



**2006 YEAR-END
MONETARY POLICY STATEMENT**

**TAKING THE BULL BY THE HORNS: ROADMAP TO
OUR RAPID DISINFLATION PROGRAMME,
MACRO-ECONOMIC STABILITY AND
PROSPERITY FOR ALL ZIMBABWEANS .
VISION 2008 REVIVED**



**BY
DR. G. GONO - GOVERNOR**

31 JANUARY 2007

TABLE OF CONTENTS

1.	INTRODUCTION AND BACKGROUND	5
2.	REALITY CHECK: OVERCOMING OUR FEAR TO FACE REALITY... ..	5
3.	CURRENT CHALLENGES... ..	7
	DISTORTIONS: THE REAL MILL-STONE AROUND OUR ECONOMY	9
	The Staggering Distortions	9
	MAIZE PRICING... ..	9
	FUEL ALLOCATIONS AND PRICING	10
	UTILITY TARIFFS	11
	FERTILIZER PRICES... ..	12
	TELECOMS INTERNATIONAL CALL CHARGES	12
	LIMITED FOCUS ON CAPACITY DEVELOPMENT	13
	RAMPANT INDISCIPLINE AND DAYLIGHT SMUGGLING	13
	FINES ON ECONOMIC CRIMES	14
	DETERIORATION OF THE JUDICIAL FRAMEWORK	14
	HIGH FISCAL RECURRENT EXPENDITURE	16
	LEGISLATIVE GREY AREAS	17
	AGAINST THIS BACKGROUND, THEREFORE, TRADITIONAL TOOLS ALONE WILL NOT DO	17
4.	FINANCIAL SECTOR DEVELOPMENTS	18
	STATUS OF THE BANKING SECTOR	18
	Banking Institutions... ..	18
	Microfinance/Moneylending Institutions... ..	19
	Capitalization... ..	19
	Consolidation... ..	19
	ENHANCED SUPERVISORY PROCESSES	19
	Consolidated Supervision... ..	20
	FINANCIAL INCLUSION: RURAL BANKING	20
	AMENDMENTS TO BANKING LAWS	20
5.	MONETARY DEVELOPMENTS	21
	CURRENCY IN CIRCULATION DEVELOPMENTS	23
6.	INFLATION	24
	ANNUAL INFLATION PROFILE (Jan.04-Dec '06)	25
	MONTH ON MONTH INFLATION PROFILE	25
	UNDERSTANDING THE MAJOR INFLATION DRIVERS	26
	MAJOR INFLATION SUB CATEGORIES	27
	MONETARY ANCHOR AND INFLATION TARGETS	28

7.	MONEY MARKET DEVELOPMENTS	29
	Money Market Position	29
	DEEPENING OF MONEY MARKET INSTRUMENTS	30
	Money Market Interest Rates	30
	Other Money Market Developments	30
	INTEREST RATE POLICY	31
8.	PROPOSED ROADMAP TO OUR RECOVERY	31
	FREEING THE ECONOMY FROM DISTORTIONS TO PROSPER	
	ZIMBABWE... ..	31
	WHAT THEY SAID ABOUT PRICE DISTORTIONS... ..	32
	His Excellency The President, Cde. R. G. Mugabe	32
	The Minister of Finance, Dr. H. M. Murerwa.	33
	The National Economic Development Priority Program (NEDPP).	33
	The Private Sector	34
	The IMF and the World Bank	34
	THE RUSSIANS... ..	34
	THE CHURCHES... ..	35
	CONSUMERS	35
	SOCIAL CONTRACTS AND MACROECONOMIC STABILISATION	36
	COUNTRY EXPERIENCES: FACTS AND LESSONS	36
	German	36
	United States of America (USA)	36
	Hungary	37
	The Brazilian Experience	37
	Bolivia	38
	Israel	38
	MAIN LESSONS FROM OTHER COUNTRIES	39
	INEVITABLE CORRECTIONAL HARDSHIPS	40
	EXPECTED CONCEQUENTIAL BENEFITS... ..	41
	AGAINST THIS BACKGROUND... ..	41
9.	THE PHASED ECONOMIC STABILIZATION STRATEGY	42
	PHASE 1: 1 FEBRUARY-30 JUNE, 2007	43
	TRANSPARENT MECHANICS OF THE SOCIAL CONTRACT	44
	CREDIBLE STEPS ON MONETARY POLICY REFORMS	45
	WINDING-DOWN OF QUASI-FISCAL OPERATIONS	45
	RETURNING TO CORE FUNCTIONS OF THE CENTRAL BANK	45
	BUILDING OF A STABILIZATION FOREIGN CURRENCY RESERVE	46
	RURAL BANKING	46
	CLEARING UP THE OPERATING LEGAL ENVIRONMENT	46

CREDIBLE FISCAL ADJUSTMENT	47
FACTORS IN THE REALM OF THE MINISTRY OF AGRICULTURE	48
MINISTRY OF INDUSTRY AND INTERNATIONAL TRADE.	49
RESPONSIBILITIES IN THE REALM OF THE TOURISM SECTOR	50
FACTORS IN THE REALM OF POLITICS	50
FACTORS BEYOND OUR CONTROL AS A COUNTRY	51
PRIVATIZATION OF TARGETED PUBLIC SECTOR ENTITIES	52
DEPOLITICISING ECONOMIC PROGRAMS	52
TRANSLATION OF ALL MOUs INTO IMPEMENTABLE AGREEMENTS	53
PUBLIC AWARENESS	53
DIPLOMATIC ENGAGEMENT	54
ZIMBABWE'S FOREIGN MISSIONS	54
CORPORATE AND INDIVIDUAL ECONOMIC PATRIOTISM	55
INDISCIPLINE AND DETERRENT LAWS	56
ROLE OF THE CHURCHES	56
ROLE OF NGOs, EMBASSIES AND INTERNATIONAL ORGANISATIONS IN ZIMBABWE	57
COLLECTIVE IMPLEMENTATION	58
PHASE 2: 1 JULY-31 DECEMBER, 2007 : RAPID DIS-INFLATION AND STABILIZATION	58
RAPID REMOVAL OF DISTORTIONS	60
FOREIGN EXCHANGE MOBILIZATION	61
MEASURED PRICES AND INCOMES ADJUSTMENT	61
AGRICULTURE PRODUCTIVITY	61
PARASTATAL AND LOCAL AUTHORITIES	62
SECTORAL PERFORMANCE REVIEWS	62
DECRIMINALIZING ZIMBABWEANS	62
10. NEED FOR IMPLEMENTATION OF AGREED PROGRAMS.	63
11. CONTRADICTIONS... ..	64
LESSONS LEARNT OVER THE PAST 4 YEARS: 2003-2006	65
The 2004 Success Story... ..	66
12. SOURCES AND APPLICATIONS OF FOREIGN EXCHANGE (2003-2006)	72
WHAT HAS KEPT ZIMBABWE GOING... ..	72
BALANCE OF PAYMENT SUSTAINABILITY	73
GLOBAL FOREIGN CURRENCY FLOWS	74
Global Foreign Currency Application (2003-2006)	75
13. EXCHANGE RATE MANAGEMENT	77

14. OTHER MEASURES DIASPORA AND FREE FUNDS INFLOWS	80
MONEY TRANSFER AGENCIES (MTAs)	80
LOCAL FERTILIZER PRODUCERS	81
2010 WORLD CUP GAMES	81
TOBACCO 15% RETENTION FACILITY	81
FCA Backed Loans	82
15. GOLD DELIVERIES	82
Increasing Accountability	84
16. QUASI-FISCAL OPERATIONS	85
17. SUNRISE PROJECT: PHASE 2	87
18. ROADMAP TO PRIVATIZATION OF OUR PUBLIC UTILITIES	88
Core Principles on Privatization... ..	89
RECOMMENDED PRIVATIZATION CANDIDATES	90
FAIR VALUE CRITERIA... ..	90
19. SMALL TO MEDIUM SCALE ENTERPRISES	90
20. REDEFINITION OF NATIONAL RESERVE ASSETS	91
Enactment of the Amended Mines and Minerals Act and Promulgation of	
Policy on Gaseous Hydrocarbons	92
Promotion of Joint Venture Companies in Mining	92
21. AGRICULTURAL SECTOR PRODUCTIVITY ENHANCEMENT	
FACILITY (ASPEF)	92
AGRICULTURE SUPPORT	93
THE MECHANIZATION PROGRAM	94
22. THE 99-YEAR LEASE PROGRAM	94
23. NATIONAL PAYMENTS SYSTEMS	94
ELECTRONIC MEANS OF PAYMENT	94
THRESHOLDS FOR ZETSS AND CASH TRANSACTIONS.....	96
ZIMRA DUTY PAYMENTS	96
INTEROPERABILITY ON CARD PAYMENT STREAMS	97
Import and Export of Local Currency	97
STOCK EXCHANGE TRANSACTIONS REPORTING	97
24. FIGHT AGAINST CORRUPTION	98
25. INVESTMENT PROMOTION	98
26. INSTITUTIONAL CAPACITIES	98
27. INTERNATIONAL RELATIONS	99
BILATERAL INVESTMENT PROTECTION AGREEMENTS (BIPAs)	100
28. CONCLUSION	100
MATRIX OF DELIVERABLES FOR PHASE 1 AND 2	103

1. INTRODUCTION AND BACKGROUND

- 1.1 This Monetary Policy Statement is issued in terms of the Reserve Bank of Zimbabwe Act Chapter 22:15, Section 46.
- 1.2 The policy priorities and implementation programs that are spelt out in this Monetary Policy Statement are largely drawn from the collectivity of various consultations held with stakeholders, as well as from advice received from the country's Presidium, Cabinet and NEDPP deliberations.
- 1.3 The Statement also draws from other broad priorities outlined in national budget statements made by the Hon Minister of Finance Dr. H. M. Murerwa over the past two years, as well as developmental strategy documents mapped out by the Ministry of Economic Development.
- 1.4 Consistent with the novel strategy of consulting widely, this Monetary Policy Statement also takes into account the galaxy of stakeholder inputs that either came directly to the Central Bank; OR
- 1.5 those that found expression in various deliberations on the economy across the broad range of constituencies that make up Zimbabwe;
- 1.6 Our recent discussions with the International Monetary Fund (IMF), the World Bank (WB), and UNDP once again demonstrated the country's continued readiness to engage with the international community and to seek their assistance in our efforts to deal with our situation.
- 1.7 I thank all who contributed to the thought process that gave rise to this statement.

2. REALITY CHECK: OVERCOMING OUR FEAR TO FACE REALITY...

- 2.1. Fellow Zimbabweans, it is not denied by the majority of our people that our country is at crossroads, politically, socially and economically.
- 2.2. Whilst this is true, however, some have elected to continue hiding from the facts, denying the imperative which suggests that unless us as Zimbabweans do something about our situation, on our own, to start with, the current economic difficulties will deepen to irreversible levels.

- 2.3. The year 2007 has to be the turning point in our quest to come to full grips with our situation; 2007 has to go down in history as the year we took the bull by the horns so to speak, and laid a firm basis for an irreversible take-off of our economy; the year 2007 has to be a year for our renewed self confidence as a people, renewed investment drive, renewed efforts towards greater unity of purpose and a year for HEALING efforts between and amongst us as a people than has been the case since our economic decline started ten years ago.
- 2.4. We currently observe latent political tensions in as much as there are economic and social tensions arising from the economic hardships people are experiencing across the board. Such disunity and distrust between us does not auger well for an economy seeking to turnaround and take-off.
- 2.5. That Government, Business, Labour, and Civil Society are different but complementary parts of the same chain called life cannot be overemphasized, so is the fact that we are as strong as the weakest link in that chain.
- 2.6. These realities demand therefore, the need to work together in a complementary fashion to jointly improve the lives and welfare of all who make up the constituency called Zimbabwe.
- 2.7. No Government can hope to fulfill the aspirations of its people if it is at variance with its business, labour and civil constituencies; neither can the business community think they can fulfill their shareholders' mandate in an environment of antagonism with its Government, and the same indivisibility of fate applies to labour and civil society in relation to all other constituencies.
- 2.8. In fact, isn't it that an employed artisan is also an employer when he or she returns home to his or her domestic workers, and is part of civil society when he or she takes the podium to preach on Sunday while he or she assumes governmental responsibilities during the week, say as a local councilor responsible for determining council's budget and operations as a part-timer.
- 2.9. That is how intertwined our roles are as society, and as such, the turnaround of our economy cannot be subcontracted to one individual or entity.
- 2.10. It is a total as opposed to a zero-sum game.
- 2.11. I, therefore, appeal to all Zimbabweans to contribute a brick whole-heartedly to this project.

3. CURRENT CHALLENGES...

- 3.1 The challenges facing our economy today are many and known to us all. We live with them, we experience them daily, be it in urban or rural areas. A lot has been written and spoken about them to a point where I don't need to repeat them here.
- 3.2 As stated before, what is not unanimously agreed upon is the causes of these challenges. Politics, sanctions and the successive droughts, economic mismanagement, corruption and indiscipline, the fixed exchange rate, quasi-fiscal operations of the Reserve Bank of Zimbabwe or the Budget Deficit by the Ministry of Finance or machinations of the private sector, among many other factors, are reasons often cited for our current painful state of affairs, depending on whom one is talking to and during which part of the day.
- 3.3 Whoever, whatever and whichever is the actual or perceived cause of our situation, right now our people do not seem to care. Instead, there is a unanimous call that something be done about it and arrest the situation, especially the rate at which prices of our goods and services are rising everyday.
- 3.4 Our people today are crying for holistic solutions and not half-hearted efforts or piece meal programs; they are crying for action and not just talk or endless meetings that produce nothing at the end of the day.
- 3.5 Our people are not interested in the blame game anymore. The message to us from across the board was very loud and clear – “lets put our heads together and deal with the challenges head-on” they said to us.
- 3.6 It is against this cry for action, now reaching crisis levels, that as Monetary Authorities we are calling on all Zimbabweans to set-aside any sectoral, institutional or personal differences and take on the challenges, head-on, inorder to begin to change the fortunes of our country for the better.
- 3.7 Now, given the diversity and complexity of the task at hand, it is pertinent that I quickly point out that, no single individual, no single Ministry, single economic or social sector or no single political grouping **can, will or should be expected to single-handedly drive our economic turnaround agenda and successfully achieve desired** results in terms of growth, equity, price stability, abundant foreign exchange generation, employment creation, and prosperity for all.

- 3.8 Equally, **no single policy prescription can** or should be expected to resolve all the economic challenges confronting us as a Nation.
- 3.9 Instead, what is required and is proposed here and is supported by a host of inputs and literature from all stakeholders is a **package of holistic and complementary policies**, accompanied by a **credible sequence of program of implementation, backed up by undivided social, business, labour and political commitment, unity of purpose and support at all levels**, from grassroots politics to the Presidium, from the lay preacher at a village to the Bishops of our churches, from factory worker to the Chief Executive and leaders of our Trade Unions..., a package designed to achieve results within the shortest possible time-frame to be agreed by us all.
- 3.10 Responsibility for the turnaround of our economy must, therefore, be shared, with each and everyone of us contributing a brick to the reconstruction process and sharing in the pain or joy, frustration or satisfaction associated with that progress or otherwise.
- 3.11 The current **fragmented and seemingly knee-jerk, half-hearted approach** and lack of total **commitment from various social, political and economic partners in our reconstruction journey is undesirable and has so far produced sub-optimal results**.
- 3.12 Part of the reason for stakeholder reluctance to support key turnaround programs is the alleged lack of prior consultation and involvement of key players at program formulation stage... a weakness we have tried to remedy here through extensive consultations.
- 3.13 In a number of cases and situations which required decisive action over the last couple of years, it has been observed that that we have allowed political expediency to override economic considerations and common sense, resulting in temporary gratifications at the expense of sustainable long-term imperatives.
- 3.14 We have at times allowed political and individual, sectoral or regional interests or differences to get the better of us and pursued policies and actions designed to fulfill those individualistic and patronizing goals at the expense of national goodness. There is no door or window left open for that luxury **anymore**.

- 3.15 If we continue with this casual and sometimes selfish approach, we risk subjecting the majority of our people to continued suffering under the inflationary yoke, foreign currency shortages, transport hardships, inadequate pay levels, shortage of basic commodities, parallel market operations and negative growth, among other challenges facing us as a Nation today.
- 3.16 The consequences of this Status-quo situation and business as usual attitude are too ghastly to contemplate and as advisors to Government and the Nation at large, this Monetary Policy Statement seeks to alert the Nation to these dangers and propose a way forward.

DISTORTIONS: THE REAL MILL-STONE AROUND OUR ECONOMY

- 3.17 Whilst traditionally it has become fashionable, as stated earlier on, to blame successive droughts, illegal sanctions against us, quasi-fiscal operations of the Central Bank, as well as rigidity in the exchange rate as the main culprits for the countries' current hardships, the reality on the ground, does however reveal startling contradictions and distortions currently prevailing in the economy as the major mill-stone around the economy requiring head-on attention before we look at the Central Bank as the source of our hardships.
- 3.18 To amplify this reality, I give below just but a few examples of the reality that we need to deal with as a nation to arrest the current economic crisis.
- 3.19 Time has thus come that the truth and facts be allowed to speak for themselves in the interest of building credible policy interventions that will meaningfully deliver Zimbabwe out of the current difficult circumstances.

The Staggering Distortions...

MAIZE PRICING...

- 3.20 As a nation, we have to put our heads together and accept the fact that the current situation where the GMB is buying maize from farmers at \$52 500/tonne, whilst selling the same to millers at a mere \$600/tonne price is not sustainable by any standard.
- 3.21 The debilitating effects of this state of affairs are multidimensional.

- 3.22 Firstly, the wide price differential imposes a phenomenal burden on the fiscus, which in turn looks to Central Bank to bail out GMB on a daily basis, a situation which in turn causes surging inflationary money supply growth.
- 3.23 Secondly, these differentials create a fertile haven for corruption and rent-seeking behaviour, as some millers are simply round-tripping by re-selling, at \$52 500/tonnes back to the GMB, in the afternoon, the same maize they would have gotten from the GMB itself at \$600/tonne in the morning. This legal innovation is mostly prevalent among us the so called “chefs” who have resorted to having several grinding mills throughout the country and use our connections at various GMB depots to get access to the maize.
- 3.24 Thirdly, because through the wide price differentials non-farmers can easily make mountains of wealth without shading a drop of sweat by re-trading the same maize sold to the GMB by hardworking farmers, the price differential has the significant risk of discouraging honest farmers from tilling their land and growing maize which they know they can obtain at the cost of a phone call.
- 3.25 Time, therefore, has come that something be done about this, in a manner that does not take away Government’s inner objective of ensuring that food is affordable to the vulnerable groups of society. Politicians need to go out and explain to the people that this irrationality cannot be sustained for ever. We have proposed a time table for this subsidy to be reviewed and eliminated.

FUEL ALLOCATIONS AND PRICING

- 3.26 As Monetary Authorities, we fully support Government’s policy on subsidies to agriculture, as this is a universal strategy employed by virtually all contemporary economies in the world to guarantee their food security.
- 3.27 This notwithstanding, however, the current mode of support where fuel is being allocated to farmers at \$330 per litre for diesel, is discouraging our farmers from engaging in agriculture itself, as many are now finding it more profitable and less problematic, to simply trade the fuel on the parallel markets instead of production.
- 3.28 The misalignments in fuel prices have also seen the reality on the ground being divorced from the intended Government objective of providing affordable transportation systems to both the rural and urban populations of the country.

- 3.29 As has now become repeatedly observable, that the subsidized fuel is rarely benefiting the intended low income urban populations and the rural folk, as transporters are hiking their fares in tandem with actual procurement costs of fuel, among other considerations.
- 3.30 These anomalies can not be allowed to persist if the economy is to ride out of the current crisis. This is besides the fact that we cannot continue to expect a litre of water from Manyame river to cost more than a litre of petrol or diesel imported all the way from the Middle East. We have proposed a timetable for our political leaders to take this message to the people before that anomaly is removed as it is a source of inflationary pressure and enrichment of a few with access to NOCZIM.

UTILITY TARIFFS

- 3.31 The nation recently woke up to media headlines that ZESA was broke, and that Zimbabweans had to brace up for more sustained power-cuts.
- 3.32 When one observes that in most residential areas, a full month's electricity bill comes to a mere \$20 000, which amount translates to the price of a small bundle of firewood to last for two hours; or equally startling, that such monthly bill is equivalent to no more than 2 packets of candles then, it should come as no surprise that ZESA can not pay its way.
- 3.33 Recurrent power cuts to industry, to mines, to irrigation infrastructures and tobacco barns and in our hotels and hospitals, among many other centers of socio-economic production, directly militate and aggravate the inflation spiral.
- 3.34 Equally, lower-than cost of service delivery pricing in our municipalities and other public utilities is crippling the economy in our wake.
- 3.35 Fellow Zimbabweans, we cannot continue on this path if we are to arrest the current economic crisis and Government delivery of services to the people.
- 3.36 As one stakeholder advised: "Our parastatals and local authorities are not creatures that exist in isolation of the prevailing economic realities in the country. They must, therefore, be allowed to operate within parameters that make economic sense".
- 3.37 We have proposed a timetable within which our political leaders in Parliament, Senate and Cabinet ought to take this message to the people so that we can see the removal of these anomalous distortions for the sake of containing Government expenditure and money supply growth

FERTILIZER PRICES...

- 3.38 The current and past agricultural seasons have witnessed the dichotomy of fertilizer shortages on the formal market, whilst the same product is readily available in parallel markets.
- 3.39 The main cause of this dichotomy is again not too difficult to trace, given that at around \$8 000 per bag, the official price of fertilizer falls far short of the indicative cost of production, currently estimated at around \$20 000 per 50kg bag.
- 3.40 The main victims of this misalignment are, unfortunately the small-scale and communal farmers who are either not connected enough to secure the subsidized fertilizers or simply do not have enough financial muscle to afford the parallel market prices well in excess of \$30 000 per 50kg bag.
- 3.41 Again fellow Zimbabweans, there is need for a re-assessment of our interventions in agriculture, if we are to deliver a Zimbabwe that has food security, low inflation and a vibrant foreign exchange market.

TELECOMS INTERNATIONAL CALL CHARGES

- 3.42 Notwithstanding the numerous calls for the realignment of the country's pricing on international call termination charges, the telecommunications sector, particularly Tel One, continues to incur net debts in foreign exchange, which situation is threatening the stability and availability of the country's connectivity with the rest of the world.
- 3.43 Because of the mis-alignments in our pricing, it has become awfully cheaper for foreign telephone recipients to ask their Zimbabwean friends, family members or business partners to be the ones initiating the international calls, against which less than US\$3 would be sent from abroad (for conversion at parallel market rates) to cover as long as 100 minutes of a Tel One bill in local currency.
- 3.44 The country is suffering double tragedy: one it is missing on the opportunity to earn foreign currency from this investment and secondly, Tel-one comes to the Central Bank looking for forex to pay for the outgoing call which was in essence supposed to be incoming.

LIMITED FOCUS ON CAPACITY DEVELOPMENT...

- 3.45 A devastating distortion that is ravaging the operational efficiencies in the country's key institutions and agencies, but tragically without getting much attention, is the adversities of the brain-drain that is taking place in virtually all sectors of the economy.
- 3.46 Because of this, most of our key economic parastatals, Ministries and specialized private sector entities are now in virtual auto-pilot mode, as key deliberations and implementation programs are left either half-baked or totally unattended due to the inevitable learning curve effects in professional growth.
- 3.47 It is in this regard that we applaud the current initiatives by the UNDP and the World Bank, among other willing donor agencies, meant to put in motion a comprehensive framework to uplift capacity in some of the country's institutions.

