalf of Government	No fixed terms	Unsecured
Loans to Parastatals, Local Authorities and Statutory Bodies	Last month of repayment June 2008	Unsecured
Unrealised net foreign exchange losses	Not yet repayable	N/A

The loans and advances due from Government and Statutory Bodies attract interest at rates of between 0% and 265% depending on thespecific terms and conditions under which they were granted.

9.2 Limit on loans and advances to the Government as set out in Section 7(2) of the Act.

Section 7(2) of the Act establishes a limit on lending by the Bank to the Government and to Statutory Bodies. This section of the Act stipulates that the Bank's lending to the Government and to Statutory Bodies at any point in time should not exceed 20% of the previous year's ordinary consolidated revenues of the Government.

	2005 $ millions	2004 $ millions
Previous year's consolidated revenues of the Government	8 177 000	1 370 000
20% thereof	1 635 400	274 000
Total gross loans and advances due from the Government and from Statutory Bodies as contemplated by Section 7(2), at 31 December 2005	32 836 830	2 762 476
Excess	31 201 430	2 488 476

The Bank has exceeded the limit on lending to the State and to Statutory Bodies established by Section 7(2) of the Act by the amounts reflected above.

		2005 $ millions	2004 $ millions
9.3	**Gold and Foreign currency Adjustment account ("GFCA")**		
	Balance at 31 December 2004	3 012 936	99 340
	Net foreign exchange losses incurred by the Bank and charged to the GFCA account	793 137	2 913 596
	Balance at 31 December 2005	3 806 073	3 012 936

The GFCA account is established and maintained in terms of Section 34 of the Act.

All realised exchange gains and losses arising from the movement in the exchange rates of foreign currencies relative to the Zimbabwe dollar or in the value of gold relative to the Zimbabwe dollar are transferred to this account.

The balance on the GFCA account is either recoverable by or payable to the Government. Any payment to the Bank of the balance on this account shall be made upon the request of the Bank and any payment by the Bank shall be made in accordance with arrangements approved by the Minister of Finance.

		2005 $ millions	2004 $ millions
9.4	**Unrealised exchange and gains losses**		
	Balance at 31 December 2004	634 376	188 280
	Net unrealised foreign exchange losses incurred by the Bank to be transferred to the GFCA account, once they are realised	18 743 221	446 096
	Balance at 31 December 2005	19 377 597	634 376
10.	**Loans and advances**		
	Agricultural Sector Productivity Enhancement Facility	4 874 624	-
	Private sector loans	1 955 120	229 617
	Productive Sector Facility	1 332 694	2 048 083
	Export Support Facility	163 129	-
	Financial institutions		
	- Advances	77 767	781 810
	- Troubled Bank Facility	-	1 981 464
		8 403 334	5 040 974
	Provision for doubtful debts	(629 484)	(108 596)
		7 773 850	4 932 378
	Comprising:		
	Non-current	1 700 663	-
	Current	6 073 187	4 932 378
		7 773 850	4 932 378

10.1 Agricultural Sector Productivity Enhancement Facility (ASPEF)

Loans under ASPEF were granted to the agricultural sector mainly through financial institutions at an interest rate of 20% per annum and have a maximum tenor for capital expenditure loans and working capital loans of 36 months and 6 months, respectively. ASPEF expires on 30 June 2008.

10.2 Private sector loans

Private sector loans represent loans granted directly by the Bank to the private sector. They are unsecured, attract interest at rates ranging from 0% to 50% per annum and have no fixed terms of repayment.

10.3 Productive Sector Facility (PSF)

Loans under PSF were granted to the productive sector mainly through financial institutions. They attract interest at rates ranging from 0% and 50% per annum and are repayable within one year.

Loans granted under this facility are linked to the financial institutions' statutory reserves held by the Bank. Disbursements under this facility were discontinued on 30 June 2005.

10.4 Export Facility

Loans under this facility were granted to the export sector mainly through financial institutions. They attract interest at a rate of 20% per annum and have a maximum tenor of 18 months. Disbursements under this facility were discontinued in July 2005.

10.5 Advances to financial institutions

Advances to financial institutions represent temporary liquidity support granted to financial institutions. They attract interest at the prevailing overnight accommodation rate and are secured by negotiable bearer securities.

10.6 Troubled Bank Facility (TBF)

Advances under the TBF were granted to financial institutions that experienced liquidity challenges. Advances due under the TBF were ceded to the Government of Zimbabwe.

	2005 $ millions	2004 $ millions
11. Gold and foreign assets		
Gold	716 343	119 059
Nostro account balances	6 473 724	1 093 267
Foreign currency	569 926	157 224
Other	1 938 862	213 870
	9 698 855	1 583 420

12. Debtors and other accounts

	2005 $ millions	2004 $ millions
Debtors	356 780	52 864
Provision for doubtful debts	(7 249)	(7 249)
	349 531	45 615
Other	62 186	112
	411 717	45 727

13. Share capital

Authorised, issued and fully paid		
2, 000, 000 ordinary shares of $1.00 each	2	2

The entire issued share capital of the Bank is held by the Government of Zimbabwe.

14. Revaluation reserve

Arising from the revaluation of land and buildings	1 370 035	-

15. Equity fair value adjustment reserve

Fair value gain on “available for sale” equity investments	2 553 310	-

16. General reserve fund

Balance at 31 December 2005	6	6

In terms of Section 31 of the Act, the Bank is required to maintain a general reserve fund. Once the balance of the fund exceeds three times the issued share capital of the Bank, any operating surplus, after providing for bad and doubtful debts, depreciation, staff costs and any such items as are usually provided by financial institutions, shall ultimately be paid to the Government of Zimbabwe.

17. Currency in circulation

	2005 $ millions	2004 $ millions
Notes	11 577 621	1 888 931
Coins	430	429
	11 578 051	1 889 360
Balance at 31 December 2004	1 889 360	541 277
Notes and coins introduced into circulation	12 441 705	1 568 692
Notes and coins removed from circulation	(2 753 014)	(220 609)
Balance at 31 December 2005	11 578 051	1 889 360

18. Bills payable

	2005 $ millions	2004 $ millions
Local		
- Zimbabwe Treasury Bills - Open market operation bills	37 826 015	4 045 144
- Reserve Bank of Zimbabwe - Special treasury bills	1 457 861	2 449 977
- PLARP Bonds	686 565	-
- Government of Zimbabwe Stock	42 197	42 197
	40 012 638	6 537 318
Foreign		
- Foreign Bonds	376 115	204
	40 388 753	6 537 522
Comprising:		
Non-current	2 166 515	42 197
Current	38 222 238	6 495 325
	40 388 753	6 537 522

18.1 Zimbabwe Treasury Bills - Open market operation bills

Zimbabwe Treasury Bills - Open market operation bills are issued at the ruling Treasury Bill rate. Treasury Bill rates at 31 December 2005 were as follows:

Tenor	2005	2004
91 days	340% p.a	150% p.a
183 days	360% p.a	104% p.a

18.2 Reserve Bank of Zimbabwe Special Treasury Bills

Reserve Bank of Zimbabwe - Special Treasury Bills are issued for a period of two years and attract interest at the Special Treasury Bill ruling rate on the date of issue. The prevailing rate as at 31 December 2005 was 120% p.a. (2004: 37.1% p.a.).

18.3 PLARP Bonds

PLARP Bonds are issued at the ruling bi-annual average CPI rate.

The last interest payment was in September 2005 at the average CPI rate of 456.22%. The average CPI rate for the last quarter of 2005 was 499.73%.

18.4 Foreign Bonds

Foreign Bonds are issued for a period of 12 months at the ruling London Stock Exchange offer rate plus 6%. The last issue was made in November 2005 and matures in October 2007. The prevailing rate as at 31 December 2005 was 10.8% p.a. (2004: 8.5% p.a.).

		2005 $ millions	2004 $ millions
19.	**International Monetary Fund (IMF) facility**		
19.1	**Poverty Reduction and Growth Fund (PRGF)**		
	Balance at 31 December 2005	10 854 216	734 144

The foreign amount equivalent owed by the Bank under the PRGF in Special Drawing Rights (SDR) was as follows:

		$ millions
PRGF	SDR 75 234 959	9 801 084
Accrued charges	SDR 8 083 840	1 053 132
	SDR 83 318 799	10 854 216

19.2 Other amounts due to the IMF

As at 31 December 2005 the following balance was due to the IMF by the Government of Zimbabwe.

		$ millions
General Resource Account	SDR 2 081 552	271 170
Accrued charges	SDR 15 758 982	2 052 970
	SDR 17 840 534	2 324 140

Amounts owing on the General Resource Account are for the account of the Government of Zimbabwe.

