MONETARY POLICY STATEMENT

Issued

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…TURNING OUR DIFFICULTIES INTO OPPORTUNITIES.

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1. INTRODUCTION AND BACKGROUND

1.1 This Monetary Policy Statement which is issued in terms of Section 46 of the RBZ Act chapter 22:15 comes at a most difficult time in the short history of our country, when both the corporate and household sectors of our economy are under a crippling spell of extraordinary hardships, occasioned by a combination of severe domestic and external factors whose impact has been profoundly negative on everyone across the board.

1.2 Indeed, there is neither the need to dramatise nor exaggerate anything, and not least of all, to placate anyone to appreciate the obvious and very painful fact that life in our country has been, especially over the last twelve months, extremely difficult for the majority of people, many of whom remain at a loss as to why history has allowed things to turn out this way.

1.3 While it is of **no consolation** to Zimbabweans that the whole world is today confronted with extraordinary hardships calling for unorthodoxy and extraordinary interventions, it is a fact though that our attitude towards the challenges facing us will, in a large measure, determine the extent, length and severity of the pain we will experience during these difficult times.

1.4 A defeatist attitude will not do and worse still, a vindictive disposition towards the next person can only be counter-productive.

1.5 What will make a positive difference is our level-headedness in the face of these surmountable challenges and our collective commitment to deal with the difficulties head-on, bearing in mind that the world out there, and indeed our own people here at home, are fast loosing confidence in and patience with most of us in decision making positions be it in politics, commerce, local authorities, industry or parastatals because of our failure to deliver a better life to our people.

1.6 In addition, as a Nation, we are currently vulnerable to many poisonous and divisive missiles and preoccupations, ranging from self-discouragement to self-pity; from hopelessness to self doubt; and are lurching from one pillar to another, **all in an effort to hide away from taking collective responsibility for our current state of affairs.**

1.7 If we are not blaming MDC-T leader Mr. Morgan Tsvangirai or Professor Arthur Mutambara for all our woes, **we are finding fault with President Robert Gabriel Mugabe;** if we are not finding fault in these three we are blaming the West, the East, North or South, the US, Russia or China for one terrible action or omission; and if it is not the **weather to blame** for our underperformance on farms or the mines, it must be the Reserve Bank or someone else to blame.

1.8 Such is the level of our mental imprisonment that we can never pin responsibility or search for solutions to our troubles from **within ourselves** first before pointing at others.

1.9 Even the United States of America where the current devastating global financial crisis started, is not as preoccupied with this blame game thing as ourselves here. Both Republicans and Democrats realise the commonality of their fate as **Americans first** and not as separate party supporters. They are getting on with the essential task of finding solutions to their problems **in a united manner across the divide** unlike what we are doing here**.** The same can be sited of other countries the world over currently in the middle of an economic meltdown.

1.10 In Zimbabwe, a common tactic in this blame game has been to single out the Central Bank and Central Bank Governor with easy-to-make claims that I am personally to blame for the self-evident and very painful economic situation afflicting just about everyone in our country today.

1.11 As Governor, I strongly feel that we have now reached a critical point in the life of our country where **those who have sought refuge in playing the blame game should desist from this distractive approach.** There is so much that needs to be done by each and everyone of us to waste our energies on yesterday while today **remains**

unattended and tomorrow is being lost to the determination by others.

1.12 It is common cause that over the last five or so years, the Central Bank under my proactive watch has been at the forefront of doing two things which I intend to continue doing in this my second and last term.

1.13 First, I have spared no moment or opportunity, especially on occasions such as this, to advise the leadership of all key sections of our nation in government, business, political parties, civil society, trade unions and churches on the required medium to long term policy measures to turnaround the fortunes of our economy in pursuit of prosperity for all Zimbabweans.

1.14 Second, I have not hesitated to formulate and implement extraordinary urgent measures, **most of which have become the standard approach the world over,** to address the extraordinary circumstances when it has become necessary to do so. We have had to survive under very harsh and more often than not, a hostile internal and external environment without precedent anywhere in this world.

1.15 The public record shows the policy advice I have proffered in my previous monetary policy statements and whose merit, sincerity and purity of intentions, I believe, speaks for itself, has either not been seriously discussed or debated, **let alone implemented whole heartedly by some of those seeking to point fingers at the Central Bank and me personally today**.

1.16 Again, as the record shows, the urgent extraordinary measures we have invoked have invariably been in response to **the need to fill a gap** or address an emergency created either by a major policy or economic player or players in the country or by some external player or players hostile to Zimbabwe, including the unavoidable natural calamities in the mould of droughts, floods or disease outbreaks.

1.17 The price control war of June to October 2007 between the business sector on one hand and labour, civil society, consumers and Government on the other is as much a case in point as are the illegal sanctions that this country has been fighting against since 2001. The BACCOSI programme which some in industry despise today was born out of the ashes of these needless fights.

1.18 In effect, the urgent extraordinary measures that the Central Bank has implemented under my direction have been no more than fire-fighting.

1.19 What my team and I find as most astounding is that it is the very same quarters, some inside and others outside the country, with yet some inside and others outside politics who have, in every instance, **started the dangerous fires that we have had to put out through extraordinary measures, who have also been the loudest in the blame game against the Central Bank and its Governor.**

1.20 As a result, we have had an unfortunate twist of logic in which economic saboteurs and financial arsonists (from the BURNING concept) who have been stroking up all manner of social, political and economic fires of destabilization all over the place are now masquerading as economic experts, **blaming and demonizing the Central Bank and this Governor** for putting out the fires they started in the first place.

1.21 You only need to visit the wires or the **corridors of idleness and misfortune where these people spend most of their time to appreciate what has gone wrong with some amongst us who pose as civilised personalities** during the day and yet at night are, in reality, **what authors Paul Babiak and Robert D. Hare** describe in their book entitled "Snakes in Suits: **When Psychopaths Go to Work**" (Harper Collins Publishers 2007)

1.22 Against this background, **I wish to place on record and to do so with a sense of personal and national pride that as Governor of the Central Bank I have no regrets about the fact that my team and I have not hesitated to put out the fires that some vested interests have been** setting up to burn our country's economy in the hope that the **"bus can crash."**

1.23 Well, perhaps the message which must go out **loud and clear to all "Snakes in Suits"** and those **who wish us ill is that this bus is not about to, and will not, crash. Furthermore, the message needs to be delivered that the bus driver** is also not about to **take any leave of absence,** at least of all **before the job is done and done well.** That's my commitment to all Zimbabweans interested in the successful turnaround of our economy.

1.24 I also wish to place it on record that I take full responsibility for the modest efforts that I and my team at the Central Bank have made and the consequences of those efforts, **not just to put out emergency fires in the economy** but also to seek lasting policy initiatives to stabilise and turnaround the economy.

1.25 It is my considered judgement that public service, and indeed leadership itself, **is about taking responsibility for one's decisions, actions and inactions.**

1.26 I firmly believe that responsibility is the duty of public office. Doing nothing in the face of raging fires in the economy or being indifferent to those fires cannot be a discharge of any responsibility.

1.27 Unfortunately, there are some out there, especially the said **economic, social and political arsonists** I have referred to earlier, **who think they know my duties as Governor of the Central Bank than I either know them myself or than I have actually discharged them** in our particular circumstances. I am sure they can't wait to say the same to my colleague Central Bank Governors the world over who are travelling the same route of quasi-Fiscal Operations or printing money in the face of extraordinary circumstances.

1.28 In my view, the challenge we have faced and the responsibility I have discharged have been equivalent not only to putting out very damaging fires deliberately started but also to mending a roof of a house on fire with multiple leaks in the middle of a heavy storm.

1.29 While we can all see that the roof is still leaking at least for now, and that some fires are still raging, the compelling truth is that many other leaks which could have sunk the ship had we chosen to leave them unattended, have indeed been mended and some fires have been put out.

1.30 Yes, of course, evidence is there for everyone to see that some leaks are still there and some fires are still raging above our heads in the form of :

1.31 the current **hyperinflationary environment**, the critical **foreign exchange shortages**, **inadequate inputs**, and the general **capacity underutilisation** across all major sectors of the economy. **Indiscipline and corruption** as cited in the 2009 National Budget Statement by the Acting Minister of Finance, among several others, are **leaks and fires that have continue to undermine overall economic recovery**, while at the same time retarding the country's progress on achieving the Millennium Development Goals.

1.32 And, whereas in the past, some in our midst may have displayed Ostrich-like tendencies when confronted with challenges, **the time has come to face and confront our challenges with honesty and fortitude,** knowing fully well however that we have **to do most of the clean-up and rescue job ourselves** more because everyone else in the world is **preoccupied with their own problems and clean-up jobs to worry too much about us.** The Minister's Budget of 29 January, 2009 presents an opportunity for Zimbabweans to pick up the pieces of our jig-saw puzzle and reconstruct our castle from the firm foundation laid out in the 2009 Budget by the Acting Minister of Finance, the Hon. Senator P. A. Chinamasa. **It is the only preoccupation available in town.**

1.33 Before unveiling the package of Monetary Policy measures to take us forward, it is, like was done in the Fiscal Budget last week, **necessary for me to repeat some realities cited by the Minister last week, against which this Monetary Policy has been and indeed the National Budget was crafted**.

THE GLOBAL FINANCIAL CRISIS...

1.34 In the first place, and broadly speaking, there is the **stubborn reality** of the effects of the current **global financial crisis,** which has been dubbed the worst since the 1930s. The major global economies are facing unprecedented economic challenges marked by a tight credit crunch. **It is trite to mention that when these economies catch a severe cold, economies in the developing world sneeze.**

1.35 In the midst of this global credit crisis many developing countries, including Zimbabwe, **are finding it extremely difficult** to raise developmental and general productive and trade finance in offshore markets.

DETERIORATING TERMS OF TRADE...

1.36 The precipitous decline in international commodity prices, particularly for platinum, gold, diamonds, nickel and copper is also a **stubborn reality that Zimbabweans have to contend with,** as this has seen the country taking a huge knock on its overall mining export earnings over the past 12 months.

POLITICAL ENVIRONMENT...

1.37 Among the most **stubborn realities** that are at the heart of the background to this Monetary Policy Statement is the protracted search for a political settlement in our country since the **inconclusive harmonised** election of March 29, 2009. I understand however that we may at last be heading in the right direction if the media reports we have been having is anything to go by, **but as before,** we must never be tempted to count our chickens before they are hatched.

1.38 Although the impact of a political climate on business seems so obvious as not to warrant any mention, **it is a common but often overlooked** fact that the economic fortunes of any country are closely tied to its political circumstances.

1.39 Because the post March 29, 2008 election difficulties we are experiencing are **a political reality**, these difficulties are weighing down the collective energy of the nation, as well as giving easy excuses that are **being used to justify**

the lack of international capital flows into the country on grounds that we are an unstable country lacking in peace, political maturity, tranquillity, and predictability, that we do not deserve support or to be taken seriously.

1.40 **This political instability in our planning environment is, therefore, a stubborn reality** that has to be taken into account though I believe the situation should not have been allowed to go on for this long and as Zimbabweans, we must now deal with and face the negative economic consequences of this **unacceptable situation.** Talk of blaming the Central Bank Governor for it!

PRECONDITIONS FOR INVESTMENT AND CAPITAL INFLOWS…

1.41 It is fact that given the current global financial crisis and credit crunch, every nation is trying to claw back and find refuge in their capital reserves, leaving very little available for investment outside their boarders. It follows therefore that only those countries with exceptional investment opportunities, incentives, investment codes and sufficient legal protections have a chance to attract scarce investment capital.

1.42 As has been pointed out before in my many Monetary Policy Statements, Zimbabwe needs to pronounce itself ad-infinitum and with legal evidence that:

- We subscribe to the notion of private property rights and the enforceability of legal agreements that we enter into as a country or as private citizens.
- That we will remain flexible and mean well when it comes to those untenable clauses or sections pertaining to our Investment and Indigenisation laws.
- We need to publicly acknowledge and take on board the monetary obligations arising from any unintended breaches associated with genuine Bilateral Investment Protection Agreements (BIPAS) and may have inadvertently have been compromised during the emotive stages of our now “irreversible” Land Reform Program, regardless of who the holders of those BIPAs are. This will show the world that we are and have always been a law

abiding people regardless of the inequities of those who colonised us yesterday but break their promises and commitments at will.

- Re-enact property rights laws in Zimbabwe as a sign of a new irrevocable commitment to same.

These are **hard realities** we have to reckon with, without which investment inflows into our country will remain sub-optimal and hence delay our quick recovery. We are confident that the appropriate legislative arms of Government will be ceased with this advice and do whatever is legally and politically necessary to facilitate investment inflows into the country as we open a new chapter in this new year.

FOOD SECURITY...

1.43 Against the background of repeated droughts and the adverse effects of foreign exchange shortages on the agro-inputs supply chain, the country's food security status needs major improvement so as to uplift the general quality of life for the majority of Zimbabweans.

1.44 The food supply gap, thus, has remained a major pressure point for us, as the limited foreign exchange inflows have had to be directed towards supplementary food imports, as opposed to going towards **new wealth creation**.

1.45 It is for this reason that as the Central Bank, we have been making and will continue to make clarion calls for our farmers to fully utilise their land, supported by agricultural policies and pricing systems that promote viability of farmers through liberalized market systems as announced last week by the Hon. Acting Minister of Finance, Senator P. A. Chinamasa.

BALANCE OF PAYMENTS SUPPORT...

1.46 The absence of capital in the form of lines of credit, and balance of payments support for Zimbabwe due to the **sanctions imposed** on the country are **another reality that is having a significant bearing on the state of our economy today** and therefore adversely affecting our planning options, as well as limit the range of effective policy measures at our disposal.

1.47 Lack of balance of payments support has diminished the flexibility of Monetary Policy options, as the country has had to rely solely on internal domestic bank finance and other appropriate financial engineering schemes and gymnastics to meet its recurrent and developmental programmes.

1.48 We will continue to engineer and play those gymnastics as long as we remain under the yoke of sanctions because our survival as a people is not negotiable.

THE CURSE OF NATURAL RESOURCES...

1.49 Zimbabwe **paradoxically stands as one of the world's most endowed countries** when it comes to the abundance of God-given natural resources and human capacities.

1.50 The fact that in spite of the presence of so much mineral resources and human capacities in our country, we remain **unable to utilize the same signifies the need for**

a total paradigm shift in the way we conduct our economic and financial affairs as a country, as a people and Government.

1.51 This Monetary Policy Statement is coming at a time when very little, if any, value is being unlocked from the country's vast diamond resources, whilst the abundant coal bed methane gas also remains completely untapped, among several other minerals that are highly under-extracted. While this is a **stubborn reality** for now, it is heartening to note that Government through the recently announced National Budget has committed itself to serious action to redress this catastrophe of poverty amidst plenty.

Zimbabwe's Mineral Resources

Mineral	Estimated Resource Base	Current Annual Extraction Rate
Gold	13 million tonnes	6 tonnes (2008)
Platinum	2.8 billion tonnes	2.4 million tonnes
Chromite	930 million tonnes	700 000 tonnes
Nickel	4.5 million tonnes	9 000 tonnes
Coal	26 million tonnes	4.8 million tonnes
Diamonds	16.5 million tonnes	Infancy
Iron ore	30 billion tonnes	300 000 tonnes
Copper	5.2 million tonnes	None
Coal Bed methane	Largest known reserves in Southern Africa	None

THE CORRUPTION BUG...

1.52 As is the case in any environment where economic fundamentals are constrained, price controls rife, with pricing distortions the order of the day, the prevalence of corruption is inescapable.

1.53 Corruption does not only retard overall economic recovery due to **its generation of disincentives for genuine economic processes** but it also imposes a deadweight loss to society through phenomenal increases in transactions costs on the back of the attendant corruption levies and premiums.

1.54 We are pleased to again observe that Government has removed most if not all manner of price controls and pricing distortions as announced in the National Budget last week. This move together with the stiff fines and penalties prescribed in foreign currency for different levels of indiscipline should go a long way towards the reduction and eventual elimination of the bug.

THE CASH SITUATION...

1.55 Repeatedly, and regrettably, the country has suffered bouts of cash shortages which have disadvantaged both the corporate and household sectors of the economy.

1.56 As a country, we have to come to terms with this **stubborn reality** that we were put under economic sanctions by Germany which unilaterally cut a 50-year old contract to supply us with currency printing paper, machinery, spare parts and inks without notice in July last year.

1.57 The printing capacity, at Fidelity printers is fixed at 2 million pieces per day and changing this would require US$500 million in investment costs and a minimum lead time of 24 months. With the daily fixed 2 million pieces limit, the growing demand for currency can only be met through increases in the denominations of the notes.

1.58 This **stubborn reality** which is beyond the control of the Central Bank, has been lost to those in our country who, while they do not want to take responsibility for anything, **are nevertheless very quick to blame the Governor for the high denominations as if there is any other alternative given the ever growing demands for cash in a hyperinflationary environment.**

1.59 If you all want to withdraw all your money from the Banks in one day and do not give us the lead time to print convenient denominations, we have no choice but to sacrifice your convenience and give you all your money but in large denominations because of printing capacity constraints. It is both an engineering and a physical fact which the Governor can do very little about even with the best heart and will in the world.

1.60 As Zimbabweans, we must thus tell each other the truth about what is and what is not possible. It is not possible to have our cake and eat it at the same time.

1.61 It is therefore regrettable that some stakeholders here at home who should know better, have labelled the cash shortages as **“Reserve Bank mischief”**, and thus, have gone about campaigning for harm to come the way of the Central Bank team or the Governor in his personal capacity.

1.62 This demonstrates beyond doubt that some important and yet “**do nothing**” elements in our society have sunk to new lows without precedent in the history of imaginations.

FINANCIAL SECTOR INDISCIPLINE...

1.63 Events during the last quarter of 2008 showed that the financial sector had fallen back **into territories of indiscipline and general malaise,** resulting in the contamination of ethics in such institutions as the Zimbabwe Stock Exchange (ZSE) which invented the deadly phenomena of "**burning money**"**.**

1.64 As I have warned the Nation on countless times, "**the phenomenon of burning money**", which was being cynically equated to the miracle of Jesus Christ feeding the multitudes with 5 loaves of bread and 2 fish, was a most inflationary distortion in our economy, as many people became instant **multi-sextillionaires** out of doing absolutely nothing other than stringing-up "connections" so to speak.

1.65 **The new measures herein contained are production oriented and have no room for the lazy and idle minds and bodies to exist in our midst, let alone eat**

from the sweat of others. The measures constitute a war against idleness as without some gainful activity, yesterday's roadport and world-bank sextillionaires destined for the starvation market much more than has been the case for many of their kind since November 20, 2008.

1.66 As true as the sun rises and sets each day, the "miracle" of "burning" money could not be sustained by men and women born of flesh and pretending to have the supernatural powers of our Lord Jesus Christ. It was soon to back-fire and consume those who were stroking the fires in the first place.

1.67 Suffice to note that this phenomenon of indiscipline in banking and stock markets is precisely what has largely been responsible for the current global economic crisis particularly in the USA.

1.68 Consequently, Governments in US, Europe and other emerging market economies have bailed out and continue to bail out troubled but corrupt institutions built from, and by what amounts to **pyramid fraudsters**.

1.69 **For instance, in the US, Madoff was involved in a US$50 billion fraud in a pyramid scheme**. Before 20 November 2008, we had many “Madoffs” in our midst some of whom are still licking their wounds from the Zimbabwe Stock Exchange crash.

1.70 Furthermore, according to international media reports, the fifth richest man in Germany, Adolf Merckle committed suicide at the beginning of January 2009 following a significant loss **on the equities trade**.

1.71 Not to be outdone, recently too, an Indian computer giant, Satyam Computer Services was involved in a US$1 billion fraud in the midst of the on-going global financial crisis.

1.72 These are but a few examples of outright greed elsewhere around the world whose moral equivalent many of us have witnessed here at home over the last few years under “burning” phenomenon which created impossible demands for cash and pushed up the country’s hyperinflation now blamed on the Reserve Bank and the

Governor personally by our "Snakes in Suits" economic experts.

BEHAVIOURAL TRAITS...

1.73 As one macro-economic unit called Zimbabwe, we need to re-examine our actions. Our individual and collective actions of the past have not taken us anywhere, particularly in the areas of advancing our collective socio-economic programmes.

1.74 The behaviour of some of our politicians too needs serious review not least because some of them talk the most and point dirty fingers at others while they do between little and nothing to improve the bad situation on the ground and have never taken responsibility for anything beyond playing the blame game.

1.75 The behaviour of Government departments which directly impacts on policy effectiveness and implementation has to change. Some heads of Government departments are now behaving less as technocrats and more like the legions of “do-nothing” politicians in our midst.

