RESERVE BANK OF ZIMBABWE

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3 July 2007

Minister Without Portfolio
Hon. E.T. Manyika
Munhumutapa Building
Samora Machel Avenue
Harare

Dear Hon. Minister

Re: Prices Reduction Crack Team Programme

1. Hon. Minister, I write to make recommendations on the ongoing efforts meant to stabilize prices in the economy.

2. As your Central Bank, whilst we concur that a significant part of the high inflation the economy is experiencing is being fuelled by speculative price increases, we recommend that current efforts be bolstered by the adoption of a holistic package of measures that would uplift the general supply of goods and services in the economy.

3. Over the past 43 months since December, 2003, the Central Bank has been making clarion calls on the need to take the following measures, among many others:

(a) That we uplift overall productivity on our farms through effective utilization of all arable land;

(b) That we privatize targeted entities to raise foreign exchange as well as allowing for new equity to be injected through private sector participation;

(c) That we vigorously jerk up operational efficiencies at all public utilities and local authorities to unlock the economy's supply side;

(d) That overall expenditure levels in line Ministries be streamlined to levels consistent with available revenue streams;

(e) That the Social Contract be implemented as the launch pad for macroeconomic stabilization;

(f) That foreign direct investment be promoted in areas such as mining and manufacturing through progressive legal reforms that give comfort to the investor community; and

(g) Elimination of corruption at all levels in the economy.

4. Hon. Minister, it is our strongest conviction that only through a holistic framework can we stabilize prices, without inducing shortages in the market.

5. For further information, I have attached to this letter the full catalogue of policy advice that we have made since December, 2003.

6. We remain committed to continue playing our part in stabilizing the economy.

Yours sincerely

DR G. GONO
GOVERNOR

c.c. Dr M.J.M. Sibanda, Chief Secretary to The President and Cabinet
Hon. W. Shamu, Minister of State In Charge of Policy Implementation

A CATALOGUE OF POLICY ADVICE GIVEN BY THE RESERVE BANK OF ZIMBABWE TO THE NATION

DECEMBER 2003 TO DATE

BY

DR. G. GONO

GOVERNOR

RESERVE BANK OF ZIMBABWE

3 JULY 2007

MATRIX OF MONETARY POLICY ADVICE

MAIDEN MPS DECEMBER 2003

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Reduction of Government expenditure by line ministries through improved cash management and enforcement of discipline	Paragraph 14.1, page27	i. Some Government Ministries have implemented cash budgeting while other Ministries continue to spend beyond their budget allocations.	i. Fuels money supply growth and inflation	
Restriction of supplementary budgets to national emergencies and disasters	Paragraph 14.3, page 27	i. Supplementary budgets incurred in 2005 and 2006.	i. Increases money supply hence inflation	
Convert domestic debt into foreign debt through the issuance of foreign currency denominated bonds where the foreign currency is sold to RBZ and the local currency used to clear domestic debt	Paragraph 15.5 & 15.6, Page 33	i. Bond issued.	i. Response was below expectations (with only four subscribers amounting to USD32000) due to perceived country risk, hence low foreign currency generation from Zimbabweans living abroad	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Tightening of liquidity support to financial institutions Banks to adhere to the ZETSS time-table	Paragraph 6.1 (e), page 8 Paragraph 6.3 (c), page11	i. Temporary liquidity assistance and Troubled Bank Fund abolished ii. Some banks which failed to adhere to set guidelines were suspended from the Clearing House and were re-admitted after remedial measures were initiated.	i. Assists in curtailing money supply growth. i. Reduces non-payment risk. ii. Restores order and market confidence in the banking system.	
The RBZ to pursue a dual interest rate policy	Paragraph 7.1, page13	i. Dual interest rate framework in place, concessional facilities attract 50%, while other borrowings attract market related rates. ii. Dual interest rate framework still in place	i. The intended purpose of inducing a positive supply response and dampening inflationary pressures in the economy has not been achieved, especially in the agricultural sector. ii. Saved jobs and kept companies afloat. iii. Market related rates discouraged speculative and other non-productive borrowing.	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Upward adjustment in the statutory reserve requirements	Paragraph 7.9 (e), page16	i. Statutory reserve requirements were gradually adjusted upwards for commercial and merchant banks to 60% on call and demand deposits and 45% on savings and time deposits. The rates were revised downwards on 19th June 2006 to 50% on demand deposits and 40% on call savings and time deposits.	i. Curtailed credit creation and contributed to the reduction in broad money supply growth from 490.9% in January 2004 to 177.6% in January 2005. ii. Source of funds for targeted concessional lending.	
The Tourism Sector to benefit from the targeted concessional finance.	Paragraph 9.3, page 19	i. Beginning first quarter of 2004 Tourism Sector accessed funding from the PSF up to the time when the facility was discontinued.	i. Stimulated activities in the Tourism sector.	
RBZ to register and regulate the operations of all Asset Management Companies and financial institutions in Zimbabwe	Paragraph 11.4 (a), page 23	i. Registration process and cancellation of operating licences done at the Central Bank.	i. Instilled discipline and confidence in the financial sector. ii. Only registered players are allowed to operate.	
RBZ to transparently and timeously	Paragraph 14.10, page 29	i. Publications are released and posted	i. Provides information to stakeholders, for	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
release statistics and		on the Bank website	research, planning and	
economic literature		on a weekly, monthly and annual basis.	decision making.	
Introduction of the controlled foreign currency Auction System	Paragraph 16.2 (f), page 36	i. The system was introduced on 17th January 2005 and then replaced by the Tradable Foreign Currency Balances System (TFCBS) in October 2005, which was in turn replaced by the volume based exchange rate system in January 2006.	i. Stabilised the exchange rate. ii. Foreign exchange inflows improved throughout 2004. iii. Improved capacity utilisation and enhanced exporter viability. iv. Parallel market activities were markedly reduced. v. Under the volume based system inflows into the formal market have declined while the parallel market rate has depreciated significantly.	
Creation of the Energy and Infrastructure Development Bank (ZEIDB)	Paragraph 23.6, page 51	i. The Infrastructure Development Bank of Zimbabwe was launched on 31st August 2005.	i. Supporting development projects in the energy, transport, water (dams) and housing sectors.	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
			ii. Providing medium term loans to companies for capital projects.	