RAMPANT INDISCIPLINE AND DAYLIGHT SMUGGLING...

- 3.48 As Zimbabweans, we are increasingly folding our hands in near exasperation whilst smuggling barons are almost becoming "role models" for our children, and are also creating evil cults of naked indiscipline and smuggling.
- 3.49 Day in day out, in bars, at combi stations, at growth points, at shopping malls, and other rendezvous such as farm braai locations, shoddy deals are taking place, and in some cases, right under the noses of those who should know better, and yet, very limited thrust is seen to collectively contain these vices.
- 3.50 Until and unless we realize that such illegal, intimidatory and mafia-style dealings are a destructive distortion that blunts the effectiveness of fiscal and monetary policy transmission in the economy, then we might as well kiss goodbye to any hopes of recovery over the foreseeable future.
- 3.51 No Monetary or Fiscal instruments can be expected to deal decisively with these behavioural deficiencies and as Zimbabweans in urban and rural areas, we are all witnesses to these activities on a daily basis but nothing is being done to the culprits to book except talking or going after those who are actually trying to make a positive difference to this country in a transparent manner. It has to be appreciated and accepted that it is not a sin to be rich in Zimbabwe but it is now one goes about it which must withstand the test of scrutiny which us a missing link in our get-rich quickly ways in Zimbabwe.

- 3.52 But can we really let Zimbabwe succumb to the forces of indiscipline and illegality? Quite clearly the answer is NO.

FINES ON ECONOMIC CRIMES...

- 3.53 Another glaring anomaly that is encouraging and deepening the continued diversion of precious minerals and foreign exchange into the wasteful hands of parallel markets is the total **insignificance of and inconsistencies in some of the penalties against economic crimes.**
- 3.54 Whereas stealing a goat from a new farmer or cattle can attract a 9 or 10 year jail term, some of the more devastating economic crimes attract meager fines of under \$250.000 or 1USD at the current official rate and considerably less than a USdollar on the parallel market.
- 3.55 Until and unless the deterrent framework is put in place and is consistent across the board, the country risks continuing to engage in disruptive and unwieldy “cat-and-mouse” brawls with perpetrators of economic crimes to no avail or benefit to the country.
- 3.56 Fellow Zimbabweans, this is not good for inflation fighting, let alone foreign exchange generation necessary for importation of fuel, medical drugs, factory raw materials or mining explosives..

DETERIORATION OF THE JUDICIAL FRAMEWORK...

- 3.57 The recent public revelations on the sorry state of affairs in the resourcing of our Judiciary system also stand out as a fundamental distortion that is weighing heavily against current efforts to turnaround the economy.
- 3.58 The social and economic value of a well-resourced Judicial system cannot be over-emphasised as the Nation’s subscription to the Rule of Law is predicated on a well functioning Judiciary System in so far as the timeous and efficient discharge of justice is concerned.
- 3.59 To this end, therefore, the current rising recurrence of economic crimes can, to a large extent, be reversed if as a country we realize the centrality of our Judiciary as an enabling pillar to progressive socio-economic turnaround, stabilization and development.

- 3.60 Something has to, and must, therefore, be done without further delay if we are to complement efforts being deployed elsewhere to turnaround the economy.

PRICING OUR TOURISM OUT OF THE MARKET...

- 3.61 The Tourism sector stands as one area where the country has potential to earn significant foreign exchange to support the turnaround efforts.
- 3.62 Meaningful upturn in this sector is, however, seriously being constrained by pricing distortions that are making the country highly expensive to tourists.
- 3.63 Using an example of a 750 ml bottle of mineral water, costing Z\$2800 (two thousand eight hundred Zimbabwe dollars), conversion of this at the official exchange rate of Z\$250/US\$ yields an effective hard currency price of US\$11.2, which is way too expensive, compared to the regional and international price of the same product at around US\$2.
- 3.64 The same extremity of the distortion in tourism is reflected in the fact that at a price of Z\$25 000, a plate of sadza and stew in a hotel translates to a hard currency price of US\$100 per that same plate.
- 3.65 As a country, therefore, we are overpricing ourselves out of the tourism market through our internal price distortions.

SALARY MIS-ALIGNMENTS...

- 3.66 Effective turnaround of the economy requires vibrancy in the labour market, where workers get salaries and wages that are in line with productivity levels.
- 3.67 A major distortion that is deepening is, however, that most salary levels can barely cover the basic essentials, leaving a significant portion of necessary expenditures uncovered.
- 3.68 To illustrate the severity of this distortion, say a medical doctor earns a salary of \$56 000 gross per month. With the price of a standard bed pegged say, at \$800 000, the medical doctor will have to put aside his or her total gross salary for one year two months to afford the bed, without provision for anything else.

- 3.69 The plight of our Doctors, the Judiciary, Soldiers, Prosecutors, Teachers, Nurses, the Police, Civil Servants, Farm Workers and Domestic Workers, among many other equally deserving constituencies can not be allowed to go on unaddressed if we are to focus the country's workforce to productive enterprise.
- 3.70 With some domestic workers still getting under \$20 000 per month, and bearing in mind that they also have children who go to school, they shop in the same supermarkets where the rich and the middle income groups buy from, the lives of the majority of domestic workers have become unbearable.
- 3.71 Removal of these distortions is, therefore an imperative step in uplifting the standards of living for the country's hard-working workforce.

FOREIGN EXCHANGE PARALLEL MARKET INDEXING OF RENTALS FOR PROPERTIES...

- 3.72 Time has also come that as a country, we take the bull by the horns and tackle the growing distortions in the Real Estate sector, where now most rentals are being indexed to parallel market exchange rates, leading to relentless monthly escalations.
- 3.73 Tenants are, therefore, being left at the mercy of land lords/ladies who hike their rentals at will, without any reference to fundamental economic developments.
- 3.74 If we are to make Zimbabwe a country worthy of living by everyone - house owners and tenants; then time has come for sanity to be restored in the Real Estate sector without any further delay.

HIGH FISCAL RECURRENT EXPENDITURE

- 3.75 Indeed, the Private Sector was apt in their contributions to this Monetary Policy Statement when they advised that:
- 3.76 **Quote:** "Without a primary budget surplus, inflation simply will not be beaten. All stakeholders must work together to come up with plans to meet the budget surplus within the next 30 days..." **end of quote.**
- 3.77 Continued fiscal budget overruns, particularly when induced by recurrent expenditure, **are a fundamental distortion in the economy**, with adverse tentacles that infringe on monetary targets and, hence weaken the inflation fighting momentum.

- 3.78 As Monetary Authorities, we therefore, call upon all line Ministries to radically rationalize their recurrent expenditure profiles in a manner that ensures achievement of healthy fiscal budget outturns.

LEGISLATIVE GREY AREAS...

- 3.79 A key requirement for the recovery of the economy, as well as increased generation of foreign exchange inflows is the growth in foreign direct investment inflows into the country.
- 3.80 As Monetary Authorities, doubling up as the Chair of the NEDPP Taskforce on Foreign Exchange Mobilization, we have come to appreciate the devastating effects of the current grey areas and uncertainties in the legal frameworks governing some of our key sectors of the economy.
- 3.81 Specifically, the unfinished business in the on-going reviews of the mining legislation, as well as the lack of clarity and transparency on the indigenization and empowerment framework of the country are blemishes that have kept numerous willing investors at bay, even in the face of the highly favourable incentives being given to them
- 3.82 As a country, we cannot continue to hope to meaningfully attract foreign investors, if we, ourselves are not decisive in concluding that which is in our control and management.
- 3.83 It is, therefore, high time that stakeholders face the reality of intricacies that are silently but effectively blocking away potential investors from our highly potent economy. Such grey areas are contributing to the shortage of foreign exchange, inflation spiral and the continued suffering of our people.

AGAINST THIS BACKGROUND, THEREFORE, TRADITIONAL TOOLS ALONE WILL NOT DO...

- 3.84 Fellow Zimbabweans, we cannot continue to deny the reality that the above multiple distortions are weighing heavily on the economy in dimensions that have now become more hazardous than any other exogenous factors, individually or collectively; droughts or sanctions put together.
- 3.85 It is for this reason that as Monetary Authorities, we have come to the conclusion that for as long as these distortions remain in place in our economy, attempts to

deploy the traditional tools of Monetary Policy via interest rates or the exchange rate **in isolation**, will **NOT** stabilize inflation, let alone be able to defend the value of our currency in the midst of such a maze of contradictions nor would the interest and exchange rates alone engender the effective economic growth and development of our country.

- 3.86 Later in this Monetary Policy Statement, I will develop further this inescapable **reality and advocate** for the adoption of a holistic **SOCIAL CONTRACT**, under which concerted, well sequenced, and simultaneous bold measures ought to be taken as **preconditions for the deployment and full functionality of Monetary Policy instruments** in fighting inflation, as well as defending the value of the Zimbabwe dollar, in line with the legal Statutes that govern the operations of your Central Bank.
- 3.87 But before coming to this substantive framework, which really is the focus of this Monetary Policy Statement, I will turn briefly to my core Banking sector issues, as is expected of such reviews as this Statement.

4. FINANCIAL SECTOR DEVELOPMENTS

STATUS OF THE BANKING SECTOR

Overview...

- 4.1 The banking sector has remained generally safe and sound and continues to be resilient, despite the challenging macroeconomic environment.
- 4.2 The demonstrable safety and soundness of the banking sector is attributable to the enhanced minimum capital requirements, implementation of the risk focused supervision methodology and enforcement of sound risk management and corporate governance practices in the industry.

Banking Institutions...

- 4.3 As at 31 December 2006, there were thirty one (31) banking institutions, made up of fourteen (14) commercial banks, five (5) merchant banks, five (5) discount houses, three (3) finance houses and four (4) building societies under the supervision of the Reserve Bank.

Asset Management Companies...

- 4.4 There were seventeen (17) operational asset management companies as at 31 December 2006, down from thirty one (31) originally registered in 2004. As reported previously, 14 Asset management Companies fell by the wayside as they failed to make the grade for continued existence.

Microfinance / Moneylending Institutions...

- 4.5 As at 31 December, 2006, there were 244 registered microfinance and money-lending institutions. A total of 5 surrendered or did not renew their licenses citing viability challenges.

Capitalization...

- 4.6 As stakeholders are aware, new capital levels were announced in the January 2006 Monetary Policy Statement, and banking institutions were required to have complied with these minimum capital levels by 30 September 2006.
- 4.7 The Reserve Bank conducted a capital verification exercises in order to establish compliance with the required minimum capital levels at expiry of the compliance deadline. The capital verification exercise established that all financial institutions complied with the required minimum capital as at 30 September 2006.
- 4.8 As Monetary Authorities, in pursuance of our mandate to promote financial stability, we urge all banking institutions to be proactive and ensure, at all times, that capital levels are commensurate with their risk profiles and remain above regulatory thresholds.
- 4.9 We also remind players in the banking sector not to regard capital alone as the panacea to their success. Managing the total portfolio of risks under a bank is key to sustained success.

Consolidation...

- 4.10 We have noted a few voluntary mergers which have strengthened balance sheets of the merged institutions. As Monetary Authorities, we encourage banking institutions to merge and consolidate with stronger institutions to ensure viability and continued existence.

ENHANCED SUPERVISORY PROCESSES

Risk-based Supervision...

- 4.11 The effectiveness of on-site examinations and off-site surveillance has been enhanced through the successful rollout of risk-based supervision.
- 4.12 The framework, which is in line with international best practice, has enhanced the Reserve Bank's capacity to conduct comprehensive risk assessments and to evaluate the adequacy of risk management systems in banking institutions.

4.13 Consequently, the Reserve Bank has become the centre of excellence from which Bank Supervisors in the region are tapping on this expertise.

4.14 As Monetary Authorities, we reiterate the imperative need for banks to continuously upgrade their corporate governance and risk management systems, as part of the overall objective of ensuring financial stability.

Consolidated Supervision...

4.15 In pursuit of our commitment to reduce regulatory arbitrage and risk of supervisory gaps, the Reserve Bank has deepened the thrust of consolidated supervision.

4.16 To this end, consolidated supervision guidelines outlining the framework for supervising banking groups will be issued during this first quarter of 2007.

Publication of Audited Financial Statements by Asset Management Companies (AMCs)...

4.17 In the interest of promoting market discipline and transparency, all asset management companies are, with **immediate effect**, required to publish their half-yearly (interim) and audited year-end financial statements, subject to prior approval by the Reserve Bank.

FINANCIAL INCLUSION: RURAL BANKING

4.18 During the currency reform exercise, dubbed Sunrise 1 Project, conducted in August 2006, it was evident that the majority of Zimbabweans, particularly in the rural areas have no access to financial services.

4.19 The extent of rural and peri-urban outreach by commercial banks and building societies also remains largely limited, and this has perpetuated financial exclusion of the majority of Zimbabweans.

4.20 In view of this observed setback, the Reserve Bank has, in consultation with the banking industry and other stakeholders, put in place a comprehensive **Framework for Financial Inclusion**, full details of which are contained in a separate Supplement to this Statement.

AMENDMENTS TO BANKING LAWS

4.21 The dynamic operating environment, characterised by increased competition, and developments in the international arena, require that laws governing the financial

sector be constantly reviewed to ensure relevance and consistency with policy objectives and realities on the ground.

4.22 It is against this background that the Reserve Bank is seeking amendment of the Banking Act to cater for the following, inter alia:

- to provide a more effective regulatory framework for troubled bank resolution;
- to provide for the establishment of Microfinance Banks;
- to provide for an enhanced supervisory framework on consolidated supervision and prompt corrective action; and
- to provide an enabling legal framework for the effective implementation of Basel II.

4.23 The regulatory framework for the financial sector will continue to be harmonised to build coherence and consistency with the objectives of the Central Bank.

5. MONETARY DEVELOPMENTS

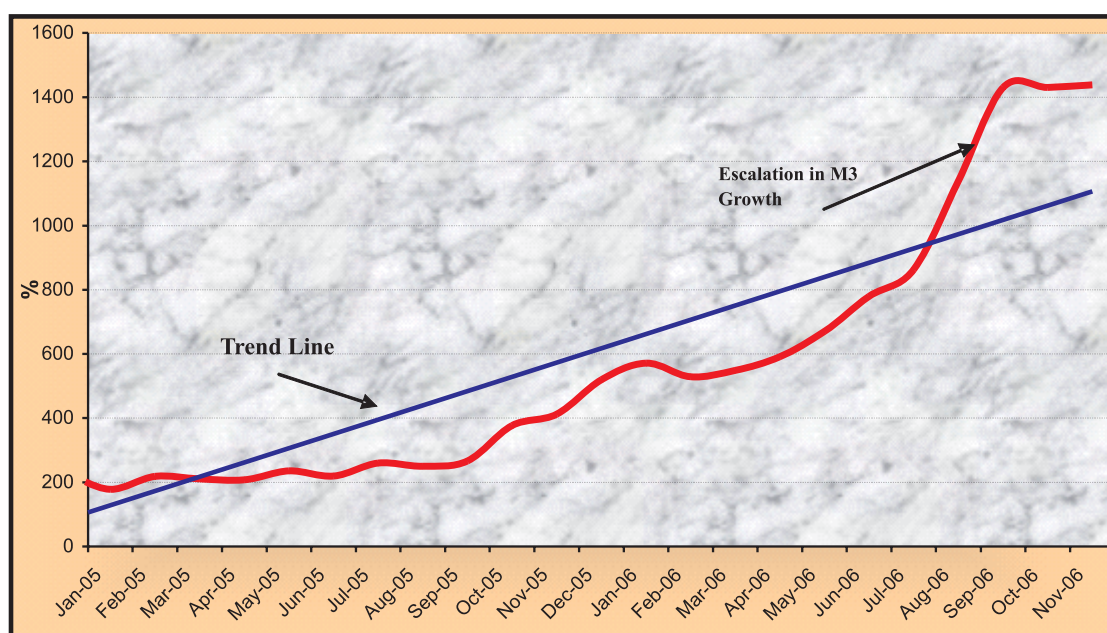
Money Supply

5.1 Broad money supply (M3) growth has continued on an upward trend, increasing from **669.9%** in May 2006 to **1 438.3 %** in November 2006.

5.2 Annual domestic credit grew by 1 278.4% to \$526.5 billion in November 2006. The expansion in domestic credit was driven by:

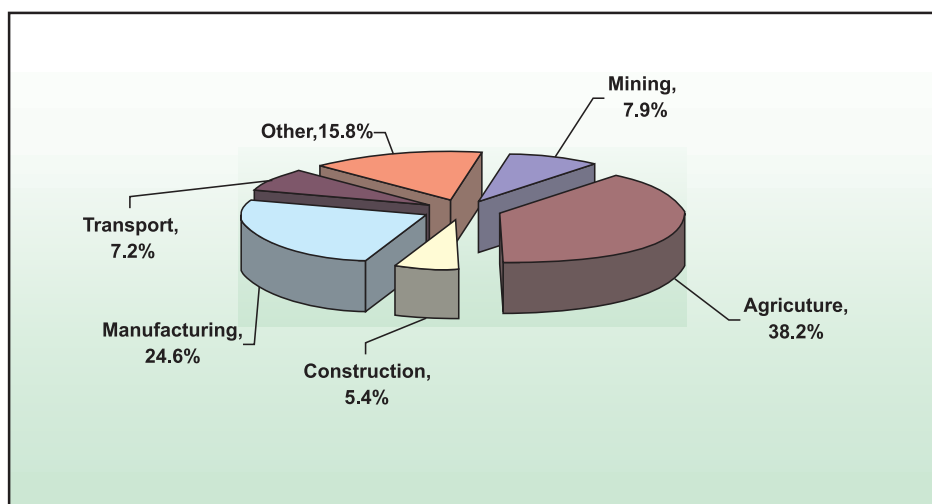
- (i) Credit to Government, which grew by 1 013.5%;
- (ii) Credit to the private sector, 1 545.6%; and
- (iii) Claims on public enterprises, 1 132.9%.

Money Supply Growth Trend



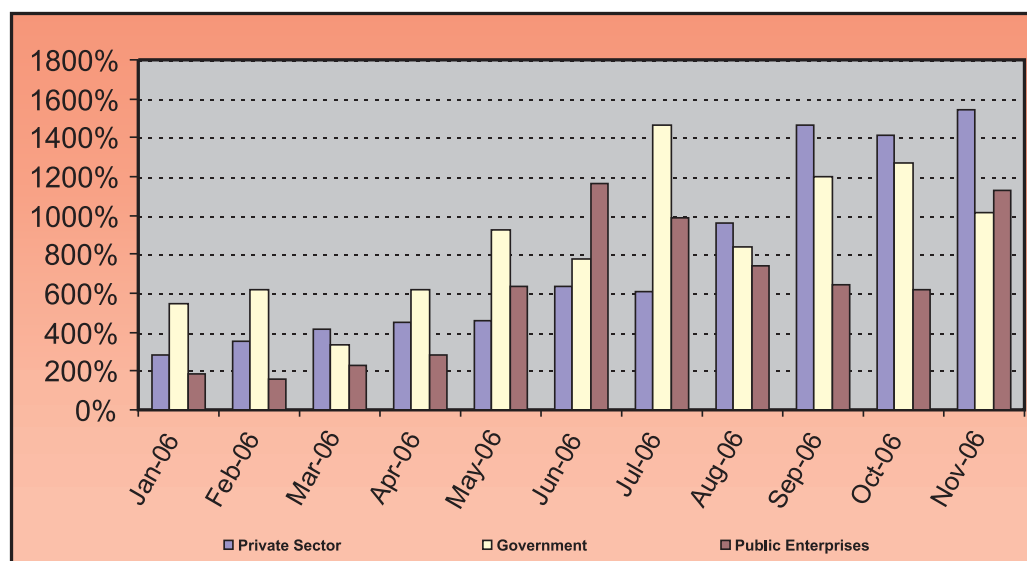
- 5.3 The drying up of balance of payments support has led the Government to rely on domestic bank sources to finance its operations. The borrowing has been mainly through costly Treasury bills, which were largely short term.
- 5.4 Year on year growth in lending to the private sector has been growing, increasing from 455% in May 2006 to 1 545.6% in November 2006. The major drivers for the nominal increase in loans and advances are concessional facilities and overdraft loans for working capital.
- 5.5 The agricultural sector commands the largest share of loans from the banking system. As at November 2006, agriculture accounted for 38.2% of the total loans, largely made up of ASPEF.
- 5.6 However, lending to the agricultural sector (excluding ASPEF) by the banking sector remained low due to limited availability of collateral and the high cost of money.
- 5.7 The graph below shows the distribution of loans and advances on a sectoral basis.

Sectoral Distribution of Loans As at November 2006



- 5.8 Lending to public enterprises has also been through the Parastatal Reorientation Program (PARP) and the Local Authorities Reorientation Program (LARP) initiatives.

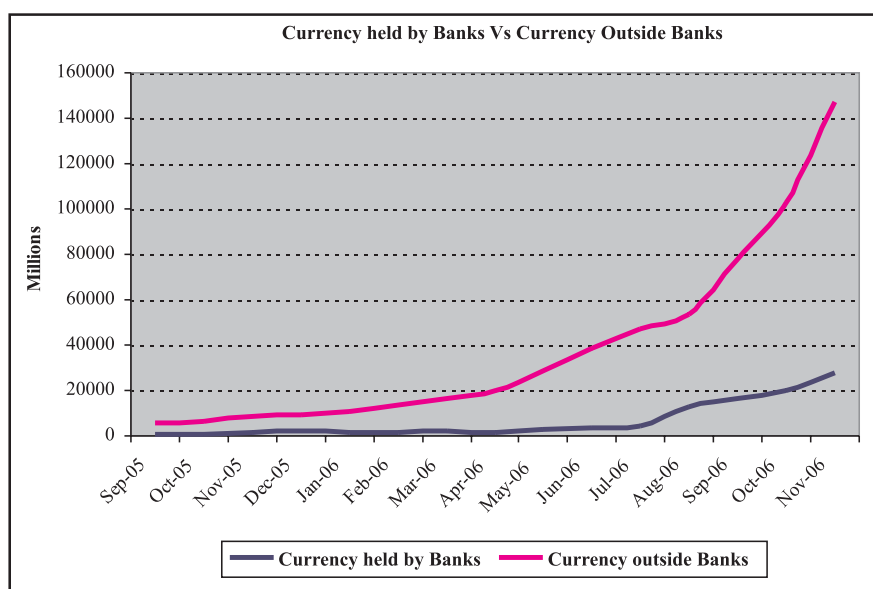
Annual Government, Public Enterprises and Private Sector Credit Growth.



CURRENCY IN CIRCULATION DEVELOPMENTS

- 5.9 The spate of price increases for goods and services, coupled with resurging adverse inflation expectations have continued to give impetus to growth in currency in circulation, which increased by 175.6% from **\$53.5 billion** in August 2006 to **\$147.4 billion** in November 2006.

