

THE ZIMBABWE ECONOMY IN 2007

Brian MacGarry

Introduction

Two main features dominate this year's survey: hyperinflation and scarcity of hard figures. With the Zimbabwe dollar worth between 1/1000 and 1/2000 of its January 2007 value at year's end, the situation fits the definition of hyperinflation: an inflation rate over 50%/month. In 2007, ours averaged nearly 100%/month. It is pointless to argue about who has the correct figure to two significant figures. If we can be sure of one significant figure, that is an achievement. Plans for recovery are beginning to appear, but their implementation depends on political change.

Hyper-inflation makes it difficult to conduct any operation with a measurable turnover time. Agriculture, on any scale is disadvantaged, but mining and manufacturing suffer and the small and medium enterprises which Finance Minister Mumbengegwi pins his hopes on stand little chance of succeeding.

Zimbabwe has effectively outsourced its economy to South Africa, sending workers south of the Limpopo to mop up skilled jobs and receiving \$500-million a year in return. Estimates vary, but it is thought Zimbabwean migrants in South Africa number between 800,000 and three million. They span the spectrum of skills and income levels, from highly paid professionals to poorer domestic and restaurant workers. There is also considerable cross-border trade at an informal level, as Zimbabweans shop for groceries and tradeable goods in South Africa.

The skewed exchange rate is a root cause of our problems, but the Mugabe regime will do nothing to remedy it. They gain too much. RBZ buys about US\$500 million/year from exporters and others at the "official rate" and then uses this for essential imports and patronage. If a ZANU-PF person gets foreign exchange at the official rate from the bank then they can import a luxury vehicle, for example, for a tiny fraction of its real cost. So a Member of Parliament, who gets a small salary, can in fact afford to import and drive a top of the range SUV or luxury car. But US\$500 million does not go very far when total import demand is in excess of US\$2,5 billion, especially if a significant proportion is used to support the life styles of the rich and privileged.

Remittances coming from abroad could not sufficiently plug the holes left by declining exports. Zimbabwe needed \$40-million for fuel and \$15million for electricity a month. All in all, the government alone might need in excess of \$2billion annually. Although a significant amount of money is coming in, it is in the parallel market. So whenever government needed foreign currency in 2007, RBZ sent agents to buy it on the parallel market. The Reserve Bank prints money to buy this foreign currency, thus fuelling inflation.

The country experiences chronic shortages of food, fuel oil and hard currency, and daily water and power outages as public utilities fail to replace ageing equipment and pay for imported spare parts.

At the same time, the government remains in denial and the shortage of statistics which they used to collect so assiduously seems not entirely due to the emigration of skilled staff from the CSO.

Despite the government's recent announcement that the NIPC would approve council budgets, no funds have moved yet. In Bulawayo water shortage has caused a major diarrhoea outbreak (3,600 cases between August and the end of October), with hospitals not equipped to cope. Council officials and residents fear a cholera outbreak very soon.. The situation is worse when it rains, as garbage is blocking the drainage system. Meanwhile, the handover of water and sewage services in other towns to ZINWA has been a disaster, and the takeovers continue: Kwekwe's sewage management was the latest example, in November.

An estimated 1.3 million people are said to be living with HIV/AIDS in Zimbabwe with 132,000 being children below the age of 14 while over 650,000 are women. Of these, only 91,000 people were on the government's ARV free treatment programme.

Apart from the scandal of such induced misery, the breakdown of the health system has a devastating economic impact on the whole population, as productive workers and educated people fall and die.

As people with HIV die earlier, their overall numbers can be expected to decline and as this gives less time in which infected people might spread the infection, rates of infection drop. Yet government claim these declining figures indicate a success!

Rising prices are increasing the food cost burden of aid agencies. This is reflected in part by the five-fold increase of the food budget of the UN WFP. Funding for food will increase by another 35% in the next couple of years, according to WFP head Josette Sheeran. *[AHN, Rome, November 4, 2007]*

At the presentation of the World Bank's World Development Report in Berlin, it was revealed that Official

Development Assistance (ODA) to Zimbabwe had dropped from 12% in 1990 to just 4% in 2006.

1. Agriculture and food

Zimbabwe has accrued a US\$5 billion trade deficit over the past five years due to the destabilisation of agriculture, the parliamentary Lands and Agriculture committee has reported.

The World Bank's World Development Report revealed that public spending on agriculture is currently at a meagre 4%.

Finance Minister Mumbengegwi said in his budget speech. That tobacco, horticulture, groundnut, soya beans, sunflower and tea made this year's overall agricultural performance positive, but admitted a decline in maize production, to 953,000 tonnes from a crop of 1,485,000 tonnes in 2006.

Overall agricultural production in the 2006/7 season was less than 30% of that seven years ago. A 33% decline in agricultural production provides some explanation for the estimated five million Zimbabweans who may be in need of international food assistance this year. Zimbabwe's food import bill was expected to more than double in 2007, Mumbengegwi admitted in his budget speech, "Food imports are expected to grow from US\$178 million last year to \$405 million this year," *[Reuters - Nov 29]*

Shortage of fertiliser means that, in spite of abundant rain, planting was less than needed, often late, and the crops that were planted will not yield to the maximum. President Robert Mugabe admitted, for the first time, that the much punted 2007/8 agricultural season has not lived up to expectations.- *[SABC News, 23 February 2008]*

Addressing a conference in Accra, an official said the AIDS pandemic in Zimbabwe was also impacting negatively on agricultural production as many workers died from the disease. "There was a decline of 61% in maize production, 47% in cotton production, 44% in vegetable production and 33% in groundnut production and the majority of the factors that contributed to the decline were attributed to HIV and AIDS," he said.

Zimbabwe's tax on the ailing agricultural sector is the highest in a group of transforming and urbanised economies and is a result of a highly overvalued currency, the World Bank said in its 2008 World Development Report.

Maize

GMB's attempts to enforce its monopoly on maize marketing has fuelled a black market and pushed up prices. They estimated they should receive 800,000 tonnes from farmers in 2007, but only 712,000t arrived. The country needs nearly 2 million tonnes/year.