FIRST QUARTER MPS JULY 2004

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Re-orientation of the financial sector	Paragraph 3.3 page 16	i. A total of nine banking institutions were placed under curatorship. ii. Three banks remain under curatorship, while five have fully implemented market solutions and resumed operations	i. Fostered stability in the financial sector. ii. Eliminated non core activities and enhanced financial intermediation.	
Consolidated supervision of the financial sector.	Paragraph 5.1, page 18	i. Reserve Bank commenced supervising banking groups. The groups report financial information on a consolidated basis through quarterly prudential returns. Legislation that will facilitate licensing of bank holding companies is under development.	i. This has enhanced the RBZ's consolidation of banking institutions' risk profiles, and strengthened the supervision of these institutions.	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Regulatory framework for Asset Management Companies (AMCs) and Microfinance institutions	Paragraph 14.1, Page 24	i. 31 AMCs were licensed in 2004; 13 licenses cancelled in 2005 due to engagement in non-core activities and insolvency; and 1 license cancelled in 2006	i. Elimination of illegal and speculative activities. ii. Stability of the financial sector. iii. Licensed AMCs and microfinance	
		ii. 17 operating Asset management Companies (AMCs) were issued with	institutions now engaging in core business activities.	
		perpetual licenses in 2005. Regulatory framework is in place to facilitate ongoing monitoring.		
		iii. Applications for new licenses are being considered.		
Intolerance for insolvency of banks	Paragraph 10.6, Page 22	i. Some insolvent banking institutions were put under curatorship but some have since resumed normal business after rehabilitation whereas others have been closed. ii. Three (3) institutions (Trust Bank, Royal Bank & Barbican Bank) were amalgamated into the Zimbabwe Allied Banking Group. iii. Some institutions were	i. Strengthened the stability of the financial sector. ii. Protected depositors' funds. iii. Restoration of confidence in the banking sector.	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
		liquidated e.g. Rapid Discount House		
International ratings	Paragraph 5.4-5.5 Page 9	i. International credit rating has been implemented. An internationally accredited credit rating agency Global Credit Rating (GCR) has been engaged for the rating of local banks	i. Improved market discipline ii. Provided a standard for the RBZ supervisory role. iii. Enhanced confidence	
			in the banking sector.	
Consolidation of the Mining and Fiscal regime to complement incentives in the	Paragraph 20.5, Page 34	i. Underway	i. Increased participation in the mining sector. ii. Increased production	
mining sector.			and foreign currency generation.	
Support to farmers through working capital equipment and infrastructure financing under Productive Sector Facility (PSF)	Paragraph 18.3 (iii), Page 30	i. Z$3.1 trillion disbursed under PSF between January 2004 and 30 June 2005. ii. Of the amount disbursed, Z$20 billion was for purchase and repairs of farming equipment including tractors. iii. Discontinued on 30 June 2005.	i. Tractors and farming equipment purchased and used to support production in the agricultural sector.	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
		iv. Support for agriculture was continued under ASPEF.		
Pre-financing and contract growing of tobacco under the following conditions: • Contractors should show commitment by employing their own funds when supporting farmers • A contractor can only	Paragraph 18.3 (vi) Page 31	i. Inputs were disbursed for the 2004/2005 tobacco season. However some farmers got the inputs late. ii. The program is on going iii. Program continues to face challenges in terms of late disbursements	i. Availed inputs to tobacco growers. ii. Enhanced foreign currency generation. iii. Late disbursement and late planting resulted in a lower than anticipated yield in some instances.	
buy tobacco to the extent of the financial support they have given to the growers • Contractors should twin with established merchants who have access to offshore lines of credit				
Targeted winter wheat, barley and tobacco program	Paragraph 18.5, Page 31	i. Inputs were disbursed for the 2004/2005 planting season. However some farmers got the inputs late. ii. The program is on going. iii. Program continues to face challenges in terms of late disbursements	i. Availed agricultural inputs to farmers. ii. Boosted production of targeted crops. iii. Enhanced food security.	
Vigorous support to	Paragraph 18.8,		i. Enhanced agricultural	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
cotton, tea, coffee, sorghum, sunflower, soya beans, paprika, horticulture and livestock products	Page 32	on going. ii. The producer price of cotton was reviewed to Z$37 000/kg in 2006.	production ii. Enhanced capacity to generate foreign currency.	