Currency Held by Banks and the Public

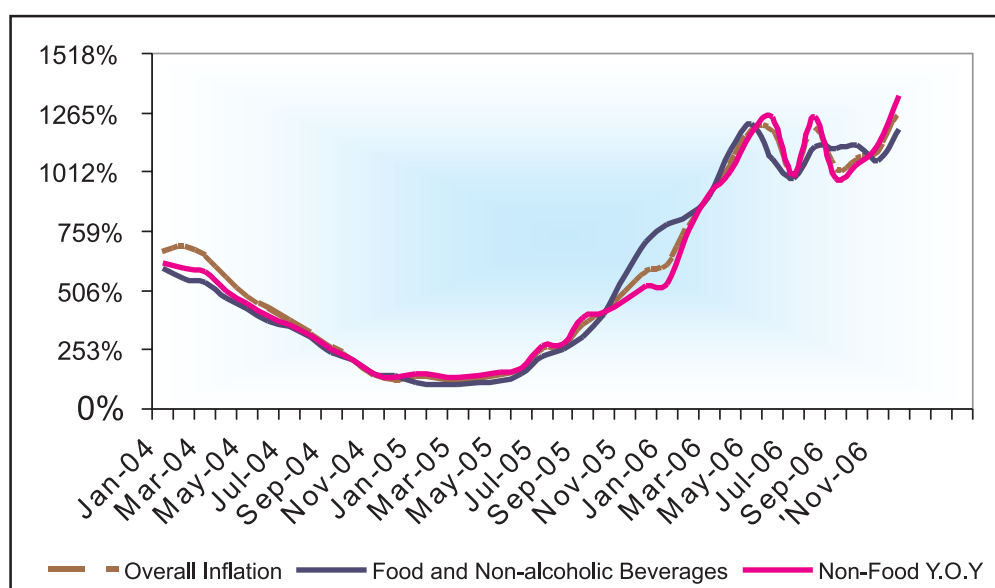


- 5.10 The widening gap between currency held by banks and currency outside banks reflects the pool of resources supporting cash transactions in the economy, including informal and parallel market activities.

6. INFLATION

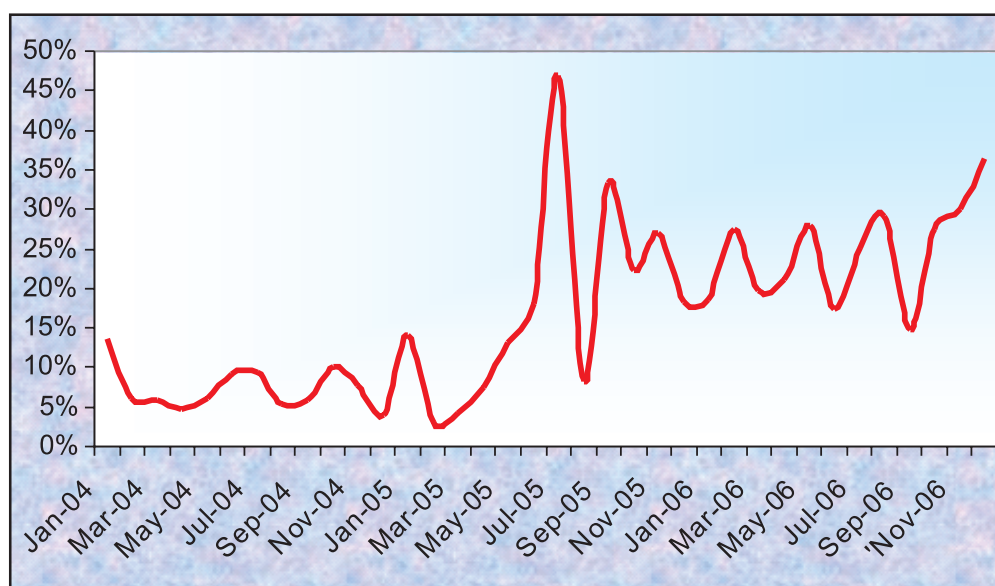
- 6.1 As was amplified by the Hon. Minister of Finance in his 2007 Budget Statement, radical measures are required to tame the inflation dragon.
- 6.2 For most of 2006, the inflation dragon has maintained an upward trend, gaining 667.9 percentage points from 613.2% in January 2006 to 1 281.1% in December 2006.
- 6.3 The annual inflation rate, has been driven by increases in prices of both food and non-food items.
- 6.4 The Figure below shows the annual inflation profile from January 2004 to December 2006.

ANNUAL INFLATION PROFILE (Jan.04-Dec '06)



- 6.5 Reflecting the underlying pressures on the supply side, combined with demand-pull effects in the economy, month-on-month inflation remained high since the beginning of 2006 averaging 24.6% per month during the year.

MONTH ON MONTH INFLATION PROFILE



- 6.6 Against this unfavorable background, both the 2007 Budget and this Monetary Policy Statement seek to arrest high inflation through closer coordination and implementation of utmost restraint on fiscal outlays and monetary emission.

- 6.7 The removal of distortions, supported by closer policy coordination and implementation is expected to significantly thaw expectations, which to this point had become an inflammatory explanatory variable for the high inflationary spiral.

UNDERSTANDING THE MAJOR INFLATION DRIVERS

- 6.8 As the Nation confronts the set-back of high inflation, it is important to appreciate the core drivers of this imbalance, so as to underline what it takes to successfully reduce inflation to low and stable single-digit levels.
- 6.9 Understanding the anatomy of inflation drivers, also enables those stakeholders in various portfolios of the economy whose sectors account for greater sources of this scourge to be nudged into action in support of the anti-inflation drive.
- 6.10 Such an appreciation of the structural dimensions of price increases also helps in bringing to the fore the reality that successful reduction of inflation will take more than one institution or one set of policy interventions.
- 6.11 There is need for fiscal, monetary and structural adjustments that are rooted at individual Government Ministries, Departments and Private Sector shop-floor levels.

MAJOR INFLATION SUB CATEGORIES

	CPI SUB-CATEGORY	WEIGHT IN CPI BASKET (%)	COMMENT
1.	Food and Non-Alcoholic Beverage	31.93	❖ There is need for food security.
2.	Alcoholic Beverage and Tobacco	4.91	❖ Need for vibrant supply. ❖ Need for scrupulous pricing.
3.	Clothing and Footwear	5.71	❖ Need more production through capacity utilization.
4.	Housing, Water, Electricity and Gas	16.23	❖ Need flourishing housing programs. ❖ ZINWA to put house in order. ❖ ZESA to be an efficient operator.
5.	Furniture, Household & Equipment Maintenance	15.11	❖ Need more production.
6.	Health	1.31	❖ Develop internal capacities for production of essential drugs.
7.	Transport	9.77	❖ NRZ to expand services. ❖ Road transport development. ❖ Air Zimbabwe to be efficient.
8.	Communication	0.99	❖ Need investments. ❖ Increase competition.
9.	Recreation and Culture	5.75	❖ Diversify production and service delivery.
10.	Education	2.85	❖ Schools to run efficiently. ❖ Build transparent costing structures.
11.	Restaurants and Hotels	1.52	❖ Need transparent costing structures.
12.	Miscellaneous Goods & Services	3.94	❖ More production. ❖ Scrupulous pricing frameworks needed.
	TOTAL	100	

NB: CPI= Consumer Price Index, which is used to calculate inflation

- 6.12 It is also imperative that at the Government Ministries level, more attentive focus be placed on ensuring productivity in the key sectors of the economy.
- 6.13 When there is low or declining food production, food prices will be bound to go up, thereby leading to food inflation.
- 6.14 When factories work at below capacity, the overall supply of manufactured goods declines, relative to demand, which again leads to demand-pull inflation.

- 6.15 Similarly, when the mines under-perform, or the tourism sub-sector trades on low volumes of tourist traffic, foreign currency shortages are inevitably exacerbated, which eventually constricts the overall supply of goods and services in the economy. This breeds inflation.
- 6.16 Realization that inflation also manifests itself as a psychological phenomenon, as much as it is driven by the fundamentals of supply and demand, entails that stakeholders also join hands in containing inflationary expectations.

MONETARY ANCHOR AND INFLATION TARGETS

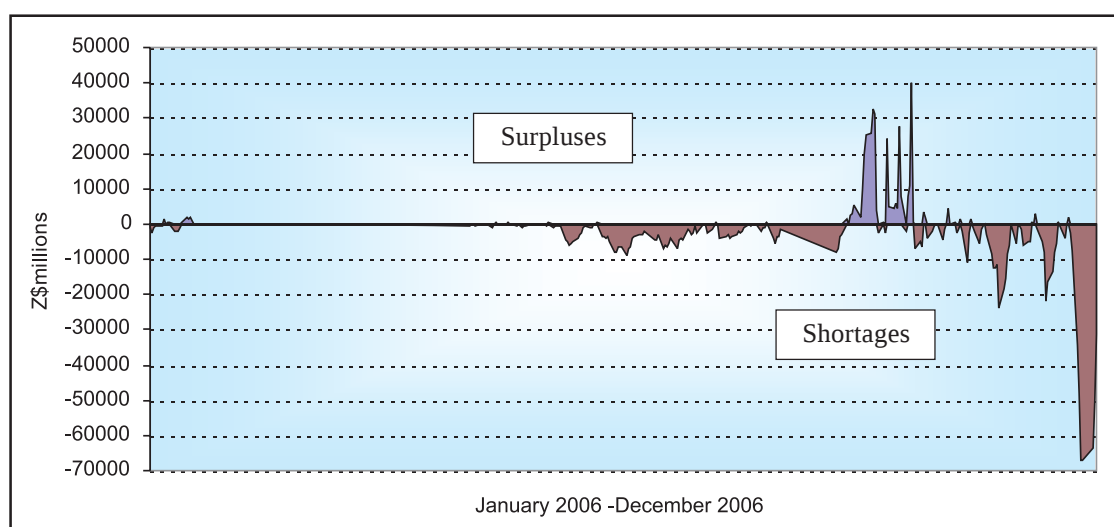
- 6.17 The urgency of the need to reduce inflation impels that 2007 be the year for unprecedented fiscal and monetary policy restraint, supported by close coordination of efforts.
- 6.18 To this end, the Reserve Bank will reduce annual broad money supply (M3) growth from the current levels of over 1000% to between 415 and 500% by December, 2007, and subsequently to under 65% by December, 2008.
- 6.19 There have been numerous calls from various stakeholders, requesting the Central Bank to make explicit monthly projections on inflation.
- 6.20 Whilst there is merit in such calls, the position of the Reserve Bank is that over the outlook period, if **no action** is taken, and taken soon, consistent with the bold steps contained and recommended in this Monetary Policy Statement, the outlook period would see inflation rising up significantly, particularly in the near-term. The Nation must therefore, be forewarned that without bold steps and commonality of purpose, the inflation dragon will swallow our economy.
- 6.21 It is for this reason that as Monetary Authorities, we are imploring on all stakeholders to take part in the **SOCIAL CONTRACT** as advocated in this Statement. This, coupled with the tight monetary positions being implemented, is expected to yield rapid dis-inflation over the outlook period.
- 6.23 **This road will however not come easily.** We need to **act now** and together.

7. MONEY MARKET DEVELOPMENTS

Money Market Position

- 7.1 In order to achieve the set monetary aggregates, the Reserve Bank will continue to closely manage money market liquidity conditions.
- 7.2 Consistent with this, during the second half of 2006, the money market has largely been kept in a short position, so as to buttress efforts to fight inflation.

Daily Money Market Positions



DEEPENING OF MONEY MARKET INSTRUMENTS

- 7.3 In order to give the financial sector greater flexibility in managing their liquidity positions, the Reserve Bank, in close consultation with the Ministry of Finance has, with immediate effect, introduced multiple tenor Bills whose main purpose will be to raise funding for Government, primarily from the non-inflationary non-bank sectors of the economy.
- 7.4 These bills will be issued in tenors of 1 year; 2 years; 3 years and 5 years, and will have the following features.
- (a). Prescribed asset status.
 - (b). Liquid asset status.
 - (c). Can be used as collateral for accommodation purposes at the Reserve Bank.

Money Market Interest Rates

- 7.5 Money market rates have continued to respond to adjustments in policy rates, as well as to short-term fluctuations in liquidity conditions in the money market.
- 7.6 In this last half of the year, money market rates have generally fluctuated between 150% and 450%, depending on the levels of liquidity.
- 7.7 Firming in market rates was also in response to upward adjustments of the Reserve Bank's overnight accommodation rates, as well as increases in Treasury bill rates.

Other Money Market Developments

- 7.8 In order to fight excess liquidity in the money market, the Reserve Bank introduced 5-year Financial Sector Stabilization Bonds (FSSBs) in October 2006, for take up by all financial institutions.
- 7.9 Due to the competitiveness of yields on these long-term stabilization bonds, most institutions invested voluntarily more than the indicative thresholds, based on their balance sheet sizes.
- 7.10 The stabilization bonds managed to mop up about \$145 billion worth of excess liquidity, into long-term instruments paying variable annual rates, over the 5-year tenor.

- 7.11 It is important to note that even after the cut-off date, financial institutions continued to voluntarily subscribe to the FSSBs, thus underscoring their competitiveness as an investment instrument.

INTEREST RATE POLICY

- 7.12 The Bank's interest rate policy will continue to be guided by inflation developments and outlook.
- 7.13 However, as was amply highlighted earlier, our experience over the past 3 years has amply demonstrated that singular application of traditional monetary policy tools, such as interest rates, in the absence of concreted, holistic, well sequenced policy packages will only serve to throw the productive sectors deeper into stagflation – low capacity utilization co-existing with high inflation.
- 7.14 Within the framework of the **ROADMAP TO OUR RECOVERY** proposed in this Policy Statement there, need to use the month of February 2007, as the soul-searching period, **marked by decisive collective implementation of measures that remove the devastating distortions which have hitherto stood in the way of all efforts to turnaround the economy**, before we can announce an interest rate framework that is consistent with an agreed program of holistic measures.
- 7.15 At current levels of the Central Bank accommodation rates for secured and non secured lending to banks, which are, 500% and 600%, respectively, the interest rate framework is appropriately aligned to both developments and outlook on the inflation front.
- 7.16 Further reviews will continue to be done on an on-going basis, in the normal course of open market operations of the Bank.

8. PROPOSED ROADMAP TO OUR RECOVERY

FREEING THE ECONOMY FROM DISTORTIONS TO PROSPER ZIMBABWE...

- 8.1 Over the last 7 years, there has been a deafening chorus of calls from several quarters calling for the removal of certain pricing distortions that have become a haven for corruption, unjust enrichment of a few, and the driving force behind our current inflationary setbacks that are threatening to overwhelm the whole Nation with a spirit of hopelessness.

- 8.2 Some of the pricing distortions have been brought about by the controls Government has found it necessary to put into place but the good intentions behind some of these controls have been abused and deliberately exploited for selfish reasons, by those of us in political, economic and social positions of authority, influence and intimidation.
- 8.3 Time has come for Zimbabwe to kiss good-bye to these disruptive practices by ensuring that we chart a way forward from which will emerge an economy we will all be proud to own, associate with and enjoy its benefits.

WHAT THEY SAID ABOUT PRICE DISTORTIONS...

- 8.4 The support, encouragement and commitment to deliver the above prosperous economic environment for our country has foundation in the wishes, advice and the following converging pronouncements:

His Excellency The President, Cde. R. G. Mugabe

- (a) It was His Excellency, President Cde. R. G. Mugabe who, in his opening address to the Forth Session of the Fifth Parliament of Zimbabwe on 22 July, 2003 had this observation to make about the shortage of foreign currency and basic commodities.
- 8.5 **Quote** "...While a combination of the drought and sanctions has generally created an adverse climate for business, it is clear that these factors alone do not explain our economic difficulties. As has often been pointed out, we have a paradoxical situation where some companies and institutions (and individuals) are doing very well in an economy that officially is in decline; while other companies falter, several continue to record healthy balance sheets and proceed to declare high dividends to their shareholders..."
- (b) Foreign currency which is reportedly short, continues to be abundantly available on the black market. Basic goods disappear, only to re-appear once the magic wand of high prices is waived..." **end of Quote.**
- (c) It was again His Excellency, President R. G. Mugabe who, in his State of the Nation Address on 2 December, 2003 said,

Quote "It is quite clear to us that two-tier (or more) interest rates; two-tier (or more) exchange rates and a two tier (or more) economy cannot take us

forward. We are one country that would be best served by one integrated economy driven by clear, predictable, stable and sensible socio-economic rules” **end of Quote. (Words (or more) are Governor’s)**

The Minister of Finance, Dr. H. M. Murerwa.

- 8.6 The Hon Minister of Finance, Dr. H. M. Murerwa, in his 2007 National Budget presentation to the Nation made the following observations in respect of price distortions:
- 8.7 **Quote** “...the removal of price distortions in the economy is **critical** to improving the operational environment of the business sector, guaranteeing their viability and the sustainability of production and achieving macro-economic stability.” **end of Quote.** (pp. 51 para 215).
- 8.8 The Hon Minister of Finance further made the following commitments to the IMF Board during the discussions on the country’s status with the IMF Board on 8 March, 2006 in respect of distortions in the economy:
- 8.9 **Quote:** “It is Government’s commitment to ensure that policies will be instituted to progressively remove all distortions in the economy. Presently, distortions abound as a result of dual price systems for grain, foreign exchange, fuel and interest rates, among others...
- 8.10 Price controls will be removed so as to allow interplay of market forces in both factor inputs and commodity markets in the economy. Distortions inherently confer advantages to a few while impoverishing the masses.”

The National Economic Development Priority Program (NEDPP).

- 8.11 The National Economic Development Priority Program (NEDPP) in its various deliberations during last year (2006), set up a Committee of both Government and private sector players to study the issue of price distortions.
- 8.12 Their recommendations were to the effect that an urgent program needed to be put in place with the objective of removing rampant price distortions in our economy which were constraining growth of certain sectors and promoting shortages of basic commodities across the board and entrenching the parallel markets of not just foreign exchange but other goods and services.

The Private Sector

- 8.13 The private sector, through its representatives within bodies such as the Bankers Association of Zimbabwe (BAZ), Confederation of Zimbabwe Industries (CZI), Zimbabwe National Chamber of Commerce (ZNCC), Zimbabwe Chamber of Mines, Tourism Council, Agricultural Unions and others, were unanimous that a roadmap be developed, approved and urgently implemented that would see our economy operating more freely through the elimination of price distortions than is the case at present.

The IMF and the World Bank

- 8.14 The IMF staff team, in their concluding Article IV Mission report of 14 December, 2006 made the observations that “**exchange and price controls have led to a significant shift in activity to the informal (parallel) market**” and that the liberalization of these would greatly enhance movement towards macro-economic recovery and stability.
- 8.15 The IMF makes the critical points however that “strong political commitment and ownership are key” and that “nearly simultaneous action will be needed on several fronts since the country’s policy distortions are highly interrelated so that the measures in **one area** would not be sustainable without mutually-reinforcing actions in other areas.”
- 8.16 Similar observations, including the importance of coming up with a proper sequence of complementary policies as a transition to macro-economic stability.

THE RUSSIANS...

- 8.17 Experts from TYAZHPROMEXPORT under the Ministry of Economic Development and Trade of the Russian Federation who examined our economic situation recommended a three-phased strategy towards our economic recovery, with the primary phase “shifting immediate focus of reform effort from inflation reduction to the removal of major obstacles for economic development, arguing that such a strategy will create feasible conditions for faster economic revival and simultaneous build-up of a substantial base for a more reliable, robust and sustainable anti-inflationary policies in the medium term.”

- 8.18 The “major obstacles” referred to relate to pricing distortions, especially in the area of price controls, foreign exchange market pricing, taxation and levels and management of subsidies.
- 8.19 On subsidies, they recommended that “issues of affordability or safety nets for vulnerable households be addressed by targeted subsidies through existing social welfare networks and infrastructure.”

THE CHURCHES...

- 8.20 In the realm of national healing and consensus-building, our Churches occupy a pivotal role, as they interact with and form the value systems of the majority of the people.
- 8.21 On building unity of purpose and National healing, the Zimbabwe Church Leaders had this to say:
- 8.22 **Quote:** “The past 6 years have seen us as a nation make a number of mistakes. That is, or rather should not be problematic, because the root of achievement or success is basically founded on one particular factor; ...*the difference between failing people and achieving people is the perception of and response to failure...*”

CONSUMERS

- 8.23 Underscoring the need for the removal of price distortions, the Consumer Council of Zimbabwe (CCZ) highlighted the unfolding reality of the hazards of inconsistencies in the country’s pricing structures and they said:
- 8.24 **Quote:** ... “Price distortions in the market have also spilled to the consumers, benefiting the middleman (and woman) and the influential that easily have access to such goods but sell them at exorbitant prices on the black market. This is especially true for fuel, and some basic commodities..” **end Quote.**
- 8.25 Indeed, under the current episode of high inflation levels, the highest brunt is borne by the defenseless consumers, most of whom are living below the poverty datum line.
- 8.26 This situation can not be allowed to persist without urgent redress, if as a country we are to build bridges of social cohesion, economic growth and social progression.

SOCIAL CONTRACTS AND MACROECONOMIC STABILISATION

- 8.27 Experiences the world over have shown that **Social Contracts** play a critical role in the stabilization of an economy, allowing economy wide-reforms to be fully embraced in the economic turnaround program.
- 8.28 Various countries faced with surging economic crises and hyperinflation episodes made binding agreements that brought together the business community, all labour bodies and the Government in the mode of progressive **Social Contracts**.
- 8.29 Some of the countries that experienced episodes of hyperinflation successfully tamed this dragon and reduced inflation to stable levels through policy measures that included, *inter alia*, the social contract route.
- 8.30 Chronicled below are some of the countries that successfully reigned in and reduced inflation through well-thought out **Social Contracts**.

COUNTRY EXPERIENCES: FACTS AND LESSONS

German

- 8.31 At the end of World War I, Germany slid into an era of turmoil. The German economy was under stress after years of warfare and economic sanctions.
- 8.32 When war broke out in 1914, the German mark was valued at US\$1 to 4 German marks. By the end of November 1923, one American dollar was worth roughly 4,200,000,000,000 (four trillion two hundred billion) German marks.
- 8.33 Using the Bread index, a loaf of bread in January 1921 cost 10 German marks and by November 1923 it was costing about 20 000 000 000 (twenty billion) German marks.
- 8.34 In 1924, the Government introduced economic reforms whose anchor was a **Social Contract** with binding commitments on the part of all stakeholders.
- 8.35 Annual inflation, which averaged 814 000 000 % (eight hundred and fourteen million percent) in 1923 was reduced to 4% by the end of 1924.

United States of America (USA)

- 8.36 During the USA's war of Independence (1775-1783) that country's economy experienced very high levels of inflation.

- 8.37 Documented evidence shows that during the most inflationary period in the USA, prices rose by 1000% (one thousand percent) over the two – year period 1779-1780.
- 8.38 Equally devastating, the USA was to face yet another episode of high inflation during the 1861-1865 civil war, with the highest monthly inflation rate of 40% occurring in March 1864.
- 8.39 The USA also experienced a severe depression between 1929 and 1933, where at the lowest trough in 1933, about 25% of the labour force was unemployed.
- 8.40 In order to deal with the depression, various pieces of legislation and national policies were put in place and the most famous was the New Deal established by President Roosevelt.
- 8.41 The National Recovery Agency was formed under the New Deal whose responsibility was to negotiate with various stakeholders to create fair prices and wages.
- 8.42 Under the New Deal, an aspiration to macroeconomic compensatory fiscal and monetary policies emerged and a comprehensive social welfare net was put in place.
- 8.43 Through concerted efforts and progressive implementation of coherent macroeconomic policies, anchored on **Social Contracts** that cultivated stakeholder buy-in, today's USA boasts of low inflation levels of under 3% per annum.