1.76 The behaviour of our diplomats also needs to change for the better for the same reasons.

1.77 We have to maximize output on our farms, mines and industry at large. The behaviour of our productive sectors, thus, has to change too.

1.78 The Zimbabwean economy has been progressively declining for the past decade, reflecting underperformance, and indeed poor performance, in the broad sectors of the economy.

TAKING ON BOARD THE IMF AND ITS ADVICE…

1.79 The IMF, in its latest evaluation of our situation, dated 13 January, 2009, described Zimbabwe’s circumstances as **grave,** and prescribed the following way forward:

(a) Substantial fiscal adjustment, including the termination of all quasi-fiscal activities by the Reserve Bank, a matter fully dealt with in the Fiscal budget 2009 and in this Statement. We do not regard this as an issue anymore.

(b) Liberalisation of price controls and imposition of hard budget constraints on public enterprises, a matter again adequately dealt with in the budget and one which we do not regard as an issue anymore.

(c) Exchange rate unification and removal of all restrictions on making payments and transfers for current international transactions; - a matter fully addressed and dealt with in this Statement and therefore a non-issue anymore.

(d) Establishment of a strong nominal anchor for monetary policy, again a non-issue anymore since both the 2009 Budget and this Monetary Policy Statement addresses the issue fully.

1.80 What I find surprising if not downright dishonest is that even before the IMF issued this statement, the Reserve Bank had already **publicly declared** that effective this January, 2009, all these matters would be streamlined in view of the anticipated normalisation of the political environment and the resumption of the functionality of key public sector institutions, as well as the return to work of the productive sectors of the economy whose collapse had necessitated extraordinary interventions by the Monetary Authorities, including through bail-outs and quasi-fiscal operations which are the order of the day today the world over.

1.81 All that we ask of our multilateral partners is their fairness, objectivity and sincerity in dealing with our situation.

SANCTIONS…

1.82 Although to some this might now sound like what used to be called a **"broken record" before the digital era**, I will continue to point out the truth that the country's declining economic performance is also inextricably bound to the debilitating effects of sanctions imposed on the country, following the watershed Land Reform Program embarked on by Government in 2000.

1.83 Declared and undeclared sanctions against Zimbabwe have been characterized by suspension of balance of payments support, and the cancellation of life-line projects, thereby exacerbating the plight of the vulnerable groups in Zimbabwe.

THIS POLICY STATEMENT…

1.84 Against the backdrop of these realities and the urgency of **the economic difficulties at hand**, this Monetary Policy Statement seeks to achieve the following objectives, which are also consistent with the recommendations on policy reforms by SADC, the IMF as well as by other well meaning centres of excellence here at home and abroad:

(a) To institute **currency reforms** which bring transactional convenience to the public;

(b) To **remove the pricing distortions** in the economy in a manner that promotes producer viability;

(c) To **streamline and close the Reserve Bank's quasi-fiscal operations** within the framework of a more coherent fiscal management system, **leaving the Central Bank with the core responsibilities of managing price stability factors,** banking sector licensing and supervision in addition to official foreign exchange reserves management;

(d) To **liberalise the foreign exchange market** in a manner that sees the exchange rate returning to serving its key function as a **strategic policy instrument** for the achievement of both productive and resource allocative efficiency in the economy;

(e) To **revolutionise agriculture by adopting market and investor friendly farm policies**, supported by the call for active participation of the private sector, as well as regional and international investors in supporting our farmers;

(f) To **deepen financial sector stability** by enhancing the prudential supervisory guidelines, particularly in view of the contemporary global financial system;

(g) To **promote the general availability** of goods and services in the economy through **the liberalization and the allowance of the circulation of multiple currencies in the economy**, while also maintaining and indeed re-developing the intrinsic value of the Zimbabwe dollar as the country's sovereign and legal tender which in effect means "**multi-currencying**" rather than "**dollarizing**" the economy;

(h) To **support gold producers** through innovative ways that enable the sector to retain more foreign exchange, as well as allowing them to leverage on their production to access regional and international gold-backed lines of credit;

(i) To **revive and defend the country's educational system** through Exchange Control Regulations that bring viability to schools while at the same time leaving room for the vulnerable groups to continue to access quality education by using the local currency;

(j) To **maintain a robust interest rate regime that fights inflation**, whilst at the same time ensuring that the productive sectors have access to offshore and other domestic foreign exchange denominated loans;

(k) To **realign the FCA retention levels** in support of generators of foreign exchange; and

(l) To **proffer necessary policy advice to Government and the rest of the economy on alternative strategies** that deal with our present difficult circumstances in robust, audacious, effective and lasting ways.

2. FINANCIAL SECTOR DEVELOPMENTS

2.1 As the record will show, my Statement of 26 November 2008 **accepting my reappointment for a second term reaffirmed the Reserve Bank's commitment to return to central banking core business** of maintaining monetary and financial stability.

2.2 This Monetary Policy Statement, therefore, outlines the key aspects of the financial supervision framework the Reserve Bank will pursue for the next five years.

Prudential Supervision Highlights of the Past Five Years

2.3 **Prior to 2003**, an adverse macroeconomic environment, weak supervisory approaches, and regulatory forbearance gave rise to a number of fundamental flaws in the operations of banks including the following:

- Shift from core banking business to speculative transactions;
- Abuse of bank holding company structures to evade regulation;

- Poor corporate governance, risk management practices and insider dealing;
- Rapid local and regional expansion with no proper internal controls, and adequate capacity; and
- Disregard of prudential laws and regulations.

2.4 In pursuit of its **statutory core mandate** of maintaining financial stability, the Reserve Bank seized the opportunity to **enhance supervisory processes** through a number of measures, including the issuance of Guidelines, in order to address operational and structural deficiencies then plaguing the financial sector.

2.5 The Table below provides a **catalogue** of the main guidelines issued by the BLSS since 2003.

MAIN GUIDELINES TO THE BANKING SECTOR

	Name of Guideline	Date of Issue
1.	Corporate Governance Guideline No. 01-2004/BSD	30 Sept. 2004
2.	Minimum Internal Audit Standards in Financial Institutions Guideline No. 02-2004/BSD	30 Sept. 2004
3.	Framework on the Relationship Between Bank Supervisors and Banks' External Auditors	30 Sept. 2004
4.	Accreditation of Credit Rating Agencies, Guideline No. 04-2006/BSD	30 Sept. 2004

5.	Risk Management Guideline No. 01-2006/BSD	31 July 2006
6.	Risk Based Supervision Policy Framework Guideline No. 02-2006/BSD	31 July 2006
7.	Special Purpose Vehicle, Securitisation & Structured Finance Guideline No.01-2007/BSD	1 Oct. 2007
8.	Consolidated Supervision Policy Framework Guideline No. 02-2007/BSD	1 Oct. 2007
9.	Circular to Banking Institutions No.012007/BSD: "Disclosure of On-Site Examination & External Credit Ratings"	23 Oct. 2007
10.	Circular to Banking Institutions No.01-2008/ BSD: "Excessive Bank Charges"	4 Oct. 2008

2.6 The guidelines also provided for the separation of bank owners and management in an effort to curtail abusive practices by **owner-managers**.

2.7 Other regulatory measures instituted include:

(i) Implementation of the Banking Supervision Application **(BSA) in 2004**, which has enhanced offsite surveillance.

(ii) Use of Audit Command Language **(ACL)** software to evaluate the accuracy and integrity of financial data;

(iii) Developed and implemented the Financial Inclusion Framework;

(iv) Developed the **National Microfinance Policy** in conjunction with the National Taskforce on Microfinance;

(v) Introduced requirement for annual **certification** of banking institutions' IT systems by external auditors; and

(vi) Prescribed additional **disclosure requirements** for banking institutions and asset management companies.

2.8 Notwithstanding the notable achievements, the Reserve Bank shall continuously improve its supervisory processes in line with financial sector developments and international best practice.

Architecture of the Banking Sector

2.9 As at 25 January, 2009, there were 28 banking institutions under the supervision of the Reserve Bank, comprising the following:

Type of Institution	Number
Commercial banks	15
Merchant banks	6
Finance houses	0
Discount houses	3
Building societies	4
Total	**28**

2.10 In addition there were 17 licensed Asset Management Companies, and 75 operating microfinance institutions, down from 180 in 2007.

Current Challenges in the Financial Sector

Rampant Financial Indiscipline…

2.11 The Reserve Bank has noted and advised the public of the despicable laxity, recklessness and contagious greed that engulfed the banking sector over the past few months to the detriment of the economy.

2.12 A number of banking institutions were involved in unethical activities and/or allowed themselves to be used as conduits for illicit transactions.

2.13 The malpractices were epitomized by the issuance of unfunded and fraudulently drawn bank cheques and general disdain for the “know your customer” (KYC) requirements.

2.14 The imprudent activities in the banking sector exacerbated the cash shortages and fuelled the ravaging fires of inflation. Fraudulent activities are detrimental to financial stability which has to be anchored on the virtue of confidence.

Viability Challenges in the Asset Management Industry …

2.15 An analysis of Asset Management Companies (AMCs) revealed that many players in the sector are not conducting meaningful asset management business.

2.16 The sector remains "overgrazed" despite the closure of 14 failed AMCs in the period 2004 to 2006. Currently, only five out of 17 AMCs account for more than 80% of total funds under management.

2.17 Some asset management companies continue to operate with inadequate capital and have resorted to illegal activities to meet their operating costs.

2.18 As Monetary Authorities, we have on innumerable occasions warned asset management companies to concentrate on their core business, yet some of them have habitually engaged in unethical business practices including illegal foreign currency trades.

2.19 Further, some AMCs, especially those in group structures incorporating Banking Institutions, Pension Funds and/or Insurance Companies, continue to be used as willing conduits to facilitate diversion from core business.

2.20 As such, the moratorium on registration of AMCs issued by the Reserve Bank in 2004 remains in force as there is limited scope for viable business opportunities in the sector.

2.21 The Reserve Bank's advice for consolidations and mergers in the asset management industry has long gone unheeded.

2.22 With **effect from 1 March, 2009** all AMCs that are under capitalized; that is, whose capital base is less than USD2.5 million, shall be closed, with no option for curatorship.

2.23 Further, all AMCs engaging in illegal activities in violation of the Asset Management Act [Chapter 24:26] and other applicable legislation shall be closed with **immediate effect**, again with no option for curatorship.

Inadequate Regulatory Framework for Non-bank Financial Institutions …

2.24 The absence of a well defined and comprehensive regulatory prudential supervision framework for the Zimbabwe Stock Exchange, Stock Brokers, Insurance Companies and Pension Funds has significantly compromised financial stability.

2.25 Inadequate oversight of the capital market, pension and insurance sectors has provided a hotbed for illegal transactions, indiscipline and reckless disregard of rules and regulations.

2.26 Stock-broking firms have continued to mushroom all over the market some of which are under resourced, and are manned by unaccountable one man bands.

2.27 There are no prescribed educational credentials for registration of stockbrokers.

2.28 Some unscrupulous players in the insurance and securities sectors took advantage of the absence of oversight to engage in illegal transactions, indiscipline and reckless disregard of the applicable rules and regulations.

2.29 Investigations have revealed that most pension funds and insurance companies are not complying with the minimum prescribed asset requirements of 35% and 30%, respectively.

2.30 As Monetary Authorities, we are cognizant of the fact that financial stability is dependent on the **collective stability** of financial markets, financial institutions and financial infrastructure.

2.31 We, therefore, **call upon the Insurance and Pensions Commission (IPEC); and the Securities Commission (SEC)** to put in place comprehensive prudential supervision frameworks for the effective supervision of insurance companies, pension funds, and capital markets based on international best practice.

2.32 The insurance industry in particular, should be **primed for adoption of the provisions of Solvency II**, which framework has three pillars namely (a) measurement of assets, liabilities and capital; (b) supervisory review process; and (c) disclosure requirements.

2.33 Similarly, **SEC should subject stockbrokers, ZSE, financial advisors** and other capital market players to prudential supervision in accordance with the International Organization of Securities Commissions (IOSCO) core principles for effective supervision.

2.34 As with Basel II for the banking industry, Solvency II aims at building a robust regulatory framework for the insurance sector.

2.35 The Reserve Bank **stands ready to partner with, and provide technical guidance** to, IPEC and SEC in the development of the prudential requirements.

MEASURES TO ENHANCE FINANCIAL STABILITY

2.36 The unfolding global financial crisis, considered by many as the worst since the Great Depression of the 1930s, has once again graphically demonstrated that financial stability is a prerequisite for the economic well-being of Nations.

2.37 The gravity of such crises is usually aggravated by weak regulation and poor risk management practices.

2.38 As Monetary Authorities, therefore, we will continuously improve our supervisory processes in line with financial sector developments and international best practice.

2.39 Going forward, the Reserve Bank will implement a number of measures aimed at restoring confidence in the financial system; strengthen risk management systems in the banking sector; enhance liquidity management and regulation; strengthen the capitalization of banking institutions; and adoption of the Basel II framework.

Risk-Based Supervision

2.40 The Reserve Bank's supervisory framework will continue to be underpinned by Risk-Based supervision methodologies, which place emphasis on the accurate determination of the risk profiles of banking institutions and adequacy of risk management systems.

2.41 The Risk-Based Supervision framework also provides for on-going interaction among supervisors, banks and external auditors through prudential meetings.

2.42 Risk-Based Supervision provides a solid foundation for implementation of the Basel II framework.

2.43 In order to promote enhanced transparency, accountability and effective market discipline, **banking institutions are required to make disclosures of their CAMELS and Risk Assessment System ratings in their half-year and year-end financial statements.**

Minimum Capital Requirements …

2.44 Adequately capitalized banking institutions play a pivotal role in the economic turnaround process through efficient financial intermediation.

2.45 As Monetary Authorities, we therefore, call upon banking institutions to continuously monitor their foreign currency denominated capital levels and to provide adequate economic capital in line with their risk profiles.

2.46 On 4 July 2008 the Reserve Bank prescribed minimum regulatory capital requirements effective 31 August 2008, as listed below:

Type of Institution	Minimum Capital Requirement
Commercial Banks	**USD 12.5 million**
Merchant Banks	**USD 10 million**
Building Societies	**USD 10 million**
Finance Houses	**USD 7.5 million**
Discount Houses	**USD 7.5 million**
Asset Management Companies	**USD 2.5 million**

2.47 In order to ensure compliance with the foreign currency denominated minimum capital requirements on an ongoing basis, banking institutions are encouraged to pursue capital preservation strategies that augment the traditional sources of capital.

2.48 As Monetary Authorities, we reiterate that banking institutions without capacity to maintain adequate capital levels commensurate with their risk profiles on an on-going basis shall be closed or induced into mergers with no option for curatorship.

Enhancement of Corporate Governance, Risk Management and Internal Control Systems …

2.49 My inaugural Monetary Policy Statement of 18 December 2003 emphasized the need for sound risk management frameworks.

2.50 Recent developments in the financial sector have shown that a few bad apples ignored the Reserve Bank's guidance on prudent risk management.

2.51 Such institutions are reminded that the Reserve Bank has provided adequate guidance on risk management expectations.

2.52 As such, every banking institution is expected to reinforce its risk management systems and internal controls to ensure that they are adequate for identification, measurement, monitoring and control. This should apply for all risks to which the institution is exposed.

2.53 Once again, every banking institution is called upon to ensure on-gong compliance with the spirit and letter of KYC regulations and guidelines issued by the Reserve Bank.

2.54 Between 1 February 2009 and 30 June, 2009, directors of banking institutions should receive induction training covering the following aspects:

(i) functions of the board and board committees;

(ii) roles and responsibilities of directors;

(iii) the roles and responsibilities of management;

(iv) understanding the institution on whose board they sit;

(v) risk management and corporate governance;

(vi) laws and regulations governing banking institutions; and

(vii) Board and director evaluation framework.

2.55 In addition, banking institutions are encouraged to have a framework for ongoing board and director training.

2.56 **Any director** determined to be insufficiently knowledgeable of the affairs and condition of the banking institution under their oversight; or deemed negligent in the discharge of their duties and responsibilities; shall be removed from office and deemed unfit and improper to hold the same position in any banking institution in Zimbabwe.

Basel II Implementation …

2.57 As Monetary Authorities, we wish to advise the banking sector that all banking institutions are required to **fully adopt** standardized approaches for allocation of capital for **credit risk, market risk, and operational risk** with effect from 6 February 2009.

2.58 Since 2006, the Reserve Bank embarked on a gradual implementation approach that allows for smooth transition to the new system.

2.59 Banking institutions operating in Zimbabwe are already required to allocate capital for market and operational risk using the standardized approaches.

2.60 **Guideline No:1-2009/BSD:** “Technical Guidance on Basel II Implementation in Zimbabwe,” will be issued in due course to provide a road-map and expert guidance on full Basel II implementation in the country.

2.61 All banks will be eligible to apply for the adoption of advanced approaches with effect from January 2010, subject to satisfaction of model validation and approval criteria prescribed in the said guideline.

Effective Supervision of Banking Groups …

2.62 A number of banking institutions have used unregulated entities in their group structures as **conduits for indulgence in regulatory arbitrage**, that is, by engaging in non-permissible activities.

2.63 It is **imperative** that all bank holding companies adopt the **same corporate governance** standards as applicable at banking institutions.

2.64 In addition, **bank holding companies receiving funding from banks** should not be used as conduits for the conduct of activities that banks would otherwise not do at law.

2.65 The Reserve Bank has signed memoranda of understanding with **other regional supervisory** authorities to facilitate information sharing and **on-site supervision** of all **regional subsidiaries of banks** under the supervisory jurisdiction of the Reserve Bank.

Close Monitoring Of Liquidity Risk…

2.66 Recent investigations by the Reserve Bank indicated that banking institutions which experienced liquidity management challenges had diverted the funds of depositors into non-core business such as stocks, parallel market activities and purchase of fixed assets.

2.67 Going forward, banks need to **demonstrate** to the Reserve Bank that their **liquidity contingency plans as well as their business continuity arrangements are adequate on an ongoing basis**.

2.68 In addition, the Reserve Bank shall regularly undertake comprehensive liquidity stress tests focused on institutions' asset and liability structures and liquidity management strategies.

2.69 Boards of banking institutions should put in place **mechanisms that ensure appropriate board and senior management oversight over liquidity risk**.

Financial Innovation …

2.70 The current cash crisis presents an opportunity for financial institutions to promote usage of alternative means of payment such as local and foreign currency denominated smart cards, and cell-phone banking.

2.71 Our banking institutions are encouraged to enter into strategic alliances with local, regional and international partners to pursue these initiatives.

2.72 As Monetary Authorities, we stand ready to facilitate such initiatives.

NATIONAL PAYMENT SYSTEMS

2.73 The maintenance of an efficient and robust national payments system remains one of our major objectives as a Central Bank.

2.74 It is through this role that as monetary authorities we are able to maintain confidence and stability of the financial system.

2.75 In this regard, the Central Bank will continue to support all initiatives that promote the achievement of this objective.

2.76 Pursuant to the challenges that were recently experienced in the financial services sector, the following measures will be taken:

Clearing and Settlement

2.77 As regulatory authorities, enforcement of strict controls in the market to curb wayward behaviour through abuse of the cheque instrument remains one of our priorities.

2.78 The banking community is implored to continuously apply effective risk management mechanisms and abide by Central Bank regulations to avert systemic risk which has the potential of destabilizing the entire financial sector.

2.79 Having acknowledged risks associated with the cheque payment stream, the Central Bank, in consultation with the banking community, will vigorously pursue the establishment of an electronic Clearing House (ECH), which will no doubt go a long way in managing risk.

Real Time Gross Settlement System (RTGS)

2.80 Following the suspension and subsequent reinstatement of the RTGS system, the Central Bank remains committed to ensuring that the transacting public is not inconvenienced when effecting their genuine payments.

2.81 The RTGS system, by its very nature, is intended for high-value high-risk and time critical payments.

2.82 In order to maximize this benefit, the Central Bank, in collaboration with the banking industry, will continue to restrict low value payments from the system. Such payments should be channelled through other non-cash methods which are retail in nature.