Subsequent to 31 December 2005 the balance outstanding on the General Resource Account was repaid.

The country's membership with the IMF is currently not being accounted for in the Central Bank's records.

19.3 Exchange rate

The ruling rate of exchange as at 31 December 2005 between the Zimbabwe dollar and IMF's SDRs was $130,273: SDR1 (2004 - $9,548: SDR1).

		2005 $ millions	2004 $ millions
20.	**Foreign loans**		
	Aggregated foreign loans	11 730 481	852 724

The Bank's foreign loans attract rates of between 1.25% of the funds advanced and 10% per annum, are repayable within 12 months and are secured by cession of export proceeds and local and negotiable bearer securities.

		2005 $ millions	2004 $ millions
21.	**Deposit accounts**		
	Local		
	Financial institutions		
	- statutory reserves	14 355 758	3 483 935
	- other	1 036 690	206 217
		15 392 448	3 690 152
	Government of Zimbabwe	3 119 314	394 442
	Other	916 432	67 404
		19 428 194	4 151 998
	Foreign	7 277 484	839 832
		26 705 678	4 991 830
22.	**Creditors and other accounts**		
	Creditors	376 812	33 810
	Other	114 128	41 641
		490 940	75 451

23. Assets and liabilities maturity analysis

	Overdue $millions	On Demand $millions	Within 12 months $millions	Within 2 to 5 years $millions	More than 5 years $millions	Other $millions	Total $millions
Assets							
Amounts due from Government of Zimbabwe and Statutory Bodies	-	-	21 677 507	27 342 993	-	-	49 020 500
Loans and advances	-	-	6 073 187	1 700 663	-	-	7 773 850
Investments	-	-	708 044	2 983 028	339 019	-	4 030 091
Gold and foreign assets	-	7 043 650	1 809 329	-	845 876	-	9 698 855
Other:							
- Financial	-	-	1 205 902	-	-	-	1 205 902
- Non-financial	-	-	199 984	-	-	1 654 832	1 854 816
Total assets	-	7 043 650	31 673 953	32 026 684	1 184 895	1 654 832	73 584 014

	Overdue $millions	On Demand $millions	Within 12 months $millions	Within 2 to 5 years $millions	More than 5 years $millions	Other $millions	Total $millions
Liabilities							
Currency in circulation	-	11 578 051	-	-	-	-	11 578 051
Bills payable	-	-	38 222 238	2 166 515	-	-	40 388 753
IMF facility	10 854 216	-	-	-	-	-	10 854 216
Foreign loans	5 978 011	993 375	4 759 095	-	-	-	11 730 481
Deposit accounts	-	12 349 920	14 355 758	-	-	-	26 705 678
Other:							
- Financial	-	-	490 940	-	-	-	490 940
Total liabilities	16 832 227	24 921 346	57 828 031	2 166 515	-	-	101 748 119
Sensitivity gap	(16 832 227)	(17 877 696)	(26 154 078)	29 860 169	1 184 895	1654832	(28 164 105)
Cumulative gap	(16 832 227)	(34 709 923)	(60 864 001)	(31 003 832)	(29 818 937)	(28 164 105)	

24. Gold, foreign assets and foreign liabilities

	2005 $ millions	2004 $ millions
Gold and foreign assets		
Gold	716 343	119 059
Nostro account balances	6 473 724	1 093 267
Foreign currency	569 926	157 224
Other	1 938 862	213 870
Total gold and foreign assets	9 698 855	1 583 420
Foreign liabilities		
IMF facility	10 854 216	734 144
Foreign loans	11 730 481	852 724
Deposit accounts	7 277 484	839 832
Total foreign liabilities	29 862 181	2 426 700
Percentage of gold and foreign asset to foreign liabilities	32%	65%

Section 33(2) of the Act requires that the value of the Bank's reserve of gold and foreign assets convertible into gold be at least 40% of the Bank's foreign liabilities at any point in time.

The ratio of gold and foreign assets convertible into gold to foreign liabilities at 31 December 2005 was below the minimum required by Section 33(2) of the Act.

25. Contingent liabilities, commitments and other contingencies

Contingent liabilities, commitments and other contingencies arise in the normal course of the Bank's business activities.

As at 31 December 2005, the legal proceedings against the Reserve Bank of Zimbabwe by Time Bank of Zimbabwe where in abeyance, since Time Bank of Zimbabwe had been placed under curatorship. The claim lodged against the Reserve Bank of Zimbabwe was for $104 963 961 947. The Reserve Bank of Zimbabwe's independent legal counsel is of the opinion that these claims are not genuine.

In addition to the above, the Bank had various outstanding guarantees and other contingencies amounting to USD 201 million.

	2005 $ millions	2004 $ millions
26. Capital commitments		
Expenditure authorised and contracted for	1 237 385	28 821
Expenditure authorised but not yet contracted for	-	-
	1 237 385	28 821

27. Retirement benefit schemes

27.1 Private schemes

The Bank and its employees contribute to the Finance Trust of Zimbabwe (Private) Limited Pension Fund. The fund is a defined contribution fund. The assets are held in a separate trustee administered fund. The Bank contributes 15% and the employees6% of pensionable earnings.

27.2 National Social Security Authority (NSSA) scheme

The employees are also members of a state-managed retirement benefit plan, NSSA and the contributions to the scheme are made in terms of the National Social Security Authority Act (Chapter 17:04).

27.3 Recognition of contributions

The Bank's obligation with respect to the retirement benefit plan is to make the specific contributions. The contributions to the pension funds are recognised as an expense when they fall due.

	2005 $ millions	2004 $ millions
27.4 Contributions recognised as an expense during the year		
Finance Trust of Zimbabwe (Private) Limited Pension Fund	40 318	11 062
National Social Security Authority Scheme	386	104
	40 704	11 166

28. Financial risk management

The Bank has various policies and procedures to manage its risk. Certain aspects of its risk management specific to financial instruments are described in more detail below.

28.1 Interest rate risk

The majority of the Bank's loan and advances facilities are at the concessionary rates which are not market linked. These include:

Productive Sector Facility	0% - 50%
Agricultural Sector Productivity Enhancement Facility	5% - 20%
Parastatals and Local Authorities Reorientation Programme	50%

Advances to financial institutions attract interest at financial market rates.

28.2 Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank is obliged to accept certain market-related risks, which would not be fully compatible with pure commercial practice. The Bank nevertheless manages its market risks responsibly, utilising modern technology and appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a daily basis and, when circumstances require, throughout the day.

28.3 Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from such activities of the Reserve Bank of Zimbabwe as advances to and deposits made with other institutions and the settlement of financial market transactions. The Bank manages its credit risk by specifically:

- Securing advances to financial institutions with negotiable securities; and
- Obtaining authority from the Government of Zimbabwe for the granting of all quasi-fiscal advances.

28.4 Liquidity risk

Liquidity risk is the risk that an entity may not be able to accommodate decreases in liabilities or to fund increases in assets in full at the time that a commitment or transaction is due for settlement. In the case of the Bank, this risk is not relevant to domestic assets and liabilities because of the Bank's ability to create Zimbabwe dollars when required. However, the Bank does face liquidity risk in respect of foreign assets and liabilities.

The Bank manages its foreign liquidity risks through appropriate structuring of its foreign investment portfolios to ensure that the maturity profiles of foreign assets sufficiently match those of foreign commitments. This is monitored and managed on a daily basis. In addition, the Bank's foreign investment portfolio comprises mainly short-term, highly liquid investment instruments.

29. Related party information

29.1 Related party information

The Bank is wholly owned by the Government of Zimbabwe.

The Bank holds equity interests in the companies listed below as indicated:

	Ownership interest and voting power
Fidelity Printers & Refiners (Private) Limited	100%
Aurex (Private) Limited	100%
Export Credit Guarantee Company	100%
Finance Trust of Zimbabwe (Private) Limited	100%
Homelink (Private) Limited	100%

29.2 Related party transactions

	Purchase of goods and services	
	2005	2004
	$ millions	$ millions
Fidelity Printers & Refiners (Private) Limited	-	-
Aurex (Private) Limited	-	-
Export Credit Guarantee Company	-	-
Finance Trust of Zimbabwe (Private) Limited	-	-
Homelink (Private) Limited	20 768	4 273
	20 768	4 273

Amounts due from subsidiaries are disclosed in note 7.2.

30. Comparative figures

Where necessary comparative figures have been reclassified to conform with changes in presentation in the current year. The effect of changes in accounting policy on the prior period reported results and financial position have not been disclosed, with the exception of the change in the accounting policy for deferred market stabilisation costs (note 2.17). The effect on the prior period reported results and financial position is not been deemed material in the context of these financial statements.