WFP and other relief agencies were buying Malawi white maize for Zimbabwe, but this supply dried up when the size of the Malawian crop was found to have been over-estimated.

At the beginning of November, Agriculture Permanent Secretary, Mr Ngoni Masoka told the parliamentary committee on Lands, Land Reform, Resettlement, Agriculture and Water Resources that the target requirement for maize seed for the 2007/8 cropping season was 50,000 tonnes yet by 10 September 2007 the seed houses had only received 29,000 tonnes. By 21/12/07 a mere 794 tonnes of seed have been imported from Zambia to make up the deficit, rather late for planting.

Tobacco

The ZTA said tobacco production, which rebounded to 73 million kg and raked an estimated US\$170 million in 2007, would tumble below 70 million kilograms in 2008. *[source: Financial Gazette, 17 Jan 2008]*

Cotton

In 2007, about US\$102 million was earned from yields of about 270,000 tonnes..*[source; Herald: January 10, 2008]*

As the 2008 harvesting period approached a crop of more than 350,000 tonnes was expected, but we have heard enough optimistic estimates not to count our chickens till they are hatched.

Wheat:

In his budget speech, Mumbengegwi said government spent Z\$958,6 billion to support wheat production, of which \$500 billion was for wheat purchases. He said over 70,000 tonnes were delivered to the GMB by farmers. This contrasts with earlier government forecasts of 140,000t and estimated an requirement of 400,000t. Supplies could be uncertain. The Standard already reported in March that government apparently lost a 36,000t consignment due to failure to pay for it.

Meat

The Cold Storage Company requires an injection of Z\$5,4 trillion and US \$2,7 million to recapitalise, the Parliamentary Portfolio Committee on Agriculture heard in October. [*Herald*, 1 November, 2007].

The CSC runs three selling and distribution centres in Harare, Gweru, Mutare and a cannery plant in Bulawayo. "The CSC's eight ranches are currently lying idle," the report said. It attributed the challenges the CSC was facing to the liberalisation of the economy. "Due to the liberalisation of the economy, CSC lost 96% of the market share to private abattoirs, from 377,531 slaughters in 1992 to 9,734 slaughters in 2005. CSC has failed to regain the EU market after it lost its quota due to the 2002 outbreak of foot-and-mouth disease. Export earnings dropped from a peak of US\$40,8 million in 1997 to US\$0,4 million in 2005. The national commercial herd dropped to 651,400 in 2006 from 1.7 million, so fewer cattle were delivered to CSC slaughterhouses. The communal herd had increased to 4.3 million from 4.2 million but this was of little benefit to the CSC because communal farmers sell only about three percent of their cattle compared to white commercial farmers who sold 20% of their herd to the CSC.

Government-enforced price cuts left CSC abattoirs empty again in early December. [*FinGaz* 7 Dec 2007]

Horticulture

Export receipts slumped from a peak US\$142,6 million in 1999 to US\$71,9 million in 2006. Fresh flowers earned US\$87 million in 2000, but only US\$41 million in 2007.

2. Cost of living

Some available figures are given below. Note that the Central Statistical Office (CSO) is a government department and the Consumer Council (CCZ) are government-funded. Both are liable to underestimate the seriousness of the situation. There have been increasing delays in publishing the CSO's monthly consumer price index because many items which make up the index are not available in the shops.

	<i>PDL ,Z\$(CCZ)</i>	<i>CSO inflation rate</i>	<i>Independent estimate</i>
<i>January</i>	458,986	1593.6%	
<i>February</i>	686,000	1729.9%	
<i>March</i>		2,200.2%	
<i>April</i>		3713.9%	
<i>May</i>	5,500,000	4530.0%	10,000%
<i>June</i>			
<i>July</i>		7634.0%	
<i>August</i>	16,700,000	6592.8%	
<i>September</i>	21,700,000	7982.1%	
<i>October (estd.)</i>		15,000%	100,000%
<i>December</i>	100,000,000	66,000%	

In June, the government tried to check the inflationary spiral by fixing prices on basic necessities. While the enforcers were around, prices halved, but then the increases continued unabated: Crowds followed the inspectors around, snapping up bargains but aggravating the long-term problems of business viability.

	January	December	Year's increase	Source:
2 litres cooking oil	\$6,780	\$9,5 million.	140,000%]	
loaf of bread	\$780	\$1,000,000	128,000%	
10kg mealie meal	\$1,300	\$4,5 - 5 million.	~360,000%	
medium/low density house rent	\$150,000 - \$300,000	>\$100,000,000	>33,000%	Southbay Real Estate
	Dec 06			
250g tea	\$325	\$219,300	67,000%]	
500g peanut butter	\$1,580	\$1,650,000	104,000%	
Matches, box	\$25.50	\$225,970	886,000%	
Bath soap, 200g	\$1,500	\$4,310,000	287,000%	
Tomatoes, 1kg	\$550	\$1,540,000	280,000%	
loaf of bread	\$295	\$600,000	203,000%	

By 14 December, according to the Sunday Mail:

the retail price of bread was \$600,000/loaf, which translates to \$18 million/month for one loaf/day.

A 100-millilitre tube of toothpaste cost \$5,6 million,

250 grams of tea leaves are fetching \$596,000, sugar \$2,5 million/2kg.

Two litres of cooking oil \$8,5 million. meat \$10million/kg, salt \$1,3 million/2kg.

1kg of tomatoes cost \$1,6 million, onions more than \$700,000/kg. On the overall for a conservative shoestring monthly budget of a very small family of three would need an estimated \$40 million.

Sugar & salt were not often available in supermarkets, leaving consumers to the vagaries of the parallel market prices. At \$500,000 per trip, transport allowance would amount to more than \$20 million a month. In December alone one would need a conservative outlay of \$100 million for the festive season.

On the other hand, incomes have stagnated as corporate profits have not been enough to feed into households and income reviews have not kept pace with developments in the economy.

Over the months September and October retailers resorted to stocking imports to fill the void left by local producers who cannot manufacture at the government-controlled prices. The prices of most imported goods are beyond the reach of many consumers. Government threats to force retailers to cost imports at the official exchange rate would only dry up this supply.