Hungary

- 8.44 Hungary experienced the highest known hyperinflation in history, with monthly inflation rates reaching 19 800% (nineteen thousand eight hundred percent per month) in 1946.
- 8.45 Through unreserved determination towards self-reconstruction after the second world war, supported by one vision and a binding **Social Contract** among stakeholders, today Hungary boasts of low , single-digit annual inflation rates of under 8%.

The Brazilian Experience

- 8.46 In the second half of the 1980s, and the beginning of 1990s, yearly inflation in Brazil reached four digit levels, with month on month inflation reaching 40%.

8.47 Inflation however, declined from a peak of 6821.3% in the early 1990s to 375% within 12 months on the back of coherent macroeconomic policies anchored on a **Social Contract**.

8.48 The launch of **Real Plan in July 1994**, saw inflation, which had risen to 4 922% declining to 33% within a year. In the second half of the 1990s, average inflation largely remained below 10%.

8.49 Today Brazil boasts of average inflation levels of below 5%, making the Brazilian experience one worth studying from a Zimbabwean perspective.

Bolivia

8.50 Bolivia experienced hyperinflation in the early 1980s which, through a reform program whose central theme was a **Social Contract**, saw inflation decline rapidly from 23 447 % in 1985 to 94% in 1986.

8.51 Currently Bolivia enjoys a relatively stable macroeconomic environment with inflation rates of less than 5%.

Israel

8.52 Israel's economy also experienced some economic setbacks that saw it register high levels of inflation in the early 1980s which saw annual price increases reaching levels of about 400% per annum in 1984.

8.53 Through commonality of purpose, policy consistency, and a strong **Social Contract**, inflation was successfully tamed to low and sustainable levels.

8.54 The Israeli 1985 program revolved around the Social Contract which included:

- Freezing of all wages and prices; and
- A gradual phase out of controls over a one year period.

8.55 Inflation which was around 300% in 1985 declined to 48% in 1986 and further to 20% in 1987.

8.56 Today Israel enjoys one of the world's lowest inflation levels of under 1%.

MAIN LESSONS FROM OTHER COUNTRIES

- 8.57 The catalogue of other countries' empirical experiences clearly points out to the following key lessons on dis-inflation and macroeconomic stabilization:
- (a) That mere movements or partial adjustments of singular variables, such as the exchange rate and interest rates, if not supported by comprehensive, well sequenced program of complementary policies and actions will yield limited results.
 - (b) There is great opportunities for success in Social Contracts, as long as stakeholders see the same vision.
 - (c) Agreements on prices and wage freezes, if done on mutually agreed terms, over an explicit period of time, have the capacity of reversing the hyperinflationary spirals within a matter of months.
 - (d) In times of severe hyper-inflation, cutting down on adverse expectation does not come without hardships, sacrifices and pain of adjustment. Such sacrifices, which in essence are unavoidable, are the ultimate price of economic stability and prosperity which Zimbabwe is aspiring for.
- 8.58 As with any strategy, the devil is in the details of implementation.
- 8.59 However, the experience of many countries show that if the hardships and sacrifices that come with reforms are flushed out and discussed upfront, chances are that when various stakeholders are confronted with these realities requiring sacrifices and commitment, they are better prepared to handle these hardships in a progressive manner.
- 8.60 To this end, the following are the inevitable hardships that our correctional and revival economic path will face and stakeholders have to be prepared to face them head-on.

INEVITABLE CORRECTIONAL HARDSHIPS

STAKEHOLDERS	TRANSITORY CORRECTIONAL HARDSHIPS
Government	• Reduced luxuries due to radical restraint on recurrent expenditures. • Foregone benefits of preferential exchange and interest rates. • Foregone tax revenues due to temporary prices and incomes fixation.
Labour	• Foregone high wages on the back of the temporary wage freezes. • The increasing calls for high productivity levels in spite of the wage freezes. • Temporary decline in real incomes owing to the coincidence of wage freezes and high inflation. •
Business	• Temporary narrowing of profit margins. • Temporary loss of export competitiveness. • Static interim market growth owing to temporary freezing of incomes.
Households/Civil Society/Consumers	• Initial artificial shortages of goods and services. • Predatory practices by selfish agents seeking to weave through in contravention of the covenants of social contract. • Misleading politicking and grand-standing by opportunists, who may seek to fuel and beat public sentiment against reforms.

- 8.61 It is therefore, highly critical that the implementation of the program be supported by vigilance and an unshakable commitment to the common objectives of disinflation and economic revival.
- 8.62 The parties to the **Social Contract** must therefore, each agree to brace for the necessary pain of adjustment, without the temptation to vent out pain on the streets to right the inevitable temporary set-backs.
- 8.63 As Zimbabweans, therefore, we must learn from what other countries have gone through, as well as from what ourselves we have gone through as a country.

EXPECTED CONCEQUENTIAL BENEFITS...

- 8.64 At the end of the transitional period, and on the back of a successful implementation period of defined programs as outlined below, several benefits are expected to materialize.
- 8.65 The key appeal of Monetary Authorities, therefore, is to stay the course irregardless of the pain. After the successful implementation of the **Social Contract**, Zimbabwe will be characterized by the following:
- An economy free of distortions;
 - An economy with a liberalised exchange rate;
 - An economy with low and stable inflation;
 - An economy with low and stable interest rates; and
 - An economy with a sustainable growth path.

Resulting in...

- Improved foreign currency availability;
- Improved domestic and foreign investment;
- Creation of employment;
- Increase capacity utilization in industry;
- Improved infrastructural development;
- Increased productivity in all sectors of the economy; and
- Improved standards of living in both rural and urban areas.

AGAINST THIS BACKGROUND...

- 8.66 Against the background of the views cited earlier, as well as the severity of the setbacks which now border on the fringes of a crisis, it is clear that as Zimbabweans, we:
- (a) cannot postpone any longer what must be done now or in the near future;
 - (b) need to implement a **transitional package** of well-sequenced, complementary economic policies, backed up by unwavering political support and commitment, as a basis for an economy ready to take-off; free of artificial controls; free of rent-seeking opportunities and one ready to receive new investment inflows from across the globe.

- (c) need to demonstrate unparralled unity of purpose, forget about our petty differences and put the interests of Zimbabwe ahead of personal,
- (d) need to come up with a Zimbabwe in which the role of the private sector, large and small, is prominent and, side by side with Government, Labour and Civic Society, promote a shared Vision of attaining a Zimbabwe;
 - with single digit inflation by December 2008;
 - where macro-economic policy is forever underpinned by fiscal prudence and a tight monetary policy;
 - able to feed itself at all times with surplus for export;
 - with a world class working infrastructure, telephones;
 - affordable road, rail and air transport, sufficient and reliable energy and water supplies;
 - stable currency and a sound, well regulated financial sector;
 - adequate foreign currency reserves to meet all its needs;
 - and one that occupies its place among all other nations with pride and dignity, timeously meeting all its international obligations and commitments.

8.67 These are the deliverables expected at the end of the day after implementing whole heartedly the following **Two Stage Program**:

9. THE PHASED ECONOMIC STABILIZATION STRATEGY

- 9.1 Resolution of the current socio-economic crisis will require nothing short of a **full package**, made up of well **sequenced, simultaneous** adjustment actions across the board; in Government; at the Central Bank; in the Financial Sector; in the Private Sector; by Labour, Civic Society; NGOs, Embassies and International Organizations, here at home, as well as our Embassies abroad.
- 9.2 Equally, Zimbabweans working in other countries have a role to play.
- 9.3 Under the **PHASED COMPREHENSIVE STRATEGY**, inflation stabilization, economic recovery and eventual take-off will be achieved under the following Phases, Sequences and dedicated Action Programs by all stakeholders.

PHASE 1: 1 FEBRUARY-30 JUNE, 2007

Step 1: Establishment Of An Urgent Social Contract

- 9.4 As the compelling experiences in other countries have shown a well thought out Prices and Incomes Restraint **SOCIAL CONTRACT** is an effective and credible basis upon which a strong foundation for rapid dis-inflation, economic recovery, growth and development can be established.
- 9.5 To this end, the widespread and encompassing consultations that this Governor has done with the Presidium; Hon. Ministers; Political Parties; the Private Sector; Labour; Interest Groups; and Civil Society in general, has generated **unanimity** that the month of February, 2007 be used to secure a firm **SOCIAL CONTRACT** for a transitional freeze of all prices; wages; salaries; fees; interest rates; municipal charges and all other forms of tariffs and rates in the economy, to be reviewed after an initial period of 4 months.
- 9.6 The effective start date for the **SOCIAL CONTRACT** freeze would be from the first of March, 2007, through to 30 June, 2007, at which time **SOCIAL PARTNERS** will renew the need for mutually agreed realignments.
- 9.7 Through this focused, purposeful **SOCIAL CONTRACT** the Nation will be able to arrest the current inflammatory mode where sellers of goods and services are wantonly escalating prices with no reference to prevailing fundamentals in the economy.
- 9.8 In order to secure the **SOCIAL CONTRACT** in Step 1, above, it is imperative that the NEDPP be urgently reconstituted, so as to be inclusive of all the other representatives from other stakeholders, including Labour and Consumers.

STEP 2: SIMULTANEOUS LAYING OF THE FOUNDATION IN PHASE 1

- 9.9 At the same time, the **SOCIAL CONTRACT** is being brokered, it is imperative that the following simultaneous measures be implemented between 1 February and 30 June, 2007.
- 9.10 In what follows, I detail the sequential outline of these measures, implementation of which would work to lay a strong foundation for tackling the unfolding socio-economic crisis.

TRANSPARENT MECHANICS OF THE SOCIAL CONTRACT

- 9.11 The deliberations of establishing the **SOCIAL CONTRACT** have to articulate, in a transparent manner, the explicit mechanics on the Prices and Incomes transitional freeze.
- 9.12 During the month of February, 2007, the Tripartite Negotiating Forum (TNF), the Prices and Incomes Commission must, within the framework of the NEDPP, carry out comprehensive surveys of cost structures across all sectors of the economy and take snap shots of current prices, which would make the basis of public announcement of the **SOCIAL CONTRACT** incomes and price levels.
- 9.13 Transparency and comprehensiveness will be critical, so as to build in confidence and promote stakeholder buy-in.
- 9.14 Publication of the comprehensive **SOCIAL CONTRACT** incomes and price levels will ensure that the vulnerable consumers and members of the public in general will be able to scrutinize and expose those who may be tempted to take advantage of the transitional arrangements by going outside the **SOCIAL CONTRACT** set parameters.
- 9.15 The incomes and prices freeze, which will include municipality charges and all forms of tariffs and fees will encompass all the inflation drivers, which are:

- Food and Non-Alcoholic Beverages	32%
- Housing, Water and Electricity	16%
- Furniture, Household Equipment and Maintenance	15%
- Transport	10%
- Clothing and Footwear	6%
- Recreation and Culture	6%
- Alcoholic Beverages and Tobacco	5%
- Education	3%
- Restaurants and Hotels	2%
- Health	1%
- Other	4%
	<u>100%</u>

CREDIBLE STEPS ON MONETARY POLICY REFORMS

- 9.16 The Reserve Bank irrevocably commits to implement the following measures during Phase 1, 1 February-30 June, 2007, so as to lay the foundation for a speedy disinflation process:

WINDING-DOWN OF QUASI-FISCAL OPERATIONS

- 9.17 With immediate effect, the Reserve Bank is ending the quasi-fiscal outlays, as there is no more further need for these interventions, which were implemented in the first place as a survival strategy to save the country's infrastructure system from total collapse.
- 9.18 Later in this Statement, I will expand on the wind-down framework that will allow for smooth termination of the quasi-fiscal operations, without derailing projects that are already mid-stream on implementation.

RETURNING TO CORE FUNCTIONS OF THE CENTRAL BANK

- 9.19 In order to further bolster the disinflation foundation, with immediate effect, the Reserve Bank will revert back to the following primary objectives of its mandate:
- (a) Inflation-fighting through stringent monetary control;
 - (b) Defending the value of the Zimbabwe dollar; and
 - (c) Maintaining stability in the financial sector, as well as preserving and developing the National Payments System.
- 9.20 All other activities the Central Bank has hitherto been engaging in become ancillary and incidental to these core functions, and in compliance with the broad requirements of the Reserve Bank Act.
- 9.21 At no other time has the need arisen that full complementarity be established between fiscal and monetary policy than now.

BUILDING OF A STABILIZATION FOREIGN CURRENCY RESERVE

- 9.22 During this transitional period, focus would need to be on measures that enable the Central Bank to build a foreign exchange reserves fund that would then be used to support the Zimbabwe dollar, as well as stand as contingent for food, energy, agro-inputs, health and other unavoidable Government outlays such as debt service and embassy payments.
- 9.23 The Foreign Exchange Contingent Fund will be built through:
- (a) Savings from total export receipts;
 - (b) Negotiated Trade Finance Facilities;
 - (c) Privatization and Joint Venture Inflows;
 - (d) Investment Partnerships Concessions (Diamonds, Coal bed Methane, Coal, Platinum, Uranium, Chrome etc.);
 - (e) Opening up of Closed Gold Mines.
 - (f) Expected upturn in Tourism and Diaspora Inflows.

RURAL BANKING

- 9.24 During Phase 1, the Reserve Bank will promote financial inclusion through implementation of the Rural Banking Project.

CLEARING UP THE OPERATING LEGAL ENVIRONMENT

- 9.25 In order for the **SOCIAL CONTRACT** to bear maximum effect, it is critical that the following deliverables be achieved during Phase 1, so as to clear the frictional legal hurdles currently clouding the investment climate:
- (a) Finalization and announcement of an investor-friendly mining legislation by not later than 31 March, 2007;
 - (b) Finalization and announcement of a balanced, transparent indigenization empowerment framework by not later than 31 March, 2007; and

- (c) Finalization and announcement of investor-friendly statutes on investment protection, within the context of Bilateral Investment Protection Agreements (BIPAs) by not later than 31 March, 2007.

9.26 As Monetary Authorities, we are pleased that our Principals in Government have assured us that these critical business environmental facets will be implemented without any bureaucratic inertia during Phase 1 of the **SOCIAL CONTRACT** module.

CREDIBLE FISCAL ADJUSTMENT

9.27 In order to fortify the effectiveness of the **SOCIAL CONTRACT**, it is imperative that bold measures be taken, simultaneously on the fiscal side during **Phase 1**.

9.28 As Monetary Authorities, we are pleased that the Hon. Ministers of Finance and Economic Development have committed to taking the following bold steps with immediate effect:

- (a) Rolling out the strict cash-budgeting framework to all line Ministries to be complete by the 31st of May, 2007. Under this framework, Ministries will only spend within set budgets and only to the extent of actual cash revenue available;
- (b) Identification of all price distortions in the economy, followed by announcement of an explicit time-table to remove the distortions, beginning the 1st of March, 2007. Focal areas will be on public utility tariff levels, grain pricing, telephone termination charges, as well as fuel prices; and
- (c) Establishment and implementation of a comprehensive public sector debt restructuring program, beginning the 1st of March, 2007. Emphasis will be on spreading the debt to medium and long-term spans, so as to relieve the interest burden on the fiscus.
- (d) There is also need to deepen social safety nets, as well as accelerate SME development, including Peoples Shops, Dairy, Chicken/Piggery Projects so as to relieve the pain of adjustment among the majority of Zimbabweans.
- (e) Optimization of fiscal revenue collection, so as to ensure adequate internal financing of the budget.

- (f) The rationalization of subsidies and removal of price distortions in the economy.
- (g) Optimizing the supply side response through concentration of budgetary resources on high-impact infrastructural areas, such as energy stabilization, transportation, as well as mechanization of industry and agriculture.
- (h) Fine-tuning of the tax regime to promote export growth and investment expansion.
- (i) Through collaborative capacity development programs with willing international partners, such as UNDP, among many others keep the Civil Service well motivated so as to ensure institutional effectiveness in the public sector.
- (j) Effective management and clearance of imports and exports, as well as the easy flow of tourists into the country at points of entry/exit.

FACTORS IN THE REALM OF THE MINISTRY OF AGRICULTURE

- 9.29 One stakeholder once remarked “feed Zimbabwe well and inflation is gone.”
- 9.30 There is, therefore, immense contribution that the Ministry of Agriculture can do to help in the fight against inflation.
- 9.31 This is particularly so given that in Zimbabwe’s Consumer price Index (CPI) basket, food accounts for 32%, making it by far the largest source of inflation.
- 9.32 Equally, given the economy’s high dependency on agro-based exports, it is an indisputable fact that a major sector that has to play an active role to defend the value of the local currency is Agriculture through growth in exports.
- 9.33 To fight inflation and to successfully defend the value of the Zimbabwe dollar, the Ministry of Agriculture must:
- (a) Ensure timeous availability of key inputs to farmers ahead of the start of seasons.

- (b) Rationalize and remove price distortions that constrain the smooth functionality of the marketing cycle for agro-commodities, resulting in farmers either holding back their crops or getting paid late for their deliveries to the GMB.
- (c) Uplift technical support facilities to shorten the learning curve for new farmers.
- (d) Implement far-sighted infrastructure projects, as well as mechanization programs to uplift agricultural productivity. The higher the yields, the more wieldy agriculture becomes a weapon against the inflation dragon.

MINISTRY OF INDUSTRY AND INTERNATIONAL TRADE.

- 9.34 Supply bottlenecks and hick-ups in the flow of trade, as well as capacity utilization in the country's industrial platforms directly fuel inflationary pressures through shortages-induced impulses in the economy.
- 9.35 It is for this reason that an equally important complementary responsibility in the dual objectives of fighting inflation and defending the value of the Zimbabwe dollar lies in the realm of our Ministry of Industry and International Trade.
- 9.36 Credible strategies have to be designed and implemented to ensure that new export markets are opened up, to ensure that infrastructural concerns and blockages affecting industry are cleared, as well as ensuring that alternative models are adopted to shore up capacity utilization.
- 9.37 Inflation reduction also imposes a critical responsibility on the Ministry of Industry and International Trade to play a central role in calming the relations between Industrialists, Wholesalers and Retailers with Government in so far as the management and discharge of the price monitoring system is concerned.
- 9.38 A spirit of goodwill, cooperation and sharing of the same goal of price stability has to be cultivated through avenues that retain buy-in and scrupulous pricing behaviour by sellers in the market.
- 9.39 Whilst Government works on these areas falling in its realm, we call upon the manufacturing sector to play their part by resolutely implementing self-restraint and progressive codes of ethics through the various member associations so as to put a halt to what is fast becoming an insatiable trend of profiteering by some sellers.

RESPONSIBILITIES IN THE REALM OF THE TOURISM SECTOR

- 9.40 The country's tourism sector continues to be one of the underperforming export areas of the economy, especially when compared with the peak performances obtained in the late 90's.
- 9.41 This underperformance reflects, in the main, the adverse effects of leakages in the sector, as well as the limited scope of the prevailing publicity efforts to market the country regionally and internationally.
- 9.42 We call upon the Ministry of Environment and Tourism to wield a formidable whip and plug off the overt indiscipline and leakages that are characterizing the sector.
- 9.43 Equally, we call upon the relevant representative bodies in the Tourism sector to self-police and encourage their members to comply with standing regulations in contribution to the turnaround program.

FACTORS IN THE REALM OF POLITICS

- 9.44 The cultivation of calm, constructive and optimistic expectations, which in turn shape the behavioural patterns of corporates, households and individuals, as well as investors locally, regionally and internationally also to a large extent, lies in the realm of politics.
- 9.45 To this end, we urge those in this field to always think Zimbabwe first in their various political activities.
- 9.46 Political maturity also imposes a responsibility on those participating in that field to refrain from scotched-earth strategies where well-meaning turnaround programs are booby-trapped simply for the purpose of scoring perceived political goals, all in the name of succession maneuverings.
- 9.47 The economy thus has to be seen as our collective reservoir from which every Zimbabwean does and hopes to draw clean drinking water for survival.
- 9.48 Those among our politicians who engage in cancerous activities, such as smuggling of precious minerals; perpetuating disruptions in productive sectors; or haunting those in society seeking to make a positive difference are by no means different from the proverbial villager who spoils and poisons the community drinking water well. They are the real enemies of the people and the economy.

- 9.49 The international Community, including those of our friends who have stood by us in all weather look up to us to show maturity, rationality and patriotism in nurturing the **Zimbabwe that we want**.
- 9.50 Needless conflict is, thus, an intolerable that only serves to worsen our socio-economic circumstances and must, therefore, be avoided by every means.
- 9.51 Political maturity is, therefore, an indispensable requirement in defending and stabilizing the economy.
- 9.52 Gang-land tactics and intimidation of those seeking to contribute positively will not take us anywhere as a country and as a people.

FACTORS BEYOND OUR CONTROL AS A COUNTRY

- 9.53 As we work to stabilize the macro-economic environment, it is important that we take note and seek to mitigate the following exogenous factors that are beyond our control as a country:
- (a) Deterioration in terms of trade, particularly emanating from occasional energy price increases,
 - (b) Recurrence of droughts, and
 - (c) Declared and undeclared sanctions.
- 9.54 The severity of these factors in injuring our economy is, however, directly proportional to the level of inaction in building defense mechanisms and implementing consistent home grown policies that serve as shock absorbers.
- 9.55 It is for this reason that as Monetary Authorities, we have, over the past 3 years, emphasized on the need for increased concentration on food production under irrigation, as well as orientation of the country's export-basket more towards value-added merchandise.
- 9.56 Equally, our calls for predictable, consistent and investor-friendly programs, implemented without inertia are meant to also act as the protection and response to the setbacks we face.

- 9.57 As regards sanctions against the country, as a country, we need to speak with one voice in bringing to the world the true Zimbabwean story and how fairness and justice must be allowed to prevail in the global arena in the treatment of smaller nations that stand for what they firmly believe is right, in line with their historical background and sovereign existence.
- 9.58 On our part as Zimbabweans, we need to remain steadfast in integrating our economy with willing regional and international business partners through explicit respect for private property rights, grounded on the principles of international commercial laws, norms and conventions.

PRIVATIZATION OF TARGETED PUBLIC SECTOR ENTITIES

- 9.59 As an integral part of this unavoidable reform package, it is critical that Government implements the already accepted and noble privatization program.
- 9.60 Through this strategy, significant foreign exchange inflows will be unlocked, whilst supply-side rigidities currently being imposed on the fiscus by parastatals are relieved.
- 9.61 Later in the Monetary Policy Statement, I present the detailed recommendations which we are pleased to enjoy the support of our Principals in Government.
- 9.62 Implementing the recommendations immediately will significantly support the **SOCIAL CONTRACT** through confidence-building and the expected foreign exchange inflows.

DEPOLITICISING ECONOMIC PROGRAMS

- 9.63 As Monetary Authorities, we also make a clarion call to Government, Political Parties, the Private Sector and the generality of Civil Society **NOT TO** politicize bona fide economic programs that are meant to benefit the majority of Zimbabweans, as opposed to feathering the nests of a few.
- 9.64 Consistent with this call, policy matters, such as the imminent privatization program, removal of distortions in the economy, as well as investment promotion through appropriate legal statutes should not be sacrificed on the altar of selfish political expediency.

- 9.65 Economic rationality is what Zimbabwe desperately needs now, as the economy stands at the cliff of a devastating socio-economic crisis if the right decisions are not taken; and taken now.