TABLE 1
MONETARY AGGREGATES - $ Millions

DECEMBER	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Notes and coin	861.3	1191.4	1432.4	1750.6	2342.4	3395.9	4265.2	6884.1	9451.4	24673.3	77908.7	433167.4	1591166.6	9615883.6
Demand deposits	2198.6	4265.0	5433.8	8330.6	10930.7	16204.7	20404.2	27432.3	43148.4	103818.9	270573.9	1626092.2	5275811.1	34842202.0
M1	3059.9	5456.4	6866.2	10081.2	13273.1	19600.6	24669.4	34316.4	52599.8	128492.2	348482.5	2059259.6	6866977.7	44458085.6
Short term deposits	2624.4	3624.4	9143.5	11549.4	12403.9	17913.6	5575.7	6951.4	23219.5	22686.3	96559.4	569359.5	995936.1	6027549.2
M2	5684.3	9080.8	16009.7	21630.2	25677.0	37514.2	43133.3	58396.7	99678.4	196858.0	549034.4	2985267.8	9219055.1	60126346.1
Long term deposits	1469.0	1203.8	6160.7	7189.7	11134.6	12138.0	13494.5	15122.5	17880.4	41442.5	81935.3	255003.6	1235332.1	4686803.3
M3	7153.3	10284.6	22170.5	28820.4	36811.6	49652.2	56627.8	73519.2	117558.7	238300.5	630969.7	3240271.4	10454387.2	64813149.5
of which: in foreign currency	-	118.8	1080.6	1910.5	2019.3	2306.6	3461.5	5618.1	9474.7	7310.7	14535.2	155710.1	838175.4	12149548.7

Source: Reserve Bank of Zimbabwe

TABLE 2
MONETARY SURVEY - $ Millions

DECEMBER	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net foreign assets	-4078.9	-2803.1	-2124.2	-3077.2	-3149.9	-11053.2	-21566.6	-5643.3	538.6	-3598.7	-2993.4	-14096.0	-416556.5	15949649.2
Net domestic assets	11233.4	13087.7	24294.7	31897.5	39961.4	60705.4	78194.4	79162.5	117020.2	241899.2	633963.1	3254367	10870944	48863500.3
Domestic assets	12236.5	14373.8	24997.2	32028.2	43624	62273.7	76327.3	89399.2	144418.2	258600.9	594797.5	3174917	8529182	39041037.2
Government (net)	2274.3	2156.1	617004	7143.5	9256	15939.1	16212.9	22174.3	48251.1	93529	139818.5	420034.3	2136129	16444248.3
Public enterprises	707.9	1195.4	1840.3	2910.8	1603.8	1889.8	3450	4637.6	9192.4	19737	46547.1	214009.4	436720.4	1678431
Private Sector	9254.3	11022.3	16986.4	21974	32764.2	44444.8	56664.4	62587.3	86974.7	145334.9	408431.9	2540873	5956333	20918358.1
Other items net	-1003.1	-1286.1	-702.4	-130.8	-3662.6	-1568.3	1867.1	-10236.7	-27398	-16701.8	39165.6	79450.7	2341761	9822463.1
Broad money M3	7153.3	10284.6	21170.6	28820.3	36811.5	49652.2	56627.8	73519.2	117558.7	238300.5	630969.7	3240271	10454387	64813149.5

Source: Reserve Bank of Zimbabwe

TABLE 3
INTEREST RATES AND INFLATION (%) - $ Millions

DECEMBER	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
90 day NCD rate	37.0	29.0	30.3	31.0	19.3	32.5	42.0	72.5	58.5	28.0	35.5	390.0	92.5	-
Treasury bill rate	35.5	27.0	29.6	29.5	18.5	29.9	35.3	69.4	57.8	26.0	25.9	79.8	119.0	340.0
Reserve Bank Rate	29.0	28.5	29.5	29.5	29.1	30.0	39.5	74.4	60.5	57.2	-	-	-	-
Overnight rate/Bank Rate	32.5	28.5	29.5	32.4	29.1	32.4	39.5	74.4	60.5	57.2	-	300.0	110.0	540.0
Lending rate	39.3	31.8	30.3	34.7	33.6	34.7	49.3	68.0	68.5	31.3	45.8	346.0	202.5	415.0
Mortgage rate														
Residential property	18.3	18.5	18.5	18.5	18.5	15.8	24.5	24.5	28.8	25.9	30.8	44.5	59.5	57.5
Industrial property	20.3	23.5	25.3	25.3	25.3	20.4	32.0	32.0	43.8	41.2	43.8	50.0	85.0	122.5
RATE OF INFLATION														
End of period	46.4	18.6	21.1	25.8	16.4	20.1	46.6	56.9	55.2	112.1	198.9	598.7	132.8	585.8
Average	41.8	28.4	22.3	22.5	21.7	18.9	31.5	58.2	55.7	74.5	133.2	359.6	339.3	237.8

Source: Reserve Bank of Zimbabwe and Central Statistical Office

TABLE 4
INSTITUTIONAL ASSET BASE AND MARKET SHARE INSTITUTIONAL ASSET BASE - $ MILLIONS

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Market Share (%) As at Dec 2005
Commercial Banks	8062.0	14900	20274.6	24668.6	32647.6	48647.5	67963.7	85692.1	143947.6	289874.3	750372.9	4769564.3	19308013.0	86058853.9	81.0%
Merchant Banks	63204.0	6126	7755.8	10361.3	17051.4	24331.5	28466.7	27202.4	33754.5	35614.7	178635.7	775735.9	18805385.9	7890568.8	7.4%
Discount Houses	71507.0	1347.1	1674.7	3781.8	3160.9	3191.3	2726.3	3623.9	12736.0	21591.4	60359.8	210643.7	322881.4	1458639.7	1.4%
Finance Houses	1491.0	1497.8	1907.8	2865.9	3172.0	5937.6	5290.1	6898.6	6512.5	14656.8	40960.0	104191.5	384097.0	1644073.5	1.5%
Building Societies	2915.6	3891.8	5807.6	10088.2	13842.8	18287.8	18053.8	24323.9	42866.7	52572.3	107556.1	333203.9	948106.5	7682269.8	7.2%
P.O.S.B	2314.5	2977.4	3779.7	4465.5	6226.9	7638.7	6661.5	7325.1	8836.4	14291.5	22189.0	57092.3	187252.2	1531247.5	1.4%

Source: Reserve Bank of Zimbabwe

TABLE 5
YEARLY INFLATION - PERCENTAGE CHANCE IN CONSUMER PRICE INDEX\1 (1995 = 100)

END OF	FOOD	BEVERAGE TOBACCO	CLOTHING FOOTWEAR	RENT RATES FUEL POWER	FURNITURE HOUSEHOLD STORES	MEDICAL CARE	TRANSPORT, COMMUNI-CATION	RECREATION, ENTERTAIN-MENT	EDUCATION	MISC. GOODS & SERVICES	ALL ITEMS	NON FOOD
WEIGHTS	33.6	16	6.9	17.3	7.5	1.7	6.6	1.2	4.5	4.7	100	66.4
2004												
JANUARY	665.73	575.44	551.99	436.51	533.85	668.36	1086.06	588.91	709.27	483.44	622.83	599.11
FEBRUARY	689.41	531.00	525.73	438.38	490.82	661.89	904.94	548.13	652.84	468.00	602.54	555.53
MARCH	655.89	510.77	477.71	634.16	466.03	608.70	820.38	492.77	514.58	423.94	583.74	544.18
APRIL	563.52	457.40	448.85	463.20	416.47	522.85	626.94	395.53	514.29	406.77	505.05	473.11
MAY	481.80	395.66	403.52	462.02	366.36	536.84	497.22	455.12	776.01	367.30	448.75	429.78
JUNE	430.56	319.54	339.09	451.24	307.07	500.36	499.41	446.42	712.05	302.44	394.55	373.00
JULY	378.39	293.43	313.27	357.23	231.13	407.02	694.85	442.34	675.45	250.17	362.90	353.50
AUGUST	320.40	251.18	265.12	303.98	201.02	435.22	695.82	408.51	664.48	213.31	314.44	310.84
SEPTEMBER	264.82	232.41	212.98	253.71	117.00	493.18	386.70	310.34	488.34	145.76	251.53	243.72
OCTOBER	210.79	196.58	156.51	234.51	94.09	440.57	323.49	231.47	422.37	122.94	209.01	207.99
NOVEMBER	143.13	128.34	153.78	208.51	73.41	187.05	225.37	208.61	383.41	103.30	149.26	152.85
DECEMBER	121.14	121.74	132.74	231.08	64.65	179.91	203.75	116.07	263.64	89.33	132.75	139.79
2005												
JANUARY	110.70	140.40	106.80	203.60	57.51	147.43	224.87	74.29	310.90	77.69	133.57	147.43
FEBRUARY	101.70	141.70	104.80	148.20	56.90	151.90	239.80	67.30	327.60	73.50	127.20	143.80
MARCH	104.90	146.70	109.00	78.10	59.00	159.80	213.00	70.60	326.40	79.90	123.70	135.90
APRIL	112.50	157.50	106.30	73.40	63.50	169.20	200.10	98.30	320.90	91.00	129.10	139.50
MAY	118.70	190.00	130.20	150.40	74.70	176.80	196.60	74.80	195.10	116.30	144.40	160.58