Non Cash Methods of Payment

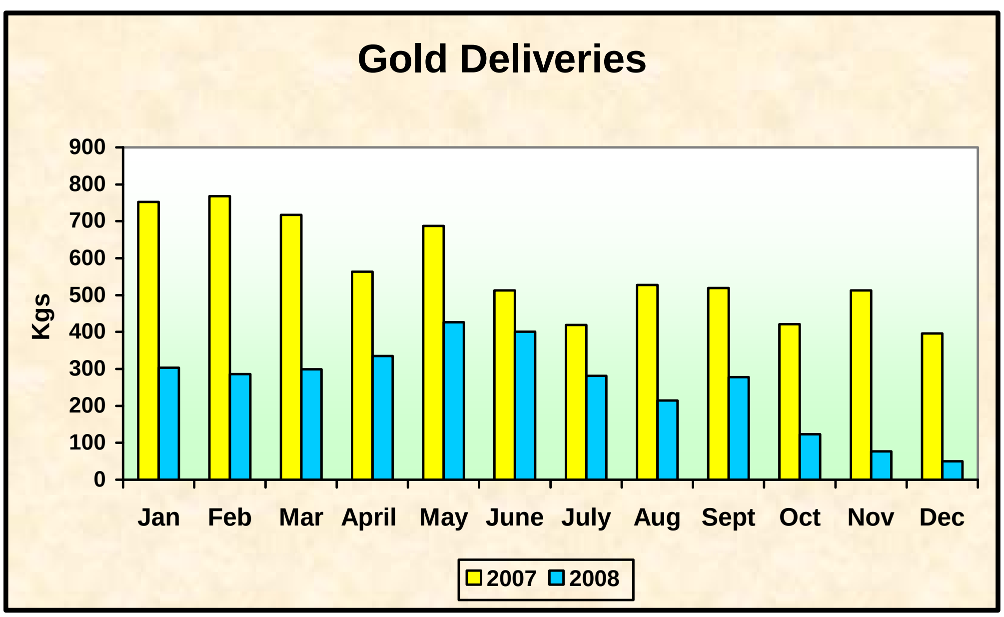
2.83 The Central Bank acknowledges that macroeconomic challenges have negatively impacted on the effective utilization of alternative non-cash retail payment systems in the country. Efforts to promote non cash means of payment will be stepped up through engagement of relevant stakeholders in both the IT and Financial Sectors of the economy.

2.84 It is our strong belief that there are innovative minds out there in the country that are capable of bringing on board initiatives to enhance our retail payment streams which have largely been impaired by the current inflationary environment.

SECTORAL OVERVIEW

3 Gold

3.1 Gold deliveries for the period January to 31 December, 2008 slumped by more than 50 percent to 3 072 kgs compared to 6 798 kgs over the same period in 2007.



3.2 Gold production has largely been constrained by:

i. Rising production costs;
ii. Frequent electricity outages; and
iii. Shortages of critical inputs such as cyanide, explosives, spare parts and mining equipment

Manufacturing

3.3 The manufacturing sector continues to face a number of challenges, which include rising production costs, foreign currency constraints, electricity supply interruptions, fuel shortages and brain drain.

3.4 Production in the manufacturing sector continues to decline, with industry average capacity utilisation currently below 20%.

3.5 The July 2008 Confederation of Zimbabwe Industries (CZI) study estimated manufacturing capacity utilisation at 18.9% in 2007.

3.6 The following factors will underpin performance of the manufacturing sector in 2009:-

i. Increased ‘export horizon’ for manufacturers who can earn foreign currency from local market, under the special licenced foreign exchange outlets framework;

ii. Expected growth in the agricultural sector which will boost production in agro-based industries, given the traditional strong linkages between these two sectors; and

iii. Expected stabilisation of inflation and the general costs of inputs, under the expanded foreign exchange trading system.

Tourism and Distribution

3.7 The tourism and distribution sub-sector is estimated to have declined by 11% in 2008, compared to a decline of 13% in 2007.

3.8 International tourist arrivals declined by 58% during the first half of 2008, compared to the first half of 2007.

3.9 Tourist arrivals fell from 1 262 898 in the first half of 2007, to 531 357 during the same period in 2008.

3.10 The Table below shows statistics on tourist arrivals.

Tourist Arrivals

Tourist Arrivals	1st Half 2007	1st Half 2008	% Change
Africa	1 132 575	410 968	-64
Overseas	130 323	120 389	-8
Total	1 262 898	531 357	-58

Source: Zimbabwe Tourism Authority (ZTA) – Tourism Statistics 1st Half Report 2008

3.11 As a Nation, there is, therefore an urgent need for us to vigorously build an internal cohesive atmosphere that significantly contributes to the much needed reconstruction of the country's damaged international image.

INFLATION OUTLOOK

3.12 The year 2009 is poised to be a critical turning point for Zimbabwe's inflation, with rapid disinflation expected throughout the year.

3.13 The introduction of the special foreign exchange shops is already benefiting the economy through greater products availability and significant price decreases.

Sample Basket Price Decreases: October 2008-26 January, 2009

	ITEM	PRICE IN OCTOBER, 2008 US$	PRICE AS AT 26 JANUARY 2009 US$	PERCENTAGE DECREASE
1.	10kgs Roller Meal	12.00	6.00	-50%
2.	2kg Sugar	5.00	3.00	-40%
3.	2 kg Salt	1.50	0.50	-67%
4.	750 ml Cooking Oil	3.00	1.50	-50%
5.	2 litres Mazoe	4.50	3.00	-33%
6.	250 g Matemba	2.50	1.75	-30%
7.	1 litre Petrol (Global effects)	1.25	0.60	-52%
8.	1 litre Diesel (Global effects)	1.20	0.60	-50%
9.	6 – pack soft drinks cans	10.00	6.00	-40%
10.	125 g cotton wool	2.50	1.25	-50%
11.	**Totals**	**43.45**	**24.2**	**44.30%**

3.14 Prices of goods and services are expected to continue their rapid decline trend over the remainder of the year while availability is expected to improve against the following concrete factors:

(a) The adoption of a hard fiscal budget constraint which entails that the Government sector will only spend available resources, **without any recourse to inflationary monetary finance** which in any case the Reserve Bank of Zimbabwe is unable to **print or avail outside** what the economy can generate by way of foreign currency.

(b) The Reserve Bank has streamlined its operations, **focusing more on inflation control and stability in the banking sector against the background of renewed commitments that all line Ministries will now fully discharge their core functions.**

(c) **To this end, the Acting Minister of Finance the Hon. Senator P. A Chinamasa made the following**

commitments and declaration in his Budget proposals paragraphs 145 to 148 page 43 which I quote:

- "Essential for shoring up the value of the Zimbabwe dollar **will be the implementation of a combination of strict and painful fiscal and monetary measures** that relate the Zimbabwe dollar monetary base to developments in the real sector, **and the avoidance of recourse to money printing beyond the economy's production of goods and services.**
- The Minister went further to state that to achieve the above required "**discipline and commitment** to our expenditure and revenue targets without permitting expenditures **outside the budget."**

(d) The **liberalization** of the Exchange Control Policy Framework, **as well as the freeing up of the exchange** rate to be determined in the market will unleash phenomenal efficiency gains that will help reactivate greater capacity utilization in the economy. **This should significantly deflate prices;**

(e) The **market decline in global fuel prices** is expected to significantly reduce producers' costs which would hive off inflationary pressures;

(f) The **expected positive turn in capacity utilization** will in itself act as a favourable factor in levelling off the pessimism that had paralyzed the economy. **Optimism generates a self-reinforcing cycle of disinflation through change in economic behaviour particularly in the price formation systems; and**

(g) The **country's general food supply situation is expected to improve against the background of the good rains notwithstanding some constraints farmers are facing in accessing some of the critical inputs**. A relatively better food supply situation is an important ingredient in the disinflation process.

(h) As part of our contribution towards curtailing money-supply growth following the migration of the National Budget to foreign currency, all sectors of the economy are hereby advised that the Bank is in its final stages of winding down residual Quasi-Fiscal Operations of yester year.

(i) We expect the administrative processes to be completed by the end of this quarter. To this end, it is instructive to quote from the Minister's Budget Statement addressing the same issue paragraphs 149 to 155 where he said;

"**Quasi-Fiscal Operations.**

" The Government of Zimbabwe has been constrained from funding some of the projects during the last nine years or so due to the sanctions imposed on the nation.

"**The Reserve Bank has in the mean time financed those quasi-fiscal operations in the areas of agriculture, dam construction, education and health among other activities.**

"As at December 2008, the Reserve Bank was able to **remove all these expenditures from the Bank's books through a Sinking Fund which had been set up to cover these expenditures.**

“The **Bank’s balance sheet is now free of these quasi fiscal expenditures and the RBZ will now concentrate on its major mandates of assuring the stability of prices and the financial sector**.” end of Quote.

3.15 As Monetary Authorities, we call upon all sectors of the economy to set aside the burdensome yoke of perpetual despair and take advantage of these favourable developments.

3.16 **Through combined efforts, we will be able to successfully break the backbone of the inflation dragon in the interest of achieving macroeconomic stability.**

3.17 Still on the inflation front, it is strategically important that the Central Statistical Office (CSO) be adequately capacitated so as to enable them to carry out substantive surveys of the latest positive developments on inflation. **We are pleased to note that through the 2009 Budget, Government has directed the CSO, effective this**

month, to begin tracking developments in price indices in foreign currency terms.

3.18 This essential move, alongside the timely availability of accurate data is critical in guiding business decisions, as well as shaping expectations.

4. MONETARY DEVELOPMENTS

Monetary Growth

4.1 Money supply growth continued on an upward trend, in part as a reflection of the prevailing macroeconomic imbalances under which the Government Sector has largely relied on domestic bank finance.

4.2 Broad money supply (M3) growth increased sharply from 81 143.1% in January to 658 000 000 000% in December, 2008.

4.3 The growth has also largely been underpinned by money creation related to speculative activities on the parallel foreign exchange and stock market.

THE ZIMBABWE STOCK EXCHANGE

4.4 The Zimbabwe Stock Exchange has been one of the major sources of money creation, driving money supply to unprecedented levels in the economy.

4.5 Stock market activities were generally on an upward trend during 2008, mainly due to low and negative real returns on the money market, lack of alternative investment destinations and adverse inflation expectations.

4.6 The strong third quarter performance of the bourse spilled into the final quarter of 2008 before slowing down after the introduction of the following remedial Monetary Policy measures by the Central Bank on Thursday 20th November 2008:

a) Cancellation of provision for unsecured accommodation to all banks;

b) Suspension from the clearing house for any bank that failed to fund its clearing obligations;

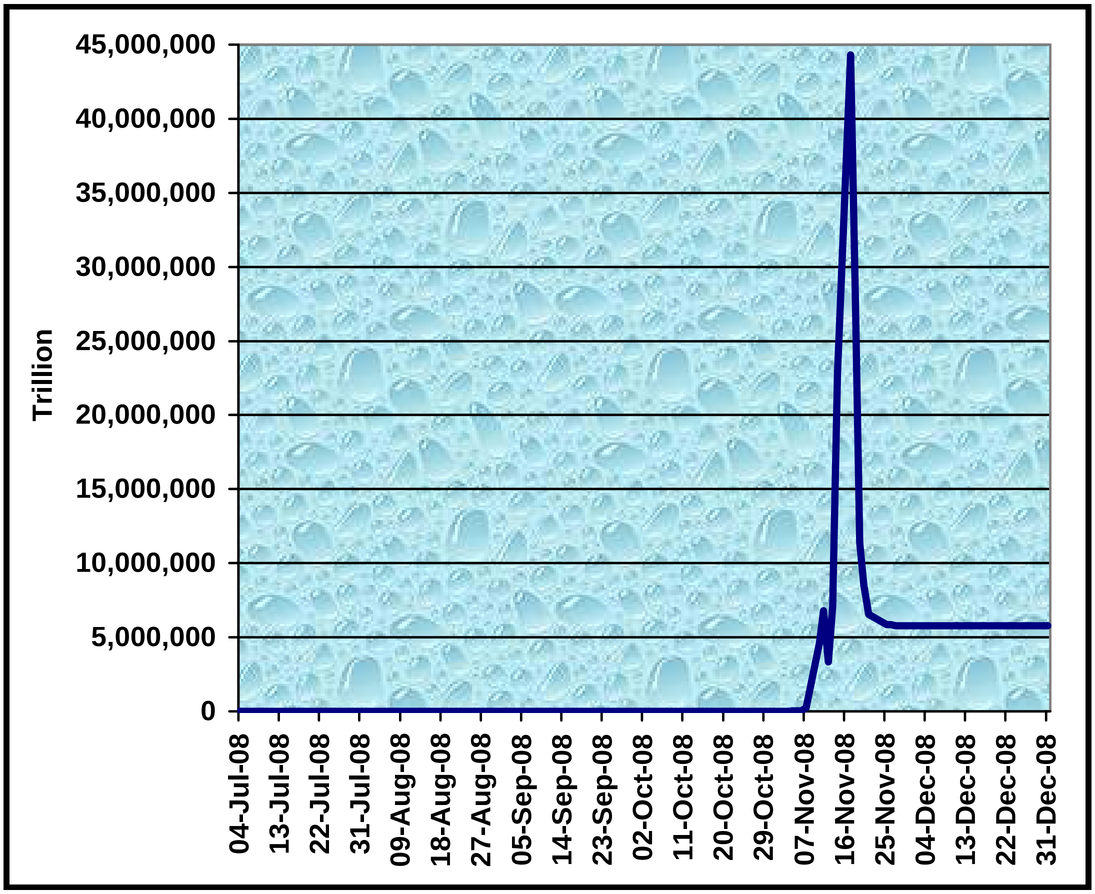
c) Blacklisting of companies and stock-broking firms that issued fraudulent cheques; and

d) Cancellation of trading licence for any bank that issued fraudulent bank cheques.

4.7 The above measures were instituted to curb fraudulent speculative behaviour that had gripped the stock market.

4.8 The benchmark industrial index grew from 4 294 points recorded on the 1st July to peak at 44 305 quadrillion points on the 17th November 2008. The graph below shows weekly industrial index developments from 4 July to 31 December 2008.

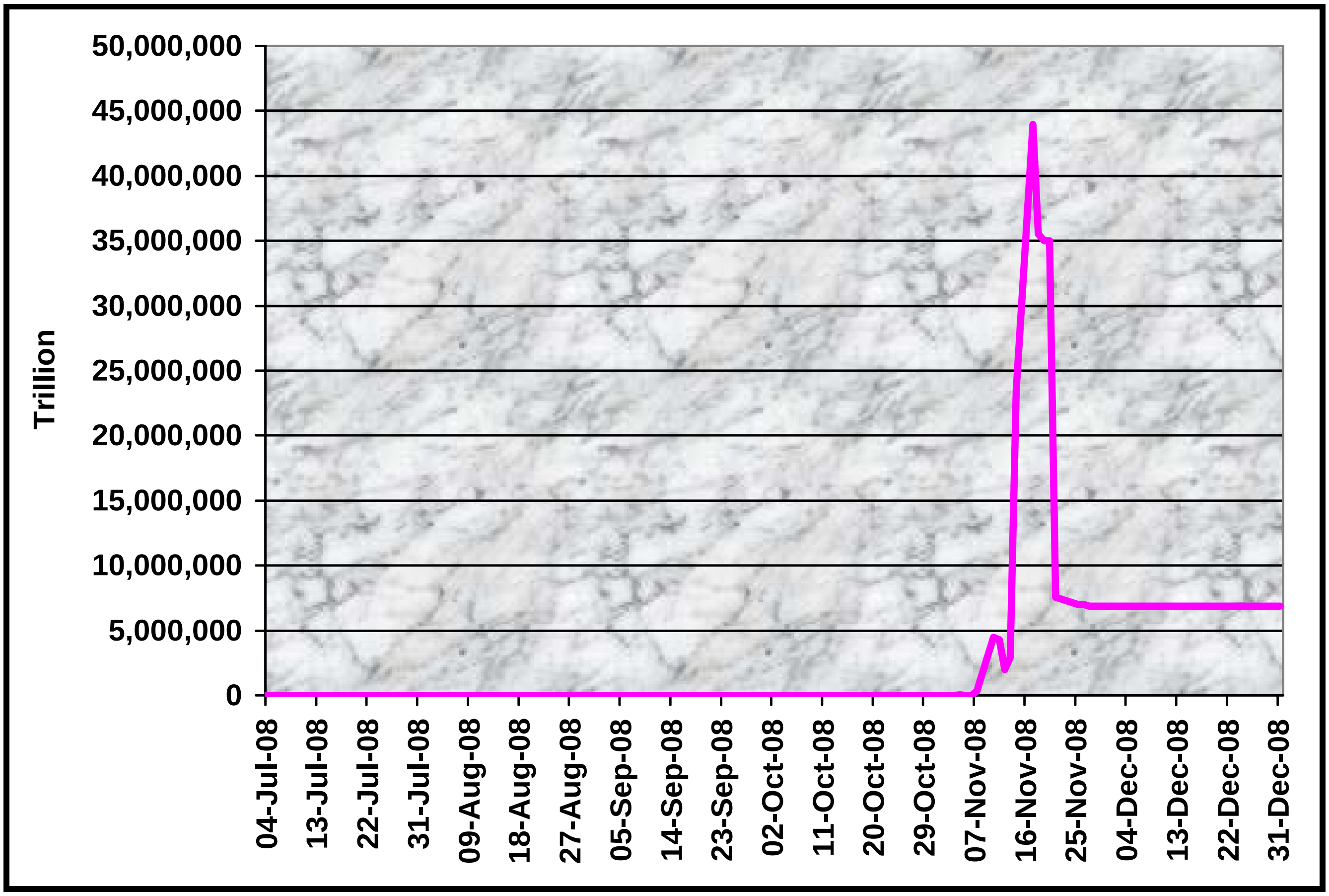
The Industrial Index



4.9 The growth in the industrial index was largely driven by speculative activities anchored on parallel market exchange rate depreciation. Consequently, the significant share price increases in blue chip counters, especially the dually listed companies accentuated the artificial asset price bubble.

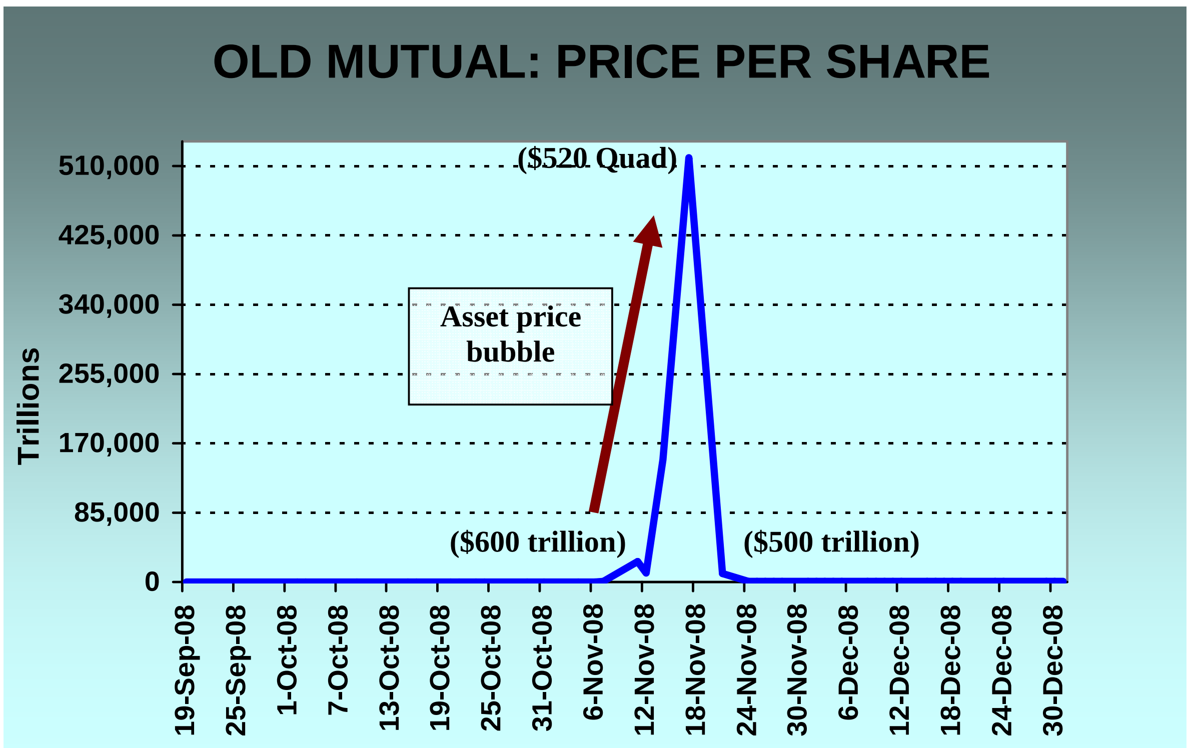
4.10 The mining index also experienced astronomical growth, from 5 722 points in July 2008 to 43 973 quadrillion points on 17th November 2008. The graph below shows the trend of the mining index from 4th July 2008 to 28th November 2008.