In December: Some businesses, retailers and wholesalers were selling most of their cash takings at premiums of up to 35% rather than banking them.

Most home owners are now charging their rentals in foreign currency.

The so-called "war on prices" continues. In fact this rhetoric simply disguises the real purpose which is to bankrupt the private sector, close it down and take it over for a tiny fraction of its value and then resume production and sales - but under tight political control. The other main objective is the same one that underlay the Murambatsvina exercise - drive as many as possible of the urban population out of the country before the 2008 elections.

UN Integrated Regional Information Networks (IRIN) declared the November medical fees hike the 'Final Nail'.

The new taxes on imports announced by the Finance Ministry on 30 Nov may help shore up Government's falling revenue base, but will increase the cost of imported inflation. *[Herald, 5 Dec 2007]*

Bakers have been shift to confectionery to evade the price controls on a standard loaf. *[Zim Online 10 November 2007]*

3. Exchange rate

	<i>Official</i>	<i>diaspora</i>	<i>parallel</i>
<i>Jan-07</i>		250	4200
<i>Feb-07</i>		250	6600
<i>Mar-07</i>		250	17500
<i>Apr-07</i>		250	17000
<i>May-07</i>		250	15000
<i>Jun-07</i>		250	15000
<i>Jul-07</i>		250	15000
<i>Aug-07</i>		250	15000
<i>Sep-07</i>		30,000	450,000
<i>Oct-07</i>		30,000	750,000
<i>Nov 07</i>		30,000	3,000,000
<i>Dec-07</i>		30,000	4,000,000
<i>inflation</i>			~100,000%

Every time RBZ officials search for foreign currency on the parallel market, they force the rate up sharply. When they have bought all they need, rates drop, but within a continuing upward trend.

Announcing his Mid-Year Monetary Policy Review Statement in October, the central bank chief moved up the FCA retention from 60% to 65%.

As cash became scarce towards the end of the year, exchanging for cash on the street gave much poorer rates than using electronic transfers. By mid-December, the US dollar was trading between \$1,5 million and \$1,6 million for cash transactions, whilst the Rand was in the \$180,000-200,000 range. At year-end, the US dollar was quoted between \$4,5 million and \$5 million for RTGS transactions, whilst the Rand was trading between \$250,000 and \$300,000. The pound rate in London was hovering around: Z\$9,8million on 12 December, changing more than three times within the same week.

Businesses selling imported products have been given until November 22 to clear these stocks at existing prices after which a new pricing model based on the official exchange rate will come into effect. [15 Nov 2007: Herald]

Zimbabwean NGOs claim their operations have been paralysed since the Reserve Bank raided their foreign currency accounts (FCAs). In his mid-year Monetary Policy Statement at the beginning of October, Gideon Gono, governor of the RBZ, said NGOs would now maintain 'mirror accounts' that would reflect how much money they had in the bank while the actual money would be kept by the RBZ. Under the new arrangement NGOs have to seek the reserve bank's permission to use their money.[IRIN 15 November 2007]

4. Wages

Minimum wages, excluding transport and housing allowances (*source*: ZCTU)

Employers often raise wages monthly, and in some cases, fortnightly. Inserting the figures for November 2007 gives some indication.

<i>sector</i>	<i>Jan-07, Z\$</i>	<i>Nov-07, Z\$M</i>	<i>Jan-08, Z\$M</i>	<i>Increase (year)</i>
<i>Mining</i>	105,000	19.5	19.5	18,471% (by arbitration)
<i>automotive</i>	60,000	Member of ZMEAU		149,900%
<i>cement and lime</i>	n/a	35	90	n/a
<i>civil service</i>	30,245	20	102	337,146%
<i>commercial</i>	89,000	35	140	157,203%
<i>food (avg)</i>	100,000	20.5	100	99,900%
<i>agriculture</i>	8,320	10	70	841,246%
<i>engineering</i>	93,000	19	130	139,685%
<i>clothing</i>	70,000	22.6	79	112,757%(still negotiating)
<i>PTUZ</i>	84,000	14	260	309.424%
<i>RAU</i>	320,000	95	580	181,150%

ZARU	180,000	36	118	65,456%	(arbitration)
ZBAWU	65,000	48	185	284,515%	
catering	132,000	26	50	37,779%	(still negotiating)
chemicals & plastics	75,400	52	81	107,327%	
domestics	12,500	5.8	5.8	46,300%	
ZEEWU	36000	27	193	536,011%	
ferro alloys	96,000	Member of ZMEAU		93,650%	
furniture	130,000	50	150	115,285%	
leather	100,000	23	158	157,900%	
graphical	80,000	31	280	349,900%	
pulp & paper	88,500	35	260	293,685%	(still negotiating)
textile	80,000	22.5	120	149,900%	
education (ZESCWU)	50,000	17	120	239,900%	
tobacco	152,750	20.5	20.5	13,321%	
iron & steel	120,000	Member of ZMEAU		74,900%	
construction	143,000	28	170	118,781%	
ZUJ	40,000	15	20	49,900%	
motor vehicle	100,000	30	30	29,900%	(still negotiating)
Communication	86,000	21	21	24,319%	(still negotiating)
rural district councils	75,000	13.5	13.5	17,900%	(still negotiating)
urban councils	105,000	5.3	100	95,138%	
national airways	93,000	19.55	86	92,373%	
RAE	180,000	49	347	192,678%	
transport	112,000	11.5	11.5	10,168%	(still negotiating)
ZMEAWU		30	90(cf. Member unions, above)		
ZISEGU (security guards)			88	n/a	
PDL	560,000	40	300	53,471%	(ZCTU estimate)
Fares/day		2	9		
rent/room		15	25		

The percentage increases show the bargaining power of the railway unions and government's attempt to buy the support of the civil service, but the figure for agriculture is likely to prove an empty wish.

Going to arbitration, on the evidence of these figures, does not help the workers.

5. Employment

Just a few examples:

A few years ago the agricultural sector employed about 450,000 people. It now employs an estimated 45,000.

Continuing closures and downsizing in industry mean more workers laid off, but figures are hard to obtain. Thousands have lost their jobs since the price blitz started in July.