	FOOD & NON ALCOHOLIC BEVERAGES	ALCOHOLIC BEVERAGES &TOBACCO	CLOTHING FOOTWEAR	HOUSING WATER, ELECTRICITY, GAS & OTHER FUELS	FURNITURE HOUSEHOLD STORES	HEALTH	TRANSPORT	COMMUNICATION	RECREATION & CULTURE	EDUCATION	RESTAURANTS & HOTELS	MISC. GOODS & SERVICES	ALL ITEMS	NON FOOD
WEIGHTS	31.93	4.91	5.71	16.23	15.11	1.31	9.77	0.99	5.75	2.85	1.52	3.94	100.00	68.07
2005														
JUNE	152.40	246.00	267.30	101.30	126.30	408.80	*	*	143.30	482.20	*	209.00	164.30	174.20
JULY	226.00	269.30	318.70	330.30	177.00	460.50	*	*	144.80	552.40	*	261.60	254.80	273.90
AUGUST	252.50	314.90	375.10	302.50	201.70	527.00	*	*	162.60	511.90	*	303.00	265.10	274.40
SEPTEMBER	308.20	436.00	509.90	488.60	289.80	447.30	*	*	278.60	498.10	*	411.00	359.80	391.40
OCTOBER	407.50	437.50	642.30	557.60	356.20	524.50	*	*	354.30	489.50	*	486.90	411.00	414.70
NOVEMBER	572.20	493.10	643.40	555.50	415.90	603.70	*	*	410.80	471.30	*	586.90	502.40	469.00
DECEMBER	717.10	607.00	701.90	482.90	495.50	663.40	*	*	429.70	450.50	*	666.50	585.80	522.30

1. Source: Central Statistical Office

TABLE 6
YEARLY PRODUCER PRICE INFLATION -- PERCENTAGE CHANGES IN PRODUCER PRICE INDEX \1 (1988=100)

END OF \2	MINING PRODUCTS	FOOD STUFFS	BEVERAGES AND TOBACCO	TEXTILE AND LEATHER PRODUCTS	WOOD AND WOOD - PRODUCTS	PAPER AND PAPER - PRODUCTS	CHEMICAL PRODUCTS	NON - METALLIC MINERAL	BASIC METALS	METAL PRODUCTS	ALL ITEMS
WEIGHT											
(000)	653	936	480	831	97	244	638	109	378	501	4866
1999											
MARCH	45.20	41.10	56.80	52.10	12.90	28.20	58.50	21.30	31.80	84.80	48.10
JUNE	86.50	53.10	60.90	65.80	19.00	62.50	55.40	25.90	31.90	71.90	58.90
SEPTEMBER	57.00	76.20	89.00	45.60	20.60	63.90	60.60	69.60	74.30	95.20	67.90
DECEMBER	15.40	65.40	82.10	31.80	12.70	47.80	49.50	70.30	68.70	63.60	49.80
2000											
MARCH	2.80	46.10	81.10	10.60	15.90	90.70	31.50	67.80	41.90	48.30	35.00
JUNE	50.50	34.10	119.80	12.40	13.90	47.10	44.60	67.00	41.40	46.40	45.00
SEPTEMBER	39.60	61.10	60.90	75.00	15.80	63.70	58.40	-7.90	8.00	50.30	49.70
DECEMBER	65.00	73.00	50.60	79.50	16.70	66.40	55.50	-3.40	7.80	60.30	56.20
2001											
MARCH	15.00	74.20	34.80	101.50	41.00	30.10	63.30	2.60	35.80	55.20	49.50
JUNE	7.50	87.80	50.00	103.70	46.50	11.50	109.60	8.80	66.50	62.00	65.50
SEPTEMBER	63.20	94.70	118.70	51.00	99.10	23.30	175.90	71.70	76.30	55.00	87.60
DECEMBER	66.23	101.84	116.83	79.72	109.50	25.28	213.67	74.75	75.86	49.84	97.53
2002											
MARCH	65.54	116.90	209.50	78.30	66.40	28.50	190.50	78.40	40.70	55.30	105.13
JUNE	140.50	105.80	158.10	58.90	72.60	27.80	121.60	90.50	16.90	61.30	94.70
SEPTEMBER	67.50	79.70	147.60	106.50	49.20	63.20	81.90	79.50	179.40	64.50	99.00
DECEMBER	75.03	83.00	162.40	235.80	79.50	136.00	127.00	115.00	184.00	73.20	131.44
2003											
MARCH	65.60	142.20	111.90	413.90	99.20	124.80	116.30	214.30	180.10	247.20	171.70
JUNE	15.20	243.50	540.30	594.80	127.90	182.90	181.20	491.30	197.20	495.60	318.40
SEPTEMBER	317.58	376.08	819.07	889.02	753.10	434.60	397.02	729.96	26.97	2091.82	729.42
DECEMBER	262.64	724.04	1284.89	826.57	1330.70	379.18	731.10	2915.24	1675.63	2183.55	990.47
2004											
MARCH	849.10	525.40	1184.90	552.40	1611.20	465.40	698.40	1948.30	1867.90	937.30	823.30
JUNE	1032.90	342.70	281.80	494.80	1229.90	430.60	611.80	862.20	1734.80	597.40	580.50
SEPTEMBER	756.80	235.90	132.50	174.60	180.90	90.80	250.30	488.90	1378.40	90.50	191.20
DECEMBER	694.40	86.30	61.80	81.20	76.80	50.50	59.90	53.80	5.50	86.70	115.20
2005											
MARCH/3	264.50	152.90	129.80	56.40	37.80	44.20	67.90	80.70	-4.50	85.30	59.80
JUNE/3	77.30	183.90	158.40	74.50	38.20	282.00	112.00	128.40	-0.30	76.30	94.00

1. Source - Central Statistical Office
2. Data is compiled quarterly
3. Provisional

TABLE 7
Central Government Operations - $ Millions

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total revenue and grants	13676.0	16514.3	20766.7	26507.0	35072.1	60707.5	77681.1	138946.6	304837.7	1380958.6	8176725.1	33205807.8
Total expenditure and net lending	15810.0	22829.6	26082.2	34661.0	42305.6	79638.4	132861.1	181394.1	342528.5	1393040.7	9351280.5	36026474.5
Deficit	-2134.0	-6315.3	-5315.5	-6129.0	-7797.3	-18930.9	-55180.0	-42447.5	-37690.8	-12082.1	-1174555.4	-2820666.7
Financing	2134.0	6315.3	5315.5	6129.0	7797.3	18930.9	55180.0	42447.5	37690.9	12082.1	910851.8	2819364.6
of which : Foreign (net)	358.5	199.9	435.0	336.0	-1028.9	-4895.0	-1363.0	706.8	-1483.9	37.6	1-2242.7	-2490.9
Domestic (net)	1776.3	6115.4	4880.5	5793.0	8262.4	23825.9	56543.0	41740.7	39174.8	12044.5	2096623.9	2821855.5
of which Bank	1958.4	5153.3	5019.7	898.0	7501.5	24457.8	57897.6	33766.6	26487.9	81775.1	-1183529.4	30001520.0