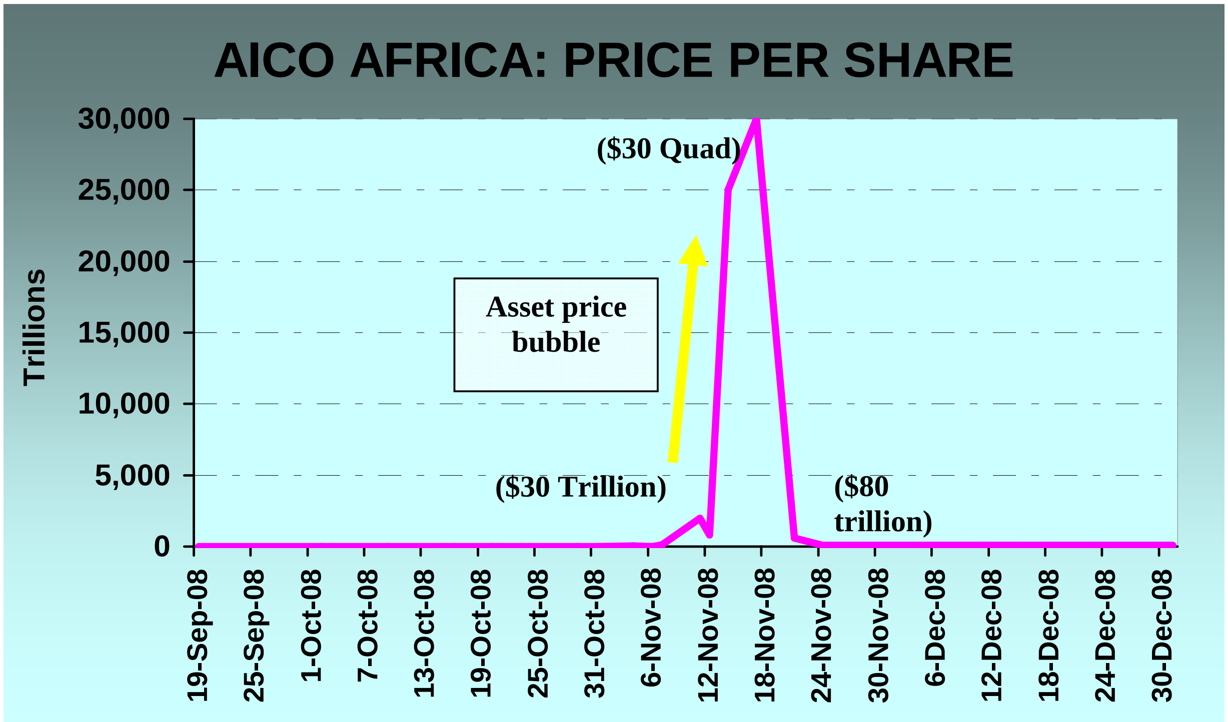
The Mining Index



4.11 The growth in the mining index was buoyed by the initially high international commodity prices during the first half of 2008 and the speculative trading on the bourse during the first week of November 2008.

4.12 The graphs below show the share price movements of selected counters that include Old Mutual, AICO, Delta, DZHL and Econet depicting the asset price bubble and the deflation of the bubble after the corrective measures instituted by the Central Bank.




AICO AFRICA: PRICE PER SHARE
Trillions
30,000
25,000
20,000
15,000
10,000
5,000
0
($30 Quad)
Asset price bubble
($30 Trillion)
($80 trillion)
19-Sep-08
25-Sep-08
1-Oct-08
7-Oct-08
13-Oct-08
19-Oct-08
25-Oct-08
31-Oct-08
6-Nov-08
12-Nov-08
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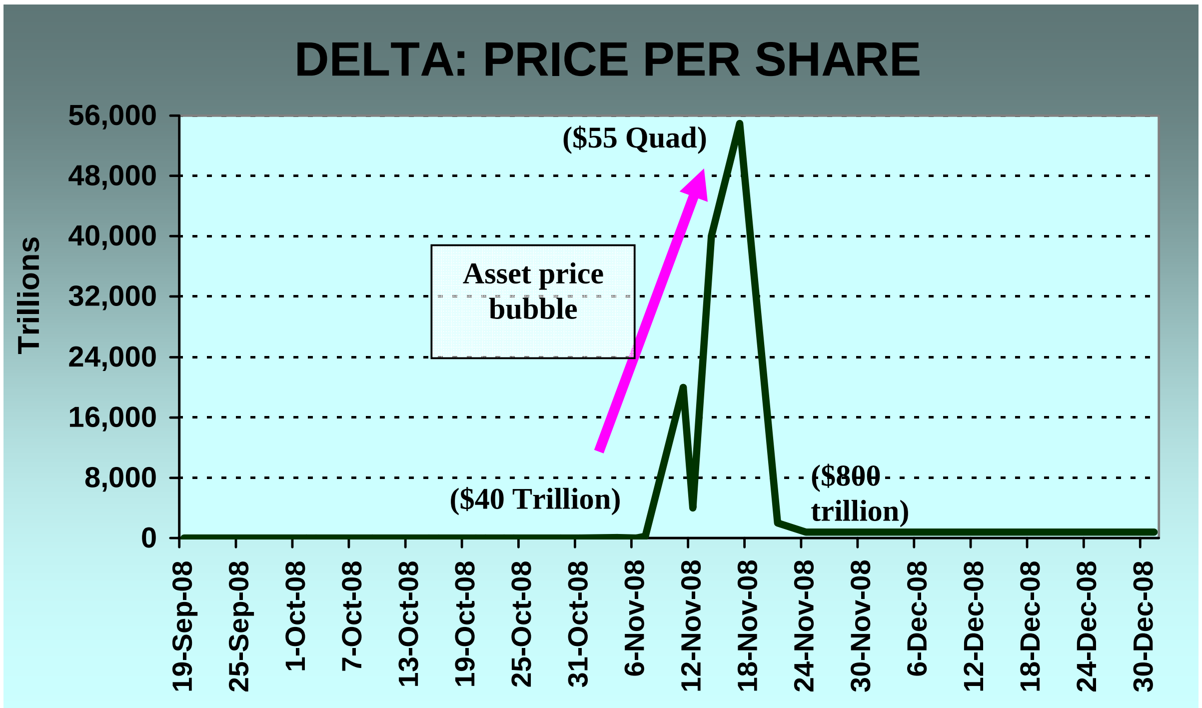
24-Dec-08
30-Dec-08


DELTA: PRICE PER SHARE
Trillions
56,000
48,000
40,000
32,000
24,000
16,000
8,000
0
($55 Quad)
Asset price bubble
($40 Trillion)
($800 trillion)
19-Sep-08
25-Sep-08
1-Oct-08
7-Oct-08
13-Oct-08
19-Oct-08
25-Oct-08
31-Oct-08
6-Nov-08
12-Nov-08
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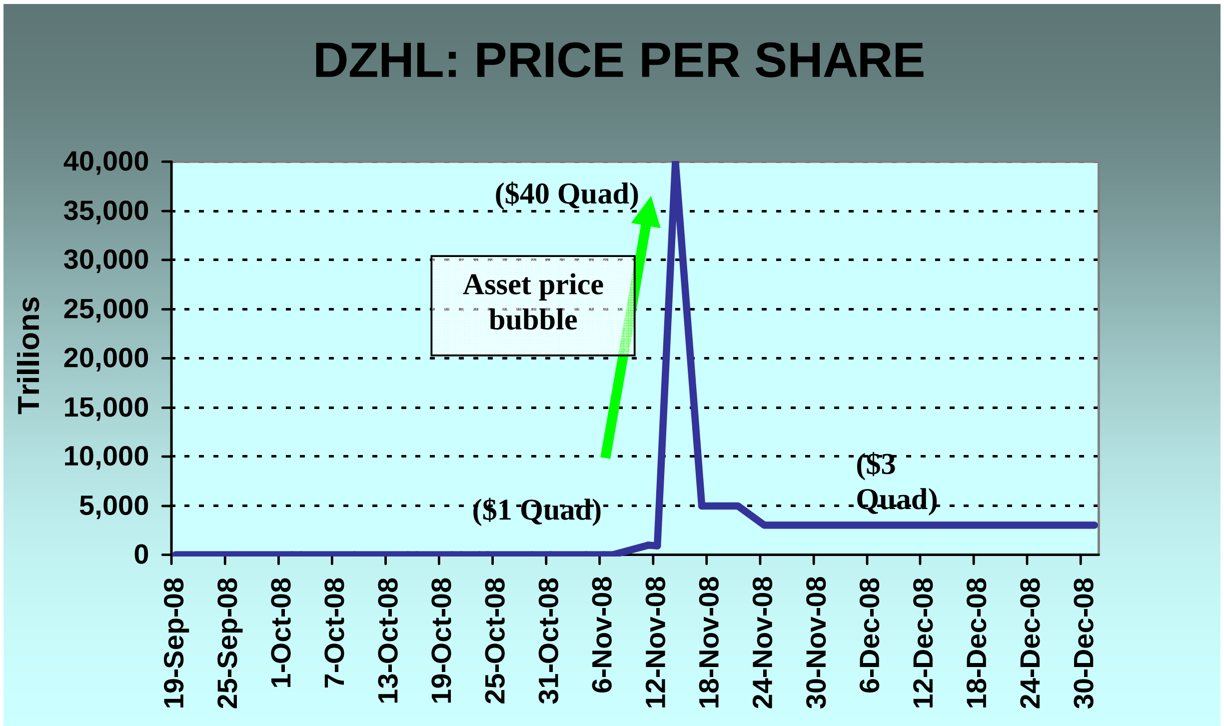
30-Dec-08


DZHL: PRICE PER SHARE
Trillions
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
($40 Quad)
Asset price bubble
($1 Quad)
($3 Quad)
19-Sep-08
25-Sep-08
1-Oct-08
7-Oct-08
13-Oct-08
19-Oct-08
25-Oct-08
31-Oct-08
6-Nov-08
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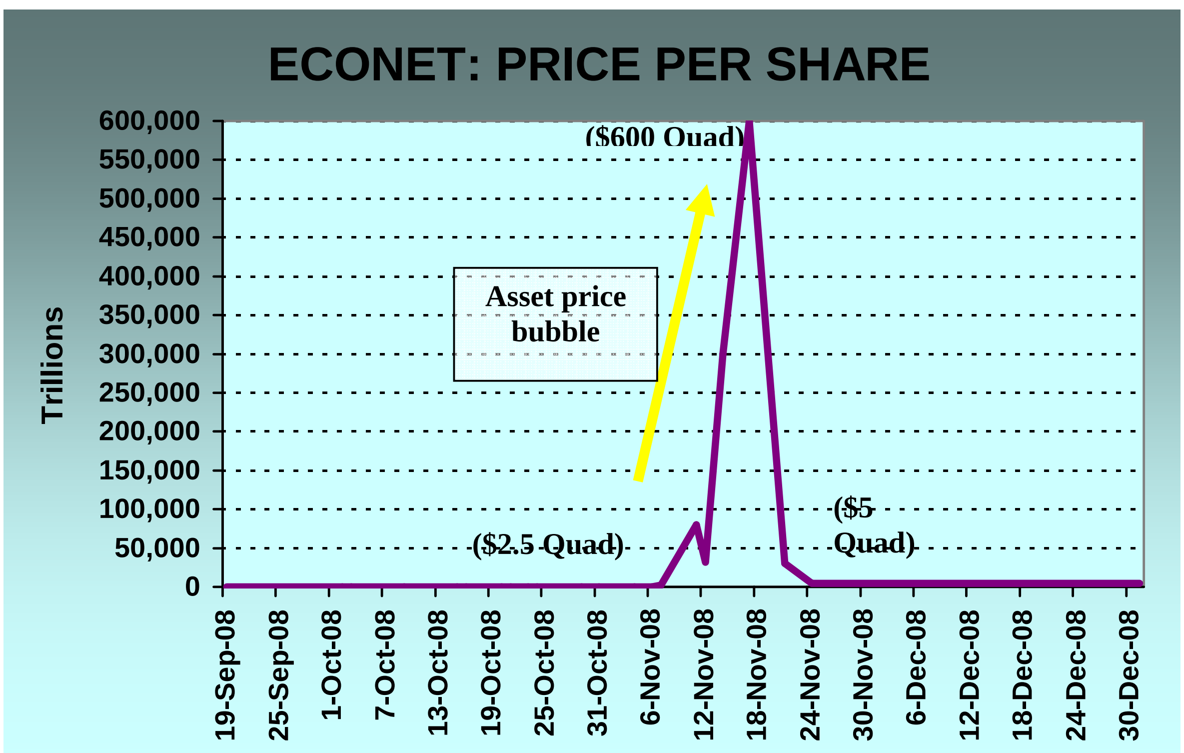
24-Nov-08
30-Nov-08
6-Dec-08
12-Dec-08
18-Dec-08
24-Dec-08
30-Dec-08


ECONET: PRICE PER SHARE
Trillions
600,000
550,000
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
($600 Quad)
Asset price bubble
($2.5 Quad)
($5 Quad)
19-Sep-08
25-Sep-08
1-Oct-08
7-Oct-08
13-Oct-08
19-Oct-08
25-Oct-08
31-Oct-08
6-Nov-08
12-Nov-08
18-Nov-08
24-Nov-08
30-Nov-08
6-Dec-08
12-Dec-08
18-Dec-08
24-Dec-08
30-Dec-08

4.13 The graphs above show that from 8th November 2008, the stock market experienced an asset price bubble driven by irrational bidding up of prices by speculators who had invaded the equities market.

4.14 The bubble was also inflated by some stockbrokers who were engaging in illicit trading activities which resulted in amplified share prices for the blue chip counters.

4.15 The fungibility of the Old Mutual shares resulted in the share price of the counter being used as a proxy for the parallel market exchange rate. Consequently, the increase in share price due to the asset price bubble translated to a surge in the prices of goods and services in the economy.

4.16 Ideally, stock market indices should reflect the underlying fundamentals of productivity on the ground. The stock market prices should, therefore, start to represent actual economic fundamentals.

4.17 The stock market however, continued to surge against the background of increasing under capacity utilization, a clear reflection of the dislocation between economic activity and stock market trends.

4.18 Resultantly, the asset price bubble led to the creation of financial wealth not backed by economic fundamentals thereby accelerating money creation in the economy.

4.19 The high growth in money supply resulted in high demand for currency from the general public. This put pressure on the printing capacity of the Monetary Authorities, which is already constrained by the illegal sanctions imposed against the country.

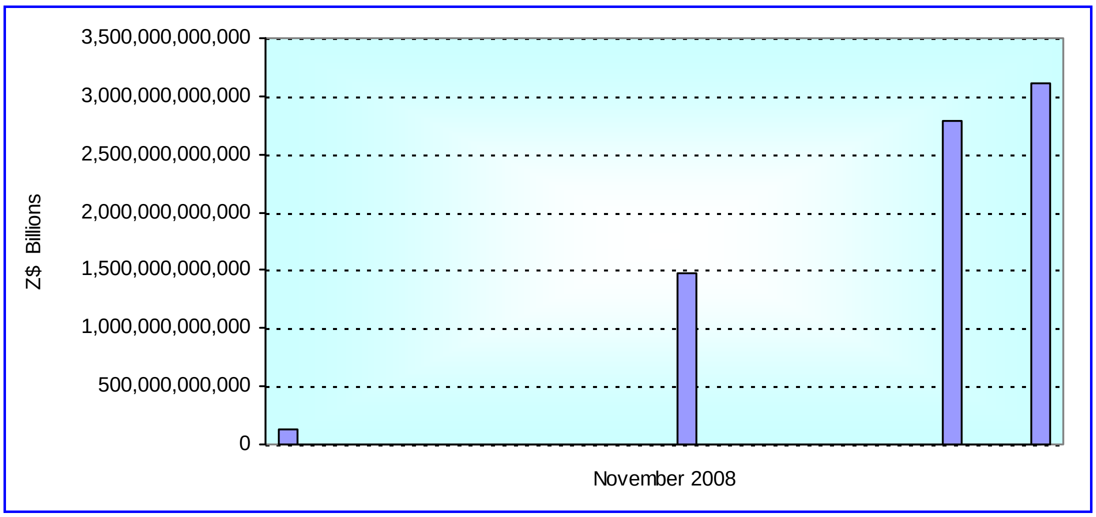
MONEY MARKET POSITION

4.20 Throughout 2008, the money market experienced high liquidity levels.

4.21 The huge liquidity injections were mainly due to inflation driven Government expenditures, largely related to the 2008 National Elections, as well as support for economic and social development programs.

4.22 As a result, money market surpluses surged significantly, particularly during the last quarter of the year.

Daily Money Market Positions (ZWR)



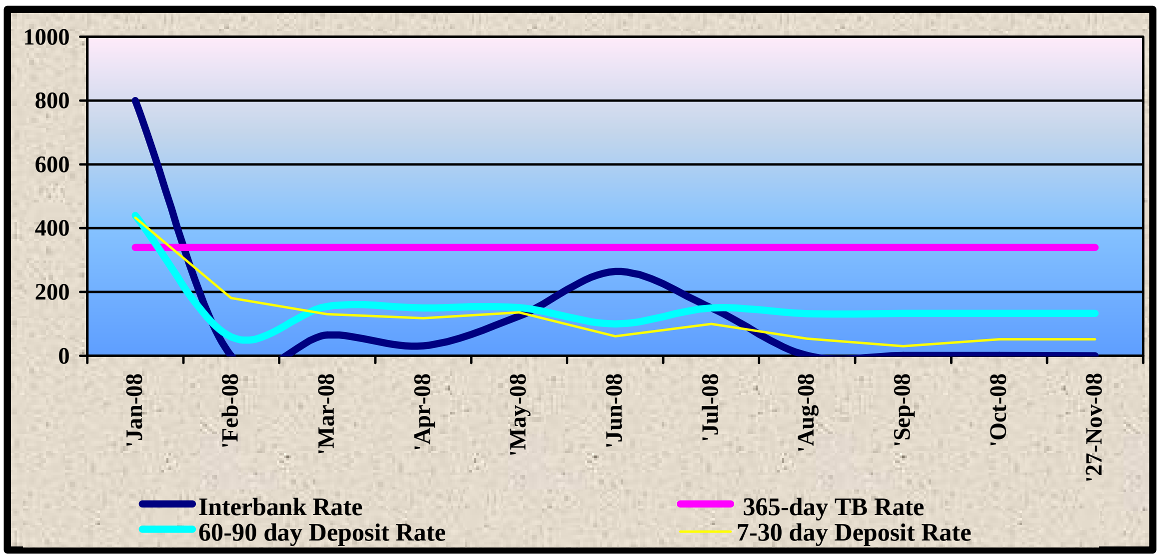
Interest Rates…

4.23 As a result of the liquid conditions on the money market, money market interest rates have remained generally depressed.

4.24 Deposit rates of the 7-30 day category averaged around 52% since September 2008, while 60-90 day deposit rates remained in the region of 150%.

4.25 The interbank rate was generally insignificant, reflecting lack of activity on the interbank market on the back of surplus liquidity conditions.

Selected Money Market Rates (%)



4.26 The Bank's overnight accommodation rates continued to be reviewed in line with the thrust of its lender of last resort purpose.

Reserve Bank Overnight Accommodation Rates (%)

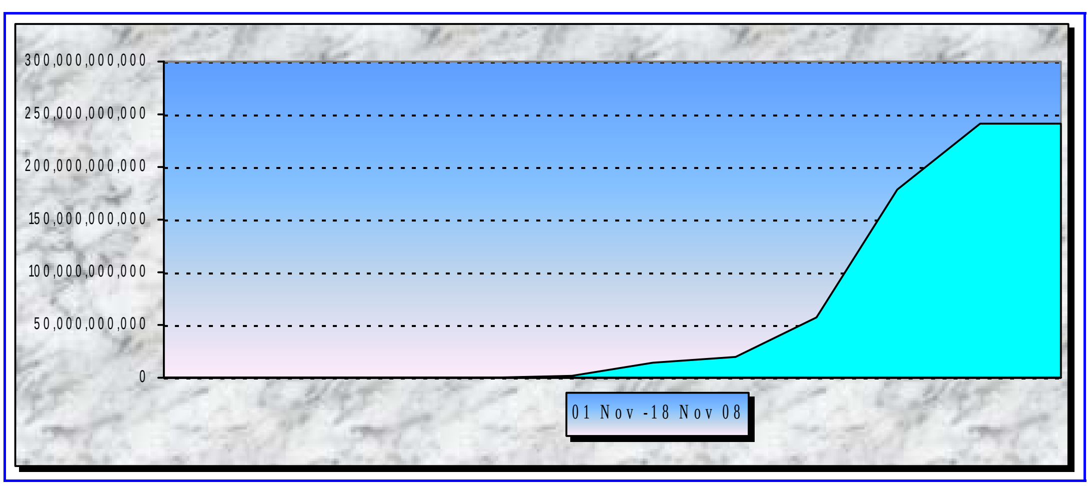
Month	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jul - 8 Oct 08	13-Nov-08
Secured Rate	975%	1 200%	4 000%	4 500%	6 500%	8 500%	10 000%
Unsecured Rate	1 500%	1 650%	4 500%	5 000%	7 500%	9 500%	40 000%

Government Expenditures…

4.27 Government expenditures escalated sharply in the first half of the 2008 largely driven by National Elections and other development programmes.