Bolstering capacity of the **Grain Marketing Board (GMB)** to ensure timely interface with farmers	Paragraph 18.6 Page 32	i. The GMB opened more depots closer to farmers. ii. There are provincial GMB officials who interact with farmers iii. Substantial progress has been made in ensuring that payments to farmers meet the desired pre-planting cash-flow iv. However, there is slow progress on GMB turnaround and service delivery.	i. Ensured timely distribution of inputs, grain delivery and timely payment of farmers.	
Ministry of Transport and Communications to put in place a rescue package for the National Railways of Zimbabwe (NRZ). **RBZ and Ministry of Mines and Mining Development** to provide special licences to designated agents who	Paragraph 24.9, Page 39 Paragraph 37.10, Page 68	i. NRZ accessed funds under the PARP facility for recapitalisation of the parastatal i. Licences were issued in gold production areas across the country.	i. Enhanced operational efficiency and service delivery by NRZ. i. Improved proximity of gold purchasers to miners. ii. Reduced parallel market	
will buy gold in areas where these			activities in gold	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
operations are concentrated			iii. Increased gold deliveries to through the formal market.	
Ministry of Mines and Mining Development to put in place operational guidelines that stipulate maximum periods over which mining claims cannot remain unutilised	Paragraph 38.5, Page 69 Paragraph 40.7, Page 75	i. The Zimbabwe Mining Development Corporation (ZMDC) took over some of the unutilised claims. ii. While some claims are now being utilised, others remain unutilised due to financial constraints on the ZMDC	i. Ensures increased exploitation of the country's mineral resources. ii. Increased foreign currency generation. iii. Increased employment.	
Close co-operation and complementarity between monetary and fiscal policy.		i. Technical committees set up to improve complementarity of fiscal and monetary policies. ii. However, not much has been achieved in this direction.	i. Policy inconsistencies. ii. Monetary expansion	
Discouragement of unbudgeted access to the RBZ overdraft window beyond statutory limits	Paragraph 41.2, Page 75	i. Government borrowing on its RBZ account always within statutory limit.	i. Contributed to efforts to control money supply growth and inflation. ii. Ensured fiscal discipline	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
			and credibility of monetary policy.	
Interest rate policy	Paragraph 43.1, Page 79	i. Dual policy to control inflation and support economic growth in place ii. Dual interest rate framework still in place	i. High interest rates for non productive borrowings have curtailed speculative borrowing. ii. Not much has been achieved in terms of inducing supply response and dampening inflationary pressure.	
Accommodation policy	Paragraph 44.4 Page 80	i. Accommodation rates reviewed in line with inflation developments.	i. Discourages speculative borrowing to fend off inflationary pressures in the economy.	
RBZ and relevant Government Authorities to take stern measures against unscrupulous increases in **rentals by Real**	Page 91	i. A rent and rates committee was set up to look into developments in the property market and make policy	i. Little progress has been made in regulation of rentals as some real estate agents and property owners continue to	
Estate Agents and property owners, which are unrelated to changes in economic fundamentals		recommendations	link rentals to increases in inflation.	

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Rationalisation of external trade tariffs in a manner that enhances producer viability and promotes greater flows of trade among trading partners	Paragraph 50.2 Page 89	i. Discussions in the COMESA and SADC trade blocs to harmonise trade tariffs are on going. ii. Zimbabwe is a member of both COMESA and SADC. iii. The coming on stream of COMESA Customs Union in 2008	i. Access to regional markets by local companies. ii. Reduces the costs of cross-border trade by simplifying port of entry formalities. iii. However, local trade tariffs are generally higher than those in the region or those of trading partners and impact negatively on trade	

SECOND QUARTER MPS JULY 2004

POLICY ADVICE GIVEN	REFERENCE	IMPLEMENTATION PROGRESS	IMPACT	COMMENT
Encouragement of mergers and acquisitions in the financial sector.	Paragraph 2.19, Page 11	i. Merger of financial units from the same stable underway. African Banking Corporation of Zimbabwe Limited merged with African Banking Corporation Securities Limited.	i. Soundness of Financial institutions has been enhanced.	
Compliance with new capital	Paragraph 2.5, Page 7	i. Banks complied with the new regulations.	i. Enhanced financial soundness of	