Source: reserve bank of Zimbabwe

TABLE 8
CENTRAL GOVERNMENT DOMESTIC DEBT - $ Million

End of	Government Stocks Amount Outstanding	Treasury Bills Interest Paid	Amount at Cost	Interest	RBZ Advance to Government /1	Other	Total
2004							
January	14373.0	0.0	911436.0	416050.1	427590.3	40.1	1769489.5
February	14373.0	159.3	1058272.4	449969.4	-278080.6	40.1	1522654.9
March	14373.0	11.4	945428.3	428044.2	-43995.3	40.1	1387885.6
April	99131.1	518.3	492766.6	317811.7	-197465.6	40.1	909749.5
May	191589.4	116.1	927438.4	396771.4	-179574.4	40.1	1515839.3
June	267133.9	1.1	994639.0	319987.7	-240004.7	40.1	1413796.0
July	267133.9	0.0	1199484.0	972852.2	-568769.4	40.1	2439510.2
August	267103.9	157.6	1157568.7	1113147	-211119.5	40.1	2537859.8
September	459292.4	22.7	1233634.5	1133175	-377580	40.1	2826142.2
October	458011.0	237.4	1229620.5	1133655	-276523.1	40.1	2821327.0
November	457675.2	49.4	1215025.3	1123792	-160724	40.1	2796532.4
December	456555.1	0.0	1215025.3	1121554	-332466.1	40.1	2793174.4
2005							
January	456555.1	0.0	1221411.9	1107744.6	299366.4	40.1	3085118.1
February	456555.1	5.2	1370484.4	1115798.5	305007.0	40.1	3247885.1
March	456555.1	14.9	2653465.2	3175061.8	100214.1	40.1	6385336.3
April	456555.1	65838.8	4818468.6	3666703.0	125712.6	40.1	9067479.4
May	456555.1	66025.0	5744533.8	3882590.6	-31299.0	40.1	10083719.6
June	456510.1	0.0	6852455.0	4354701.4	-667641.0	40.1	11663706.6
July	637580.6	0.0	6330770.0	4489638.4	106797.1	40.1	11564826.2
Aug	769776.6	156.6	6272957.8	4988540.7	505771.1	40.1	12031315.2
September	807949.3	15.1	6690520.2	5480050.8	-71693.3	40.1	12978575.5
October	877999.3	66200.4	5528938.9	5082851.3	1141930.4	40.1	12631760.0
November	877999.3	0.0	5469284.4	6132217.3	1525390.5	40.1	14004931.6
December	1853369.3	0.0	5307779.4	8724480.5	-2836060.9	40.1	15885669.3

Source: Reserve Bank of Zimbabwe
1. Negative Government overdraft reflects a deposit.

TABLE 9
GOVERNMENT STOCK MATURITIES

During the Financial Year ended 31 December 2004

Stock Number	Maturity Date	Amount ($ Million)
1/90	09/01/2001	106.2
2/89	02/03/2001	130.0
9/93	03/06/2001	117.8
4/78	15/08/2001	30.0
8/81	29/10/2001	25.0
9/90	15/11/2001	200.0
2/87	20/02/02	120.0
5/94	25/08/02	261.0
1/95	03/03/02	638.8
1/84	08/03/02	40.0
8/94	25/11/02	308.8
5/86	11/12/02	100.0
1/78	20/01/03	50.0
3/93	31/03/03	43.9
4/91	25/04/03	200.0
5/90	15/05/03	140.0
3/78	30/05/03	10.0
6/90	28/08/03	100.0
7/78	28/11/03	20.0
10/87	03/12/03	100.0
6/83	15/12/03	25.0
1/96	19/12/03	146.8
6/79	16/08/04	30.0
7/01	31/08/04	200.0
8/01	07/09/04	66.0
09/01	14/09/04	448.6
10/01	21/09/04	76.3
11/01	28/09/04	50.6
7/94	04/10/04	565.8
12/01	05/10/04	29.6
14/01	19/10/04	125.2
15/01	26/10/04	245.0
16/01	02/11/04	4.0
17/01	09/11/04	5.2
18/01	16/11/04	12.5
19/01	23/11/04	326.5
20/01	30/11/04	1.0
21/01	07/12/04	31.7
9/84	14/12/04	60.0
22/01	14/12/04	21.0
23/01	21/12/04	7.4
3/87	02/04/05	90.00
7/82	16/06/05	45.00
6/94	01/09/05	127.25
8/88	01/09/05	100.00
7/90	13/09/05	100.00
9/89	05/12/05	100.00

Source: Reserve Bank of Zimbabwe

TABLE 10
ZIMBABWE TREASURY BILL ISSUES AND MATURITIES - $ MILLION

Date	Issues	Maturities	Net
2002			
January	31545.2	35065.9	-3520.7
February	55339.7	23425	31914.7
March	43687	29239	14448.0
April	70004.2	38519.4	31484.8
May	69027.2	45211.7	23815.5
June	25982.7	13887.7	12095.0
July	31805.1	20700.2	11104.9
August	25657.6	13764	11893.6
September	2473.5	24970.9	-22497.4
October	11219.7	23917.7	-12698.0
November	50308.6	24185.6	26123.0
December	10725.2	15378.4	-4653.2
2003			
January	14812.9	14590.8	222.1
February	23315.8	23217.3	98.5
March	28513.6	35364.0	-6850.4
April	71852.9	26330.2	45522.7
May	143787.7	39972.5	103815.2
June	69599.8	26864.2	42735.6
July	77856.4	17052.9	60803.5
August	18280.2	5348.3	12931.9
September	5449.4	9053.7	-3604.3
October	26760.4	18991.1	7769.3
November	54019.7	59669.4	-5649.7
December	23659.3	21364.9	2294.4
2004			
January	638,900.00	0.00	638,900.00
February	190,000.00	0.00	190,000.00
March	81.72	0.00	81.72
April	153,073.89	0.00	153,073.89
May	392,118.28	236,969.60	155,148.68
June	472,976.37	741.43	472,234.94
July	0.00	192,188.02	-192,188.02
August	627,450.00	499,176.15	128,273.85
September	48,000.00	5,136.04	42,863.96
2005			
January	0.00	0.00	0.00
February	199,400.00	908,307.64	-708,907.64
March	434,057.00	112,441.04	321,615.96
April	2,285,628.74	0.00	2,285,628.74
May	1,120,661.04	235,162.65	885,498.39
June	1,383,300.00	0.00	1,383,300.00
July	1,459,559.92	2,719,233.52	-1,259,673.61
August	1,163,814.46	1,382,837.53	-219,023.07
September	1,575,257.00	1,660,669.39	-85,412.39
October	401,710.87	2,289,608.95	-1,887,898.08
November	1,051,700.00	0.00	1,051,700.00
December	1,467,800.00	2,806,766.04	-1,338,966.04

Source: Reserve Bank of Zimbabwe

TABLE 11
HOLDERS OF TREASURY BILLS - $ Million

End of	Reserve Bank	Commercial Banks	Accepting houses	Discount Houses	Total	Building societies	Finance houses	Other/1	Total
		Monetry banking sector Other Banking Institutions							
2003									
January	70859.7	70184.1	11750.6	25677.5	178471.9	7558.8	3121.9	139152.4	328305.0
February	75156.8	61362.3	21855.8	23606.1	181981.0	6217.4	3214.5	136990.7	328403.6
March	104555.0	52461.4	16632.6	15720.8	189369.8	4697.7	2424.0	117589.6	314081.1
April	98351.9	53398.2	37433.3	23187.8	212371.2	6447.3	2246.6	90567.3	311632.4
May	185584.0	65920.3	36708.0	23510.6	311722.9	7255.3	1321.2	145680.1	465979.5
June	200460.6	71258.7	44133.6	39507.6	355360.5	8229.8	1851.1	150791.1	516232.5
July	211169.3	102609.5	57539.1	49227.6	420545.5	9171.7	2664.1	145212.3	577593.6
August	211136.7	128167.6	49850.7	48248.1	437403.1	11060.0	6122.8	136282.3	590868.2
September	276795.6	103778.5	28728.9	41617.8	450920.8	10332.4	5522.7	122038.4	588814.3
October	285409.1	121038.9	16960.1	30392.0	453800.1	7037.3	8274.4	177896.2	647008.0
November	297215.9	154519.5	18448.5	31472.1	501656.0	7220.5	1917.8	63717.9	574512.2
December	289704.6	115465.1	20954.1	22081.4	448205.2	7069.8	5234.6	111157.6	571667.2
2004									
January	305979.7	880445.0	18709.7	25169.6	1230304.0	5369.8	5198.3	528617.4	1769489.5
February	301380.4	859655.5	50640.5	43270.8	1254947.2	12010.8	1950.0	253746.9	1522654.9
March	295737.6	517504.0	32621.0	48632.5	894495.1	11854.1	3529.8	478006.6	1387885.6
April	265811.4	593830.9	37092.1	29310.9	926045.3	22282.2	1274.8	-139024.0	810578.3
May	187868.4	557136.1	86218.6	49558.3	880781.4	21547.0	11686.6	410194.8	1324209.8
June	623005.1	811596.8	108726.4	82054.3	1625382.6	60983.9	2617.7	-302357.5	1386626.7
July	120861.8	951156.6	129770.4	127568.9	1329357.7	104412.6	5805.5	732760.4	2172336.2
August	126021.7	468652.9	216006.5	91616.5	902297.6	159644.4	47395.5	1161378.3	2270715.8
September	94772.8	765025.0	299913.5	95650.7	1255362.0	144869.2	71043.5	897856.1	2369130.8
October	105751.9	972129.0	348944.3	82046.9	1508872.1	136834.5	92784.3	630639.9	2369130.8
November	864857.1	1619543.8	323729.3	90216.4	2898346.6	197821.5	83026.7	-840377.7	2338817.1
December	900846.7	2971575.9	308865.7	85685.8	4266974.1	204881.3	114952.2	-2250228.4	2336579.2
2005									
January	889580.6	1041208.3	337791.1	164046.9	2432626.9	24334.4	222012.4	-349817.2	2329156.5
February	855933.8	2187431.0	379462.9	232953.4	3655781.1	377001.4	185515.9	-1732015.5	2486282.9
March	850748.7	2678682.3	313862.5	216332.9	4059626.4	553599.4	178994.3	1036306.9	5828527.0
April	828203.5	2408471.2	265973.5	197547.3	3700195.5	760674.1	214348.5	3809953.5	8485171.6
May	819497.4	561125.5	283266.0	233555.5	1897444.4	842590.1	201689.0	6685400.9	9627124.4
June	889609.9	6965551.8	491964.3	168494.1	8515620.1	987299.2	370706.6	1333530.5	11207156.4
July	822782.9	4572462.0	456967.0	210657.6	6062869.5	1037237.6	369289.8	3351011.5	10820408.4
August	787794.3	5776371.3	574248.0	300667.3	7439080.9	1555246.4	500925.1	1766246.0	11261498.5
September	800395.0	7849727.4	923123.6	337202.3	9910448.4	2021349.0	581735.8	-342962.2	12170571.0
October	810327.2	4912431.4	883273.6	687194.2	7293226.4	2324492.3	776819.1	217252.4	10611790.2
November	770557.4	8882731.0	2785905.7	803713.9	13242908.0	1796364.4	973776.1	-4411546.8	11601501.7
December	828751.2	10826752.2	2708062	747408.6	15110973.6	2651667	685878.0	-2562849.8	15885669.0