TRANSLATION OF ALL MOUs INTO IMPELLENDABLE AGREEMENTS

- 9.66 The clearing and clarifications of all implicit and explicit legal hurdles on the investment front should be simultaneously followed by a relentless conversion of all existing Memoranda of Understanding (MOUs) entered into with various potential investment partners into resolute implementable agreements.
- 9.67 Over the period 1 February to 31 May, 2007, all line Ministries and Government Agencies that have outstanding MOUs ought to concretize them into solid agreements.
- 9.68 On our part as Monetary Authorities, we undertake to move with speedy determination on all the MOUs we have entered into with our correspondent business partners.
- 9.69 In order to ensure that this critical requirement of supporting the **SOCIAL CONTRACT** is implemented, a catalogue of all standing MOUs is being assembled, with engagements for finalization being initiated with immediate effect.

PUBLIC AWARENESS

- 9.70 In order to bear maximum effect, the **SOCIAL CONTRACT** requires buy-in and active participation by the general public.
- 9.71 To this end, therefore, it is imperative that under the NEDPP, a well formulated publicity campaign be carried out between 1 February and 31 May, 2007, so as to raise the public's awareness of the **SOCIAL CONTRACT**.
- 9.72 This publicity campaign, which should encompass the Ministry of Information, Employer Bodies, Labour Unions, Retailers Associations, The Consumer Council, Ministries of Finance, Economic Development, Industry and International Trade, as well as the Reserve Bank has to cultivate awareness across the board, both in rural and urban areas.

- 9.73 The more the public is made aware of the program, the narrower the room for unscrupulous stakeholders to deviate and operate outside the prices and incomes parameters that would be enshrined in the **SOCIAL CONTRACT**.

DIPLOMATIC ENGAGEMENT

- 9.74 With the Land Reform Program now both complete and irreversible, it is imperative that as Zimbabwe we rebuild our country's image through full-faith and far-sighted engagement of both our friends and those who yesterday mis-understood our internal sovereign and legitimate programs.
- 9.75 To this end, therefore, we recommend the formation of a small, focused, high-level Diplomatic Team, whose main immediate mandate will be to engage with the East, the North, the West and the South in a manner that cultivates deeper understanding of Zimbabwe's case, in the process nurturing the spirit of reconciliation and cooperation.
- 9.76 As a country, having now accomplished our cherished objective of giving land to the people, we can not easily rebuild our economy without deliberate reintegration into the global spheres of contemporary socio-economic and political existence.
- 9.77 Implemented as part of the **SOCIAL CONTRACT** package, we strongly believe that the diplomatic publicity campaigns will markedly strengthen the stabilization and recovery effort.

ZIMBABWE'S FOREIGN MISSIONS

- 9.78 Our Embassies too have a great role to play in support of the **SOCIAL CONTRACT** during Phase 1 and beyond.
- 9.79 As part of the recovery program, we recommend that through the Ministry of Foreign Affairs, the deliverables brief for our Embassies be re-defined, attaching an unprecedented requirement for investment promotion and export market development.
- 9.80 Being a constituency that puts demands for foreign exchange on the fiscus through the Reserve Bank each month, it is high time that our foreign missions account for how much they are contributing into the national foreign exchange pot.

CORPORATE AND INDIVIDUAL ECONOMIC PATRIOTISM

- 9.81 The simultaneous removal of distortions in the economy and the establishment of a mutually agreed **SOCIAL CONTRACT** also requires broad support through individual and corporate economic patriotism.
- 9.82 As I speak here today, we have some prominent stakeholders who are reportedly taking pride in causing havoc in foreign exchange markets through unbridged parallel market trading and smuggling of gold and diamonds, among many other subversive practices.
- 9.83 If the **SOCIAL CONTRACT** is to bear fruit, it is high time that fellow Zimbabwean flush out these “dark alley barrons” for what they are, in the interest of stabilizing the economy.
- 9.84 As an integral part of strengthening the effectiveness of the **SOCIAL CONTRACT**, we also call upon exporters to play their part through realization that selfish actions at the micro individual or corporate levels do sum up, in the aggregate, to destroy the economy as a whole.
- 9.85 To this end, therefore, the following deliverables are critical during Phase 1 of the stabilization process:
- (a) The Zimbabwe Tourism Authority, The Zimbabwe Council of Tourism, together with the Ministry of Environment and Tourism and the Reserve Bank will register all hotels, lodges, hunting conservancies and tour operators by 1 March, 2007. Thereafter, all foreign exchange generating business by these entities will be done on the basis of strict full declaration;
 - (b) Representative bodies of producers, in Mining, Agriculture, Transport and Manufacturing are also to compile full lists of their exporting members, which lists will form the basis of information cross-pollination with the Exchange Control arm of the Reserve Bank on CD1, TR1 and CD3 declaration and accounting. Such lists are to be ready by not later than 1 March, 2007;
 - (c) In mining, the verification and audit work by teams of international experts as previously announced will start with effect from 1 March, 2007. These programs are expected to ensure that the country is not short changed of its resources; and

- (d) With effect from 1 March, 2007, all Authorized Dealers will be expected to maintain a clean record in respect of discharging CD1s, TR1s and CD3s forms, with overdue cases being handed to the Central Bank for follow-ups.

INDISCIPLINE AND DETERRENT LAWS

- 9.86 The growing cancer of corruption and indiscipline stands as a major threat to any initiatives that are meant to stabilize inflation, and the laying of a foundation for economic recovery.
- 9.87 A critical deliverable that will need to be secured in Phase 1 of the **SOCIAL CONTRACT** program is, therefore, the urgent institution of stiff deterrent statutes that make it unprofitable for individuals or corporates to engage in destructive economic crimes.
- 9.88 For maximum effect, this legal reform process has to start with immediate effect, particularly in the areas of:
- Corruption in its various forms
 - Smuggling of minerals
 - Parallel market activities
 - Under-invoicing of exports
 - Over-pricing of imports
 - Indiscipline in the Tourism Sector

ROLE OF THE CHURCHES

- 9.89 Success of the **SOCIAL CONTRACT** package also does require the full support of the Churches.
- 9.90 Already, the Churches in Zimbabwe have taken a positive unprecedented step of building consensus on cohesion around the priority policy areas that are needed to build the Zimbabwe we want.
- 9.91 Against this background, it is imperative that during Phase 1, the Churches carry out outreach programs, cultivating public tolerance, economic patriotism and the shunning of destructive counter-productive activities.

- 9.92 In order to carry fully informed economic content to the people, the Churches must start in Phase 1 to enroll their representatives into all key economic committees, so as to stay abreast with contemporary debate and implementation programs affecting the economy and society in general.

ROLE OF NGOS, EMBASSIES AND INTERNATIONAL ORGANISATIONS IN ZIMBABWE

- 9.93 Zimbabwe, as a sovereign Nation does exist in a defined global context.
- 9.94 This notwithstanding, however, the moods, attitudes, actions and perceptions of the global capital cities and their corporate sectors can, to a large extent, be transformed by the activities and messages radiated by the representatives of the international community who are here at home.
- 9.95 As Monetary Authorities, we, therefore, make a plea to the international community, through their tentacles with a footing here in Zimbabwe, to receive and support the **SOCIAL CONTRACT** framework with an open mind.
- 9.96 There will be and there are those who will be quick to condemn any program Zimbabwe does, saying that without regime change, Zimbabwe should not move forward.
- 9.97 To such stakeholders, we say, why continue to sow and perpetuate the suffering of the majority of Zimbabweans on political matters that are within reach of resolution by the people of Zimbabwe?
- 9.98 Equally too, we make the firm statement that through such instruments as a mutually agreed **SOCIAL CONTRACT** the room for needless conflict among fellow Zimbabweans will be dissipated, effectively paving way for the sustenance of peaceful political dispensations, in line with the will of the people.
- 9.99 We call upon International Organizations, NGOs, Embassies and other Donor Agencies here in Zimbabwe to self introspect and continue with a positive approach in the engagement process.
- 9.100 On our part, as Monetary Authorities, we will remain alert to the specific circumstances and requests coming from the Donor Community on how internal policies should preserve their planned social sector intervention programs.

COLLECTIVE IMPLEMENTATION ...

- 9.101 As Monetary Authorities, we are confident that implementation of the above simultaneous measures during Phase 1, will lay a solid foundation for rapid disinflation during Phase 2 of the **SOCIAL CONTRACT** program.
- 9.102 As was recounted in the foregoing, many countries which, over their histories were once in our current circumstances, successfully deployed the **SOCIAL CONTRACT** strategy and today they are the envy of many.
- 9.103 We too can definitely do it as Zimbabweans.
- 9.104 Indeed, the Private Sector, in their contributions to this Monetary Policy Statement were apt when they said:
- 9.105 **Quote...** *“Experiences in other countries have demonstrated that the most effective solution to hyperinflation is a holistic homegrown recovery program. A holistic homegrown recovery, properly implemented would show results in a short space of time.”*
- 9.106 In what follows, I articulate the imperatives that will need to be implemented between 1 July and 31 December, 2007 under Phase 2, which would translate into rapid disinflation and sustained economic recovery.

PHASE 2: 1 JULY-31 DECEMBER, 2007 : RAPID DIS-INFLATION AND STABILIZATION

- 9.107 The end of Phase 1, the following critical foundations for rapid disinflation will have been laid down:

PHASE ONE DELIVERABLES

- (a) Clearing of all outstanding legislative impediments to investment attraction;
- (b) Identification and commencement of a program removing at least 75% of distortions in the economy;
- (c) Ring-fencing and winding down process of quasi-fiscal operations of the Central Bank, and the adoption of strict monetary targeting;

- (d) Full implementation of cash-budgeting across all line Ministries;
- (e) Four months of stability in all prices and incomes, tariffs, fees, charges and rentals;
- (f) Full registration of all operators in the tourism sector and other sectors of the economy;
- (g) Active involvement of Government, Labour, Business, Consumers and Civil Society in a focused National Program;
- (h) Active publicity campaigns locally, regionally and internationally which will have raised awareness about the **SOCIAL CONTRACT**;
- (i) Introduction of stringent, deterrent laws to discourage indiscipline, smuggling of minerals and corruption;
- (j) Redirection of the mandate of our Embassies offshore;
- (k) Commencement of a comprehensive public sector debt restructuring program;
- (l) Thawing down of relations with the international community;
- (m) The translation of all MOUs into concrete implementable agreements; and
- (n) Resumption of effective implementation of a targeted privatization program.

9.108 As Monetary Authorities, we believe, with the strongest conviction that unreserved implementation and achievement of the above deliverables will bring about the needed momentum for the **SOCIAL CONTRACT** to be graduated into the rapid disinflation mode in Phase 2

9.109 Under Phase 2, the key facets of the **SOCIAL CONTRACT** will be the following mutually reinforcing measures:

RAPID REMOVAL OF DISTORTIONS

9.110 Building on the diagnostics and initial steps as would have been effected in Phase 1, the period 1 July to 31 December, 2007 will see the following distortions being removed:

- (a) Multiple exchange and interest rates, and allowance for market forces to determine financial valuations;
- (b) Mis-alignments in fuel, electricity and grain prices, as well as sub-optimal electricity tariffs, municipal charges and other parastatal prices;
- (c) Residual land-related realignments, including completion of the issuance of 99-year leases;
- (d) Mis-aligned terminal charges for international traffic in the telecoms sector; and
- (e) Board and management reforms at key parastatals.

9.111 The removal of these distortions will help significantly uplift the functionality of our markets, promote business confidence through viability, and engender increased free enterprise.

EXTERNAL DEBT RESCHEDULING...

As part of the **SOCIAL CONTRACT** strategy, it is imperative that efforts to bolster the country's image be broadened to encompass the resumption of negotiations with the country's creditors to reschedule our external debt portfolio. This would create headroom in the strained balance of payments position.

Where possible, the negotiations should tie up developmental programs under the **SOCIAL CONTRACT** on possible debt forgiveness packages.

We call upon the international community to approach this matter with a positive mind, meant to relieve suffering of innocent Zimbabweans.

FOREIGN EXCHANGE MOBILIZATION

- 9.112 Using the improved business environment founded on the bold steps in Phase 1, the Reserve Bank, exporters and their producers associations, the Ministries of Finance, Economic Development, Industry and International Trade and Environment and Tourism will intensify the campaign to mobilize foreign exchange inflows through export support, lines of credit and investment promotion.
- 9.113 During Phase 2, the Ministry of State Enterprises will also go full-throttle in strategically selling off targeted cash cows, as well as implement stringent parastatal reforms.

MEASURED PRICES AND INCOMES ADJUSTMENT

- 9.114 In order to keep the social contract intact, as well as take into account the inevitable relative price effects attendant in the process of removing pricing distortions, it will be imperative that at the start of Phase 2, a measured correctional adjustment be allowed in the **SOCIAL CONTRACT** at magnitudes mutually agreed by social partners.
- 9.115 To forestall potential relapse into the current near free-fall mode, it is important that the measured realignments take into account genuine considerations of production costs on the ground as much as possible.

AGRICULTURE PRODUCTIVITY

- 9.116 As an integral part of the **SOCIAL CONTRACT** program, and equally as an effective tool to fight inflation, it is critical that right through the reform process, greater priority be attached on the achievement of maximum pre-season preparedness in agriculture.
- 9.117 To achieve this, the **SOCIAL CONTRACT** will need to spell out, right from the start, the priorities and time-bound programs that have to be accomplished so as to guarantee food security.
- 9.118 Later in this Statement, I will expand on the agriculture mechanization program, which is also detailed in the Strategic Imports Supplement which is set to significantly uplift our farmers' readiness to produce enough to feed the country.

PARASTATAL AND LOCAL AUTHORITIES

- 9.119 The positive recovery momentum that will undoubtedly arise from Phase 1 can only be maintained if the parastatals and local authorities also radically transform the way they do business.
- 9.120 Specifically, during Phase 2, all blockages in parastatals and local authorities should be cleared through personnel shake-ups, as well as adoption of viable business systems.
- 9.121 At the Reserve Bank, I can commit here and now that the refocused mandate requires that we also radically shake up our structural orientation.
- 9.122 This re-transformation of the Central Bank will follow in the next few days from today.

SECTORAL PERFORMANCE REVIEWS

- 9.123 Successes and opportunities for improvement on the **SOCIAL CONTRACT** framework will need to be highlighted through a rigorous process of on-going sectoral performance reviews.
- 9.124 To this end, through the auspices of the NEDPP, and the TNF, the **SOCIAL CONTRACT** deliverables will be monitored and assessed periodically; some monthly, and others quarterly, depending on the appropriateness given the nature of the deliverables in question.

DECRIMINALIZING ZIMBABWEANS

- 9.125 The deep-rooted distortions currently prevailing in the economy are making it virtually impossible for the average citizen to earn a living strictly and entirely through ways that are fully compliant with the laid laws and regulations.
- 9.126 The rapid removal of the distortions will, thus, significantly promote a concomitant de-escalation of the “cat-and-mouse” mode currently prevailing in the economy, as the long arm of the law seeks to catch up with defaulters.
- 9.127 On our part as the Central Bank, we commit to restrict our surveillance roles strictly on matters relating to banking sector prudence, Exchange Control affairs, as well as anti-money laundering.

9.128 This way, we will be deepening the virtuous drive to promote mutual trust and confidence in the productive sectors of the economy.

9.129 Having laid out the **SOCIAL CONTRACT** and its preconditions and deliverables as the main vehicle that can only deliver the country from the current crisis, I will now turn to the details of the Monetary Policy Measures, as well as other advisory elements of the areas already pointed out in the foregoing.

9.130 But before I do that, let me underscore the importance of implementing agreed programs, as well as the key lessons that we can drive from the road our economy has gone through over the past four or so years.

10 NEED FOR IMPLEMENTATION OF AGREED PROGRAMS.

10.1 Cross-cutting assessments of our combined strengths and limitations as an economy have amply demonstrated that what we need now, **more than ever before**, is full implementation of the various national programs that have long been agreed upon or approved at various forums.

10.2 It seems to us that;

- Fear to make decisions is
- Fear of blame
- Turf wars

are at the centre of policy implementation inertia in the country.

10.3 Our Leadership has repeatedly spoken about the futility of needless conflict among us as Zimbabweans as we try to turn-around our economy, yet the scale of such negative energy and conflict expressed in various forms is increasingly retarding our turnaround efforts.

10.4 On numerous occasions, including during the unveiling of the 2007 National Budget by the Hon. Minister of Finance, the Hon Minister has bemoaned the disruptive nature of price distortions, expenditure overruns in line ministries, and the leakages of scarce foreign exchange through smuggling of precious minerals.

10.5 Equally repeatedly now, the Executive, sitting as Cabinet have long ushered in approval for the implementation of a well sequenced privatization program.

- 10.6 The urgency and importance of privatization has been again a central war-cry in Hon. Minister of Finance's addresses to the Nation, requiring the urgent need for dedicated action.
- 10.7 Yet, despite all these far-sighted calls, down at the operational levels, implementation has largely been stalled by an unusual degree of inertia to **ACT**.

11. CONTRADICTIONS...

- 11.1 The past few years have seen a remarkable increase in world commodity prices for virtually all our major minerals, yet in volume terms, we have continued to see marginal growth rates, if not declines in most cases.
- 11.2 Equally puzzling too, the recent few months have seen a marked decline in the international prices of oil, and yet in our own domain here at home the pressure has remained high for prices to go up.
- 11.3 These paradoxes and aversions to resolutely implement agreed national programs have jointly conspired to undermine the pace of economic stabilization and take-off.
- 11.4 And yet, if we are to move the country and the economy forward, we must and we should subdue these retardations through heightened energy and enthusiasm to get on with the job and do what has to be done without further delays.
- 11.5 At no other time has there been need for both Monetary and Fiscal Authorities to work together, to heal the Nation, to stop the economic hemorrhage and to show economic leadership, unity of purpose and undivided patriotism.
- 11.6 The moment we are faced with imposes more obligations on us than liberties to act in the best interest of the Nation, to stop finger pointing and to be courageous in both words and deeds.
- 11.7 If we **can not** do it now with the recently announced **Budget**, and if we can not do it with this **Monetary Policy Statement**, then it can not be done **ever**.
- 11.8 In 2007, there are no National, Local and Rural Elections, giving us a good window of opportunity to make right our economic fundamentals without the usual strain on resources and policy options that come with election years.

- 11.9 Now that the noble objectives of the Land Reform Program are materializing, with the rolling out of 99-year leases now in progress, the next logical step is clearance of the multiplicity of distortions currently characterizing the country's goods and services markets.

LESSONS LEARNT OVER THE PAST 4 YEARS: 2003-2006

- 11.10 Through the retrospective lenses, several key lessons can be drawn from the experiences the country has had over the past 4 years, 2003-2006.
- 11.11 A close reflection at 2003 reveals that the seeds of high inflation momentum in the economy began that year with; widespread indiscipline in the financial sector, whilst capacity utilization in manufacturing had declined sharply, on the back of deteriorating foreign exchange supplies.
- 11.12 In 2004, commendable progress was registered right across the array of imbalances that faced the nation, with inflation falling significantly by more than 500 percentage points, foreign exchange inflows into the formal market rising six-fold, whilst in the financial sector discipline returned and capacity utilization in industry increased markedly.
- 11.13 The main lesson from this experience is that through policy consistency, unity of purpose and a willingness to take the pain of adjustment, macroeconomic stabilization is an achievable objective.
- 11.14 As has long been established in the medical profession, before one can prescribe and administer a set of medical procedures to a patient, one must first diagnose the ailments or sources of "internal resistance, and allergies" to past prescriptions.
- 11.15 The trend reversals in 2005-2006 on the major gains that had been registered in 2004 warrant that this logical process be pursued at this critical moment in the history of our economy.
- 11.16 But before coming to what caused the setbacks in 2005-2006, it is instructive to underscore that the marked progress that, as a country, we registered in 2004 was on the back of a combination of the following reinforcing pivotal factors:

The 2004 Success Story...

- a) As a nation, we had unity of purpose, speaking with one voice on the progressive development of our economy;
- b) Policy programs were a product of wide consultations, with the Reserve Bank Foreign Exchange Advisory Board being one such forum;
- c) Discipline in the financial sector was instilled through close prudential supervision and surveillance, as well as adoption of credible risk management systems;
- d) There was exchange rate flexibility, which broke allowed exporters to recoup their costs of production.
- e) Exporters were further supported through targeted incentives;
- f) Exporters played their part and religiously repatriated their export proceeds on time;
- g) Zimbabweans in the diaspora demonstrated a vibrant keenness to support their motherland through foreign exchange repatriations via the official channels;
- h) Fuel importation was liberalized to an increased number of players, with prices being allowed to adjust in line with market fundamentals;
- i) Momentum on stabilizing the agricultural sector, and closing the Land Reform Program was high, with Government publicly committing to introduce 99-year land leases;
- j) The private sector's representative bodies played a central role of communicating to their members on the virtues of optimistic behavior in planning. This helped in quickly thawing down the adversities of adverse inflationary expectations;
- k) Schools, municipalities and major utilities adjusted their prices in measured moderation, and consistent with underlying production costs;
- l) Gold producers delivered virtually all their produce to the Central Bank, with marginal volumes leaking through the parallel market route;
- m) A tight monetary policy position was maintained, with positive real interest rates;
- n) On the back of a near-balanced fiscal position in 2003, the Government sector stayed within budgeted outlays, avoiding any supplementary budgets;
- o) There was active re-engagement of the international community, with repayments to the International Monetary Fund (IMF), the World Bank, the African Development Bank (AfDB), and many other suppliers creditors resuming;
- p) There were active, pragmatic interventions to sustain the strained productive

- sector, through tailor-made concessional facilities that were funded through non-inflationary means, under the Productive Sector Facility (PSF);
- q) Government undertook to roll out the virtuous privatization program;
 - r) Some friendly correspondent banks afforded the country favorable standby lines of credit which added to the overall foreign exchange inflows; and
 - s) There was greater congruence and complementarity between fiscal and monetary policy frameworks.

“Land Mines” and Constraints in 2005-2006

- 11.17 The above array of positive steps and reinforcing factors, was, however, retarded by a number of implementation “landmines” and constraints that confronted the country between 2005 and 2006.
- 11.18 In articulating these limiting factors, it is not the intention of this Governor to seek to blame any stakeholder or any constituency, nor is it a platform for a public defence of any of the stance the Central Bank took over this period.
- 11.19 Lest as Zimbabweans we condemn ourselves into extinction over the prevailing setbacks, it is also perhaps fitting to point out at the onset that given the breadth and depth of the hurdles the country had to go through, as will be outlined below, 2006 nevertheless turned out to be far from being a year of the lost cause, gloom and doom as had been prophesied by some of our perennial critics.
- 11.20 As a nation we managed to still import fuel, electricity, grain, agricultural machinery and implements, fertilizers, agrochemicals and many other essentials, as well as paying out some of our international creditors, notwithstanding the continued foreign exchange shortages that prevailed in the year.
- 11.21 Reflecting returning stability in agriculture, the positive effects of the dams, irrigation capacity, agro-equipment and implements we have invested in, supported by better pre-planning, 2006 marked the return of positive growth in agriculture and prospects look even brighter in 2007.
- 11.22 Equally phenomenal, we are pleased to report to stakeholders that notwithstanding the strained foreign exchange shortages, the period 2004-2006 saw the Reserve Bank allocating a cumulative total of US\$2 billion which went towards the payment of critical Government requirements, debt service payments, importation of food, electricity, fuel and chemicals for water treatment.