4.28 Government's position at the Central Bank, however, remained generally in surplus for the larger part of the second half of 2008, reaching a peak surplus position of $241.9 quintillion, as at 18 November 2008.

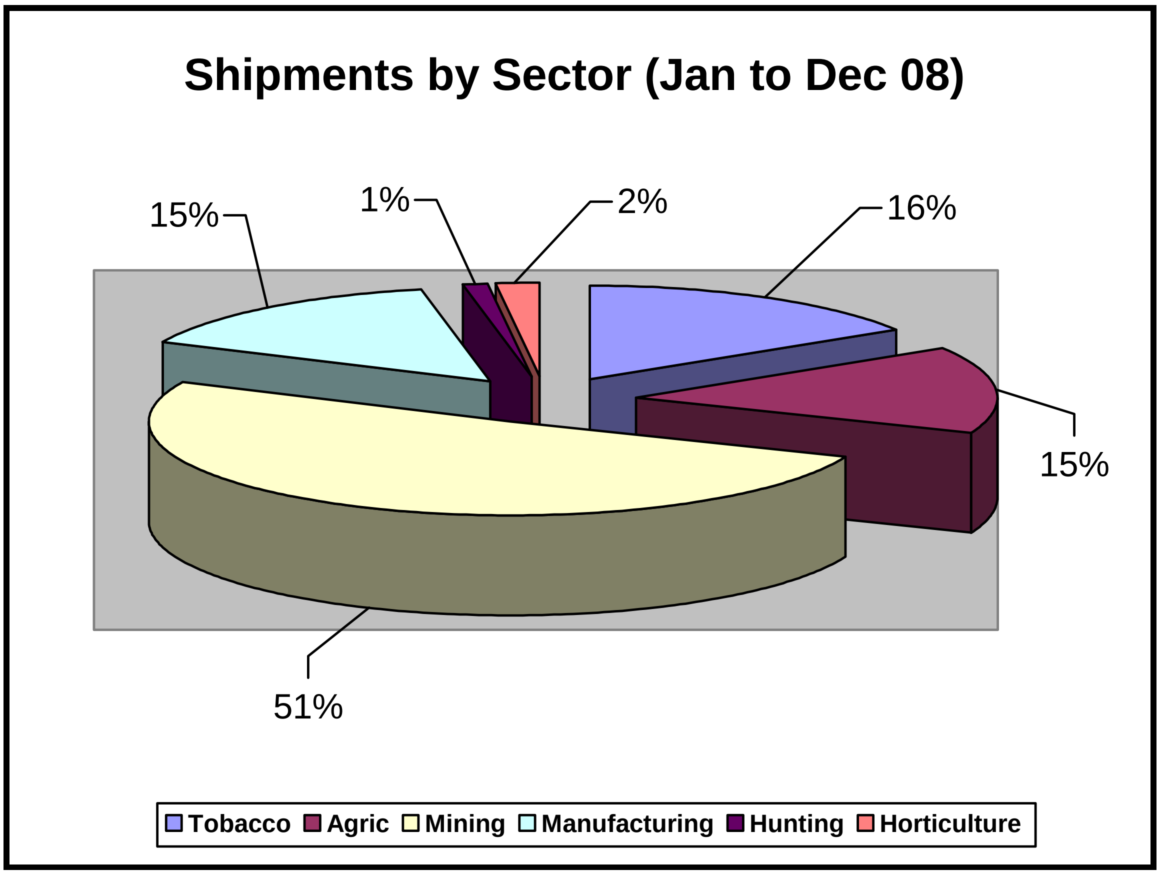
Daily Balances of Gvt's Account at the RBZ (Z$'billion)



EXPORT PERFORMANCE

4.29 For the period 1 January to 31 December 2008 total export shipments of goods amounted to **USD1.376 billion** compared to **USD1.606 billion** during the same period in 2007. This represents a **14.32%** decline in exports of goods and services.

4.30 The mining sector contributed 51% followed by tobacco which contributed 16% as shown in the figure overleaf:



Agriculture Sector

4.31 For the period 01 January to 31 December 2008, total exports under the Agriculture Sector amounted to **US$464,591,047** compared to **US$541,085,451** worth of exports for the period January to 31 December 2007. This represents a decrease in agriculture exports of 14.14%.

Export Shipments by Agriculture Sub-sectors

4.32 For administrative purposes, the Agriculture Sector is split into 3 sub-sectors namely, General Agriculture, Horticulture and Tobacco.

4.33 Generally, there has been a decline in export performance in all the 3 Agriculture sub-sectors.

4.34 Lack of inputs and low capacity utilization are some of the reasons for the decline in export performance. However, with the support that is currently being given to the sector, Agriculture exports are set to increase.

4.35 Exports approved under the three Agriculture Sub-sectors are indicated in tables 1-3.

4.36 For the period 01 January to 31 December 2008, export shipments under the general Agriculture sub-sector amounted to **US$209,062,331**, a decrease of 4.5% over 2007 shipments of US$218,866,814.

General Agriculture Shipments

	Value of Forms CD1 Approved (USD) 2008	Value of Forms CD1 Approved (USD) 2007	% Variance
January	13,048,447	15,794,499	-17.4
February	14,589,867	16,830,745	-13.3
March	11,357,248	12,919,386	-12.1
April	11,420,492	8,192,453	39.4
May	11,912,034	13,793,242	-13.6
June	16,748,945	19,332,825	-13.4
July	22,694,506	21,638,017	4.9
August	37,059,744	34,660,251	6.9
September	20,666,149	19,501,495	6.0
October	28,980,410	17,522,112	65.4
November	14,573,503	27,200,733	-53.8
December	6,010,986	11,481,056	-47.64
Total	**209,062,331**	**218,866,814**	**-4.5**

4.37 For the period 1 January 2008 to 31 December 2008 total shipments under the horticulture sub-sector amounted to, US$24,646,949 compared to US$27,703,307 in 2007, representing a decline of 11,0%.

Horticulture Export Shipments

	Value of Forms CD1 Approved (USD) 2008	Value of Forms CD1 Approved (USD) 2007	% Variance
January	1,819,960	2,691,173	-32.4
February	2,277,679	2,954,492	-22.9
March	2,035,747	2,821,260	-27.8
April	2,520,091	2,782,585	-9.4
May	2,386,962	3,099,007	-23.0
June	2,032,163	2,424,761	-16.2
July	1,680,213	1,763,504	-4.7
August	1,705,075	1,655,899	3.0
September	4,248,366	2,056,229	106.6
October	1,669,265	1,552,105	7.5
November	1,113,279	2,316,743	-60.4
December	1,158,159	1,585,549	27,0
Total	**24,646,949**	**27,703,307**	**-11.0**

Tobacco Export Shipments

	Value of Forms CD1 Approved (USD) 2008	Value of Forms CD1 Approved (USD) 2007	% Variance
January	31,323,192	72,469,956	-56.8
February	45,930,175	17,239,070	166.4
March	18,959,966	12,222,523	55.1
April	15,087,769	6,988,803	115.9
May	14,443,850	9,916,081	45.7
June	5,908,466	6,136,726	-3.7
July	6,537,413	7,667,814	-14.7
August	10,054,987	15,320,131	-34.4
September	7,885,990	21,835,235	-63.9
October	20,088,863	25,962,190	-22.6
November	27,964,631	51,559,646	-46.5
December	25,593,687	33,811,871	-24.31
Total	**203,790,423**	**247,318,174**	**-24,3**

4.38 Tobacco exports amounting to **US$203,790,423** were processed for the period 01 January to 31 December 2008. This represents a 24,3% decrease over 2007 exports of US$247,318,174 for the period 01 January to 31 December.

4.39 As at the end of the tobacco selling season, 48.7 million kilograms of tobacco worth US$156.6 million had been sold representing a 32% decrease in the kgs sold and a 6% decrease in the value realized when compared to 2007.

4.40 The volume of tobacco sold in 2008 fell short of the estimated 75 million kgs, as it is believed some growers are still holding on to the crop in protest against prices

Manufacturing Sector

4.41 Total shipments for the Manufacturing sector from 01 January to 31 December 2008 amounted to **US$220,361,232** compared to **US$250,463,244** for the same period in 2007, reflecting a **12,02%** decrease.

Total Shipments for the Manufacturing Sector

Month	Value of Forms CD1Approved (USD) 2008	Value of Forms CD1 Approved (USD) 2007	%Change
January	13,119,598	17,443,436	(24.79)
February	15,283,732	18,200,951	(16.03)
March	14,170,557	21,575,273	(34.32)
April	17,942,822	17,281,713	3.83
May	32,660,990	40,116,557	(18.58)
June	19,859,492	30,265,125	(34.38)
July	17,736,518	21,291,129	(16.70)
August	21,183,675	24,513,395	(13.58)
September	15,794,087	19,091,384	(17.27)
October	20,069,613	17,372,324	15.53
November	12,278,160	26,167,713	(62.64)
December	10,191,964	13,405,380	(24.0)
TOTAL	**210,291,208**	**266,724,380**	**(21,2.)**

4.42 Shipments in the Manufacturing sector have decreased over the period as a result of the fall in the production capacity of most companies due to severe shortages of foreign exchange to import critical raw materials and spares for machinery, high local production costs, power outages and high costs of borrowing. On average, companies are losing six days per month as a result of power outages.

Mining Sector

4.43 Mineral shipments for the period 1 January to 31 December 2008 amounted to US$676,017,150 compared to US$801,862,624 realised during the same period in 2007.

4.44 This substantial decrease of **15.69%** in shipments can be attributed mainly to the Global Credit Crunch of September 2008, which has resulted in the drastic price fall of minerals on the international markets.

4.45 Generally, mineral prices internationally are on the downward trend.

4.46 The negative effect of the ever increasing operational costs, lack of foreign currency for spares and fuel and power outages also played a role to this plunge in mineral shipments.

Mineral Shipments for 2008

Month	US$ Value of Forms CD1 Approved in 2008	US$ Value of Forms CD1 Approved in 2007	Variance %
January	62,737,393	63,590,867	-1.34
February	57,215,454	56,898,369	0.56
March	64,673,492	97,138,491	-33.42
April	69,919,419	87,537,598	-20.13
May	81,206,212	86,061,014	-5.64
June	70,791,137	81,940,250	-13.61
July	47,822,675	61,708,742	-22.50
August	57,152,188	50,029,678	14.24
September	62,858,436	44,653,245	40.77
October	61,163,584	54,377,081	12.48
November	29,440,807	89,994,081	-68.85
December	19,707,499	64,682,805	-69.53
TOTAL	**684,688,296**	**838,612,221**	-18.35

Tourism Sector

4.47 The tourism industry, like any other industry, has not been spared by the economic challenges facing the country and this, coupled by the negative publicity the country continues to receive, has affected the performance of the whole industry as noted in the continued downward trend in tourism receipts.

4.48 For the period 1 January 2008 to 31 December 2008, total receipts stood at **USD 29,11 million** representing a staggering **55%** decline from the previous year.

Non Consumptive Sector (Accommodation and Services)

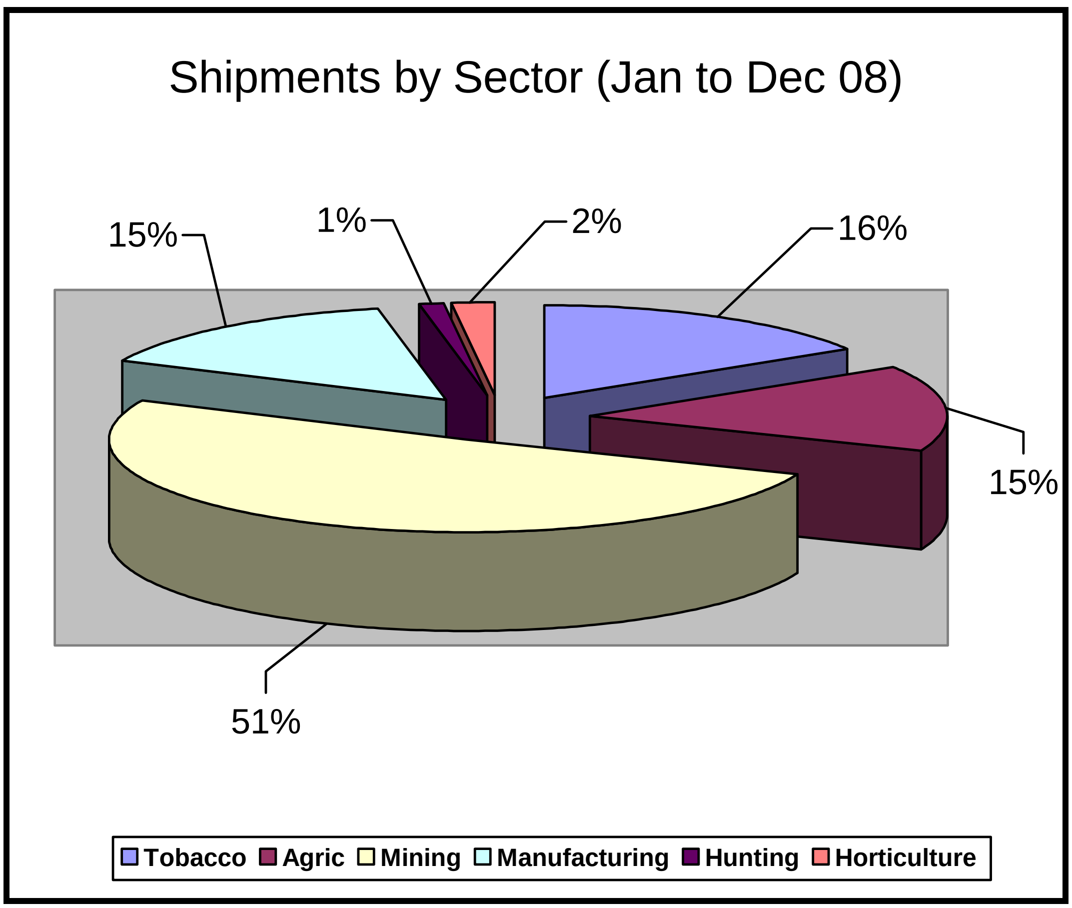
4.49 For the period under review, non consumptive receipts amounted to **USD 17,7 million,** a 56% decline compared to **USD 40,3 million** received during for the same period in 2007 as highlighted below. Receipts are however anticipated to increase slightly as we enter the festive season.

Non Consumptive Receipts

	2008	2007	
Months	**USD Amount**	**USD Amount**	**% Variance**
January	1,870,846.03	3,870,345.46	(52)
February	1,585,687.03	4,037,121.66	(61)
March	1,427,483.66	3,906,311.72	(63)
April	1,080,716.66	2,825,103.15	(62)
May	1,879,005.82	3,336,679.00	(43)
June	1,414,567.38	2,707,143.26	(48)
July	1,827,636.48	3,706,631.02	(51)
August	2,654,254.85	3,091,159.77	(14)
September	1,654,855.70	2,812,183.17	(41)
October	797,320.08	3,497,606.04	(77)
November	789,914.28	3,526,331.08	(78)
December	708,759.51	3,073,578.85	(77)
TOTAL	**17,691,047,48**	**40,390,194,18**	**(56)**

Consumptive Sector – Hunting Industry

4.50 Total consumptive receipts for the period under review declined from **US$20 million to US$11 million** as evidenced on the Table 1 below. This figure is expected to increase marginally as the hunting season is drawing to a close.



Hunting receipts

Month	2008 USD Amount	2007 USD Amount	% Variance
January	-	13,461.00	(100)
February	92,020.50	171,783.00	(46)
March	680,829.00	688,775.20	(01)
April	1,470,171.78	1,668,196.90	(12)
May	1,815,603.60	2,681,485.46	(32)
June	2,188,155.40	3,304,518.90	(34)
July	1,860,986.90	3,728,311.30	(50)
August	1,801,518.40	3,056,982.60	(41)
September	1,039,143.70	2,661,087.00	(61)
October	441,655.50	1,825,934.80	(76)
November	35,522.00	609,625.96	(94)
December	n/a	n/a	n/a
TOTAL	**11,425,606.78**	**20,410,162.12**	**(44)**

5. NEW POLICY MEASURES

CURRENCY REFORMS

5.1 Even in the face of the current economic and political difficulties confronting the economy, the Zimbabwe dollar ought to and must remain the Nation's currency, so as to safeguard our national identity and sovereignty.

5.2 As Monetary Authorities we fully understand that while our country's National Anthem, National Flag and territorial integrity are fundamental political pillars of our sovereignty, these are complemented by our National Currency which is a fundamental economic pillar of our sovereignty.

5.3 Accordingly, therefore, this Monetary Policy Statement unveils yet another necessary programme of revaluing our local currency, through the removal of 12 zeroes, with immediate effect, accompanied by the introduction of the following new currency denominations:

The New Family of Currency Denominations (after removal of 12 zeros, with immediate effect):

- $500
- $100
- $50
- $20
- $10
- $5
- $1

CO-CIRCULATION PERIOD…

5.4 In order to ensure that the change over to the new re-valued currency is smooth, and in order to also minimize inconvenience and the disruptions of stakeholders from their daily farming, mining, industrial or tourism activities among others, the new re-valued currency will initially co-circulate with the old currency up to the 30th of June, 2009.

5.5 For the avoidance of doubt and ambiguities, what the **co-circulation** means is that the current denominations will continue to circulate as legal tender with the following value-equivalents:

- The current $100 trillion note will be equivalent to the re-valued $100 note;

- The current $50 trillion note will be equivalent to the re-valued $50 note;

- The current $10 trillion note will be equivalent to the re-valued $10 note and so on.

5.6 **Beyond the 30th of June, 2009, the old family of denominations will cease to be legal tender.**

EXTENDED SPECIAL FOREIGN EXCHANGE LICENCED SHOPS

5.7 The policy direction of licensing shops to sell goods and services in foreign exchange which was unveiled in October, 2008 has so far yielded the following positive results:

(a) An increase in the availability of basic commodities, in our retailing outlets throughout the country;

(b) A remarkable dent on inflation, as signified by the continued decline in the prices pegged in foreign exchange; and

(c) Producers currently selling in foreign exchange are managing to directly access raw materials, enabling them to sustain and increase capacity utilization.

5.8 The above benefits are, however, being undermined by the wanton disregard of the law by most companies and individuals who are illegally trading in foreign exchange.

5.9 The Reserve Bank is broadening the licensing framework country-wide, so as to bring the bulk and indeed entirety of foreign exchange trade into the visible formal market.

5.10 The Extended Framework Foreign Exchange Licenced Shops will ensure that there is an increased number of participating operators through licencing of those **traders charging goods and services** in foreign currency, and ensuring that **they fully account** for all proceeds emanating from such activities.

5.11 The extended framework for licencing of shops to sell goods and/or services in foreign currency implies the transformation of the entirety of Zimbabwe's commercial sector into **Special Export Processing Zones, or Foreign Currency Generating Zones.**

5.12 In the absence of the traditional sources of foreign currency generation in the country, it is envisaged that the expanded foreign exchange generation capacity will bring untapped resources into the formal banking system thereby strengthen our local currency.

5.13 The following sectors of the economy shall be licenced to sell goods or services in foreign currency;

i. Agriculture
ii. Manufacturing
iii. Mining
iv. Tourism

v. Transport
vi. Services
vii. Construction
viii. Banking and Finance
ix. Media
x. Entertainment
xi. Sport
xii. Automotive Industry
xiii. Distribution
xiv. Energy
xv. Small Scale Business Sector
xvi. Flea Markets
xvii. Post and Telecommunication
xviii. Information Communication Technology
xix. Education
xx. Health
xxi. Pharmaceutical
xxii. Beauty and Care
xxiii. Street Vendors

Licencing Requirements

5.14 All Stakeholders are, therefore being advised to apply for the special foreign exchange licences, as any instances of trading in foreign exchange without the requisite licence will attract heavy penalties, including closure of all banking accounts in Zimbabwe and confiscation of goods or proceeds from such unlicensed trades. A detailed Supplement to this Statement outlines the intricacies of the enhanced licensing framework.