Source: Reserve Bank of Zimbabwe

1.Other includes companies, pension funds, individuals and corporates.

TABLE 12
GROSS DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY/1 - $ Million

(at current prices)

Period	Agriculture Hunting and Fishing	Mining and Quarrying	Manufacturing	Electricity and Water	Construction	Finance and Insurance	Real Estate	Distribution Hotels and Restaurants	Transport and Comm-unication	Public Administr-ation	Education	Health	Other Services/2	Total
1988	2092	680	2747	351	464	944	343	2075	808	773	812	230	451	12769
1989	2346	602	4022	424	466	1222	432	2503	954	929	952	271	590	15713
1990	3188	845	4403	543	615	1336	474	3267	1185	1215	1269	316	693	19349
1991	4013	1184	7138	700	813	1668	562	4481	1409	1440	1635	401	841	26284
1992	2322	1552	9251	913	1082	2790	840	5818	1515	1596	1946	460	1235	31321
1993	5836	1625	8930	1234	1152	3211	995	6926	2807	1886	2362	544	1298	38807
1994	9592	2531	10701	1810	1330	4634	1177	8289	3105	2366	2955	791	1274	50555
1995	8305	1142	11871	1563	1261	4906	1429	11703	3623	2925	3441	923	1737	54830
1996	17728	1287	14275	2409	1708	5764	1526	15107	4342	3993	5676	1247	2480	77540
1997	22227	1400	16208	2907	2544	8854	2627	17163	5404	4864	7449	1771	2270	95687
1998	28132	2413	20708	3372	3640	16648	3274	23262	9751	6023	9057	2369	1074	129784
1999	54210	3522	30597	4517	4732	27716	4066	35533	15923	8282	10578	3801	-438	203039
2000	71074	4095	41033	5559	6655	42382	6252	48269	27234	16026	22474	8528	-1110	298470
2001	152528	5058	68676	7809	7566	77053	8745	74261	67036	19562	29754	10691	-7945	520796
2002	300164	11101	122402	10971	12118	235784	13741	143449	134704	46646	55711	21971	-25322	1083439
2003	940230	100513	602364	73146	40806	707840	59134	460785	413158	218477	256715	57438	-48820	3881785
2004	1693463	907455	3006321	369119	117248	2530409	204326	1935190	1032936	411767	522441	107035	38596	12876308

1 . Source : Central Statistical Office .
2 . Includes domestic services and allowance for imputed banking service charges .

TABLE 13
REAL GROSS DOMESTIC AND NATIONAL PRODUCT PER CAPITA AT MARKET PRICES/1 - $ Million

(at market prices)

Period	Current prices			Constant prices/3		Constant prices/3
						Per capita
	Gross Domestic Product	Net investment income paid to other countries/2	Gross National Product	Gross Domestic Product	Gross National Product	Gross Domestic Product
1989	17509	-446	17062	20091	19638	2117
1990	21494	-707	20787	21494	20787	2196
1991	29623	-979	28644	23022	22186	2280
1992	34392	-1407	32985	21086	20118	2025
1993	42481	-1604	40877	21531	20642	1997
1994	56159	-2405	53754	22780	21707	2043
1995	62122	-2794	59327	22820	21817	1979
1996	87083	-2931	84125	25038	24137	2102
1997	108480	-4971	103510	25395	24210	2153
1998	148585	-9155	139429	25520	23829	2164
1999	228435	-9431	219004	24602	23330	2100
2000	328658	-11286	317372	22665	21219	1931
2001	603668	-11934	591734	22033	21183	1932
2002	1210636	-8930	1201706	20786	20433	1825
2003	4472893	-99694	4373200	19500	17167	1658
2004	15563920	-1106444	14457475	18770	11364	1578

1. Source: Central Statistical Office .
2. Gross domestic product less net investment income paid to other countries equals gross national product.
3 At 1980 prices up to 1984 . At 1990 prices from 1985 onwards.

TABLE 14
DISTRIBUTION OF NATIONAL INCOME/1 - $ Million
(at market prices)

Period	Wages and salaries	Rent	Gross Operating Profit: Public corporations	Companies/2	Unincorporation enterprises/2	Others/3	Total	Gross Domestic Income	Less net factor income paid abroad	Gross National Income
1994	19081	1094	2641	8091	16957	3838	31527	56159	-2405	53754
1995	23459	1327	1111	8484	17898	3602	31095	62116	-2794	59321
1996	32594	1432	2817	10312	27346	4534	45009	87055	-2931	84125
1997	42953	2444	2681	14023	29096	7435	53235	108323	-4971	103353
1998	56500	3065	5376	16833	39632	12740	74581	146744	-9155	137588
1999	76692	3818	5563	30306	72833	19693	128395	221588	-9537	212051
2000	122530	5912	9897	43220	101916	30383	185416	311890	-10078	301812
2001	179438	8197	13344	93942	217721	76388	401395	603668	-11934	591734
2002	329017	12820	18297	169354	380100	255623	823374	1210636	-8930	1201706
2003	1273443	52987	124700	618107	1204857	771939	2719603	4472893	-99694	4373200
2004	4281638	183201	205489	2286414	3747861	2501619	8741383	15563920	-1106444	14457475

1. Source : Central Statistical Office
2. Non-financial
3. Includes local and central government non-financial enterprises and financial institutions (less imputed banking service charges).