The Progressive Teachers' Union of Zimbabwe estimates that over 25,000 teachers left the country for greener pastures in 2007. The trend seems set to continue.

ZEC currently has 140 workers out of the required 823.

Retrenchments:

The few workers that remain at most retail shops have had to do with no salary increases because the companies cannot afford to pay. With profit margins as low as 20% and limited stock, it seems the end in near for most retail companies. Total lay-offs in the retail sector run to many thousands.

The major victims of the job cuts have been contract workers who are mostly employed in the bakery and butchery departments of supermarkets. Supermarkets have also reduced the number of sales representatives, till operators and those in the delicatessen areas. "It's only a matter of time before the chop reaches managerial workers," said a senior manager at Gutsai Supermarkets. Companies like Innscor, Blue Ribbon and OK Zimbabwe have reduced their working hours to cut on overheads. Other companies have sent workers on unpaid leave. TM Supermarket recently laid off about 300 workers to reduce crippling costs. The appearance of a union for security guards emphasises that they are the most visible group of paid workers.

The Bulawayo CSC abattoir has reportedly cut its workforce from 500 to 132 as a result of underutilisation. Pioneer Transport: have laid off 500 1/11/07

At year's end the Zim Standard declared the 'Social Contract' dead in the water, as there was never the necessary give and take for acceptable negotiations.

6. Financial

At the end of 2007, Mutumwa Mawere offered an analysis, of which extracts follow.

Citizens saw in Gono a new action man determined to make Zimbabwe work again but behind this façade was a monster bent on undermining the democratic order by transforming a peoples' bank into a personal one able to dispense benefits to friends while being criminally used to undermine the interests of others. The Banking Act was changed to allow the RBZ to have effective control of the financial services industry. Asset management companies were brought under Gono's control, so were mineral exporters. Gono did not stop at blaming alleged forex externalisers - he proceeded to blame the banks for economic sabotage. . . as an attempt to absolve him of any responsibility in helping to undermine the formal economy. The list of people who have been labelled as saboteurs is endless but has included farmers, bankers, miners, squatters and now 'cash barons'. In what kind of a country would you have a thriving informal cash business? It can only be in Gonoland.

In a hyperinflationary environment no one can blame citizens for having no confidence in banks. Why sterilise cash in banks while prices are changing at a supersonic speed?

Operation Murambatsvina was a brainchild of the RBZ on the mistaken assumption that eliminating the squatters would help eliminate the black market.

Zeros were removed from the currency but the zeros are back with a vengeance, as Herbert Murerwa, the former Minister of Finance, predicted.

The RBZ has become the omnipresent state within the state only accountable to the Head of State who at 83 years old cannot be presumed to know what is really happening. All Gono's prescriptions have so far made the condition of the patient worse and yet his principal continues to support him unreservedly. To confirm that the RBZ is now a Presidential organ operating outside the oversight of Parliament this is what Gono had to say: "This governor will not be intimidated. I have the full support of my principal (President Mugabe). This time there are no roadblocks. We are saying to cash barons come with your sack or trunk of money and we will talk. There is every reason for them to be very afraid."

The cash crisis is just but one of many symptoms of a failed state and yet ZANU-PF discuss the future of the country at a level that seems blind to the concrete conditions under which Zimbabweans have to eke a living.

Money supply, Z\$ million

(Figures in *italics* represent the face value of currency before the 2006 'revaluing' of the Z\$ which removed 3 zeroes)

<i>at end of</i>	<i>notes & coin in circulation</i>	<i>demand deposits</i>	<i>total m1</i>	<i>commercial banks savings fixed deposits</i>	<i>total m2</i>	<i>total M3</i>	<i>change over 12mth</i>	<i>cash as % of total M3</i>
2001	24673.3	103818.9	128492.2	68365.8	196858	238300.5	140%	10%
2002	77908.7	270573.8	348482.5	200551.9	549034.4	630969.7	165%	12%
2003	433167.4	1637748.8	2070916.2	914351.6	2985267.8	3240271.4	414%	13%
2004	1591166.6	5275811	6866977.6	2352077.5	9219055.1	10454387.2	223%	15%
2005	9615883.6	34842200	44610682	15518646.7	60129328.7	64816132.1	520%	15%
2006	220244.6	408735.8	628980.4	289169.9	918150.3	982865	1416%	22%
Oct-06	103171.5	314222.6	417394.1	188488.7	605882.8	644103.4	1430%	16%
Nov-06	147403.7	314222.6	515075.8	239647	754722.8	791996.1	1438%	19%
Dec-06	220244.6	408735.8	628980.4	289169.9	918150.3	982865	1416%	22%
Jan-07	270102.9	589699.8	859802.7	353275.1	1213077.8	1250922.6	1567%	22%
Feb-07	407706.6	800067	1207773.6	493949.5	1701723.1	1774188	2083%	23%
Mar-07	779716.1	1407212.4	2186928.5	860050.4	3046978.9	3115519	3267%	25%
Apr-07	1437844.7	2073284	3511128.7	1157069.3	4668198	4790068.4	4212%	30%
May-07	2908316.1	5368012.3	8276328.4	2190957	10467285.4	10636104	7150%	27%
Jun-07	7597582.6	11001151.9	18598734.5	5540383.9	24139118.4	24618015.2	13,844%	31%
Jul-07	12282894.7	15851690.2	28134584.9	10960399.8	39094984.7	39506816.2	17,073%	31%
Aug-07	16348805.4	25406160.8	41754966.1	17859123.2	59614089.3	60124327.4	17,807%	27%
Sep-07	23283542.8	47294965.2	70578508.1	24403043.8	94981551.9	95708740.1	20,201%	24%
Oct-07	41659229.8	70259291.5	111918521.4	44825070.5	156743591.9	158215044.6	24,464%	26%

Despite the preponderance of cash in relation to total M3, cash shortages became more frequent and intense later in the year, aggravated by government moves to control money supply by banning possession of more than a specified amount in cash. Such measures failed, but caused short-term inconvenience.