The setbacks we have to address...

11.23 Notwithstanding the above improvements, the experience over the 2005-2006 period points on the need for the following factors to be addressed as part of fortifying the turnaround framework of the economy:

- a) The high and repeated fiscal budgetary overruns that occurred over 2005-2006 are an imbalance that as a country we need to rectify, so as to diffuse inflationary pressures that emanate from the monetary financing of fiscal deficits;
- b) Absolute neglect of duty and non-implementation of agreed national programs by some public institutions drain national resources, as well as constrain the private sector's agility to respond favorably to policy stimuli. The interventionist policies of the Reserve Bank through quasi-fiscal outlays are, thus, a reflection of things having gone terribly wrong elsewhere;
- c) In 2005, the country held two elections in one year, Parliamentary Elections in March and Senatorial ones in the second half of the year. By their very nature, elections are disruptive to economic program implementation. Such national events need adequate forward-planning and appropriate budgetary allocations. Where, as was the case with Senatorial elections, resources are not provided for in the fiscal budget ahead of time, the end-result is to put pressure on monetary financing of fiscal outlays;
- d) Underscoring the strategic need for a robust dam and national irrigation network, it remains a tragedy that each time there is a drought, as happened in 2004/05, the country incurs a heavy price through food imports. Also in drought years, inflation impulses are largely radiated from food prices;
- e) In 2005, the country's image was injured by the regional and international projection of the clean-up program under Murambatsvina, which negativity fed into the already thick stigma that had been sown by those opposed to the noble Land Reform Program;
- f) The declared implementation of Bilateral Investment Protection Agreements (BIPAs) did not take off, which effectively clogged the conception of some of the international investment negotiations the country sought to establish;

- g) The momentum of corruption and indiscipline in the economy took root in 2005 and 2006;
- h) Over the period 2004-2006 immense resources of over US\$600 million were devoted to clearing long outstanding national debts that had nothing to do with present day turnaround programs. This clearly underscores the need for generational equity in migrating burdens of the past;
- i) Characterized by conflicting statements and general delays in the finalization of some of the critical pieces of legislation, such as the mining sector legislation, there continues to be general apprehension in the Mining sector, frustrating prospecting and expansion investment programs;
- j) The divergence in the official and the illegal parallel foreign exchange rates gave the incentive for the bulk of otherwise traditional foreign exchange inflows to drown in the underworld market, starving the official market of the scarce resource;
- k) On the back of exchange rate divergence, Zimbabweans in the diaspora, who had contributed significantly in 2004, virtually stopped transferring their money through legitimate official channels, preferring, instead the risky underworld routes;
- l) The pricing distortions on grain, fuel and electricity widened, which exerted pressure on money supply, as well as destabilized the fluency of energy supplies in the economy;
- m) Some of the parastatals resisted the sound advice the Reserve Bank offered, leading to their continued existence as the missing link in the turnaround chain;
- n) The rules of play in some of the international multilateral institutions were selectively changed to literally ensure that Zimbabwe remained on the noose, notwithstanding the remarkable progress that had been registered in clearing arrears; and
- o) The whirlwind of rumor, needless hatred, scotched earth strategies, political jockeying, and the blame-game, particularly in 2006, created a generally undesirable air of mistrust and drained stakeholder cooperation which, in turn, drained the momentum of cooperation and buy-in.

- 11.24 Successful stabilization of the economy, which we must, and we will accomplish, requires that as a nation, we face these setbacks head-on and soberly address them with nothing else in our minds but to build a viable, stable and prosperous Zimbabwean economy.
- 11.25 Continuation on the same path, for what ever reason, sectorally or individually we risk drawing the Zimbabwean economy, our motherland down a path that will take decades to reclaim.
- 11.26 Allowing this to happen will, no doubt see our future generations being tempted to defile our graves as our places of rest, for we will have collectively failed them.

MONETARY POLICY FOCAL AREAS: 2007 AND BEYOND

- 11.27 Having arrested total collapse in agriculture as well as in the parastatal and local authorities sub-sectors, it is imperative that greater **focus now be placed on the direct fight against inflation and defending the external value of the Zimbabwean dollar.**
- 11.28 These two pivotal objectives will drive monetary policy formulation and implementation in 2007 and beyond.
- 11.29 With the basic infrastructure foundation now having been laid in agriculture and the parastatal sectors, all that the Reserve Bank is going to be doing will be pursuant, incidental and ancillary to these fundamental dual objectives.
- 11.30 Confronted with the yawning capacity constraints that were choking the key parastatals and local authorities, as well as what had become a virtual credit crunch in agriculture, it was necessary that the Central Bank intervened.
- 11.31 Yes, some may argue that the interventionist approach did not yield positive results but concluding so would be the height of short-term thinking, as it is typical that recapitalization programs yield returns over the medium to long-term horizon.
- 11.32 Even in soccer matches, winning strategies may involve players dribbling in their own 18 area or even shooting the ball at their own goal to give other front-runners in the strike-force ample time to reposition themselves for better results.

11.33 Thus, observed realizations of singular steps backwards in some aspects of the economy, such as inflation, should not beat the nation into submission, as sometimes such steps germinate and induce multiple steps forward.

11.34 As Monetary Authorities, we are committed to ensuring that the twin objectives of preservation of the internal and external value of the Zimbabwean dollar override and pre-occupy our activities in 2007 and beyond.

11.35 It is, however, imperative that this process be supported by overall consistency of policies and programs across all Government ministries and Departments; as well as reinforcing commitment and actions by the productive private sector.

11.36 Perpetuation of detrimental activities by what have become known as “grave-diggers” on the value of the Zimbabwean dollar will not only retard success but compound the current economic imbalances.

11.37 Examples of “grave-digging” activities that are taking place, which are destroying the value of the Zimbabwean dollar include;

- The smuggling of gold, diamonds and other precious minerals out of the country;
- The hoarding of foreign exchange by some players, electing to simply accumulate it for no other productive purpose other than mere speculation;
- The under-declaration of foreign exchange earnings by some players in the Tourism industry and other exporting sectors;
- The over-invoicing of import bills by some players, which is being done as a way of externalizing foreign exchange;
- The blatant acts of profiteering by some service providers, some manufacturers, wholesalers and retailers where charges and prices are now being wildly increased at margins that are way beyond those sensibly linked to production/carrying costs. Even in cases where consideration of replacement costs is factored, the extent of price increases characterizing our markets is nothing short of diabolic profiteering; and
- The growing incidences of corruption in the economy which are effectively wasting scarce resources through unnecessary transactional commissions and misallocation of factor inputs.

11.38 It is against this background that stabilization of the macroeconomic environment ought to be seen and driven as a comprehensive, multiple-player program to ensure maximum impact.

11.39 With the Central Bank's focal thrust now pin-pointed on the core objectives of inflation reduction and defending the external value of the Zimbabwean dollar, it is also imperative that the following ancillary pillars be effectively discharged concurrently:

- (a) Resolute implementation of a well-structured privatization program that optimizes fiscal revenues, at the same time, raising phenomenal amounts in foreign exchange. This would directly augment the efforts to defend the Zimbabwean dollar;
- (b) A smooth rationalization of the quasi-fiscal program in a manner that engenders continuity of strategic national programs already underway;
- (c) The removal/rationalisation of price distortions that are characterising some of our markets;
- (d) Restraining mis-use of foreign exchange through implementation of tailor-made rationalization measures;
- (e) Instituting stringent measures to ensure proper and full accountability for tourism receipts and other exports, as well as plugging off leakages of precious minerals; and
- (f) Supporting exports through greater policy flexibility and a fine balance between export-led and import-substitution strategies.

12 SOURCES AND APPLICATIONS OF FOREIGN EXCHANGE (2003-2006)

WHAT HAS KEPT ZIMBABWE GOING....

- 12.1 This Monetary Policy Statement comes at a time when considerable national debate and numerous hypotheses and sub-theories have been floated around the subject of foreign currency generation and its usage.
- 12.2 Others have covertly and overtly suggested that the main reason for foreign exchange shortages has been the Reserve Bank's policies, whilst some have alleged that the Reserve Bank is incompetent to manage and administer the nation's foreign exchange reserves in efficient ways.

- 12.3 As Monetary Authorities, responsible for the overall management and administration of foreign currency, we would like, therefore, for the benefit of the public, to outline the country's global foreign currency flows for the period 2003 – 2006, and the out of the box initiatives that the Central Bank had to implement to keep the economy going.
- 12.4 Often, when society is in the middle of a crisis or defined setbacks, disproportionate energies tend to be invested in self-destructive brawls, turning on each other's necks, ignoring that winning has to be achieved through a cooperative spirit.
- 12.5 Consistent with the Central Bank's jealously guarded principle of transparency and openness without offence, it has, therefore, become critical that we unveil to the nation, the full taxonomy of sources and application of the country's foreign exchange resources over the past four years. This review covers those resources held by the Reserve Bank and those handled by Authorised Dealers in the market.
- 12.6 This informative process is also meant to steer national debate on the relative contributions that different constituencies and sectors in the economy are putting in the Central coffers meant to sustain the economy.
- 12.7 This input-output assessment is critical so as to sanitize the national discussions of emotions and untruths so as to pin down the package of policy measures needed, as well as attendant institutional and regulatory reforms necessary.

BALANCE OF PAYMENT SUSTAINABILITY

- 12.8 To bridge the gap between foreign currency supply and demand, the Reserve Bank had to mobilize additional foreign currency through innovative structures to fund the country's critical import requirements. This is, however, a stop-gap measure taken to avert crisis and total collapse of the economy.
- 12.9 Zimbabwe's current account transactions have been liberalized, with the overall foreign exchange transactions in the country administered by Exchange Control through banks, the Authorized Dealers.
- 12.10 In order to ensure allocative efficiency, the Reserve Bank through its Monetary Policy framework and Exchange Control machinery, prioritizes and monitors utilization of the limited foreign exchange resources in a transparent manner.

12.11 An analysis of overall foreign exchange allocation over the past four years shows that usage of foreign currency allocated remains oriented more towards importation of essential inputs for the productive sectors and debt servicing.

12.12 Not many would know the sacrifice and hard work that has underpinned the mobilization of foreign currency, which has managed to keep this country going over the past three years.

GLOBAL FOREIGN CURRENCY FLOWS

Global Foreign Currency Receipts (2003-2006)

12.13 The major sources of foreign currency in Zimbabwe are export receipts, including gold (72.9%) and free funds or non-export receipts (16.6%).

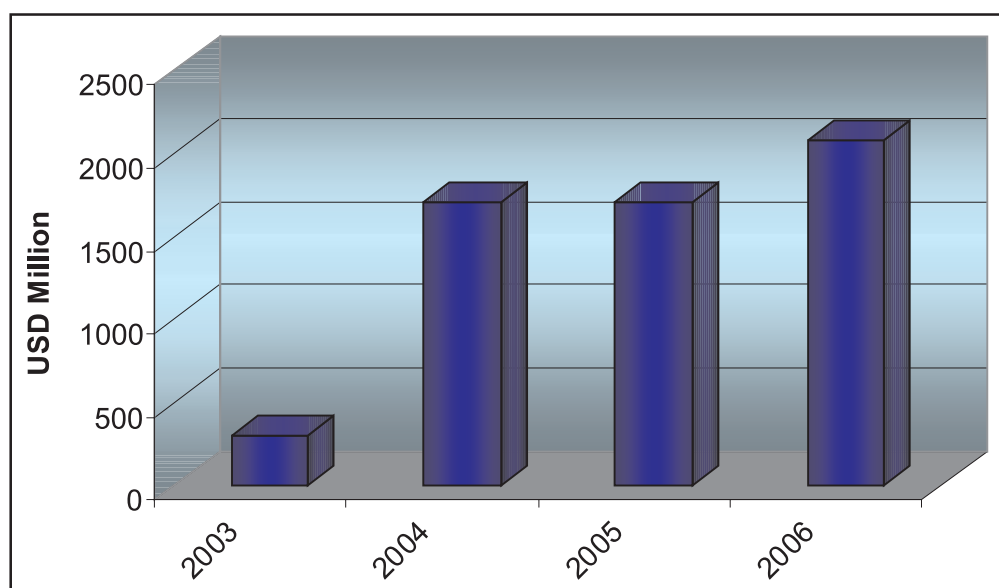
12.14 The Table below shows the global foreign currency receipts for the period 2003-2006.

Global Foreign Currency Receipts (2003-2006 US\$ millions)

USD Million	2003	2004	2005	2006	Cumulative Total
Exports (excl. gold)	91.2	1 034.8	882.5	1 080.0	3 088.5
Gold Receipts	152.3	273.8	203.4	201.2	830.7
Private Sector Loan Proceeds	---	57.8	155.2	157.6	370.6
Structured Facilities (RBZ)	24.1	84.3	159.8	228.3	496.5
Free Funds/MTAs (Inc NGOs)	34.1	260.1	302.0	406.2	1 002.4
Total	301.7	1 710.8	1 702.9	2 073.3	5 788.7

12.15 Global foreign currency receipts have increased from USD 301.7 million in 2003, to USD 2.1 billion in 2006. Export receipts have contributed an average of 54% over the 4-year period.

Global Foreign Currency Receipts (2003-2006)



12.16 Foreign currency receipts in respect of free funds amounted to about US\$1 billion over the 4 year period.

12.17 During this period, there were significant inflows for Non-Governmental Organizations, Embassies and International Organizations, which accounted for over 70% of the foreign currency repatriated to Zimbabwe.

12.18 It is important to note, however, that it is not all of the NGOs receipts that are utilized in Zimbabwe as some of these funds are transitory receipts meant to fund other regional operations.

Global Foreign Currency Application (2003-2006)

12.19 Application of global foreign currency receipts over the last 4 years (2003-2006) amounted to US\$5.8 billion. This revelation is very critical as some may have thought that Zimbabwe has truly collapsed.

12.20 Yes, these total payments fall short of the overall national requirements, but equally, failing to notice the collective accomplishments that positive minded cooperates, individuals, NGOs, international organizations and Government have achieved, will be an unfair judgement of the performance of the economy.

12.21 For the period January 2004 to October 2005, foreign exchange payments for private sector imports were funded from the Auction, while critical Government (public sector) payments were funded from the Reserve Bank.

12.22 Following the introduction of the Tradable Foreign Currency Balances System in October 2005, all foreign exchange payments for private sector import requirements have been funded from the interbank market, while critical Government payments are funded from the Reserve Bank.

Global Foreign Currency Application (2003 -2006)

USD Million	2003	2004	2005	2006	TOTAL
Application of Funds(Interbank)	92.5	964.6	795.8	1 333.0	3 185.9
Auction/Interbank (Imports)	49.7	869.1	634.5	1 057.6	2 610.9
NGO Transitory Funds /1	42.8	95.5	161.3	143.3	442.9
Corporate FCA Balances /2	--	--	--	132.1	132.1
Application of Funds (RBZ)	209.2	746.2	907.1	740.3	2 602.8
Central Government Payments	63.4	247.1	200.0	215.8	726.3
IMF/World Bank/ADB	0	29.9	169.0	19.4	218.3
NOCZIM – Fuel	37.0	155.6	231.1	135.4	559.1
ZESA- Electricity	6.8	92.4	69.5	84.3	253.1
Loans and Facilities Repayments	52.3	122.9	165.1	125.7	466.0
Gold Producers (FCAs)	35.4	39.6	39.2	63.9	178.1
Other Payments /3	14.3	58.7	33.1	95.8	201.9
TOTAL	301.7	1 710.8	1 702.9	2 073.3	5 788.7

NOTES:

1. These are NGO transitory receipts, which are not applied in Zimbabwe but to other countries in the region. The figure also includes cumulative Individual FCA stock balances of US\$84.2 million as at end-December 2006.

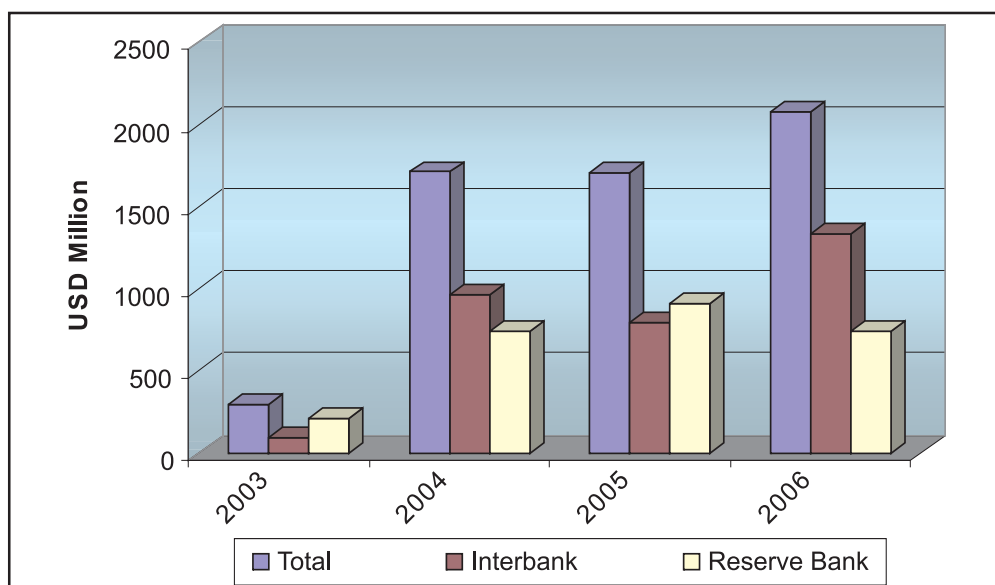
2. These are cumulative Corporate FCA stock balances held by Authorized Dealers as at end-December 2006 – Funds awaiting usage by the market.

3. Other payments include payments by the Reserve Bank for agro-equipment and inputs, currency printing equipment and stationery, medicals, school fees among other ancillary national payments.

12.23 Due to the change in policy on the management and administration of foreign exchange transactions in January 2004, global foreign currency usage through the formal system increased from US\$302 million in 2003 to US\$1.7 billion in 2004, and further to US\$2.1 billion in 2006.

12.24 The Chart below shows that during the period under review, foreign exchange payments through the Reserve Bank increased significantly and the country could fully account for the utilization of available foreign currency.

Global Foreign Currency Application (2003 -2006)



12.25 In addition, all private sector payments indicated above were also closely monitored by the Reserve Bank to ensure the efficient allocation of foreign currency towards financing of the productive sectors essential input requirements.

13. EXCHANGE RATE MANAGEMENT

13.1 At no other time in our history has there been such heated debates in various corridors of our socio-political and economic activities than has taken place over the last three to four months, with both those in favour and those against devaluation offering spirited arguments to support their positions.

13.2 There are considerable divergences of views on the issue and benefits of devaluation in the country, with strong views being put forward that previous devaluations carried out over the past 3 years seem not to have yielded significant benefits for the country.

13.3 For the record, this Governor has successively adjusted the exchange rate in response to exporters' plight more than eight times since taking up office in December 2003, on the back of promises to our Principals in Government that such moves were going to see exporters increase their receipts into the economy.

OFFICIAL EXCHANGE RATE MOVEMENTS:

January 2004 – January 2006

ADJUSTMENTS COMMENTS		
12 January 2004	From Z\$824/1US\$ to Z\$4198/1US\$	Introduction of the foreign exchange auction system to restore export viability and enhance accountability of foreign exchange
21 April 2004	From Z\$4619/1US\$ to Z\$5200/1US\$	Introduction of diaspora/export floor to enhance exporter viability
28 October 2004	From Z\$5200/1US\$ to Z\$6200/1US\$	Introduction of diaspora/export floor to enhance exporter viability
19 May 2005	From Z\$6200/US\$ to Z\$9000/1US\$	Introduction of diaspora/export floor to enhance exporter viability
25 July 2005	From Z\$9000/1US\$ to Z\$17600/1US\$	Adjustment in line with inflation developments
20 October 2005	From Z\$26000/1US\$ to Z\$76000/1US\$	Adjustment to reflect market forces on the introduction of the Tradable Foreign Currency Balances System (TFCBS)
20 January 2006	From Z\$85000/1US\$ to Z\$99200/1US\$	Introduction of volume based TFCBS
31 July 2006	From revalued Z\$101/1US\$ to Revalued Z\$250/1US\$	Adjusted to restore exporter viability

- 13.4 It is clear that the foreign exchange market set-backs are a supply and demand issue, linked to sanctions against the country, linked to lack of balance of payment support, linked to smuggling and indiscipline in the economy, linked to shortage of a fund to support whatever devaluation we may contemplate, and above all, linked to poor performance of the export sectors. **To talk of a market rate when these structural issues remain unattended to is to be simplistic about this multifaceted policy area.**

- 13.5 We are told day in and day out that importers/exporters are doing deals in the parallel market, that the economy has moved to the parallel market already.
- 13.6 So we ask ourselves, what then do you want the Governor to do? Continue to devalue and bless the parallel market? **If so, devalue to what level?**
- 13.7 **When even as this Governor and his team were in the middle of preparing this statement, vigilantes were already taunting that even the apri ori expected “new rate” was going to be “beaten” by their calculated parallel market forces the next day.**
- 13.8 Well, fellow Zimbabweans, let us be real.
- 13.9 Let us act in responsible ways that serve the interests of our Great Country, and not the blind pursuit of selfish objectives.
- 13.10 Against this background therefore, and especially given the multiplicity of distortions whose continued existence threatens to wipe out any perceived benefits of further devaluation before such move is even contemplated, **the current exchange rate levels and management framework will remain in place until such time that THE SOCIAL CONTRACT** will have materially transformed the business environment.
- 13.11 Yes, we are aware that there are legions that had already been formed to condemn the Governor and his team to death had the exchange rate been allowed to devalue further.
- 13.12 Equally too, we are aware that many, particularly those in the export sectors of the economy who would condemn this decision not to devalue as unrealistic, or a dump-squib, or any such derogatory tagging.
- 13.13 In the face of these sentimental realities, as Monetary Authorities, **we wish to strongly point out that the current decision has neither been persuaded nor sown through conformity but rather out of strong conviction on what is right for Zimbabwe.**
- 13.14 The past two weeks have seen unprecedented ad hoc escalations in prices across the board, including those items far removed from the direct bearings of foreign exchange

markets, and all this in the imaginary expectation that “**no doubt Governor Gono was going to devalue the Zimbabwe dollar again for the 9th time in a row**”

- 13.15 Fellow Zimbabweans, having devalued the local currency more than 8 times over the past 3 years, it is high time that we collectively soul-search and count our benefits and costs, before expecting further wholesome adjustments.
- 13.16 Yes, undeniably, some sectors did very well, following the devaluations. But equally too, some disappointed, hence the need for stakeholders, within the framework of the **SOCIAL CONTRACT** to use the month of February for brutal openness (without offence) and self introspection.
- 13.17 As a Central Bank, we however, remain alert to the peculiar requirements of the members of the international community, as represented by NGOs, Embassies, and International Organizations, who need not be caught up in the peculiarities of our the country’s internal policies and politics.

14. OTHER MEASURES DIASPORA AND FREE FUNDS INFLOWS

- 14.1 In order to promote the free flow of foreign exchange in the economy, with immediate effect, recipients of transfers from the Diaspora can be paid their free funds in foreign exchange without limitations.
- 14.2 This way, stakeholders with relatives abroad, who to this point were shunning the safe, legal Authorized Dealers and Money Transfer avenues of receiving funds can now transact through the formal system.