TABLE 15
EXPENDITURE ON GROSS DOMESTIC PRODUCT/1 - $ Million
(at market prices)

Period	Private consumption	Net Government current expenditure	Gross fixed capital formation	Increase in stocks	Private non-profit making bodies	Statistical discrepancy	Total domestic expenditure	Net export of goods and services	Expenditure on gross domestic product
1994	31296	9375	12002	4274	290	-	57237	-1078	56159
1995	36367	11100	15318	449	400	-	63628	-1654	61980
1996	54115	14492	15434	2323	555	-	86920	163	87083
1997	75415	17530	18424	3547	725	-	115640	-7160	108480
1998	92774	22673	30912	3835	873	-	151066	-2481	148585
1999	157621	30968	30922	4066	1228	-	224805	3630	228435
2000	235485	45845	37108	8941	2160	-	329538	-880	328658
2001	530129	64538	49549	-12201	3286	-	635302	-31634	603668
2002	1257718	85709	89550	-164535	5133	-	1273574	-62939	1210636
2003	5736096	301430	171731	-1209228	23902	-	5023931	-551037	4472893
2004	17752175	568885	412605	284095	79008	-	19096767	-3532847	15563920

1. Source: Central Statistical Office

TABLE 16
GROSS DOMESTIC INVESTMENT BY INDUSTRY/1 - $ Million

Period	Gross Fixed Capital Formation(at current prices)												
	Agriculture and Forestry	Mining and quarrying	Manufacturing	Electricity and water	Construction	Finance and insurance	Real Estate	Distribution Hotels and Restaurants	Transport and Communications	Govt/2	Other Services And Unallocatables	Total	Increase in Stocks	Total
1994	1248	785	3764	718	576	1055	706	1448	940	605	158	12002	4274	16276
1995	1517	2000	4269	1357	427	1120	632	1527	1464	718	236	15318	449	15767
1996	1378	2370	4975	1100	420	1482	610	1565	1533	708	196	15434	2323	17757
1997	1097	1552	8018	1709	485	1498	769	1145	1974	1225	220	18424	3547	21970
1998	-	-	-	-	-	-	-	-	-	-	-	30912	3835	34747
1999	-	-	-	-	-	-	-	-	-	-	-	30922	4066	34988
2000*	-	-	-	-	-	-	-	-	-	-	-	38420	8941	46049
2001	-	-	-	-	-	-	-	-	-	-	-	48526	-12201	37349
2002	-	-	-	-	-	-	-	-	-	-	-	89800	-242074	-152274
2003	-	-	-	-	-	-	-	-	-	-	-	179203	-1209228	-1030025
2004	-	-	-	-	-	-	-	-	-	-	-	452507	284095	736602

1 . Source: Central Statistical Office.

2 . Includes Public Administration, Education Services, Health Services and General investment by Government.

* Provisional

TABLE 17
GROSS DOMESTIC INVESTMENT BY INDUSTRY/1 - $ Million

Period	Gross Fixed Capital Formation(at constant prices) /3												
	Agriculture and Forestry	Mining and quarrying	Manufacturing	Electricity and water	Construction	Finance and insurance	Real Estate	Distribution Hotels and Restaurants	Transport and Communications	Govt/2	Other Services And Unallocatables	Total	Increase in Stocks	Total
1994	480	313	1512	269	257	483	352	582	353	218	63	4882	1211	6093
1995	484	669	1414	432	152	405	276	497	421	198	74	5042	190	5233
1996	371	671	1410	294	123	449	223	429	413	172	53	3521	267	3789
1997	238	359	1849	348	114	366	236	279	435	177	49	3419	699	4117
1998	-	-	-	-	-	-	-	-	-	-	-	4468	402	4870
1999	-	-	-	-	-	-	-	-	-	-	-	1887	304	2191
2000	-	-	-	-	-	-	-	-	-	-	-	3175	549	3724
2001	-	-	-	-	-	-	-	-	-	-	-	3272	-512	2760
2002	-	-	-	-	-	-	-	-	-	-	-	3910	-2755	1155
2003	-	-	-	-	-	-	-	-	-	-	-	5283	-3847	1437
2004	-	-	-	-	-	-	-	-	-	-	-	6703	-516	6187

1 . Source: Central Statistical Office.

2 . Includes Public Administration, Education Services, Health Services and General investment by Government.

3 . At constant 1980 prices up to 1984 . Thereafter at constant 1990 prices .

TABLE 18
BALANCE OF PAYMENTS STATISTICS - US $ MILLION

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade balance	-250	98	169	88	249	-230	-95	249	317	-252	-424	-108	-305.2	-392.3
Current Account Balance (excluding official transfers)	-842	-311	-317	-369	-180	-827	-355	29	-99	-673	-629	-515	-416.7	-538.1
Current Account Balance (including official transfers)	688	504	517	482	87	-65	74	189	-289	-389	-218	-346	-393	-511.1
Net Errors and Omissions	-69	-19	310	-78	97	151	-17	-217	217	868	351	79	432	291.1
Overall Balance	-223	174	511	36	4	-740	-298	0	-171	-194	-496	-488	-219	-244.2
Gross Foreign Reserves ($m)	2099.4	4091.7	6827	7579	8996	5061	11061	18230	15859	6659	7045	108264	1296165	5152060
Gross Foreign Reserves (US $m)	383	590	814	814	830	272	296	478	288	121	128	131	255	60.5
Import Cover (months) at 100% (Goods & Services)	1.9	3.4	4	3.4	2.9	0.8	1.2	2.2	1.2	0.6	0.7	0.7	1.3	0.3
Exchange Rate: end of period														
Z$/US$	5.4815	6.935	8.3872	9.3109	10.8389	18.6081	37.3692	38.1388	55.06608	55.0357	55.0357	826.4462	5696.03	85158.02
Z$/GBP	8.2785	10.2375	13.0797	14.4203	18.3259	30.8615	62.2496	61.7582	82.17511	79.7743	88.2691	1441.68	10990.12	147285.05
Z$/ZAR	1.7954	2.0404	2.3640	2.5518	2.3172	3.8096	6.3553	6.1969	7.279059	4.5844	6.3698	126.88	993.45	13485.04
Z$/DM	3.3914	3.9960	5.4013	6.4760	6.9737	10.4022	22.2820	19.6328	26.1491	24.9188	24.8328	372.900	2570.1200	3118.14

Source: Reserve Bank of Zimbabwe

TABLE 19
EXPORTS OF MAJOR COMMODITIES AND TOTAL IMPORTS - US $ MILLIONS

Year	Tobacco	Gold	Ferro-Alloys	Textiles/Clothing	Total Exports	Total Imports
1994	423	252	125	139	1945	1778
1995	478	303	238	115	2216	2128
1996	702	298	202	100	2496	2247
1997	609	268	178	98	2424	2654
1998	524	236	143	58	1925	2020
1999	612	230	152	59	1924	1675
2000	549	216	155	79	2200	1907
2001	594	225	82	20	2114	1826
2002	435	159	107	18	1802	1820
2003	321	152	120	28	1670	1778
2004	227	263	185	21	1684	1989
2005	204	191	158	23	1602	1994

Source: Reserve Bank of Zimbabwe
* Estimates

TABLE 20
NOMINAL EFFECTIVE AND REAL EFFECTIVE EXCHANGE RATES (1995=100)

PERIOD	NEER	REER
2003		
JANUARY	26.7	607.3
FEBRUARY	1.7	42.8
MARCH	1.7	45.6
APRIL	1.6	52.0
MAY	1.7	63.1
JUNE	1.7	76.1
JULY	1.7	89.7
AUGUST	1.7	105.5
SEPTEMBER	1.6	125.9
OCTOBER	1.6	153.5
NOVEMBER	1.5	196.0
DECEMBER	1.5	241.8
2004		
JANUARY	0.4	58.1
FEBRUARY	0.3	51.0
MARCH	0.4	65.2
APRIL	0.3	53.0
MAY	0.2	47.8
JUNE	0.2	55.1
JULY	0.2	60.7
AUGUST	0.2	58.7
SEPTEMBER	0.2	61.1
OCTOBER	0.2	63.4
NOVEMBER	0.2	61.4
DECEMBER	0.2	65.0
2005		
JANUARY	0.2	72.79
FEBRUARY	0.2	72.72
MARCH	0.2	76.74
APRIL	0.2	83.81
MAY	0.1	66.3
JUNE	0.1	74.27
JULY	0.1	65.96
AUGUST	0.1	50.39
SEPTEMBER	0.1	68.53
OCTOBER	0.02	31.15
NOVEMBER	0.02	32.99
DECEMBER	0.02	32.13

Source: Reserve Bank of Zimbabwe

TABLE 21
ZIMBABWE: EXTERNAL DEBT OUTSTANDING BY CREDITOR

(US$ millions)	2000	2001	2002	2003	2004[1]	2005
Public and publicly guaranteed medium-and-long-term external debt	3075	3188	3271	3603	3849	3748
Bilateral Creditors	1351	1430	1458	1658	1897	1877
Multilateral Institutions	1724	1758	1813	1945	1952	1871
IMF	292	292	279	288	291	144
World Bank	877	882	919	990	990	990
Others	555	583	615	667	671	737
Private Creditors	0	0	0	0	0	0
Public and publicly guaranteed short-term external debt	42	13	26	51	69	107
Total public and publicly guaranteed external debt	3117	3201	3297	3653	3918	3855
Total External Debt	3525	3422	3510	3812	4071	3978
Memorandum items:						
Private Sector Long-Term External Debt	152	67	56	41	78	57
Private Sector Short-Term External Debt	256	154	157	118	75	66
(in percentage of total)						
Public and publicly guaranteed medium-and-long-term external debt	100%	100%	100%	100%	100%	100%
Bilateral Creditors	44%	45%	45%	46%	49%	50%
Multilateral Institutions	56%	55%	55%	54%	51%	50%
Private Creditors	0%	0%	0%	0%	0%	0%
(in percentage of GDP)						
Total External Debt	58%	31%	52%	76%	95%	134%
Total Public and Publicly guaranteed External Debt	51%	29%	49%	73%	91%	130%
Of which: medium-and long-term debt	50%	29%	49%	72%	90%	126%
short-term debt	1%	0%	0%	1%	2%	4%
GDP (in millions of US dollars)	6107	10887	6715	5037	4299	2972