RBZ's introduction of bearer cheques for Z\$250,000, 500,000 & 750,000 in December was supposed to be accompanied by withdrawal of the most widely used Z\$200,000 bill. There was chaos at banks as people tried to change their \$200K bills before the Christmas deadline, then further confusion when the Bank discovered they did not have enough new notes to replace the old ones and reversed the cancellation. On 1 Dec, RBZ allowed individual cash deposits, which had been raised periodically during the year, up to Z\$50M: for companies Z\$200M.

On 31 December, Gono said the economy had Z\$100 trillion in circulation after the central bank injected an additional Z\$33 trillion in a bid to ease the cash crisis.

Commercial loans:

lending rates, %/year

	commercial banks	accepting houses
Dec-06	250-700	375-560
Jan-07	275-750	200-560
Feb-07	275-750	275-560
Mar-07	325-750	350-500
Apr-07	<u>325-750</u>	450-500
May-07	325-750	450-680
Jun-07	325-750	460-690
Jul-07	395-750	560-700
Aug-07	450-750	560-700
Nov-07	450-750	525-700

[Source: RBZ]

Building society mortgages remained in the range 35-80% for low-cost residential and 110-135% for commercial and industrial mortgages.

Finance houses stopped quoting hire purchase rates in December 2005

Interest rates on bank deposits remain even further below the inflation rate

Clothes retailers stopped offering credit terms in November. *[Zim Independent 2 Nov 2007]*

On 10 December RBZ increased statutory reserves for financial institutions to 50% on current balances from the previous 45% and to 45% on term deposits from 35%. These reserves are the proportion of their deposits which they must keep with the reserve Bank. RBZ also announced that it had hiked the unsecured accommodation rate to 1,100% from 900% and the secured rate to 975% from 850%. Money market dealers predicted a heavy deficit in the market the next day.

The RBZ says it will be strict on its lending policies to commercial banks that want to borrow from the central bank to cover their short positions. In a November circular to banks, the central bank said it will also be closely monitoring capitalisation levels of financial institutions. *[Zim Independent]*

It is highly unlikely that the government will let the interest rates loose given the pressing issues to finance the productive sector of the economy, fuel, ballooning budget deficit and other fiscal commitments. An increase in investment interest rates will choke the government given that it is the major borrower on the local market.

Government budget

month	Revenue & grants	Total expenditure	Surplus (deficit)	Domestic borrowing	Total financing revenue	Deficit/
10/06	56,942,022.8	58,820,433.1	-1,878,410.3	1,878,409.8	1,878,409.8	3.3%
11/06	72,745,298.0	107,306,966.4	-34,561,668.4	34,563,154.3	34,563,154.3	47.5%
12/06	116,713,861.6	91,327,838.6	25,386,023.0	-25,386,023.1	-25,386,023.1	-21.8%
01/07	137,014,584.6	173,943,309.0	-36,928,724.4	61,341,946.2	61,341,946.2	27.0%
02/07	299,479,610.0	392,529,427.0	-93,049,817.0	127,442,291.8	127,442,291.8	31.1%
03/07	351,195,722.0	1,027,719,519.2	-676,523,797.2	417,964,470.4	417,964,470.4	192.6%
04/07	351,645,521.0	559,223,483.8	-207,577,962.8	207,577,962.8	207,577,962.8	59.0%
05/07	612,953,052.1	1,054,530,922.9	-441,577,870.8	441,577,870.4	441,577,870.4	72.0%
06/07	3,404,873.4	5,848,927.2	-2,444,053.8	2,444,053.8	2,444,053.8	71.8%
07/07	2,789,421,319.0	3,548,840,025.6	-759,418,706.5	759,418,706.5	759,418,706.5	27.2%
08/07	4,451,853,779.0	2,683,342,071.5	1,768,511,707.5	-1,768,511,707.8	-1,768,511,707.8	-39.7%
09/07	8,192,629,398.0	6,206,813,010.2	1,985,816,387.6	-1,985,816,388.1	-1,985,816,388.1	-24.2%
10/07	9,182,019,827.0	18,402,655,989.2	-9,220,636,162.0	9,220,636,161.7	9,220,636,161.7	100.4%

For the second year running, the government failed to produce the blue book which specifies allocations to government ministries.

A report shows that government will lose \$20 trillion of its potential 2007 revenue from corporate tax and VAT because of the price controls and current shortage of basic commodities. The report adds that the budget deficit will therefore exceed 63% of GDP. *[businessdigest]*

Finance Minister Samuel Mumbengegwi predicted in his 2008 budget speech to parliament a 4% expansion of the economy with inflation slowing to 1.987% - but gave no total expenditure figure. From what was stated, some estimated it to be around Z\$7.84 Quadrillion (=7,840,000,000,000,000). The speech was televised – but unavailable to many because of power cuts.

Mumbengegwi predicted a reduction in the overall budget deficit. State spending in the first 10 months 2007 exceeded the Z\$28 trillion revenue by 30%, he said. Mumbengegwi blamed shortages on 'Western economic sanctions' and what he called "speculative behaviour by businesses." His revised expenditure target for 2007 was \$45.6 trillion. He projects revenue collection for 2008 at \$6,000 trillion, up from \$46.3 trillion budgeted for this year. This gives a budget deficit of \$1,760 trillion for 2008 or 11% of GDP.

The finance minister proposed cutting taxes for the growing number of poor, increasing taxes on some manufacturers, favourable central bank loan facilities to boost production, export incentives and cracking down on the black market as cures for his nation's economic crisis.

Mumbengegwi said the focus of the 2008 budget would be on supporting farmers with farm machinery, equipment and inputs for the 2007/08 season, dubbed the "mother of all agriculture seasons" but Zimbabwe would still have to import maize and wheat to cover any shortfalls in local production in 2008.

He widened tax bands so that with effect from 1 January 2008, the highest tax bracket of 37.5% would apply to workers earning more than \$500 million a month. The tax-free income was reviewed upwards from \$4 million a month to \$30 million (US\$20 in December, US\$1 at the end of February 2008) a month with effect from January 2008. He also raised the tax-free component of annual bonuses for workers to \$75 million.

Mumbengegwi announcing increases of up to 50% in excise duty on local beer brands and cigarettes.