Open Market Sales to the Reserve Bank

5.15 All licensed traders, save for those explicitly exempted, are to sell 5% of their gross foreign exchange sales to the Reserve Bank, at the going market exchange rate;

Payment of Non-refundable Annual Licence Fees

5.16 All traders to be licenced under the Extended Framework for Foreign Exchange Licenced Shops shall be required to pay a non refundable annual licence fee, as follows:-

Table: 2 **Payment of Foreign Exchange Licenced Shops Annual Licence Fees**

ZONE	CITY/TOWN/LOCATION (Examples)	ANNUAL LICENCE FEES (PAYABLE IN 12 MONTHLY INSTALMENTS)
Urban (All Sectors)	Harare, Bulawayo, Mutare, Masvingo, Gweru,	USD12,000 per outlet annum
Peri – Urban (All Sectors)	Redcliff, Seke, Ruwa	USD 6,000 per outlet per annum
Towns (All sectors and all areas with town council status)	Kadoma, Chegutu, Beitbridge, Bindura, Chiredzi, Chinhoyi, Karoi, Marondera, Kariba, Gwanda, Chitungwiza, Zvishavane, KweKwe	USD 4,000 per outlet per annum
Rural (All sectors and areas with rural district council status)	Mt Darwin, Mutoko, Murehwa, Chimanimani, Nyanga, Esigodini, Lupane, Filabusi	USD 1,200 per outlet per annum
Small to Medium Enterprises (All Sectors Registered with Ministry of SMEs)	Urban Council located	USD 3,000 per outlet per annum

ZONE	CITY/TOWN/LOCATION (Examples)	ANNUAL LICENCE FEES (PAYABLE IN 12 MONTHLY INSTALMENTS)
Small to Medium Enterprises (All Sectors Registered with Ministry of SMEs)	Town Council located	USD 2,000 per outlet per annum
Hawkers – Urban	As Above	USD25 (once off payment)
Hawkers - Town	As Above	USD10 (once off payment)
Hawkers - Rural	As Above	Free Licencing
Schools and Tertiary Institutions	All Zones	Free Licencing
Farming Community – A2	All Zones	USD 1,200 per outlet
Farming Community – A1	All Zones	Free Licencing

Adoption of Dual Pricing Arrangements

5.17 The Zimbabwean dollar remains the country's legal tender as recognised by the various legal statutes, and as such shall continue to be used as a medium of exchange for all transactions in the country.

5.18 All traders shall therefore in addition to selling their goods and services in foreign currency, adopt a dual pricing framework where goods will also be quoted in local currency. This means that prices can be in Rand and Zimbabwe Dollars, USDollar and Zimbabwe Dollar as the case may be.

5.19 The dual pricing framework to be adopted by all licenced entities shall be legally enforceable and the pricing formulae to be implemented shall be based on the inter-bank market determined exchange rate which shall be fixed at the mid-rate level and communicated to the market by the Reserve Bank of Zimbabwe on a regular and/or as appropriate.

5.20 The Extended Framework for Foreign Exchange Licenced Shops is expected to achieve the desired objective of increasing the number of participating outlets and covering a wide spectrum of the country's economic sectors to ultimately increase the availability of goods and services in the country.

5.21 In order to improve the competitiveness of Foreign Exchange Licenced Shops, thereby ensure the sustainable provision of goods and services by both the public and private sector, the following institutions' trading arrangements, shall be re-oriented in line with this Extended Framework.

Parastatals and Public Utilities

Zimbabwe Electricity Supply Authority (ZESA)

5.22 In recognition of the challenges faced by ZESA in importing electricity from neighbouring countries and the sourcing of spare parts and the need to retain critical staff, ZESA will, with immediate effect be granted a licence to bill or charge their electricity tariffs in foreign currency.

5.23 However, in order to protect the disadvantaged groups in society, the levying of electricity tariffs in foreign currency shall be limited to corporates (both exporting and non-exporting, and Foreign Exchange Licenced Shops), NGOs, Embassies, International Organisations, and residents in low density suburbs.

5.24 Residents in high density areas and those domiciled in the communal areas shall continue to pay electricity tariffs in local currency. This is in line with the recently announced 2009 National Budget.

Zimbabwe National Water Authority (ZINWA)

5.25 Our position, as Monetary Authorities regarding ZINWA is well known and documented. We believe ZINWA should go back to Local Authorities as we recommended to Government a long time ago. We are happy that Government accepted our recommendation. While Government is still working out the logistics of disentanglement, we have given ZINWA the licence to charge all corporates and residents in low density suburbs in foreign currency. All high density and communal consumers, hospitals, non-foreign currency charging schools and social centres shall continue to be levied in local currency, where necessary. This is in line with the recently announced 2009 National Budget.

Hwange Colliery Company

5.26 To improve capacity utilization and ensure availability of coal to industry and commerce, Hwange Colliery has been granted, with immediate effect, licence to sell coal and its associated products to all their customers in foreign currency.

5.27 Hospitals, schools not charging in foreign exchange and other social centres shall continue to pay for coal supplies in local currency. This is in line with the recently announced 2009 National Budget.

Milk Producers

5.28 In recognition of the fact that milk producers' expenses such as Dairiboard, are largely denominated in foreign currency and given the need to improve the supply of milk and subsequently re-energise the dairy sector, Dairiboard has been, with immediate effect, granted permission and licence to charge for all its milk products in foreign currency.

Local Authorities

5.29 To encourage and facilitate the restoration of efficient service delivery, that is, refuse collection, road maintenance, health delivery and other services, all Local Authorities are, with immediate effect, being granted licences to charge their rates and other fees in foreign currency to all corporates and low density residential areas. This is in line with the announced 2009 National budget.

5.30 Charges for high density residential areas, hospitals, schools not charging in foreign exchange and other social centres shall continue to be in local currency.

Air Zimbabwe (Pvt) Ltd

5.31 In order to ensure viability of the Airline and less dependency on Government for fuel, spare parts, IATA fees and other foreign currency related costs, Air Zimbabwe was granted, a licence to charge for all its fares on local, regional and international flights in foreign currency. This is in line with the recently announced 2009 National Budget.

TelOne, NetOne and POTRAZ

5.32 TelOne, NetOne and POTRAZ, including all service providers in the telecommunications industry, shall charge for their services in foreign currency. This is in line with the recently announced 2009 National Budget.

NRZ and ZUPCO

5.33 The Monetary Authorities recognize challenges being faced by players in the transport sector in procuring spares parts and fuel.

5.34 With immediate effect, the National Railways of Zimbabwe, ZUPCO, Rural Transport Operators and Commuter Omnibuses, shall charge for their services in foreign currency. This is in line with the 2009 National Budget.

Print and Electronic Media

5.35 To enhance the Zimbabwe Broadcasting Corporation's (ZBC) ability to reach to all corners of the country, with immediate effect, ZBC shall be allowed to charge licencing fees, advertising slots and any other services in foreign currency.

5.36 All players in the print media shall also charge for their products in foreign currency. This is in line with the recently announced 2009 National Budget.

Real Estate

5.37 All property transfers shall be paid in foreign currency. However, no such transfers shall be concluded without authentication of the mode of payment for the property from the Deeds Office.

5.38 The Deeds Office shall closely work with Exchange Control to ensure that all players comply with this requirement.

Street Vendors and Hawkers

5.39 Street vendors and hawkers operating in urban areas, as designated by the country's laws, shall be eligible for the payment of a once-off licence fee of **USD25** or its equivalence, prior to issuance of the Reserve Bank identification card for licencing to sell in foreign currency.

5.40 They will not be compelled to sell to the Reserve Bank the statutory 5% requirement.

Rural Traders

5.41 In order to encourage investment into rural areas and promote increased supply of basic commodities to the rural populace, all business centres under Rural District Councils shall be designated Foreign Currency Free Zones.

5.42 All rural traders domiciled in these Foreign Currency Free Zones shall pay an annual licence fee of USD1,000 and shall be exempt from the open market sales to the Reserve Bank.

5.43 Notwithstanding the non-application of licence fees and surrender requirements, all rural traders shall be compulsorily licenced.

Schools and Tertiary Institutions

5.44 All academic institutions intending to charge school fees in foreign currency will be exempted from the payment of the annual licencing fees and the 5% upfront market sales. These will however still need to be licenced under the framework.

5.45 Urban and private schools as well as tertiary institutions shall be allowed to charge fees in foreign currency. Communal schools shall levy their fees in local currency.

Agricultural Sector

5.46 Agricultural trade and marketing in Zimbabwe is currently governed by various statutes meant to protect consumers and producers from instability of agricultural commodity prices.

5.47 Agriculture is well diversified with over 23 types of food crops and cash crops grown. The main food crops include maize, sorghum, pearl millet, finger millet, groundnuts, soyabeans, wheat, sugarcane, barley and sunflower.

5.48 The main cash crops are tobacco, cotton, coffee, tea and horticultural products. The main livestock production include beef, dairy, poultry, pork, small ruminants, ostrich and other farm animals on a smaller scale.

5.49 Marketing of the majority of these agricultural products was liberalized during the Structural Adjustment Programme from 1990 to 1997, which saw the commercialization and full liberalization of marketing in dairy, beef, cotton, soyabeans, groundnuts, and horticultural products.

5.50 However, the current marketing of agricultural products has been heavily influenced by Exchange Controls inhibiting producers to directly charge foreign currency for the commodities traded given the policy thrust to have producers receiving import parity prices for all commodities.

5.51 Changes to **marketing of these commodities require that authority be granted to producers and commodity traders to charge in foreign currency for both domestic agricultural produce and imports.**

5.52 Currently, Government controls the marketing of tobacco, cotton, maize, sorghum, millets, and wheat.

Marketing of Non-exportable Agricultural Produce.

5.53 Currently maize, sorghum, millets, and wheat are specified products under the Grain Marketing Board Act. These products can only be traded through the GMB or with their express authority.

5.54 These grains play an important role in national food security, as they are the major staple cereal for direct consumption and therefore strategic for national and household food security.

5.55 Specification of these products under the Grain Marketing Board Act was meant to influence production, price stability, distribution and supply of the grains and their finished products and also to closely monitor the food balance sheet for the country.

5.56 Shortages of foreign currency through the formal channels and structural inefficiencies of the GMB have meant that producers have been unable to receive import parity prices for their products resulting in rampant side marketing and smuggling.

5.57 As Monetary Authorities we are pleased that the Acting Minister of Finance last week unveiled measures committing GMB to pay import parity prices in foreign exchange.

5.58 Under the new framework, farmers can thus, now sell their produce in foreign exchange.

Marketing of Exportable Agricultural Produce

Tobacco

5.59 The marketing of tobacco is currently governed through the Tobacco Industry and Marketing and Levy Act administered by TIMB.

5.60 In order to ensure that tobacco growers are fairly compensated and enable the reinvestment of their proceeds into future production, tobacco growers shall be entitled to 100% of the foreign currency proceeds from the sale of tobacco at the auction floors or any designated contract of sale point.

5.61 This means that all tobacco merchants shall be required to raise offshore lines of credit for purposes of purchasing tobacco from the auction floors and financing of contract growing of tobacco. **In this regard, no merchant shall be allowed to purchase green leaf tobacco using foreign exchange resources sourced from the local market.**

Cotton

5.62 The new cotton marketing arrangements shall allow cotton merchants to purchase cotton seed from growers in foreign currency and to charge local spinners and weavers in foreign currency for lint sold domestically. Cotton ginners shall also be allowed to sell seed cotton in foreign currency.

5.63 The cotton merchants shall also be required to raise offshore lines of credit for purposes of financing contract growing and farm-gate purchases of cotton. **Similarly, no cotton merchant shall be allowed to purchase cotton**

using foreign currency sourced from the local market.

5.64 All tobacco and cotton pre-shipment finance and loans for merchants shall be registered with the Reserve Bank for monitoring purposes.

5.65 In this connection, all farmers intending to charge their agricultural produce of non-controlled crops in foreign currency shall be licenced by Exchange Control under the Extended Framework.

5.66 Such farmers shall be exempted from the payment of the annual licencing fees and the 5% upfront market sales to promote infrastructure development in farms and enhance agricultural productivity.

Banking and Finance

5.67 For my colleagues in the Banking Sector, I have a piece of advice for them in these challenging times. It is now time for the industry to develop aggressive marketing strategies, incentives and products that promote banking in foreign currency, especially by individuals.

5.68 With immediate effect, all restrictions on foreign currency cash withdrawals are removed. Banks are therefore, required to implement complementary measures to ensure that cash is readily available to the transacting public. In this respect, Banks shall continue to be allowed to import foreign currency cash from their Nostro Accounts.

BANK CHARGES

5.69 To ensure the viability of the Banking Sector, Authorized Dealers can now levy their bank charges for Foreign Currency Accounts and related transactions in foreign currency, export for non-foreign exchange earning entities, individuals and other special cases.

5.70 Banks are further encouraged to apply prudent lending practices when lending to individuals to finance their Current Account transactions. Such lendings shall attract an interest rate of not more than LIBOR + (1-6 %) depending on customer risk assessment profiles.

5.71 The Exchange Control priority list for payments, is hereby removed and market players are expected to compete for funds. Banks are, however, encouraged to ensure that most of their loan advances is biased towards the productive sector to reinvigorate the supply side of the economy.

Point of Sale Convenience

5.72 The Foreign Exchange Licenced Shops trading arrangements have also brought about challenges to the transacting public in respect of lack of lower denominations (coins) and emergency of counterfeit notes.

5.73 In order to encourage the banking sector to apply its innovative ideas in the establishment of plastic money and bring more convenience to the transacting public in Foreign Exchange Licenced Shops, banks that install POS machines and systems in foreign exchange trading areas shall be exempt from the open market disposal requirements on their foreign currency earnings.

5.74 Banks are expected to encourage the transacting public to open individual FCAs through which the POS systems shall be implemented in line with the ZIMSWITCH mechanism.

5.75 In addition, banks are encouraged to have debit cards (Master card/Visa) for their FCA customers, for transactional purposes, locally or internationally.

Payment of Salaries in Foreign Currency

5.76 All registered foreign exchange licenced shops are advised that they can pay their employees in foreign currency from the proceeds of their registered activities, with no Exchange Control approval required.

5.77 Such payment of salaries will, however, be done under advice to Exchange Control and the salaries will only be paid through the employees' FCAs established with local Authorised Dealers.

5.78 The same modalities on the payment of salaries in foreign currency shall also apply to staff of organisations such as Non-Governmental Organisations, Embassies, International Organisations and Diplomatic Missions, whose funds are treated as free funds.

5.79 **All corporates** shall with immediate effect be allowed to pay salaries in foreign currency for their employees without prior Exchange Control approval. However, all such requests shall be processed at bank level.

LEGISLATIVE SUPPORT

5.80 For this framework to yield the expected positive results, a firm **Legislative and Judicial** reinforcement mechanism, supported by active follow-ups and surveillance programmes by the country's law enforcement arms to ensure that only those licensed can trade in foreign exchange has been put in place.

5.81 Given the extended nature of the licensing framework, there is no reason why companies or individuals should be tempted to operate without a licence and thereby risking a brush with the law.

GOODS PURCHASE VOUCHERS IN FOREIGN EXCHANGE

5.82 In order to deepen the participation of traders and producers of goods and services in the special foreign exchange shops programme, the Reserve Bank is inviting willing participants, particularly retailers and wholesalers to promote customer loyalty in their brands through issuance of Goods Purchase Vouchers in Foreign Exchange.

5.83 Under this framework, the participating retail and wholesale outlets develop buying credit schemes where they issue vouchers to institutions for onward distribution to their staff for use in buying from the licensed shops.

5.84 The institutions receiving the vouchers then enter into concrete foreign currency credit schemes with the sellers, settling the underlying foreign exchange debts directly on behalf of their staff.

5.85 As Monetary Authorities, we are pleased that already some traders have come forward with offers of such credit schemes which the Reserve Bank, on behalf of the Ministry of Finance, and is going to operationalise for the convenience of our Civil Servants throughout the country beginning this month. The vouchers concerned form the first charge against Government's foreign currency collections and the necessary authorities from both Ministry of Finance and ZIMRA are in place.

TO DOLLARISE OR NOT TO DOLLARISE

5.86 As Monetary Authorities, we wish to highlight that the framework of licensing the special foreign exchange shops does not amount to the dollarisation of the economy in the strict technical sense of the word. All we are doing is to liberalize our trading environment by **multi-currencying** it.

5.87 This is a tailor-made strategic intervention that is meant to bring convenience to the general public, as well as supporting productive efficiencies, whilst at the same time preserving the sovereign Zimbabwe dollar by giving it company among other currencies of choice, which is the essence of **multi-currencying**.

RESERVE ASSETS

5.88 As announced by the Minister in his Budget, Government has reclassified into **Strategic Reserve**

Assets for the country, the following minerals as is the case with gold:

(a) Gold;
(b) Diamonds;
(c) Platinum; and
(d) Emeralds.

5.89 What this means is that the Reserve Bank will, with immediate effect, licence and closely oversee the financial flows in these minerals, as well as other marketing arrangements, with close cooperation with the Ministry of Mines and other relevant arms of Government.

5.90 As Monetary Authorities, we implore the legislative arms of Government to enact the necessary supportive statutory measures that will enable us to maximize economic value out of our strategic minerals. This matter has remained hanging for a very long time until now.

EXCHANGE RATE MANAGEMENT

5.91 As clearly stated in the Fiscal Budget proposals prescribed last week by the Minister, the exchange rate remains a key instrument for policy signalling and promotion of foreign exchange generation in the economy.

5.92 In line with the Minister's delegated authority to the Governor, I hereby advise that with effect from today, the following exchange rate arrangements, will come into effect:

(a) All economic foreign exchange transactions will be effected at the interbank exchange rate, determined through the voluntary buying and selling activities of economic agents through the banking system.

(b) Given the currency revaluation, combined with the need to give impetus to the export sectors, **the starting interbank exchange rates will be at:**

- **Z$2 (re-valued) (Two trillion Zimbabwe Dollars before Revaluation), is to equal a unit of the South African Rand; and**
- **Z$20 (re-valued), Z$20 trillion before revaluation; to a unit of the US dollar, with all cross rates against all the other currencies applying.**

(c) Post the 2nd of February, 2009, the exchange rate shall be determined in the market, with midrate average daily rates being published from public data to guide the transacting public and the rest of the economy.

LOCALISATION OF PLATINUM AND DIAMOND FCAs

5.93 With effect from the 2nd of February, 2009, all special dispensations allowing the platinum and diamond mining companies to keep offshore FCAs has been and is hereby revoked, so as to ensure that Zimbabwe's extractive industries fully benefit the local economy.

5.94 What this means is that by the 2nd of February, 2009, all offshore accounts currently collecting Zimbabwe's exports should be transferred and banked onshore with Zimbabwe domiciled banks of one's choice.

5.95 It is important to note that this move does not in any way take funds from the affected companies, as they will continue to have 100% autonomy on the management of their localized FCAs, as is the case with all other exporters.

INTEREST RATES

5.96 In order to give the banking sector robust income streams, particularly in light of the shift of the bulk of their expenditure overheads into foreign exchange, the Reserve Bank encourages banks to deepen issuance of foreign exchange loans in support of productive activities.

5.97 Under this framework, the country will have a two-tier money market system, comprising local currency lending, which will be at inflation-consistent interest rates, and foreign exchange lending which will be at interest rates that take into account the banks' risk assessments, as well as the cost of capital in international financial markets.

5.98 Banks are, therefore, encouraged to formulate consistent credit risk systems that ensure that there is no prejudice to those stakeholders who want to borrow in Zimbabwe dollars, whilst at the same time ensuring healthy asset portfolios on foreign exchange lending.

5.99 Whist it is not the intention of the Reserve Bank to prescribe banks' lending rates in foreign exchange, past experiences where some banks have gone rogue to the detriment of the welfare of the public impel that general guidelines be provided.

5.100 Accordingly, therefore, all banks providing foreign exchange loans shall present to the Reserve Bank their general term sheets across different risk categories for assessment of reasonableness and approval.

5.101 This oversight process is meant to ensure that borrowers are protected from predatory interest charges.

5.102 Reflecting the Reserve Bank's general unwillingness to create inflationary pressures through lending to the banking system, accommodation rates on local currency lending will continue to be highly penal, and shall remain pegged at the current levels of:

- 10, 000% for secured local currency lending; and
- 40, 000% for unsecured local currency lending.

5.103 It should be noted that this approval process will only determine the upper limit tolerance levels above LIBOR (London Interbank Borrowing Rate), and each bank will be free to vary the obtaining interest levels within that threshold on a loan by loan basis.

DEVELOPMENT AND ENERGY SECTOR FINANCE

5.104 As was previously announced to the public, Fiscorp (Pvt) Ltd will, during the course of this year, be transformed into a fully fledged Development and Energy Sector Financing Institution.

5.105 This institution, which would be self-funding, would take-up what are currently quasi-fiscal operations of the Reserve Bank.

5.106 The thrust of the Reserve Bank would, therefore, be concentrated on inflation control, financial sector stability and foreign exchange management.

FINANCIAL SECTOR CONSOLIDATION

5.107 In order to cushion the country’s financial system from the current global financial melt-down, there is need for our banks’ capital bases to be deepened.

5.108 For this to be achieved, banks are encouraged to consolidate and strengthen their operations through mergers and/or shareholder capital injections.