1. Figures are provisional

TABLE 22
ZIMBABWE: EXTERNAL DEBT OUTSTANDING BY DEBTOR: 2000 - 2005

End Period (US$ millions)	2000	2001	2002	2003	2004	2005
Long-Term External Debt	3227	3255	3327	3644	3927	3805
Government	2249	2328	2376	2617	2844	2895
Bilateral Creditors	1050	1115	1107	1255	1455	1438
Multilateral Creditors	1199	1213	1269	1362	1389	1457
Private Creditors	0	0	0	0	0	0
Public Enterprises	534	568	616	698	714	709
Bilateral Creditors	301	315	351	403	442	439
Multilateral Creditors	233	253	265	295	272	270
Private Creditors	0	0	0	0	0	0
Monetary Authorities	292	292	279	288	291	144
Multilateral Creditors - IMF	292	292	279	288	291	144
Private Sector	152	67	56	41	78	57
Short-Term External Debt	298	167	183	169	144	173
Public and Publicly Guaranteed	42	13	26	51	69	107
Private	256	154	157	118	75	66
Total External Debt Outstanding	3525	3422	3510	3812	4071	3978
Gross Domestic Product	6107	10887	6715	5037	4299	2972
External Debt / GDP	57.7%	31.4%	52.3%	75.7%	94.7%	133.8%

TABLE 23
EXTERNAL DEBT SERVICE AND DEBT SERVICE RATIOS - (US$ MILLIONS)

	1999	2000	2001	2002	2003	2004	2005
Government	315	409	370	343	309	247	204
Capital	223	296	297	275	240	197	159
Interest	92	113	73	68	69	50	45
Parastatals	181	209	212	97	85	69	69
Capital	125	144	147	74	60	58	55
Interest	56	65	65	23	25	11	14
Private	92	69	52	48	23	19	14
Capital	62	49	32	40	20	18	13
Interest	30	20	20	8	3	1	1
Total	588	687	634	488	416	335	287
Capital	410	489	476	389	320	273	227
Interest	178	198	158	99	97	62	60
Exports of Goods and Services	2545	2531	1817	1606	1389	1690	1915
Debt Service ratio	23%	27.2%	34.9%	30.4%	30.0%	19.8%	15.0%
Capital Service Ratio		19%	26%	24%	23%	16%	12%
Interest Service ratio	7%	8%	9%	6%	7%	4%	3%

Note: Figures reflect scheduled debt service.

TABLE 24
STOCK EXCHANGE INDICES

Period	Share Prices (1967=100) Industrial Shares	Share Prices (1967=100) Mining Shares	Yearly Turnover Value(Z$m)	Yearly Turnover Volume(m)	Industrial Shares Dividend Yield %	Industrial Shares Earnings Yield %
1991	1953.61	388.28	281.6	137.7	6.06	7.05
1992	865.55	180.34	103.4	79.8	11.32	2.83
1993	2325.26	515.79	347.2	272.3	3.65	9.03
1994	3160.80	1043.06	1445.5	450.8	4.14	9.70
1995	3972.62	1329.02	1299.4	431.2	4.60	8.07
1996	8786.26	1083.66	2554.7	722.7	2.36	18.51
1997	7196.43	458.40	6470.4	1196.2	3.56	10.43
1998	6408.40	375.74	3753.1	1287.8	4.63	6.05
1999	14426.60	1396.20	8933.2	2021.2	0.80	10.88
2000	17987.60	1597.70	12482.6	1557.8	1.50	17.77
2001	46351.89	2434.99	82520.8	4855.3	1.57	15.65
2002	103495.10	6526.15	128104.3	6409.5	1.47	11.65
2003	401542.90	127571.20	2252556.9	23548.7	3.32	4.95
2004	1097493.00	201176.70	1866257.9	19133.6	3.11	4.32
2005	18483884.00	6450153.40	53386074.2	33730.3	0.46	22.83

Source: Zimbabwe Stock Exchange

TABLE 25
ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
ANNUAL MONEY SUPPLY GROWTH RATE														
M1 % change	10	78	20	47	32	48	26	39	53	144	171	491	234	547
M2 % change	21	60	34	35	19	46	15	35	71	98	179	444	209	552
M3 % change	22	44	34	30	28	35	14	30	60	103	165	414	223	520
REAL SECTOR /1														
Real GDP: Factor Cost $m	19333	19888	20730	20686	22693	22749	22568	22087	20802	20088	19134	17075	16835*	16138*
Real GDP Growth Rate(%)	4.8	2.9	4.2	-0.2	9.7	3.0	-0.8	-2.1	-7.3	-2.7	-4.4	-10.3	-2.3	-4.3
									361373	709214	1698180	5518757	24664284	75540005
CENTRAL GOVERNMENT(Z$M)	41%	52%	62%	119%	146%	138%	170%	335%	45	27	20	11	11	21
Total Central Government debt	21992	29755	38179	54008	67959	90229	153949	190610	284950	390546	551711	3679117	28033864	135225669
Total Domestic debt	7993	10277	12875	24671	33155	31409	38471	73905	162814	194068	346263	590744	2793174	15885669
Total Foreign debt	13999	19478	25304	29337	34804	58820	115478	116705	122136	196477	205448	3088373	25240690	119340000**
Budget deficit % of GDP	9	5	10	12	8	8	6	8	24	8	4	0.3	6.7	3.7
RATE OF INFLATION														
End of period	46	19	21	26	16	20	47	57	55	112	199	599	133	586
Period Average	42	28	22	23	22	19	32	59	56	72	133	360	339	238

Sources: Reserve Bank of Zimbabwe and Central Statistical Office
* Projections
**Excahnge rate used is USD1= ZW$30000.

Branches

Bulawayo Branch
93 Leopold Takawira Avenue
Bulawayo

Telephone: 263 (09) 72141
Telex: 33277 ResZim ZW
Fax: 263 (09) 74036

Subsidiaries

Fidelity Printers and Refiners (Private) Limited (100%)
P.O. Box AY300 Amby, Harare
Telephone: 263 (04) 486694
Telex: 22638
Fax: 263 (04) 486474

Aurex (Private) Limited (100%)
P.O. Box AY115 Amby, Harare
Telephone: 263 (073) 2791
Fax: 263 (073) 2795

Astra Industries Limited (67%)
Astra Park Corner Ridgeway North/Northend Road,
Highlands, Harare
Telephone: 263 (04) 883885
Fax: 263 (04) 883720

Cairns Holdings Limited (67%)
Cairns Food Complex
1 Upton Road, Ardbennie, Harare
Telephone: 263 (04) 620411/9
Fax: 263 (04) 620420

TPH Holdings (67%)
2nd Floor, AON Building opposite Astra Park,
Northend Close, Borrowdale, Harare
Telephone: 263 (04) 883898
Fax: 263 (04) 883899

Export Credit Guarantee Corporation (100%)
15th Floor, CABS Centre, Jason Moyo Avenue, Harare
Telephone: 263 (04) 252800/11
FAX: 263 (04) 252814/5/9

Finance Trust of Zimbabwe (Private) Limited (100%)
80 Samora Machel Avenue, Harare
Telephone: 263 (04) 703000/11
Fax: 263 (04) 705892

Homelink (Private) Limited
Hardwicke House
72 -74 Samora Machel Avenue, Harare
Telephone: 263 (04) 250785, 734811-5
Fax: 263 (04) 725944

FOREIGN EXCHANGE PURCHASING CENTRES

CENTRE	DATE OPENED
Beitbridge FEPC	05.07.2004
Hardwicke House FEPC	26.07.2004
Victoria Falls Kingdom Hotel FEPC	16.08.2004
Harare Airport FEPC	23.09.2004
Joshua Nqabuko Nkomo Airport FEPC	27.09.2004
Victoria Falls Airport FEPC	01.10.2004
Plumtree FEPC	06.10.2004
Bulawayo Fort Street FEPC	01.11.2004
Kariba FEPC	31.01.2005
Mutare Forbes FEPC	05.03.2005
Mutare City FEPC	11.03.2005
Nyamapanda FEPC	16.03.2005
Chirundu FEPC	20.03.2005

NOTES