MONEY TRANSFER AGENCIES (MTAs)

- 14.3 As highlighted earlier, stakeholders will be aware that the Reserve Bank has since embarked on the re-licensing of MTAs on condition of a strict surveillance framework to ensure compliance with set regulations.
- 14.4 In order to further strengthen the operations of MTAs an Association of Money Transfers will be formed, during this first quarter of 2007, governed by a binding code of ethics and operation, breach of which may trigger expulsion, and eventual closure of the institution.

- 14.5 Under the new framework, each MTA's license will depend on strict delivery targets that have to be met.

LOCAL FERTILIZER PRODUCERS

- 14.6 An Analysis of the capabilities of domestic fertilizer companies has amply shown that with the necessary support, these entities can significantly save vast amounts of foreign exchange through import-substitution.
- 14.7 Against this background, with immediate effect, all local fertilizer producing companies will be allowed to export up to 20% of their production, proceeds of which will be exempted from any surrender requirements, so as to allow these companies to have the required minimal foreign exchange to sustain their operations.

2010 WORLD CUP GAMES

- 14.8 The forthcoming World Cup Soccer games are a rare opportunity for the whole of the sub-Saharan African region to deepen its integration in the global economy, particularly in the tourism sector.
- 14.9 Against this background, the Reserve Bank is working with various authorities locally and abroad to realize the 2010 dream. At an appropriate stage, the Bank will unveil the outcome of these discussions.
- 14.10 To complement these efforts, we call upon those responsible for the tourism sector to energetically work to uplift the general standards of our hotels and lodges, as well as other facilities so as to make Zimbabwe a destination of choice for tourists.
- 14.11 We also call upon the tourism industry to plug off the current widespread leakages of foreign exchange in the sector.

TOBACCO 15 % RETENTION FACILITY

- 14.12 Given that the 2007 tobacco auction season will open prior to the next Monetary Policy Statement, which will be in July, 2007, it is opportune that we reconfirm that tobacco growers will continue to be entitled to the 15% retention threshold to hold their proceeds in foreign exchange to meet their strategic import requirements.

14.13 In order to further support the tobacco industry, merchants with offshore facilities are also once again given dispensation to fund the chemicals, seeds and other requirements of farmers using un-drawn offshore facilities.

14.14 When such assistance would have been given out of offshore facilities, merchants will be allowed to recover the extent of support from export proceeds as first charges.

FCA Backed Loans

14.15 Following the liberalisation of the regulations relating to the FCA management, through the allowance for indefinite retention of FCA balances, an opportunity has been created for Authorised Dealers to engage in post and pre shipment finance arrangements through the direct on-lending of such balances to *deserving* exporting clients.

14.16 To take advantage of this opportunity and the resultant multiplier effect it will bring to the economy, Authorised Dealers are encouraged to pool these balances together and on-lend to important foreign currency generating sectors of the economy.

14.17 To that effect, Authorised Dealers wishing to be part of these arrangements should get Exchange Control approval and participating Authorised Dealers will earn interest for their own account, which will be exempt from the normal surrender requirements.

14.18 Furthermore, Authorised Dealers are encouraged to come up with effective Risk Management structures on such facilities in line with Prudential Lending Regulations.

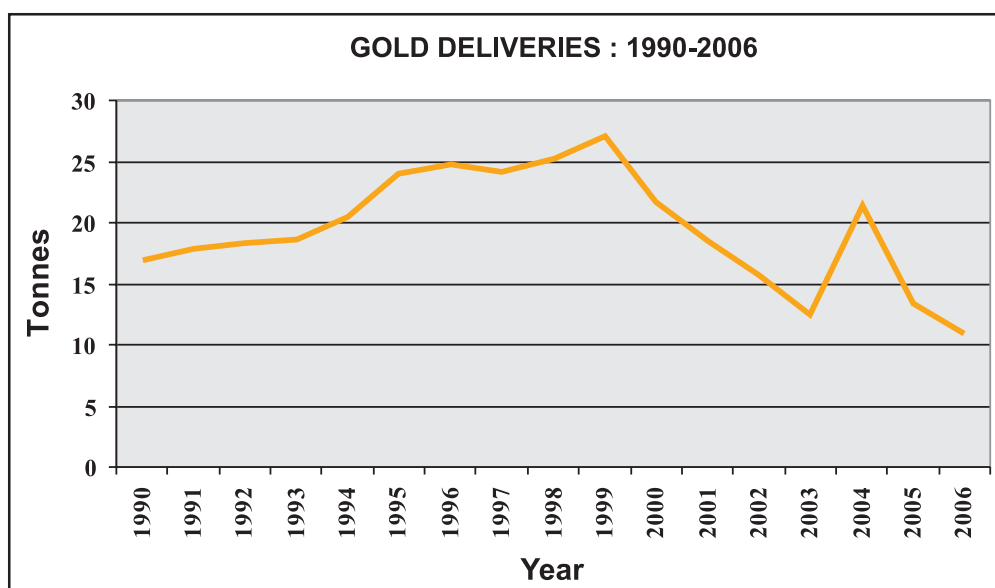
14.19 The operational modalities regarding the Tradable Foreign Currency Loan Structure will be made available to Authorised Dealers in due course.

15. GOLD DELIVERIES

15.1 Cumulative gold deliveries in 2006, stood at **10.96 tonnes** painting a disappointing picture in this critical sector when compared to 21 tonnes achieved back in 2004.

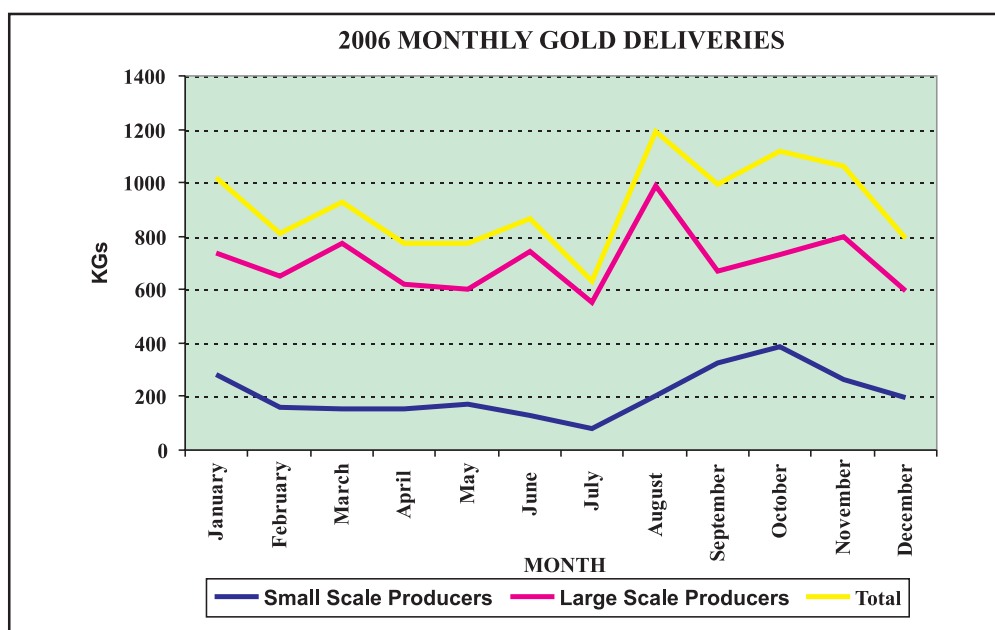
15.2 Year 2005 was similarly lower than 2004, with total gold deliveries to the Reserve Bank amounting to 13.45 tonnes.

GOLD DELIVERIES



15.3 The above decline is attributed to a combination of factors, including, lack of equipment, reduced exploration and mine development, as well as illegal trading and smuggling of gold.

15.4 Monthly gold deliveries for the year 2006 to date are shown in the graph below:



15.5 The increase in the foreign currency retention and price adjustments in support of the Gold Industry have been efforts by the Reserve Bank to shore up performance in this critical sector.

- 15.6 Over the outlook period, the Reserve Bank will expedite payments for deliveries made, so as to free up gold producers' working capital positions.

Increasing Accountability

- 15.7 To enhance accountability for gold produced, especially by Custom Millers and Small Scale Miners, the following measures have been introduced with immediate effect:

- A record of small scale miners who bring their ore for milling shall be maintained by the miller who shall verify and record the miner's registration certificates, ore removal permits and identification particulars before milling.
- All Custom Millers will be designated Gold Buying Centers for Fidelity Printers and Refiners, and all gold recovered from ore brought to the center shall be sold to Fidelity through the miller.
- All Custom Millers are given up to end of March 2007 to convert their production systems to lockable Concentrators so as to improve on gold recovery. Analysis of the systems by the Reserve Bank has shown that where a concentrator is used, gold recoveries are 80%, compared to around 35% where a copper plate is used, or 30% where the blanket or rubber mat method is used.
- Carbon elusion must be done at designated elusion plants where accurate production records must be kept. The Reserve Bank shall keep a record of all such sites.
- All milling centers must have tight security, with perimeter fences erected around them.

DIAMOND MINING DEVELOPMENT...

- 15.8 As Monetary Authorities, we urge Government to facilitate the proper mining of diamonds in Marange District and other areas where this resource has been discovered.
- 15.9 A Comprehensive diamond integrated industry can be established in Zimbabwe, to include sorting, cutting and polishing facilities.

- 15.10 Top priority must be given to those potential investment partners who will be ready to bring in beneficiation, as well as skills development in the country's mining industry.

16. QUASI-FISCAL OPERATIONS

- 16.1 The past 36 months have seen the Reserve Bank intervene in various sectors of the economy to close apparent potentially catastrophic resource and managerial gaps that had reached endemic levels in some parastatals and local authorities, as well as some Government Departments.
- 16.2 These interventions by Reserve Bank of Zimbabwe were done in terms of Sections 6 and 7, as read with Section 8 of the RBZ Act in the national interest.
- 16.3 To a large extent, these quasi-fiscal operations reflected the following key factors which are often overlooked by those who may be keen on blind orthodoxy or simply being devoted to perpetual criticism of modest efforts by those individuals and institutions working to make a positive difference:
- (a). A complete abrogation of duty by some of the responsible Government Ministries, Boards and Management teams at some of the parastatals and local authorities. Instances where some of these entities had gone for many years without a shred of audited sets of accounts reflects just but one example of this unfortunate state of affairs that was fast turning into a plague.
 - (b). Some of the country's infrastructure in the water reticulation systems in the built environment, power generation, transportation, and communication systems had not been refurbished for as long as 40-50 years. Repeated procrastination of replacement programs had edged the country and the economy on the verge of a complete breakdown in some of the critical services in these sectors.
 - (c). It is an absolute fact that Zimbabwe is in the middle of relentless international pressure, the result of which has been virtual drying up of capital inflows into the country. The implication of this is that the funding of critical infrastructural programs could have alternatively come from higher domestic taxes. Given that Zimbabwe is already among the world's high tax economies, the option of raising more taxes would have imported acute hardships to both individuals and corporates.

- (d). What transpired in the area of land distribution was a radical revolution which, unfortunately did rile those in the international community who were and are still in favor of prolonged inequalities in the distribution of national resources. In the aftermaths of the Land Reform Program, the general apprehensions saw financing to agriculture grinding to a near halt, threatening the very existence of the economy as a whole. As Monetary Authorities, it followed naturally that we took a leading role in defending agriculture from total collapse, as Government worked on finalizing the issues around security of tenure.
- 16.4 Against the interplay of these factors, it thus became compellingly necessary that the Reserve Bank undertook the comprehensive program of extraordinary interventions, consistent with the developmental mandate given to it by Government.
- 16.5 It is also in this context that as a Central Bank, we complied with pride and a deep sense of patriotism to the various strategic requests and directives given to us by our principals in the Ministry of Finance to support Government national programs through quasi-fiscal outlays.

WAY FORWARD...

- 16.6 The RBZ will, with immediate effect, bring to an end such interventions and wishes to concentrate on core business activities.
- 16.7 To achieve this objective, the RBZ is creating an appropriate structure to shepherd out the interventions by:
- (a) Putting a cap and ring-fencing quasi-fiscal outlays and facilities;
 - (b) Focusing on collecting and administering the outstanding loans on behalf of the RBZ; and
 - (c) Providing ancillary technical and advisory services to borrowers/beneficiaries as provided for in the various RBZ frameworks establishing such facilities or as otherwise may be expedient.
- 16.8 The RBZ will incorporate a special purpose vehicle to be called FISCORP (Pvt) Ltd, 100% owned by the Reserve Bank, whose primary object will be to step into the RBZ's shoes for purposes of collecting and administering the outstanding loans.

- 16.9 The RBZ and FISCORP will conclude the necessary instruments/arrangements to enable FISCORP to carry out its aforesaid mandate.
- 16.10 To ensure effectiveness, financial institutions, development agencies and other borrowers will be engaged as necessary to facilitate these arrangements.
- 16.11 FISCORP will be structured in such a manner as to enable it to focus on the recovery and administration of, and the provision of ancillary services relating to, the Facilities.
- 16.12 Whilst FISCORP will be a separate legal entity, it will remain an RBZ vehicle to all intents and purposes, and borrowers and beneficiaries, who shall remain legally bound under the Facilities, are expected to co-operate with FISCORP to ensure the smooth implementation of the objectives set out in this statement.
- 16.13 FISCORP will operate within the parameters of the various frameworks and instruments in place but with a clear mandate and authority to collect and recover the outstanding loans on behalf of the RBZ.
- 16.14 FISCORP will be operational and in a position to assume the role envisaged with effect from 1st March 2007.
- 16.15 The mechanics and other implementation details will be unveiled once on-going consultations have been finalized.

17 SUNRISE PROJECT: PHASE 2

- 17.1 As was brought to the attention of stakeholders in the previous Monetary Policy Statement in July, 2006, the extent of economic setbacks that confront the country require that radical measures be taken, a key component of which are currency reforms.
- 17.2 This saw the Central Bank, with the able assistance of several arms of Government, as well as members of the public and the private sector successfully roll out the first phase of currency reforms under SUNRISE 1.
- 17.3 At that time, it was also made public that the Central Bank was working on the successor program under SUNRISE 2.

- 17.4 As Monetary Authorities, we are pleased to report and update stakeholders that all the preparatory work for SUNRISE 2 have now been completed, and implementation is imminent once the few minor logistical refinements have been completed.
- 17.5 Reflecting this high state of preparedness, I am pleased to unveil to the Nation the sample designs of this imminent roll-out under which all the current bearer cheques will be replaced by genuine currency, complete with internationally acclaimed safety features, and convenience characteristics for the visually impaired stakeholders.
- 17.6 The experience and lessons gained under SUNRISE 1 will, without doubt, be put to good use under the imminent program, which will be rolled out together with the Rural Banking initiative.
- 17.7 To avoid being caught up with huge unexplained stacks of bearer cheques, which beyond the cutoff date will become useless manure, members of the public, as well as the corporate sector, are once again called upon to resist the temptation of hoarding cash.
- 17.8 This advance warning should be taken seriously, as no stone will be left unturned to ensure that SUNRISE 2 is a swift, precise and effective change-over process.
- 17.9 May the market, including the banking sector, companies, Government Departments, as well as the general public, be forewarned and guided accordingly.

18. ROADMAP TO PRIVATIZATION OF OUR PUBLIC UTILITIES

- 18.1 Resolute implementation of the privatization program remains a viable route through which Government can unlock immense value, both in local and foreign exchange terms.
- 18.2 As a strategic structural intervention, privatization is beneficial to the economy in the following three important ways:
- (a). The involvement of private sector participation broadens the scope for managerial effectiveness, as well as scale-economies which improves overall productive efficiency in the entities concerned.

- (b). This way, former burdens on the fiscus are hived off the Government's books. The resources so freed in the national budget can then be re-directed to other priority areas, such as social outlays in the form of social safety nets.
- (c) Improved productivity in parastatals will also directly help shore up supply response in the rest of the economy, which reduces inflation.
- (d). The disposal of some stakes in the parastatals and other Government owned investments unlocks valuable revenues to finance Government operations. This mitigates the need for monetary finance of the budget deficit which is typically inflationary.
- (e). When carefully rolled out, privatization can be used as a bona fide source of foreign exchange. In the case of Zimbabwe, there can be no other better time to raise foreign exchange through any means possible than now. More foreign exchange will enable the Government to carry out broader infrastructural projects, as well as support needy social sector areas like HIV/AIDS, TB and malaria prevention.

18.3 Thus, any further procrastination in this area does have needlessly continued to deny Government immense revenue opportunities, in the process prolonging the turnaround journey.

18.4 As Monetary Authorities, we estimate that if carefully implemented, the privatization process can unlock between US\$2-3 billion, which will resolve the current strain in the foreign exchange market.

Core Principles on Privatization...

18.5 For success, the following core principles must guide any privatization program we seek to implement as a country.

- Attainment of fair market value for national assets;
- Zero tolerance for corruption;
- Empowerment of Zimbabweans;
- Transparency; and
- Full involvement of interested parties.

RECOMMENDED PRIVATIZATION CANDIDATES

- 18.6 Consistent with the already standing Government approvals and directions given under NEDPP, and the guidance from several national Budget Statements presented by the Hon Minister of Finance calling for privatization, as Monetary Authorities, we urge that a privatization Committee be established to urgently deal with issue.
- 18.7 In all these recommended privatization cases, full regard ought to be taken of national strategic and security considerations, which considerations do dictate that Government remains the main shareholder in such cases.

FAIR VALUE CRITERIA...

- 18.8 As Monetary Authorities, we estimate that out of these recommended entities, at least US\$3 billion can be raised in 2007 if, as stakeholders, we avoid throwing spanners in the program, for one reason or another.
- 18.9 The proceeds from this initiative could go towards support of export-enhancing programs, support the liberalization of the exchange rate and stabilize value of the Zimdollar and hence contribute to inflation reduction, offshoots of which could be used to clear the current outstanding foreign payment arrears owed by the parastatals or the country.

19. SMALL TO MEDIUM SCALE ENTERPRISES SUPPORT

- 19.1 In order to bolster the Rural Banking and empowerment programs through SME growth, with immediate effect, the applicable interest rate on the SME fund has **been reduced from 70% to 50% per annum** to synchronize this facility with the existing ASPEF meant for Agriculture.
- 19.2 This is consistent with the Reserve Bank's thrust of targeted support, within the broad framework of advancement of economic growth and development.
- 19.3 Players in the SME sector are called upon to take advantage of this supportive measure and empower their communities.
- 19.4 As detailed in the Supplement, the SME Sector represents the greatest area of opportunity for the development of the economy through broad-based empowerment of the low income groups.

- 19.5 Economies in Asia and the Middle-East, for instance, have demonstrated that through well-coordinated programs of intervention, the SME Sector can be transformed into engines of growth and development.
- 19.6 Under the \$16 billion SME Facility, the following allocations will apply:
- (a) \$5 billion is earmarked for women SME entrepreneurs;
 - (b) \$5 billion is earmarked for the Youth in the SME Sector;
and
 - (c) \$6 billion is earmarked for all the other SMEs.

20. REDEFINITION OF NATIONAL RESERVE ASSETS

- 20.1 In sharp contrast with the country's vast mineral endowments, mining accounts for about 4% of GDP, 4.5% of employment and a about a third of total foreign exchange earnings.
- 20.2 However, the foreign currency that accrues to Government is limited to revenues collected through royalties, commissions and taxes.
- 20.3 Royalties, which are deductible for income tax purposes, are calculated as a percentage of the gross fair market value of minerals produced and sold as follows:
- Precious Stones 10%
 - Precious Metals 3%
 - Base Metals 2%
 - Industrial Minerals 2%
 - Coal Bed Methane Gas 2%
 - Coal 1%
- 20.4 The bulk of the foreign currency is retained by the mineral producers in their foreign currency accounts, with some offshore.
- 20.5 Through consultations with the relevant authorities and other stakeholders, the Reserve Bank is working on modalities to establish an institutional framework, which would be along the same lines as Fidelity Printers and Refineries (who currently oversee the buying and processing of all gold produced in the country) for other precious minerals like platinum, emeralds and diamonds.

- 20.6 The redefinition of national reserve assets would cover gold, platinum, emeralds and diamonds, which would result in the increased foreign exchange reserve build-up at the Reserve Bank.
- 20.7 In order to come up with an effective institutional framework, which is fully empowered to manage the expanded national reserve assets, an appropriate legal framework will be put in place, once consultations are finalized.

Enactment of the Amended Mines and Minerals Act and Promulgation of Policy on Gaseous Hydrocarbons

- 20.8 There is need for a speedy conclusion and enactment of the amended Mines and Minerals Act, so as to fortify investor confidence in the industry.
- 20.9 The Ministry of Energy and Power Development, together with the Ministry of Mines and Mining Development are also urged to finalise the white paper on Gaseous Hydrocarbons to facilitate investment in coal bed methane gas extraction.

Promotion of Joint Venture Companies in Mining

- 20.10 Recognizing the strategic importance of mining as a foreign exchange earner, the Bank is facilitating mining joint venture projects between local and foreign investors with the view to increase access to foreign capital by local investors.
- 20.11 Joint venture agreements have been signed between local companies and investors from friendly countries. Sub-sectors covered under these joint venture agreements include coal, chrome, gold and platinum.

21. AGRICULTURAL SECTOR PRODUCTIVITY ENHANCEMENT FACILITY (ASPEF)

- 21.1 As at 31 December 2006, a cumulative amount of **\$146, 686.48 million** had been disbursed under ASPEF for 11 761 **applications**, since inception of the facility in June 2005.
- 21.2 A total amount of **\$20 142.88 million** had been repaid leaving an outstanding balance of **\$126 543.6 million**.

21.3 The distribution of disbursements per facility is shown below:-

Facility	Beneficiaries	Amount (\$mn)
Irrigation Support	833	7315.7
Dairy Support	226	1886.52
Beef Cattle Support	721	5475.26
Poultry and Piggery	770	8195.96
Other Crops & Livestock	8536	110845.6
Horticulture Support	675	12967.44
TOTAL	11761	146686.48

AGRICULTURE SUPPORT

21.4 As Monetary Authorities, we re-affirm our commitment to supporting agriculture as the mainstay sector of the economy.

21.5 Stability and growth in this sector will not only contribute positively to overall economic performance, but would also directly contribute to inflation-reduction through guaranteed food supply.

21.6 In lending support to agriculture, however, it has become necessary that the concessional financing framework be streamlined to safeguard the side-effects of demand-pull inflation arising from high money supply growth.

21.7 Against this background, therefore, with immediate effect, the following framework will apply:

- (a) The Agriculture Productivity Enhancement Facility (ASPEF), will be capped as a revolving fund, at the 31st December, 2006 level.
- (b) Consistent with the earlier announcement in the past Monetary Policy Statements, the ASPEF window for capital outlays has been set to terminate by the 31st of December, 2008; and
- (c) All farmers who have benefited under the ASPEF program are, therefore, called upon to establish prudential sinking fund arrangements with their banks, so as to have the ability to fully repay the loans on maturity. Ability to meet such sinking funds has already been enhanced by the roll-over of facilities from the last cropping season.

- 21.8 As a Nation, it is imperative that we hasten the pace of graduating agriculture back in the mode of self-sufficiency as commercial operations.