STATUTORY RESERVES MANAGEMENT

5.109 The swiftly evolving local, regional and international financial environment requires that greater emphasis be placed on striking a fine balance between guidelines that promote operational viability of banks and those measures that seek to achieve medium to long-term solvency in the financial sector.

5.110 Consistent with this, it has become necessary that the Reserve Bank reviews and fine-tunes its statutory reserves policy.

5.111 Under the current framework, the statutory reserves payments are as follows:

STATUTORY RESERVE LEVELS

Statutory Reserve Ratios (effective 25 March 2008)	
Commercial banks and Merchant banks	**Current Level**
Demand and call deposits	50%
Savings accounts	50%
Repos and buybacks	50%
Discount Houses	50%

Finance Houses	40%
Building Societies	10%

5.112 In line with the changing operating environment, the following statutory reserves framework shall apply, with effect from Friday the 6th of February, 2009:

New Statutory Reserves

Deposit Clusters			
Commercial banks and Merchant banks	Old Level (local currency)	New Level (on local currency deposits)	New Level on Foreign Currency Deposits
Demand and call deposits	50%	15%	10%
Savings accounts	50%	15%	10%
Repos and buybacks	50%	15%	10%
Discount Houses	50%	15%	10%
Finance Houses	40%	10%	7%
Building Societies	10%	5%	2,5%

5.113 All banking institutions are called upon to ensure that their operational systems comply with these requirements.

FCA RETENTION BY EXPORTERS

5.114 In order to give further impetus to our exporters, the FCA upfront sales to the Reserve Bank has been reduced from the current 15% of exports to 7,5%, with effect from 1 February, 2009.

5.115 This means that exporters can now retain 92,5% of their export proceeds in their FCAs.

LIQUIDATION OF FCAs

5.116 In order to build confidence in the country's foreign exchange market, all holders of FCAs, including exporters can hold foreign exchange in their FCAs **indefinitely**.

5.117 The 21 day liquidation requirement, has, therefore, been revoked with immediate effect.

WAY FORWARD ON THE ZIMBABWE STOCK EXCHANGE

5.118 For some time now, there has been no trade on the Zimbabwe Stock Exchange (ZSE), as the market absorbed the aftermaths of the rogue trading that had gripped the bourse during the second half of 2008.

5.119 In order to safeguard the ZSE from relapsing into a similar disruptive mode, it is pleasing to note that the relevant oversight authorities namely the Securities commission are putting in place a strict code of conduct and tight risk Management guidelines with the backing of the Ministry of Finance. Again the Minister of Finance was very clear in his pronouncements relating to this subject in his Budget Statement last week.

5.120 It is also recommended that the ZSE enables companies to raise foreign exchange by putting in place internally consistent frameworks that enable the valuation and trading of shares in foreign exchange as already approved through the budget Statement.

5.121 The Reserve Bank stands ready to issue the ZSE with appropriate foreign exchange licences so as to transact in foreign exchange legally in terms of the Exchange control Regulations.

5.122 To kick-start this process, listed companies, together with their auditors, working in conjunction with the ZSE must come up with transparent and robust valuation criteria enabling both domestic and foreign investors to trade their shares in foreign exchange.

SHARE TRADING FOREIGN EXCHANGE DISPOSAL TO THE RESERVE BANK

5.123 In order to transform the Stock Exchange into a viable medium of economic development, once fully licensed to trade in foreign exchange, the following Exchange Control Regulations shall apply on all trades on the ZSE conducted in foreign exchange:

(a) A financial sector stability levy of 1.5% shall be payable to the Reserve Bank in foreign exchange; and

(b) Each seller of shares in foreign exchange shall liquidate 3.5% of proceeds to the Reserve Bank at the going inter-bank exchange rate.

5.124 Stock broking firms and Authorised Dealers will be obliged to ensure that these Exchange Control Regulations are fully complied with.

GOLD PRODUCERS

5.125 The gold sector has, over the past 18 months, registered unprecedented declines.

5.126 In order to reverse this undesirable development, the following framework shall apply in the marketing of gold, with effect from 1 February, 2008;

Retention…

(a) All gold producers shall retain 92,5% of their sales in foreign exchange as is the case with all the other exporters;

(b) Those wishing to liquidate part of their FCAs will be free to do so;

Payment Modalities…

(c) Each gold producer, upon delivery of produce to Fidelity Printers, and upon the certification of the actual purified value, will get a gold export certificate;

(d) The gold producer shall make arrangements to market and ship its gold, which shall be consigned out of Fidelity to the gold producer, net of the 7,5% portion to be sold to the Reserve Bank and purification charges as agreed with Fidelity Printers and Refiners. The exporting of the physical gold shall, however, conform with the usual CD1 documentation so as to avoid illegal externalisation of the country's resources; and

GOLD LOANS

(e) Each gold producer is free to access gold loans from offshore markets, collateralised by physical gold as retained, post full assaying and deduction of processing charges by Fidelity Printers and Refiners.

GOLD SECTOR ARREARS

5.127 As Monetary Authorities, it is not our policy to deliberately compromise the productive efficiencies in the economy.

5.128 The outstanding arrears to gold producers are in essence a reflection of the acute foreign exchange shortages prevailing in the economy, aggravated by the illegal sanctions against the country, together with the operational constrains attendant in the hyper inflationary environment.

5.129 In order to contribute positively towards the recovery of the gold sector, all outstanding amounts to the gold sector have been converted into **Special Tradable Gold-backed Foreign Exchange Bonds** that have the following features:

(a) Tenor: 12 months;

(b) Interest: 8% per annum on maturity. Interest shall be applied in retrospect from the date the amounts fell due;

(c) The holder can sell the bonds to any interested counterparty locally, regionally or internationally at agreed time-to-maturity discounts; and

(d) The Reserve Bank of Zimbabwe will honour the full principal plus interest on maturity to the holders of the bonds on maturity.

6. EXCHANGE CONTROL POLICY DEREGULATION

6.1 In his 2009 Budget presentation in Parliament last week, the Acting Minister of Finance made the observation that and I quote;

"The 2009 Budget revenue estimates I am tabling … require that we successfully implement comprehensive and mutually reinforcing macro-economic reforms, including the removal of all price controls and distortions which though noble in their intentions, have however had the opposite and unintended consequences on the economy. It is in the light of that I have proposed fundamental macro and micro economic reforms encompassing fiscal, monetary and exchange reforms, structural, pricing as well as legal and institutional reforms targeted at stimulating positive supply response" end of quote.

6.2 In deregulating Zimbabwe's Exchange control Policies that have been in place for almost 12 years now, we have had to recognise that the Zimbabwean economy has in the past ten years gone through a cycle of complex socio-economic challenges, with a denting effect on the productive sectors of the economy, thereby impacting negatively on the country's capacity to generate foreign exchange resources.

6.3 The socio-economic imbalances have manifested themselves in a number of areas primary of which has been

- the persistent foreign currency shortages and drying foreign exchange reserves; low investment capital inflows, hyper-inflation,

- Pessimism, short-termism, and rampant speculation and corruption among other negatives.

6.4 These negative developments, which have been compounded by the damaging effect of the illegal sanctions imposed on the country, have taken a grip on the economy, halting our potential and ability to compete effectively on the international front.

6.5 Against this plethora of challenges, a series of homegrown monetary and fiscal initiatives have been implemented to invigorate the country's productive capacity.

6.6 While a lot of success has been witnessed from such timely and well nurtured Central Bank's interventionist strategies, the Zimbabwean story still remains one of pain, with a lot of our people being pushed into impoverishment, in a country whose potential is sufficient to elevate the economy to the league of successful nations.

6.7 SADC, has through a framework of Exchange Control reforms under Article 4 on Areas and Nature of Co-operation and Co-ordination for Member States, sought to have member countries:

a) Liberalise current, capital and financial account transactions,
b) Achieve convergence and full currency convertibility amongst Member States; and
c) Improve the availability of information regarding cross border foreign exchange flows amongst Member States.

7 EXCHANGE CONTROL DEREGULATION POLICY MEASURES

7.1 **Pursuant to the above arguments for a different approach from the past, the public is advised that Monetary Authorities, have with immediate effect, adopted a well sequenced programme of liberalisation of the country's trade and exchange controls, beginning** with measures articulated below.

PAYMENTS OF GOODS AND SERVICES

7.2 With immediate effect, individuals and companies are free to pay for goods and services offshore, as well as pay for genuine external debts without prior Exchange Control approval. It should be noted, however, that Banks are expected to continue recording these payments and report to the Reserve Bank in line with the stipulated reporting systems to be determined from time to time.

7.3 The Exchange control arm of the Central bank will be conducting training workshops to assist banks in adapting to this liberalised environment.

Specifics on Current Account Transactions

7.4 **Foreign Payments (Imports):** As already indicated, with immediate effect, the Reserve Bank has decentralise the processing of import payments applications with the delegation of the application approval process to Authorised Dealers. Banks are called upon to strengthen their Exchange control units to enable swift processing of transactions.

7.5 **Exports** – With immediate effect the Reserve Bank of Zimbabwe is delegating the role of export administration to Authorised Dealers in a gradual manner. This shall include approval of applications to export, as well as the acquittal upon receipt of payment; Exchange Control's central focus will be export facilitation, administration and foreign exchange mobilisation, as well as exercising oversight to plug any attempts of externalisation of resources.

7.6 These Exchange Control deregulation policy measures are expected to result in a positive supply response in the productive sectors of the economy.

7.7 **This, together with stepped up foreign currency mobilization, will allow the build up of reserves required to make the necessary interventions in the market.**

Specifics on the Capital Account

7.8 All Capital Account applications pertaining to the receipt or payment of capital account transfers and/or acquisition/disposal of non-financial assets, as well as transactions associated with changes of ownership in the foreign financial assets of the country, shall continue to form the basis of specific applications to the Exchange Control Review Committee.

7.9 The common cases to continue to be considered by the Exchange Control Review Committee, shall be as listed hereunder:-

- Disinvestments
- Cross border investments
- Dilutions
- Mergers and acquisitions, and
- Restructuring and rights issues.

7.10 All applications on income related transactions such as dividend, profit and capital appreciation proceeds remittances shall no longer require prior Exchange Control approval.

External Loans Coordinating Committee (ELCC)

7.11 In order to debug bureaucratic hurdles associated with the processing of external loan applications for both domestic and foreign investors, Authorised Dealers shall now process loans of up to USD5 million without prior ELCC approval. All loans above this threshold shall continue to be submitted to the Reserve Bank.

Manufacturing Sector

7.12 Zimbabwe prides itself with a manufacturing sector that has state of the art equipment and machinery which is currently lying idle largely due to low capacity utilization resulting from shortage of foreign currency for the importation of raw materials.

7.13 In spite of these low capacity utilization levels, the sector has potential for revival to become the highest contributor towards the country's GDP and employment levels.

7.14 The deregulation of Exchange Controls is expected to create a conducive platform for the manufacturing sector to regain its vibrancy.

7.15 Manufacturing firms should leverage their idle capacity and take it as a positive to the extent that they can now buy and sell their products in foreign currency.

7.16 Firms should take advantage of the deregulated environment to approach external financiers to source lines of credit to rehabilitate their equipment and machinery.

7.17 As a way of giving comfort to lenders, Monetary Authorities shall allow firms to enter into onsite management agreements with foreign lenders without seeking prior Exchange Control approval.

7.18 Companies are therefore urged to engage their offshore partners in creative win-win structured financing arrangements such as issuing redeemable shares which have attractive coupon rates.

7.19 In addition, Manufacturing firms can still enter into toll manufacturing arrangements as a way of utilizing idle capacity.

7.20 The Table below shows the gradual liberalization strategy or the sequential approach to be adopted in the deregulation of current account transactions.

TABLE 1: The Gradual Liberalization Strategy – A Sequential Approach

Exchange Control Transaction Item	Current Status	New Policy Measures	Implementation Programme
Processing of Foreign Payments	All import payments are processed centrally at the Reserve Bank in terms of a Priority List for Foreign Payments.	With immediate effect decentralize the approval process for all applications submitted through the Batch Application System. This means that Authorised Dealers shall effect payments through corporate FCAs and the interbank market purchases without seeking prior Exchange Control approval. Removal of the Priority List	With immediate effect Authorised Dealers to build adequate capacity in preparation of the decentralization process. Implement process from 1 March 2009 for transaction limits of up to USD1, 500,000. With immediate effect, remove the priority list for foreign currency payments. From 1 October 2009 remove limits on current account transaction to be processed by Authorised Dealers.

Exchange Control Transaction Item	Current Status	New Policy Measures	Implementation Programme
Corporate FCA retention and open market disposal	For all export proceeds, exporters are allowed to retain for up to 90 days, 85 % in their FCAs for own use and 15% is sold as open market disposal at the prevailing interbank market rate. Use of corporate FCA funds requires prior Exchange Control approval.	To achieve 100% retention of all export proceeds by exporters and retention of FCA funds for an indefinite period. To allow exporters to utilize their FCA funds without seeking prior Exchange Control approval.	With immediate effect, the open market disposal shall be reduced from the current 15% to 7.5%. With immediate effect, allow exporters to retain their FCA balances for an indefinite period.
Cash withdrawal from FCAs by exporters and Foreign Exchange Licenced Shops	Exporters are not allowed to withdraw cash from their FCAs.	To allow limitless cash withdrawal from FCAs by exporters and Foreign Exchange Licenced	With immediate effect, there shall be no withdrawal limits on FCAs held by exporters and Foreign Exchange Licenced

Exchange Control Transaction Item	Current Status	New Policy Measures	Implementation Programme
	Foreign exchange licenced shops allowed to withdraw up to a maximum of USD25, 000 a day from their FCAs.	Shops.	Shops. Exporters shall also be allowed to withdraw any amounts of cash from their accounts for use in the Foreign Exchange Licenced Shops or to fund their cash requirements for imports.
Individual FCA withdrawals Individuals; NGO's, Embassies, International Organizations	Individual allowed a maximum withdrawal of USD5 000 from their FCAs without seeking Exchange Control approval. For NGOs, International organizations and Embassies, the daily	To remove withdrawal limits on FCAs for Individuals;NGO's, Embassies, International Organizations	With immediate effect, remove withdrawal limits on FCAs for Individuals;NGO's, Embassies, International Organizations

Exchange Control Transaction Item	Current Status	New Policy Measures	Implementation Programme
	FCA cash withdrawal limit is USD5000.		
Registration of Agreements, Professional; Technical, Management, Royalty Agreements	These require specific approval for the registration of the initial agreement, running for a period of one year. Batch approval then required for payments, which amounts have limits. Professional (USD500,000) Technical (USD500,000) Management (2% of turnover) Royalty (5% of turnover)	Authorised Dealers to process all agreements at bank level and register these with Reserve Bank.	With immediate effect decentralize the processing of service agreements by allowing banks to process all submissions from companies. Authorised Dealers shall be required to register processed agreements with Exchange Control prior to the activation of payments.

Exchange Control Transaction Item	Current Status	New Policy Measures	Implementation Programme
Import and Export of foreign currency cash	There is no limit on the amount of foreign currency cash that can be imported on a person or in baggage, the equivalent of which can be exported if declared on entry as long as one qualifies their expenditure. On export of currency, individuals are limited to a maximum of USD5,000 and USD25,000 for foreign exchange licenced shops.	To facilitate quick restocking of shops and importation of raw materials by shops, increase the limit on cash that can be exported with no questions asked to USD250,000 by residents. To allow individuals and corporates to deposit into their FCAs or open new FCAs by depositing up to USD 1,000,000.00 on a no questions asked basis.	With immediate effect, increase the limit on cash that can be exported with no questions asked to USD250,000 by residents. With immediate effect, individuals and corporates shall be allowed to deposit up to USD250,000 cash into their FCAs with no questions asked.
Exports Approvals	All exports need to be approved by Reserve Bank in the CEPECS system before	Decentralization to Authorized Dealers of approving all exports. Exchange Control will	With immediate effect Banks shall build adequate capacity to prepare their systems to the policy changes.

Exchange Control Transaction Item	Current Status	New Policy Measures	Implementation Programme
	exportation.	only retain viewer ship rights to the system.	Decentralise the Form CI approval process with effect from March 2009.
Export of samples.	Exporters are required to seek prior Exchange Control authority before raising Forms CD1 for export of samples	Remove the need for prior Exchange Control approval. Exports to be monitored through electronic Forms CD1	By 1 March 2009
Export of machinery for repair and return	Companies are required to first seek Exchange Control authority prior to raising Forms CD1.	Remove the need for prior Exchange Control approval. Exports to be monitored through electronic Forms CD1	By 1 March 2009
90 day Acquittal Period of Export Proceeds	All exports proceeds should be repatriated within 90 days or any other approved period.	To completely remove the restriction/ threshold	Maintain Acquittal Period at 90 days up to June 2009. Increase acquittal period to 180 days by July 2009 to allow exporters to compete effectively with regional exporters.

WE SHOULD NOT FEAR TO TRY NEW IDEAS…

7.21 The current economic environment, where the transacting public has been caught up in this foreign currency craze, there is need to reorient the country's trade and exchange systems in a manner that will re-energise the market to attain increased production and foreign currency generation.

7.22 The gradual deregulation of Exchange Controls shall therefore, give the country's productive sectors further impetus and this sequential approach is expected to have the following positive impact;

(a) Increase productive efficiency through quick turnarounds;

(b) Improve investor confidence,

(c) Activate the overall inflows of foreign exchange and raw materials into the economy; and

(d) Smoothen the flow of trade which is consistent with regional integration efforts.

(e) Reduces opportunities for money laundering activities as there is ample time for authorities to put measures in place.

(f) The Extended Foreign Exchange Licenced Shops Framework will complement the Exchange Control Deregulation Programme through the unfettered flow of investment capital and free funds to finance both domestic production and consumption expenditure.

(g) We must, therefore, not fear to start new ideas no matter how painful they may be to start with. Let us encourage each other to stay the course of productive innovation.

REVOLUTIONISING AGRICULTURE

7.23 Over the past 5 years, the Reserve Bank of Zimbabwe has put in place and implemented various farmer-support programmes.

7.24 These encompassed the following four main areas:

(a) Provision of agro-inputs, covering seeds, fertilizers and agro-chemicals;

(b) Provision of agricultural equipment and implements, under the Farm Mechanisation Programme;

(c) Provision of cattle-breeding herd; and

(d) Provision of subsidised working capital, as well as infrastructural development finance for expansion of operations;

7.25 As we chat the agenda for the future, guided and motivated by the desire to promote food security in the country, it has become imperative that farming be recognised as a legitimate entrepreneurial line of business.

7.26 Consistent with this, the following measures have are being introduced with immediate effect:

AGRICULTURAL PRICING

7.27 In order to promote the viability of agricultural operations, farmers are allowed to market and sell their produce in foreign exchange.

7.28 All pricing distortions in agricultural produce which previously necessitated ad-hoc price top-ups have, therefore, been removed and farmers can now receive import parity prices (net of transport and other intervening charges relating to import costs).

TOBACCO AND COTTON

7.29 Consistent with the spirit of making every inch of Zimbabwe's farmlands real export zones, tobacco and cotton farmers, who have traditionally not directly benefited from the clear export nature of their produce, will, with effect from this 2009 marketing season, be paid in foreign exchange.

7.30 Tobacco merchants and all registered cotton-buyers are, therefore, mandated to arrange lines of credit against which they will pay farmers competitive prices in foreign exchange.

FCAs FOR FARMERS

7.31 It should be noted, however that all farmers, like any other exporter, will be expected to sell 7,5% of their foreign exchange to the Reserve Bank at the going competitive market determined exchange rate.

7.32 Effectively, therefore, farmers too are entitled to hold 92,5% of their foreign exchange earnings in FCAs which they can deploy to support their future production programmes.

INTERNATIONAL FINANCING FOR AGRICULTURE

7.33 Like any other business operation, agriculture is amenable to smart partnerships between local land owners and regional and international technical and financial investors.

7.34 Accordingly, therefore, we encourage farmers to enter into strategic agreements or partnerships with foreign investors seeking to invest in the production of bio-fuels, horticulture, tobacco and cotton, among several other crops and animal husbandry lines.

7.35 We also urge seed houses and livestock breeders to enter into smart partnerships with farmers for their mutual benefit.

A CALL TO DEVELOPMENT PARTNERS

7.36 As Monetary Authorities, we call upon all willing Development Partners to complement our internal efforts aimed at promoting Food Security.

7.37 The complete removal of all distortions in the agricultural productivity chain has opened a new era where the majority of the people can be effectively empowered through food security.

7.38 A robust agricultural sector is also the most effective way of bringing about broad-based economic empowerment to the majority of the people, particularly those in the rural communities.

7.39 Achieving this would be a critical milestone in the achievement of the Millennium Development Goals (MDGs).

INFRASTRUCTURE DEVELOPMENT

7.40 Farm capital development is an indispensable requirement for the overall growth of productive efficiencies in our agricultural sector.