The minister allocated \$209 trillion to ensure the smooth running of the watershed 2008 elections during which Zimbabweans will choose a new president, Members of Parliament and local government councillors. "The 2008 budget will cover funding requirements such as personal costs, transport costs and other requirements," he said.

His proposals for 2008 were largely silent on real issues of substance necessary to revive manufacturing. Instead they focused on "community-based programmes" targeting the ordinary man in the street and rural communities, including the introduction of an \$8 trillion Rural Capital Development Fund to support infrastructure projects in rural areas, an \$11.7 trillion allocation to the Youth Development and Creation Fund and more than \$26 trillion allocated to the Women and Community Development Fund. He also allocated \$21.4 trillion to the Small Enterprises Development Corporation for on-lending to small and medium enterprises and another \$3.6 trillion for rural water and sewer reticulation programmes.

Other than statement of intent on fighting inflation, the budget was silent on what the minister was proposing to win the war on prices. - ZimOnline

70% of the budget is devoted to the army, the police, militias and patronage in the form of high allocation to the women and the youth. Under a vote item innocuously headed Special Services in the vote for the

President and Cabinet, \$87, 9 trillion has been allocated to the CIO.

From 5 December, import duty would be calculated at an exchange rate of approximately \$280,000 to US\$1, up from Z\$30,000.

ZIMRA chairman Gibson Mandishona said Zimbabwe's tax collector is hamstrung by a shortage of expertise, costing the country desperately-needed income. *[Zim Online, 6 Nov 2007]*

And corruption remains:

The Ministry of Small to Medium Enterprises Development has failed to account for funds allocated to it in the 2007 National Budget, the Senate heard on 7 November. *[Herald]*

RBZ could be losing billions of dollars through the funding of Operation Chuma/Igolide and Chikorokoza Chapera amidst allegations that police are submitting falsified gold recovery returns to justify maintaining the operations in which officers are reportedly pocketing millions dollars in allowances. *[Zim Independent: 16 Nov 2007]*

The Comptroller and Auditor General, Mildred Chiri, has unearthed financial irregularities and mismanagement at the Zimbabwe Electoral Commission (ZEC), casting a dark shadow on the commission's ability to manage the large sums of cash it received for the 2008 polls. *[Zim Online 3 Dec 2007]*

The Ministry of Justice, Legal and Parliamentary Affairs had exhausted its 2007 budget allocation by November and was unable to award striking magistrates and prosecutors salary increments, a parliamentary committee heard. *[Herald]*

Government debt

Mumbengegwi stated, when he delivered his 2008 national budget statement, Zimbabwe's external debt amounts to US\$4,1 billion. Of that amount, US\$2,7 billion, almost 66%, is in arrears! There was no new foreign borrowing.

Government Domestic Debt (ZW\$ Million):

date	Government Stocks		Treasury Bills		RBZ Advance to Government*	Total (Excluding Deposits)
	Amount Outstanding	Interest Paid	Amount at Cost	Interest		
5 Jan-07	1633.3	0.0	59130.0	114901.0	72520.9	175664.4
2 Mar-07	49731.7	0.0	64289.0	137759.4	38705.7	290485.8
9 Mar-07	49731.7	0.0	246597.0	633891.5	-109392.9	930220.1
23 Mar-07	49731.6	0.0	236971.8	626327.4	-33860.9	913030.7
30 Mar-07	49731.6	0.0	330034.8	903637.6	-199246.2	1283404.0
27 Apr 07	49731.6	-	330034.8	903637.6	-3359.8	1283404.0
4 May 07	49731.6	-	330034.8	903637.6	29251.6	1312655.6
11 May 07	49731.6	-	384750.8	1081943.0	-25938.7	1516425.5
18 May 07	49731.6	-	520655.5	1545956.0	-363437.5	2116343.1
6 Jul 07	49731.6	-	1917177.7	6083456.8	-978031.3	8050366.1
31 Aug 07	49.655.6	-	1916202.7	6080556.4	-2640768.7	8046414.7
7-Sept-07	49655.6	-	1900082.0	6041240.5	-2805205.7	7990978.1
19 Oct 07	49497.4	-	1854524.3	5990213.48	-5937203.3	7894235.2
26 Oct 07	4370271.4	-	1854524.3	5990213.48	-6868887.8	12215009.2
2 Nov 07	7914624.4	-	1854524.3	5990213.48	-6680741.6	15759362.2
9 Nov 07	10595632.4	-	1854524.3	5984474.19	11818018.6	18427880.9
16 Nov 07	13173132.4	-	1854524.3	5984474.19	18718913.9	21005380.9
28 Dec 07	13453731.2	-	1854524.3	5895778.9	-24972404.7	21174684.4

Source: RBZ

7. Industry

Many local manufacturers cannot afford to produce at the controlled prices imposed in July.

In October RBZ unveiled the Basic Commodities Supply Side Intervention (BACOSSI), to help businesses restock after the damage caused by the June price blitz. To date only 28 companies, notably Cairns Foods and National Foods, out of over 5,000 have benefited from the facility.

According to government statistics, FDI stood at more than \$400-million in 1998. UNCTAD's annual World Investment Report issued in November reported that FDI in Zimbabwe fell from about \$103-million in 2005 to \$30-million in the year prior to the report's release. *[M&G 27/12/07]*

More than 90% of Zimbabwe's small and medium enterprises are facing closure as a result of the ongoing economic crisis, according to a survey by GloMedia, a South African based advertising and events management company. Only 10% make profit.