THE MECHANIZATION PROGRAM

- 21.9 Stakeholders will be aware that the Reserve Bank is implementing a comprehensive agriculture mechanization program under which 34 combine harvesters, 500 tractors and the accompanying full sets of implements are being imported.
- 21.10 As Monetary Authorities, we are pleased to report that in 2007, this program will be intensified, with more facilities being concluded to bring in at least an additional 1000 tractors and 20 combine harvesters, as well as facilitating the setting up of equipment service centers country-wide.

22 THE 99-YEAR LEASE PROGRAM

- 22.1 As Monetary Authorities, we applaud the country's Leadership and Government in general on the implementation of the 99-year lease program.
- 22.2 The movement on this program is a noble step in the positive direction which must now be buttressed by speeded completion of surveying and issuance of more of the leases.
- 22.3 Yes, like any pioneering work, there are bound to be areas requiring improvement and successive refinements on the 99-year lease programs.
- 22.4 It is for this reason that we urge stakeholders not to condemn the nascent 99-year leases into extinction, but rather, work steadily towards improvements to the current foundation already laid.
- 22.5 Through such refinements, the collateral value of the leases will be boosted.

23 NATIONAL PAYMENTS SYSTEMS

ELECTRONIC MEANS OF PAYMENT

- 23.1 In my last Memorandum to Financial Institutions on the National Payments System dated 12 December 2006, a number of important measures were taken to facilitate smooth business operations. The contents of that memorandum are part of this Monetary Policy Statement.

- 23.2 As monetary authorities we wish to express our appreciation to all stakeholders who have taken steps to encourage usage of electronic means of payment. Over the past year, we have seen the ZETSS utilization level increase from a monthly average of 75% in 2005 to 84% in 2006.
- 23.3 It has however come to our attention that some elements within our society are frustrating customers by denying them the option to use ZETSS instead of cash when making payment for goods and services.
- 23.4 Such elements always demand cash regardless of the amount involved and with total disregard for the current cash withdrawal limits. This cash, no doubt, is used to support parallel market and other illegal activities.
- 23.5 As regulatory authorities we appealed to such elements to desist from this practice as the Central bank will be left with no option but to take stern measures against such retrogressive behaviour.
- 23.6 In my last Monetary Policy Statement I announced the requirement for all corporate to corporate payments in excess of \$1 000 000 to be done electronically through ZETSS.
- 23.7 This requirement drew mixed feelings from various stakeholders with a number of representations having been made by some industry bodies on challenges emanating from this threshold.
- 23.8 These challenges can be attributed to the following, among others:-
- a) Lack of integration between financial and commercial transaction flows;
 - b) Current centralization of ZETSS operations in banks' head offices;
 - c) Unwillingness in some instances, to embrace electronic means of payment;
 - d) Absence of end to end processing of ZETSS transactions;
 - e) Banks' operating hours not in synch with business operating hours;
 - f) Absence of critical dialogue between financial institutions; and
 - g) Industry Reconciliation challenges.

23.9 From the above challenges it is clear that if we are to achieve operational efficiency, improve access to real time transaction information as well as integrate financial and business transaction flows, collective effort by all stakeholders has to take centre stage. It is also imperative that we demonstrate our unwavering commitment to these goals. The Central bank cannot go it alone.

23.10 I officially launched the Straight Through Processing (STP) Project as a financial industry initiative whose preparatory work must now be concluded in order to pave way for implementation.

23.11 Through this development, individuals and corporates will be able to ultimately initiate funds transfer and payment instructions using their own computer portals.

THRESHOLDS FOR ZETSS AND CASH TRANSACTIONS.

23.12 As responsive Monetary Authorities, we have considered the various issues around the ZETSS threshold and cash withdrawal limits and are pleased to announce the following measures with immediate effect:

23.13 The ZETSS threshold for corporate to corporate payments was reviewed from \$1 000 000 to \$5 000 000 (*from one million dollars to five million dollars*).

23.14 Cash withdrawal limit for individuals was reviewed to \$500 000, up from \$100 000 (*from one hundred thousand dollars to five hundred thousand dollars*).

23.15 Cash withdrawal limit for corporates was reviewed from \$750 000 to \$1 000 000 (*from seven hundred and fifty thousand dollars to one million dollars*).

23.16 The banking sector players were called upon to abide by these requirements and to report offenders to the Anti-Money Laundering Unit of the Central Bank.

ZIMRA DUTY PAYMENTS

23.17 In order to smoothen operations and flow of business at the Border posts, the payment of duty has been reviewed to be made by cheque, as well as other means of payment subject to meeting ZIMRA's requirements.

23.18 The above measures were by no means a deviation from our ultimate goal of reducing use of cash and paper based payment instruments, as we move more towards electronic systems.

INTEROPERABILITY ON CARD PAYMENT STREAMS

- 23.19 The revelations of Project Sunrise 1 confirmed that we are on the right track in our search for solutions that will ensure greater use of electronic payments. The Reserve Bank, in collaboration with the banking industry, has accelerated momentum in this direction to a point where we now have consensus on interoperability in the card payment streams, among other developments.
- 23.20 Sharing of infrastructure is a critical success factor and as the Central Bank we remain committed to playing an active and facilitative role as well as contributing to the pool of resources that will be channeled towards the growth of card payments.

Import and Export of Local Currency

- 23.21 With immediate effect, the threshold of importing and exporting local currency in person or in baggage has been increased to ZWD100 000.00.
- 23.22 This is in recognition of the need by crossborder traders to meet their local transport and basic food requirements upon their return into the country.
- 23.23 Travelers found with currency in excess of ZWD100 000 in person or in baggage will forfeit the excess to the State.

STOCK EXCHANGE TRANSACTIONS REPORTING

- 23.24 As part of the anti-money laundering drive, the Reserve Bank did introduce stock exchange transactions reporting requirements.
- 23.25 Following representations by various stakeholders, the Reserve Bank mutually agreed to set aside these reporting requirements, which position shall apply with immediate effect.
- 23.26 It is, however, imperative that the Zimbabwe Stock Exchange and all players in this capital market do report any suspicious transactions they would have detected, consistent with the dictates of anti-money laundering vigilance.

24 FIGHT AGAINST CORRUPTION

- 24.1 The scourge of corruption remains a major cause for concern, as this cancer has become a milestone on the economy.
- 24.2 In fighting corruption, it is imperative that the Nation focuses more on resolving the current macroeconomic imbalances which are creating arbitrage opportunities for corruption.
- 24.3 Under conditions of hyper-inflation, multiple exchange rates and negative real interest rates, the opportunities for rent-seeking behaviour are enlarged, requiring that macroeconomic stabilization remains a high tool for leveling off the steep slopes currently driving corruption.

25. INVESTMENT PROMOTION

- 25.1 A critical pillar for lasting economic recovery is investment promotion.
- 25.2 Investment growth, however, typically comes about as a product of an intricate web of the following key pre-conditions:
 - (a) Existence of a broad and growing national savings base;
 - (b) Unreserved assurance to the investor community, locally, regionally and internationally on the sanctity of private property rights. By its nature investment capital is a highly timid wind, which swiftly changes course at the slightest signal of disrespect for private property rights;
 - (c) Existence of investor-friendly and supportive laws that are objective and fair, supported by a transparent and efficient judicial system; and
 - (d) Existence of efficient functional institutions that expeditiously process and approve inbound investment applications.

26. INSTITUTIONAL CAPACITIES

- 26.1 The turnaround agenda also requires that all key Government institutions be well resourced and equipped to fully discharge their functions.

- 26.2 Without key competencies and functional institutions, well meaning national programs will fall short on implementation.
- 26.3 For the effective turnaround of the economy, there is, therefore, an urgent need to strengthen the following areas:
- (a) Capacitating the Judiciary;
 - (b) Upskilling and attracting back skilled workforce in key Government Departments; and
 - (c) Resourcing the Ministry of Mines for the effective accounting for mining activities.

27. INTERNATIONAL RELATIONS

- 27.1 As Monetary Authorities, we remain committed to ensuring that Zimbabwe remains an active player in regional and international financial markets, so as to optimize the country's benefits from the globalizing marketplace.
- 27.2 It is for this reason that the past 36 months have seen the Reserve Bank actively engaging the international community.
- 27.3 In extending this spirit of engagement, it is the Reserve Bank's hope and encouragement that the international community also sees the virtue of integration and cooperation, anchored on the values of objectivity, fairness and sincerity.
- 27.4 Zimbabwe, like any other country in today's world fully appreciates that there are immense benefits to be derived from intimate association with the generality of the international community.
- 27.5 This notwithstanding, such mutual co-existence has to be premised on the foundation of mutual respect for each other's sovereignty; and on an appreciation of genuine historical peculiarities as well as realization that resolution of what per se may be construed as political processes does in most cases lie in the resolution of economic and social stresses that characterize nations.
- 27.6 As a Central Bank, we will remain true and committed to ensuring that Zimbabwe evolves to be an equal player in regional and international economic and financial matters.

- 27.7 Going it alone will not help the current nor future generations.
- 27.8 We, therefore, call upon the international community to accord Zimbabwe the giant leap of faith, particularly those of our friends to whom we look forward to engaging in mutually beneficial business relationships.

BILATERAL INVESTMENT PROTECTION AGREEMENTS (BIPAs)

- 27.9 Successful attraction of regional and intercontinental capital inflows into our motherland Zimbabwe also requires that **WE FREE THE ECONOMY** of any apprehensions on the security of private property and foreign investments.
- 27.10 The progress of implementation of the Bilateral Investment Protection Agreements (BIPAs) has not been encouraging, notwithstanding the explicit aspirations and directions long given to the relevant authorities in Government by the country's Leadership.
- 27.11 It is, therefore, imperative that the relevant authorities at the operational levels expedite this matter, for if we allow any further delays, we will risk injuring even the goodwill of those members of the international community who have been historically in support of Zimbabwe's ideals and national programs.

28. CONCLUSION

- 28.1 In conclusion, I wish to stress the undeniable truism that the future of Zimbabwe lies in the hands of us Zimbabweans and therefore, we must do everything possible to build it.
- 28.2 We need to realize that it is better for us to rely on a spirit of partnership in whatever we do as a country and in our various corners than on controls after controls, legislation after legislation and regulation after regulation.
- 28.3 If there is buy-in and genuine commitment from the people themselves, backed by genuine commitment on the part of social, economic and political leaders to a defined course of action, the people themselves will get the work done, the human spirit will deliver the desired results even where there are no such laws or regulations to follow.
- 28.4 Of course this is not to say that we do not need laws or regulations to guide us but emphasis should be on the spirit rather than the latter. Controls never work in the long-run.

- 28.5 It is the commitment of Monetary Authorities, as already signaled by the Minister of Finance in his 2007 Budget Statement and his March 2006 letter to the IMF, to see a convergence of both interest and exchange rates by the end of December 2007.
- 28.6 In respect of foreign exchange, this is to be achieved through unification and the removal of restriction on current international payments and transfers in a move that should “alleviate shortages of goods and services as well as strengthen our balance of payments as foreign exchange inflows shift from the current thriving informal or grey market to the open, transparent and official markets”.
- 28.7 With respect to interest rates, the quarantine of our Quasi-fiscal operations, capping of exposure and commitment of same in the new year and allowing the financial sector to handle most of the transactions in the market should see the removal of multiple interest rates in the economy.
- 28.8 We must stand up to the current setbacks and work to influence our fate rather than allow droughts, short-term thinking, procrastination of policy implementation, corruption, needless hatred and the blame-game, gossip, conspiracy theories, as well as the retrogressive after-the-event fresh farm disruptions to set a gloom fate for our economy and country.
- 28.9 We must accept our common identity as fellow Zimbabweans and should show in practice that on matters of national interest such as the economy, we can rise above any real or imaginary sectoral interests and work in unity.
- 28.10 The tragedy is fast becoming one where absolute rumors and speculations on matters that are of a non-economic nature are turning out to be a vainly revolution consuming its children; Zimbabweans turning against Zimbabweans all in the interest of smelling the proverbial rose.
- 28.11 What the nation needs is a common vision, a common identity and above all, an immense degree of composed maturity, particularly on those that occupy dignified social stations in both the private and public sector spheres of our national existence.
- 28.12 Yes, the year 2006 was a challenging one, but looked at in relative terms compared to where some of our perennial critics anticipated us to shrink in GDP terms and in inflation increases terms, we have shown that as a people we can defend and save our economy from the wished collapse.

- 28.13 Through collective resolve and full implementation of agreed national programs, the economy is, without doubt, set to turn up, with inflation rates declining on the back of the now much tighter monetary management framework, supported by the expected growth in foreign exchange inflows.
- 28.14 The buttressing of this expected favorable turn of events will require that every economic player holds fort in their realms of operation, either in each player's chosen entrepreneurial endeavors or in those undertakings that are legitimate obligations as espoused in the various statutes that define the fabric of the country's public and private institutions and office bearers.
- 28.15 To the extent that as a country we know where we have not done so well, coupled with our vivid identification of the immense potential that the country has, and our indisputable formidable areas of strength, it will be a sorry tragedy that our economy continues to face the current setbacks, whilst other small, under-resourced economies elsewhere are excelling on the global arena.
- 28.16 Together as a unified people; together as true Zimbabweans, we will succeed in transforming the fortunes of our Great Country's economy to lasting stability and prosperity.
- 28.17 Yes, like mortal human beings, we may every now and then argue and quarrel on the knife and hand to be used to cut the economic cake, but let us never fall in the zoo-mentality and trance state of flying on each others' throats as to obliterate the very same cake we want to grow, administer and serve on the national table.
- 28.18 Doing this would not only starve current but many more generations to come when we have all gone where no one can ever resist going.
- 28.19 In God's hands I lay this Monetary Policy Statement.

I Thank You All.



DR G GONO
GOVERNOR
RESERVE BANK OF ZIMBABWE
31 JANUARY 2007

MATRIX OF DELIVERABLES FOR PHASE 1 AND 2

PHASE 1: 1 MARCH-30 JUNE 2007

DELIVERABLE	STAKEHOLDERS	DEADLINE/REVIEW AND ASSESSMENT
1. Establishment of a prices and incomes restraint Social Contract. (i) Social partners to enter into Prices and Incomes Stabilization Protocol. (ii) All stakeholders to agree on a price level for commodities that take into account, affordability and business viability. (iii) All such prices are pegged at the agreed price levels for three months to June 2007. (iv) Allow conclusion of the current collective bargaining process (i) Hold Wages at agreed levels for 3 months to June 2007.	• Business • Labour • Government • Consumer Council	1 March, 2007

DELIVERABLE	STAKEHOLDERS	DEADLINE/REVIEW AND ASSESSMENT
2. Put in place the mechanics of prices and incomes monitoring under the auspices of the Prices and Incomes Commission and TNF.	• Prices and Incomes Commission • TNF	1 March, 2007
3. Establish a separate, stand-alone arm to wind down/oversee quasi-fiscal operations.	• Reserve Bank of Zimbabwe • Ministry of Finance.	1 March, 2007
4. Set up explicit money supply reduction targets. (Monetary Anchor).	• Reserve Bank of Zimbabwe • Ministry of Finance.	1 March, 2007
5. Identify all areas with price distortions and lay out an explicit time-table for the removal of same.	• Ministry of Finance • Ministry of Economic Development • TNF • Prices and Incomes Commission • Reserve Bank	1 March, 2007
6. Carry out publicity campaigns to educate stakeholders on the Prices and Incomes Restraint Social Contract.	• Employer Bodies • Labour Unions • Retailers Associations • Consumer Council • Reserve Bank • Ministries of Finance, Economic Development, Labor and Social Welfare • Industry and International Trade, Information and Publicity. • Pricing and Incomes Commission/TNF	31 March, 2007 through to 31 May 2007.

Note: In the implementation of all these programs, the role of the media, private and public, electronic and print as well as that of the academia, the churches will be critical for success.

DELIVERABLE	STAKEHOLDERS	DEADLINE/REVIEW AND ASSESSMENT
7. Roll out strict cash-budgeting framework to all line Ministries	• Ministry of Finance	31 March, 2007 through to 31 May, 2007
8. Register all hotels, lodges and tour operators	• ZTA • ZCT • Reserve Bank Exchange Control • Ministry of Environment and Tourism	1 March, 2007
9. Mobilize foreign exchange through offshore lines of credit, structured facilities as well as exports from the rest of the economy.	• Reserve Bank • Producer Associations • Individual Exporters • BAZ	1 March, 2007 through to 31 May, 2007
10. Reconstitute the NEDPP to sharpen implementation focus	NERC	1 March, 2007
11. Publicise and sell program to the international community.	• Government • Reserve Bank • The Business Community • Political Parties • Churches	Immediate to 31 May, 2007
12. Convert all standing MOUs with investors into concrete agreements and implement.	• Line Ministries of affected areas • Reserve Bank • Attorney General	1 March, 2007 to 31 May, 2007

DELIVERABLE	STAKEHOLDERS	DEADLINE/REVIEW AND ASSESSMENT
13. Finalise Laws of Investment framework, particularly in Mining	- Ministry of Justice Legal, and Parliamentary Affairs - Line Ministries	
14. Introduce Stiff Anti-Corruption measures	- Ministries of Justice, Anti-Corruption and Home Affairs. - Anti-Corruption Commission.	1 March to 31 May, 2007.
15. Launch a vigorous campaign against sanctions	- Government - Political Parties - Reserve Bank	Immediate and on-going.
16. Extend invitations to regional and international investors.	- Government - Business Sector - Reserve Bank	Immediate and on-going
17. Review Institutional Frameworks and reform Legislation. (i) Review all legislation to enhance business and enterprise. Create an enabling environment to support business efficiency. (ii) Strengthen enforcement of Legal Contracts. (iii) Formulate enabling legislation to facilitate investment and business operations.	- Ministry of Justice, Legal and Parliamentary Affairs, - Attorney General, - Line Ministries	Immediate to 31 May 2007

DELIVERABLE	STAKEHOLDERS	DEADLINE/REVIEW AND ASSESSMENT
18. An exhaustive Audit of ARDA to account for all the equipment allocated	• NEDPP appointed team	31 May 2006
19. Honour all existing contractual agreements and obligations (i) Honor existing BIPPAS. (ii) Institute corrective measures on BIPPAS violations	• Line Ministries	31 May 2006
20. Confidence Building i) Conclude and finalize land reform so that land can be collateralized . (iii) Protection of Property rights. (iv) Engagement of international community	• Line Ministries • Ministry of Finance • Reserve Bank	31 May 2007
21. Structural Reforms (i) Ground work for commercialization and privatization	• State Enterprises Restructuring Agency • Line Ministries • Ministry of Economic Development Reserve Bank	31 May 2007

DELIVERABLE	STAKEHOLDERS	DEADLINE/REVIEW AND ASSESSMENT
22. Investment Promotion (i) Embark on a global investment drive to attract investment. (ii) Operationalise the Zimbabwe Investment Authority (ZIA). (iii) Guarantee security of investments. (iv) Granting of property rights. (v) Guarantee security of tenure. (vi) Streamline investment procedures and eliminate bureaucratic delays.	• Ministry of Finance • Ministry of Industry and International Trade • Ministry of Economic Development • Reserve Bank • Zimbabwe Investment Authority	Immediate and ongoing
23. Commonality of Purpose (i) Create a platform for national healing and reconciliation	• Government, • Political parties, • Churches, • MPs, • Senators • Civic Society • International Community	Immediate and ongoing

PHASE 2: ACCELERATED DISINFLATION:

1 JULY-31 DECEMBER, 2007

DELIVERABLE/ ACTIVITY	BY	DEADLINE/REVIEW
1. Intensify campaign for mobilization of foreign exchange inflows through lines of credit, investment inflows and exports.	• Reserve Bank • Exporters and Producer Associations • Ministry of Industry and International Trade, Finance and Economic Development	1 July, 2007 to 31 December, 2007
2. Finalize the privatization framework and privatize selected quick-win cash cows.	• Parent ministries of concerned entities. • Reserve Bank	1 July, 2007 to 31 December, 2007
3. Allow for moderate review of prices and incomes from the Phase 1 levels and mutually agree to extend the moratorium to Phase 2.	• Government • Labor • Business • Consumer Council	1 July, 2007
4. Remove price distortions and streamline range of subsidies through a targeted approach.	• Ministry of Finance • Ministry of Economic Development • Ministry of Industry and International Trade • Ministry of Agriculture	1 July, 2007 to 31 December, 2007
5. Review sectoral performance on a quarterly basis and increase oversight to cultivate accountability and ownership.	• Cabinet Committees • Parliament • The Senate • NEDPP (as reconstituted)	1 July, 2007 to 31 December, 2007

DELIVERABLE/ ACTIVITY	BY	DEADLINE/REVIEW
6. Achieve all set money supply reduction targets.	Reserve Bank	On-going 1 March, 2007 to 31 December, 2007
7. Allow market-linked compensation to exporters and work to converge interest and exchange rates.	- Ministry of Finance - Reserve Bank	31 July, 2007 to 31 December, 2007
8. Ensure food security through forward planning and the putting in place of logistics that ensure timely availability of inputs to farmers.	- Ministry of Agriculture - Ministry of Finance - Reserve Bank	On-going February, 2007 to 31 December, 2007
9. Economic Liberalization (i) Deregulate prices of basic commodities (ii) Deregulate prices and marketing of grain (iii) Deregulate fuel prices (iv) Liberalize the foreign exchange regime (v) Adopt an exchange rate system that drives exports and ensures currency availability for all legitimate transactions in the official system. (vi) Gradually phase out exchange controls. (vii) Progressively liberalize current and capital account of the balance of payments. (viii) Interest rate policy that encourages savings (ix) Economic prices for utilities	- Ministry of Finance - Ministry of Economic Development - Line Ministries - Reserve Bank	June through December 2007

DELIVERABLE/ ACTIVITY	BY	DEADLINE/REVIEW
10. Fiscal Adjustment (i) Civil service reforms (ii) Expenditure reduction (iii) Implement complementary fiscal policy (iv) Management of quasi -fiscal expenditures (v) Restructure public expenditure towards capital and infrastructure (vi) Issue long-term local currency denominated bonds which are structured according to specific market requirements	- Ministry of Finance - Line Ministries	I March and ongoing
11. Tight Monetary Policy (i) A strong monetary anchor to reduce inflation and inflation expectations (ii) Reduce reserve money supply to levels consistent with economic activity. (iii) Adjust yield curve in line with anticipated inflation and liquidity conditions. (iv) Remove quasi fiscal activities on the balance sheet.	Reserve Bank	1 March and ongoing

DELIVERABLE/ ACTIVITY	BY	DEADLINE/REVIEW
12. Research and Development (i) Capacitate research institutions to enhance their ability to undertake research in areas that promote value addition, product development, import substitution.	- Ministry of Economic Development - Ministry of Science and Technology - Ministry of Industry and International Trade - Reserve Bank - SIRDC	June through to December 2007
13. Infrastructure Development (i) Rehabilitate, upgrade and develop the country's infrastructure networks to support productive activities. (ii) Promote Public-Private Partnerships (PPP) through BOT and BOOT.	- Ministry of Finance - Line Ministries - Local Authorities and Public Enterprises - Reserve Bank	June through to December 2007
14. Financial Sector Development (i) Re-orient the financial sector to support productive activities. (ii) Deepen financial markets, to enhance the sector's contribution to economic growth. (iii) Financial inclusion	- Financial Sector - Local and international investors. - Reserve Bank - Ministry of Finance - Ministry of Economic Development - Financial Institutions	June through to December 2007
15. Increase Productivity of the Industrial, Mining, and Tourism	- Line Ministries - CZI, ZNCC - Chamber of Mines - ZTA, ZCT	