7.41 To this end, our farmers must strategically divide such programmes into short, medium and long-term, getting finance from own savings, the private sector, commercial banks and depend lesser and lesser on Government, given the high level of past support that has been given to the farming community.

WORKING CAPITAL FINANCE FOR FARMERS

7.42 The removal of marketing and pricing distortions in agriculture enables farmers to be able to stand on their own in terms of financing their operations.

7.43 Accordingly, therefore, as the liberalised environment takes effect, farmers are called upon to plough back their earnings into future production activities so as to enable

Government to now start concentrating on other needy developmental areas.

7.44 Companies, commodity brokers and parastatals are encouraged to enter into firm production contracts with farmers, thus, providing vital working capital finance to this critical sector of the economy.

ROLE OF THE GRAIN MARKETING BOARD (GMB)

7.45 Strictly speaking, the letter and spirit for the creation of the GMB was and remains Government's desire to promote food security, particularly in respect of the building up of strategic grain reserves to cater for the needs of vulnerable groups in times of need.

7.46 Under the liberalised framework, and consistent with the overall strategy of ensuring that our farmers are running viable operations, the GMB must act as **the buyer of last resort,** providing farmers with a fall-back marketing alternative.

7.47 For the purpose of strategic reserves, the GMB should leverage on its own internally generated revenues, as well as the limited financial resources as would be made available from the fiscus.

7.48 Zimbabwe's food security situation would remain precarious if our farmers continue to face protracted delays in getting their payments for deliveries made to the GMB.

ZIMRA AND PARASTATAL FOREIGN CURRENCY ACCOUNTS

7.49 Consistent with Government's thrust to optimise on the productive deployment of scarce foreign exchange resources, it has become necessary that all foreign exchange inflows of Government be centralised.

7.50 Accordingly, therefore, all Parastatals and ZIMRA have been directed by Treasury to open FCAs at the Central Bank and transfer all current FCA balances to the Reserve Bank.

7.51 This then means that all future foreign exchange inflows to these entities must, therefore, be fully transferred to the Central Bank accounts in the name of the individual parastatal or ZIMRA, as the case may be.

7.52 All banking institutions are hereby therefore advised and directed to comply with this requirement.

7.53 Any Authorised Dealer found in violation of this requirement will put their foreign currency trading licence at risk.

INSURANCE AND PENSION FUNDS

7.54 In order to ensure that the Insurance Industry and Pension Funds continue to serve their intended purposes, it is imperative that they swiftly adapt to the changing operating environment.

7.55 The Reserve Bank stands ready to issue participants in these sub-sectors with appropriate licences to conduct their businesses in foreign exchange, at the same time leaving room for those opting for local currency-based policies and pension schemes. The Minister of Finance was clear in his pronouncements last week when he addressed this class of economic stakeholders.

OTHER SUPPORT MEASURES

7.56 Effectiveness of the above proposals lies in the implementation by Government of the following recommended support measures:

(a) A resolution of the country's political differences by swiftly implementing agreed negotiating positions.

(b) Adoption of a robust fiscal management framework where Government tightens its screws on revenue collection and expenditure control. This should encompass the mobilization of fiscal revenues in foreign currency. We are pleased as Monetary Authorities by the commitments made to the Nation in the 2009 budget by the Minister when he addressed ZIMRA issues.

(c) The adoption of results-based management across all line Ministries and Government Departments;

(d) Establishment of countrywide, adequately funded Economic Crimes Courts that would swiftly deal with all economic crimes as they arise;

(e) The passing out of stiff penalties and deterrent pieces of legislation against economic crimes;

(f) Launching of a National Investment Promotion Strategy, within the context of the **"Zimbabwe International Investment Promotion Convention".** The main objective of this convention would be to expose to the world Zimbabwe's unique investment opportunities.

(g) Implementation of a well managed Privatization and or Joint Venture Programme targeting our Parastatals.

(h) Finalization of the ongoing Reviews to the Mining Sector Legislation;

(i) Adoption of a National Health and Education revival strategy.

(j) Re-configuration of the country's water management policy, leading to the dissolution of ZINWA and the return of water management to local authorities, in line with the pronouncements in the 2009 Budget, and

(k) Swift approval of all promising investment approaches across all sectors of the economy.

(l) Removal of price distortions in agricultural products, as well as in all the other sectors of the economy;

7.57 We are pleased that all these key success factors were addressed in one form or another in the National Budget by the Minister and what is now required is speedy implementation of the ideas and proposals so that the benefits can begin to flow sooner rather than later.

8. A FOCUS ON THE VULNERABLE GROUPS

8.1 Under conditions of rapid macroeconomic transformation, where inevitably society has to adapt to new ways of living, it is typically the case that vulnerable members of society, including women, children, the physically challenged, the old, the pensioners, and those members of society with no material means to earn themselves constant streams of income, tend to be left out to irk a living out of unbearable hardships.

8.2 In order to ensure that the vulnerable members of society are able to sustain themselves in the multicurrency environment, the Reserve Bank is deepening its Rural Banking initiative, complemented through an integrated Micro-Finance Development framework under which SMEs and other self-help groups will be able to access foreign exchange loans.

8.3 The banking sector too will have a critical role to play through the enhancement of their internal SME financing portfolios.

8.4 The Banking Sector special foreign exchange loans will cater for such value-creating activities as:

- Agro-value-adding projects, such as oil expressing, peanut butter making; stock-feeds grinding; among several others;
- Market gardening;
- Metal fabrication;
- Pottery;
- Sculpture;
- Candle making;
- Exercise books making;
- Brick making;
- Soap making;
- Scotch carts making and other welding jobs;
- Carpentry; and
- Other SMEs

8.5 Empirical evidence from such countries as India, Indonesia, Brazil, Mexico and Chile, among several others, clearly shows that SMEs are a viable and bankable sector which if carefully supported can turn out to be the engine of economic growth and development.

8.6 In a separate Supplement to this Policy Statement, more detailed pieces of advice are given to help the vulnerable communities sail through the multi-currency environment.

8.7 The advise we give therein is also suitable to all those currently employed elsewhere who can start up value creating projects to earn foreign exchange for themselves.

9. EXTERNAL DEBT DEVELOPMENTS

9.1 The country's external debt stock stood at US$4.69 billion as at 31 December 2008, representing a 1.8%

increase from US$4.61 billion recorded in December 2007.

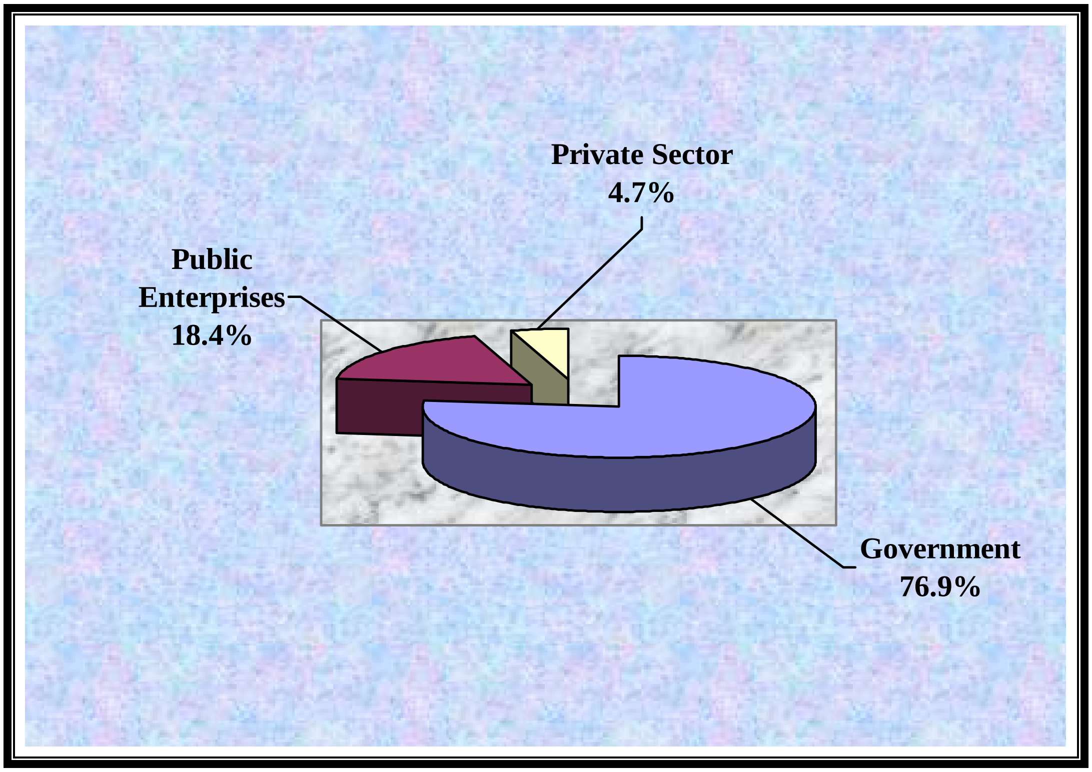
9.2 Changes in the country's external debt stock largely reflect new debt contracted by the Government from China to finance importation of agro-inputs, and the capitalization of interest arrears.

Structure of Zimbabwe's External Debt

9.3 Medium to long-term external debt continue to dominate the external debt stock, accounting for 95.2% of the total. The remaining 4.8% is short term debt.

9.4 Of the country's total external debt, 95.3% is owed by Government and parastatals while 4.7% is owed by the private sector.

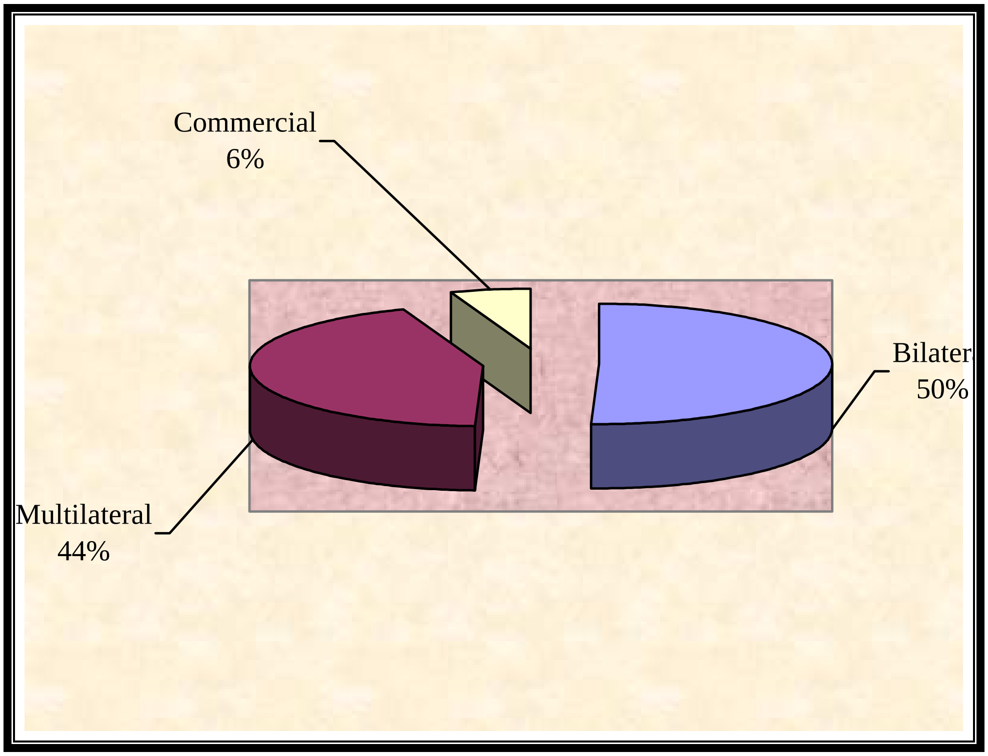
External Debt by Debtor: 31 December 2008



External Debt by Creditor Type

9.5 About 44% of the country's total debt is owed to multilateral creditors, while bilateral and commercial creditors are owed 50% and 6%, respectively.

External Debt by Creditor: 31 December 2008



10. DOMESTIC DEBT DEVELOPMENTS

10.1 The stock of Government domestic debt as at 31 December 2008 stood at $56.9 sextillion, a significant increase from $390.5 million recorded in mid-August 2008.

10.2 The surge in the domestic debt position largely reflects the increasing cost of financing Government expenditures, not matched by the corresponding increase in revenue inflows.

10.3 The resultant funding gap was financed by recourse to the domestic financial market.

Domestic Debt Stock by Tenor

10.4 The contribution of medium-term debt in the portfolio, which was about 63.5% at the beginning of 2008, is eclipsed by 365-days treasury bills, which accounted for 99.99% of the total Government debt portfolio by the end of December 2008.

10.5 The increase in the proportion of 365 day Treasury bills has concentrated the maturity profile of Government debt within a short space of time thereby exposing the portfolio to refinancing risk.

10.6 The average duration of the portfolio is less than one year, implying that Government rolls-over the whole portfolio annually.

10.7 Government is urged to issue long term instruments that help smoothen the maturity structure of its portfolio.

Domestic debt by Holder

10.8 The Monetary Banking Sector remained the major holder of Government domestic debt at 99% of total.

10.9 Commercial banks accounted for about $424.04 quadrillion or 99.9% of the Monetary Banking Sector’s holding of domestic debt.

Government Domestic Debt by Holder

10.10 The remaining 1% is accounted for by insurance companies, pension funds, other financial institutions and private investors.

10.11 Insurance companies and Pension Funds hold an insignificant proportion of Government debt portfolio despite existence of specific regulations stipulating that they hold at least 35% of their assets in prescribed assets.

Compliance with Prescribed Asset Ratios by Insurance and Pension Funds

10.12 Section 18 (2) of the Pension and Provident Funds Act (Chapter 24:09) prescribes Insurance Companies and Pension Funds to hold at all time at least 35% of their assets (valued at cost) in local registered securities, loans guaranteed by state or loans approved by a commissioner to a local authority.

10.13 For the period ending September 2008, Pension funds and Insurance companies held an insignificant proportion (less than 0.0001%) of their assets in prescribed assets.

10.14 As Monetary Authorities, we are pleased that Government has, through the 2009 National Budget Statement laid a solid foundation for compliance in this area.

10.15 The collection of insurance premiums and pension contributions in foreign exchange, supported by strict compliance follow-ups will ensure that the Insurance and

Pension Funds industries once again become catalysts for economic growth and development.

10.16 The Reserve Bank will fully implement the Minister of Finance's directive to issue appropriate foreign exchange denominated instruments for subscription by Insurance companies and Pension Funds as part of their compliance with the prescribed holding requirements.

Overdraft Facility

10.17 During the review period, Government has maintained a surplus position at the Reserve Bank of Zimbabwe.

Short-term Trade Facilities

10.18 Over the period January 2008 to mid-November 2008, the External Loans Coordinating Committee (ELCC) approved short-term facilities amounting to USD920.6 million.

10.19 This compares to a total of USD 1 460.5 million approved during the same period in 2007.

10.20 Facility utilization remained low at 23% in 2008, compared to utilization of 30% in 2007. The total cumulative draw downs for 2008 were USD201.8 million, compared to USD 436.7 million for the same period in 2007.

Utilisation of ELCC Approved Facility as at Mid-November 2008

10.21 Although utilization of facilities continues to rise, the level of utilization as a proportion of approved facilities remains low largely due to further assessments by lenders as well as the sanctions imposed on the country.

11. CONCLUSION

11.1 Given the foregoing, and as I have already intimated, I strongly believe that 2009 is the year which should mark the turning point for our country. The unspoken voices of Zimbabweans across the political spectrum, social strata and all walks of life are sending a clear message that enough is enough. The time has come for something to now give so as to create the conditions for the amelioration of the battered livelihoods of the people.

11.2 Going forward, I believe that whatever we do should be premised on three fundamental values that have been conspicuously and sadly lacking particularly on the part of our national leadership across the board be it in politics, business or social circles. These are the values of **hard work**, **honesty** and **sacrifice.**

11.3 The time has come for all of us as Zimbabweans, especially for those with **influence and relative**

economic means, to understand that extraordinary circumstances such as the ones we face in our country cannot be overcome without **sacrifice**.

11.4 Despite the fact that Zimbabweans have had to endure biting economic sanctions and indeed despite the widespread political challenges and economic hardships facing the country, it is very disappointing that the one fundamental value that is necessary to overcome such strains is missing and that is **sacrifice**.

11.5 There is an irony here given that our country's protracted and bitter struggle for independence was won through sacrifice. Tens of thousands of our sons and daughters sacrificed not just for the freedoms we enjoy today but also for many other things big and small that we take for granted today.

11.6 It is sad to see that the legacy of sacrifice for our country, that is the tradition of putting **Zimbabwe First** which was trail-blazed by our freedom fighters, has itself been sacrificed on the altars of personal ambition, greed, corruption and wanton irresponsibility without responsibility.

11.7 When times are as hard for our Nation, as they indeed have been, it is even harder to get out of the bind unless all of us are prepared to sacrifice for our country. **The prevailing casino notion that people can get something for nothing is utterly reprehensible in the extreme.**

11.8 Where the spirit of sacrifice is absent, dishonesty abounds.

11.9 Indeed, vices that are rampant in our country today such as greed, corruption and incompetence feed on dishonesty which is the driver of institutional and policy failure.

11.10 One of the reasons we have people in authority across the board who have not been living up to the responsibility of their offices be they in the public, parastatals or private sectors of our economy, and who instead have been playing the blame game without accepting responsibility at every opportunity, is because of dishonesty.

11.11 I have no doubt that we will not be able to rebuild our economy and indeed our country unless we once again restore the culture of honesty in our country's public affairs.

11.12 Although this might not sound palatable to some, the simple fact is that there's just too much dishonesty out there, especially in positions of authority in Government, business and politics. It is not possible to turnaround an economy in an environment in which dishonesty is the order of the day.

11.13 If those of us with public responsibilities could care to listen to the voices of the suffering Zimbabweans, we would hear unmistakable and very genuine cries for hard work and **honesty**.

11.14 Where there is no spirit of sacrifice and where there is no culture of hard work and honesty, as is the case in our country today, you are guaranteed to find generalised laziness which has indeed taken root in our country where people who should know better expect to get something for nothing through schemes like the “burning of money” and other forms of corruption.

11.15 The time has come for Zimbabweans to expect and to demand **hard work** from those in public offices whether in Government, business, politics, civil society or churches. In that connection, we should all remember that **hard work** is about deeds and not words. The suffering masses have heard a lot high sounding words, especially from politicians, but they have seen no action on the ground as the situation in the country has progressively gotten worse with few if any taking responsibility for it.

11.16 Given the opportunity that we now have to finally turnaround our economy this year, the policy measures I have unveiled in this Monetary Policy Statement are the Reserve Bank’s instalment into what I hope will be a National Initiative to instil, promote and entrench the critically needed values of **sacrifice**, **honesty** and **hard work** among public officials and in public institutions across the full spectrum of our society, industry and government.

11.17 In this regard, as Monetary Authorities, we call upon other stakeholders, particularly all political parties to elevate their engagements from partisan considerations into being more national in perspective in the interest of moving the country forward.

11.18 The stalemate the country has endured for nearly a year now has not done Zimbabwe any good at all. Instead, it has sapped our collective energies, weakened our spirits and demoralised our hearts.

11.19 Without the right political context, one that is marked by active discourse and discussions on productive and developmental issues, in other words without a political context defined by **sacrifice**, **honesty** and **hard work**, no singular efforts by one or a few institutions or individuals will be able to overcome the systemic financial and economic threats facing our country today.

11.20 The tragedy is unfortunately that in the midst of the confusion and general apprehensions caused by the political uncertainties, self-doubt and the fear to take decisions exposes those trying and willing to make a positive difference through decisiveness to misplaced vilification as has happened in the past on occasions too many to mention.

11.21 This fact notwithstanding, I am proud to say the Reserve Bank will continue to play its part in not only contributing to the search for lasting policy measures for our national economy but also in putting out any economic fires that threaten to destroy our country, exposing and holding to account any economic or financial arsonist caught in action.

11.22 In the end, as the end will surely come when it is time, my team and I know fully well that the spirit of the country we call Zimbabwe will, when all our troubles are gone, as gone they shall, acknowledge to many not yet around, that my team and I were right there in action defending and supporting her at her hour of maximum danger when it was easier to give up than be the pillar of support and therefore attack, that my team and I, from the sweeper to the Board, were there besides her, at her hour of greatest need. That is the only acknowledgement we look forward to, long after we are gone.

Therefore, please join me in…

11.23 Laying this Monetary Policy Statement before God and through him, I ask that the Nation be inspired into positive action for we don't have much time to waste on trivialities and personality differences. We are all Zimbabweans with one common destiny.

I thank you.

DR. G. GONO
<u>GOVERNOR</u>
January 2009