Power failures have persisted across the country and have now spread from Harare to smaller towns. Many of the remaining businesses being forced to shut down because of the outages. *[SW Radio Africa 5 Nov.07]*

The country imports about 35% of its power needs from the DRC, Mozambique, South Africa and Zambia. ZESA has since May widened its load-shedding programme after regional power utilities reduced exports to Zimbabwe citing unpaid debts. Mozambique's Hidroelectrica de Cahora Bassa cut supplies to the country from 300MW to 195MW over a debt of over US\$35 million. SNEL of the DRC also cut electricity to Zimbabwe in June over non-payment of a \$5 million debt. Some of these debts are said to have been paid

ZESA Holdings Ltd has entered into an agreement with an undisclosed Chinese investor for the construction of two additional electricity generation units at Hwange Power Station in a deal that is expected to gobble about US\$600 million. *[Herald 16 Nov 2007]*

Under a deal sealed in February, ZESA Holdings will receive US\$50 million (originally 40 million, but increased by US\$10M in December) from Namibia power utility NamPower, for the expansion and renovation of the Hwange Power Station. In lieu of repayment, NamPower will be supplied with 180MW annually for five years. *[Herald 14 Dec 2007]*

a. Manufacturing

The CZI's manufacturing survey for 2006 showed that the manufacturing sector continued to under-perform. According to the survey, the sector is estimated to have declined by 7% that year compared to a growth of 3,2% in 2005. This decline was also reflected in its contribution to the GDP, which stood at 14,3%, down from 17,3% in 2005. The proportion of industries that invested in their business declined from 62,2% to 44% in 2006. In December, ZANU-PF admitted the manufacturing sector was running at below 30% of capacity.

US food group Heinz left in September and the state acquired its Zimbabwean subsidiary. Olivine canned products will replace the Heinz brand. *[Herald, 28 December, 2007]*

Lonrho is raising a £70 million-sterling fund that will invest in Zimbabwe and position for a recovery. Lonrho is hoping to invest primarily in Zimbabwe's infrastructure, looking at transport, manufacturing, production -- sectors that they believe will recover relatively quickly and strongly. Lonrho has already bought controlling stakes in Celsys and chemicals manufacturer Gardosave for US\$5.45 million in cash. *[Reuters Nov 2]*

Kadoma Paper Mills, a subsidiary of Art Holdings Ltd, has had to reassign 92 workers to other subsidiaries, as paper production dropped due to reported sharp working capital constraints. *[Herald, 13 Dec]*

A Chinese company, Sinosteel Corporation, has acquired 67% stake in Zimbabwe's leading ferrochrome producer and exporter Zimasco Holdings for an undisclosed amount. *[Herald: 20 Dec 2007]*

The Herald at the end of the year had lavish promises of new foreign investment, mostly from China, but we have heard all that before. *Tinotenda nyemba tanwa mvura.*

b. Mining

High world metal prices have done Zimbabwe little good, as the production figures below show: Those prices were dropping by September, which does not augur well for the future recovery of mining in Zimbabwe.

Zimbabwe has the second largest platinum reserves in the world after South Africa and large gold, nickel and coal deposits but mines have found it difficult to expand in the face of a worsening economic crisis, exacerbated by Mugabe's on-off threats to take over a dominant share in all mining firms. The Indigenisation and Empowerment Bill has been passed by parliament, but not passed into law and the *Mines and Minerals Amendment Bill* has been debated once. *These threatened laws remain a prospect to discourage foreign investors. They would enable government insist on the transfer of a 51% share in any mining enterprise to*

local ownership, including giving government a free 25% stake.

Some comparisons to show recent trends in the industry:

Mining production ,000 tonnes							tonnes	kg	kg	
		Chrome			Iron					
year	asbestos	ore	coal	copper	pyrites	Cobalt	Nickel	Gold	platinum	
2000	152	668	3986	0.6			5967	20068		
2007								7000		
Jan-00	10.3	46.2	n/a		0	26.6	1	146	1077	46.3
Feb-00	12.9	45.8	345.4		0	33.9	11	463	2409	43.0
Mar-00	13.0	56.8	364.0		0	52.2	5	335	1587	44.0
Apr-00	11.3	58.0	300.2		0	69.9	8	571	1276	43.0
May-00			346.9							
Jan-Apr 00	47.5	206.8	1,356.5		0	112.7	25	1,515	6,349.2	176.3
							Tonnes			
Jan-07	8.04	58.43	174.19		0.24	1.621	2.95	784	819.05	464.67
Feb-07	8.82	62.05	219.74		0.21	4.280	2.63	749	768.11	426.31
Mar-07	9.19	55.91	230.32		0.25	1.300	2.54	851	746.86	475.68
Apr-07	6.83	37.08	177.67		0.18		2.12	790	567.34	344.90
May-07		62.75	215.56		0.29		2.70		730.17	533.60
Jan-Apr 07	32.88	213.46	843.29*		0.88	7.20#	10.24	3174.00	2901.35	1711.56
				(in-						
as % of 2000 output	69.2%	103.2%	62.2%	crease)		6.4%	0.04%	209.5%	45.7%	970.8%

Chamber of Mines annual figures:

Minerals listed by the CSO in 2000 but not in 2007 included black granite, booming in 2000 as it earned \$552 million (US\$10 million) from 64 times 1990 production, and silver, already in decline: produced 173000oz (5.4 tonnes) in 2000, earning \$26 million, a decrease in volume of 82% 1990-2000.

The Chamber of Mines says average mineral output was lower in 2007, with platinum production dropping towards the end of the year, down more than a half to 200.21kg in September.

The gold support price rose from \$350,000/gram to \$1 million, then \$3 million in the first half of 2007. In September Gono raised it to \$3.5 million backdated to August, for September to \$4 million and in December to \$5 million a gram. But miners were already complaining that this was worthless and the proportion of

foreign currency earned they are allowed to retain does not allow mining to develop.

In October the Herald reported that at least 18 mining companies have signed up to pay for power in foreign currency and receive uninterrupted power supplies under a deal between ZESA Holdings and the Chamber of Mines.

The mining industry took another blow with news that the Zimbabwean government had suspended the issuing of exclusive prospecting orders late in October. According to the Zimbabwe Independent, hundreds of applications submitted by prospective mine developers as far back as 2003 have not been processed. Not only has this brought exploration work in the country to a standstill, it is depriving the country of foreign direct investment in the form of exploration money. "Speculation is now rife that government wants the mining sector to be indigenised before opening it up to more players,"

Not a single arrest has been made of a top government official under Operation Chikorokoza Chapera/Isitsheketsa Sesiphelile/No to Illegal Mining which promised in November 2006 to stamp out illegal mining. Small fish are another story. The total effect is small.

Zimbabwe's proposed indigenization laws and an unviable fixed exchange rate might force Rio Tinto - one of the world's leading mining companies - to shut down one of its gold mine projects in the country and put on hold a planned US\$60 million diamond project. [Mineweb (SA), 19 December]

8. Stock market

The Zimbabwe Stock Exchange had another bullish year, keeping share prices ahead of inflation, with a drop in the confusion caused by government's imposed price cuts in June-July. It closed 2007 with a more than 3000-fold gain over the year.

ZSE indices, (base=100 in 1967, adjusted for removal of 3 zeroes from the currency in 2006)

date	manufacturing	mining source	% increase over year	
			manufacturing	mining
2006	521,905.6	321,350.0	RBZ	
2007	1,836,162,638.0	1,955,864,719.1	RBZ	
Jan-07	962,391.5	538,406.0	RBZ	2,026%
Feb-07	1271,250.0	572,537.8	RBZ	3,166%
Mar-07	4,026,437.8	1,615,268.9	RBZ	12,882%
Apr-07	5,690,437.7	2,922,326.7	RBZ	16,281%
May-07	8,206,779.8	6,195,519.4	RBZ	18,056%
Jun-07	43,133,619.8	22,732,439.2	RBZ	85,340%
Jul-07	37,595,877.9	19,760,465.8	ZimInd	49,791%
Aug-07	32,615,042.6	20,916,827.6	ZimInd	1,776,099%
Sep-07	83,679,100.2	77,238,766.4	ZimInd	23,626,500%
Oct-07	257,553,354.8	289,023,575.6	ZimInd	51,753,696%
Nov-07	1101,952,387.8	1,474,072,386.6	RBZ	246,268,119%
Dec-07	1836,162,638.0	1,955,864,719.1	RBZ	351,818,825%

Many companies own assets greater than their total share value, making them ripe for takeover and stimulating activity on the stock exchange.

9. Trade

The One-Stop Border Posts Control Act, which provides for the conclusion of agreements with one or more neighbouring states on the establishment of the border posts was passed into law on 15 February 2008. The law makes it possible for selected laws of Zimbabwe to be applied extra-territorially while similar laws of one or more states would have the same effect inside Zimbabwe.

Exporters can now retain 65% of their export proceeds into their Foreign Currency Accounts for an indefinite period, the Reserve Bank of Zimbabwe announced on 8 November. [Herald]

Government's plans to sign Economic Partnership Agreements (EPAs) along with other ACP countries, in December, pose a huge threat to Zimbabwe's already battered economy. EPAs are a collective scheme to create free trade areas between the EU and ACP member states. Once signed, they should have been operational on January 1 2008. [Zim Independent: 16 Nov 2007] No news on developments since then.

Imports and exports 2006

With the Zimbabwe dollar dwindling in value 16-fold in the year, the CSO's insistence on publishing trade figures only in Z\$ makes any attempt to treat their figures quantitatively extremely difficult. Their summary listed the following as the chief customers for Zimbabwe's exports in 2006: South Africa, the DRC. Botswana,

USA.

The top three imports (in Z\$) were: petroleum oils, vegetable oils and maize

Curiously, the biggest export was under the category of 'furniture', at Z\$22.6 million million, Z\$21.9 of which was in May, i.e, more than 97% of the year's total, since the item did not appear in earlier months. Next (in Z\$) were tobacco, 'miscellaneous chemical products' (mostly organic composite solvents & thinners) and aircraft parts (a large shipment in February

As an example of what passes for information, here is the only report I have found for 2007, from the Herald, 9 November: *Between January 2007 and August 2007, export earnings from various sectors of the economy amounted to US\$1,1 billion, a 40% increase from US\$795 million realised in the 2006 comparable period.*

Tourism

As of November, tourism was said to have raked in \$59,7-million in 2007, with safari hunting contributing 36% of the earnings.

Despite the 26% increase in tourist arrivals from 1,5 million during the first nine months of 2006 to two million during the corresponding period of 2007, the number of tourists from major foreign currency generating markets like Europe and America remains low. Mainland Africa accounted for 92% of total arrivals in 2007, up from 91% in 2006. The continued decline in tourist arrivals from Europe and America is no longer entirely due to negative international publicity, but it is also caused by the overvalued exchange rate.

In October Air Zimbabwe sought approval to charge in foreign currency. More than 70% of the airline's costs are in hard currency while only 10% of its revenue is in foreign currency. Meanwhile [Zim Online reported] uncertainty gripped the airline as the International Air Transport Association (IATA) wrapped up an audit of the troubled airline that could see it barred from European skies if it fails to meet standards.

No money is available to upgrade Zim airports ahead of the 2010 Soccer World Cup in South Africa. [zimbabwejournalists.com 28th Nov 2007]

According to a research and development report by the Zimbabwe Tourism Authority 162,874 people travelled within the country in the year 2006, which translates to an 86% growth during the year.

Accommodation rates for most hotels in the country have shot up in the first week of December, putting domestic tourism under threat. The new rates are well above those approved by the NIPC that week. The old rates were also above those approved by the NIPC from 12 November. [Herald: 5 Dec 2007]

Balance of payment

Luke Zunga, a Zimbabwean author and businessman, said about \$500-million is sent back every year from South Africa. A Harare-based economist who asked not to be named said that globally about \$1-billion is sent to Zimbabwe a year, although it is difficult to quantify informal transfers. As indicated above, it is impossible to determine the overall balance of trade with any accuracy without knowing income and expenditure in hard currency.

10. Gross Domestic Product

Zimbabwe's economy was predicted by the IMF to shrink by 6.2% in 2007..[Zim Online, 7 Nov 2007]

Deducing from the projected fiscal deficit and its relation to GDP, Zimbabwe's GDP in 2008 is projected to be Z\$16 quadrillion, roughly US\$3.2 billion at the December parallel exchange rate.

11. Conclusion

It becomes clearer daily that no economic improvement is possible without real political change. The problem is not just Mugabe, but ZANU-PF's culture of patronage, cronyism and corruption. As I write, it seems change is more nearly possible than it has seemed for years. But we must remember that there are people out there with agendas that do not serve the best interests of the people of Zimbabwe. The de-industrialisation we have seen was part of a World Bank/IMF plan in the early 1990s and was halfway achieved before the cannibalistic phase of ZANU-PF's exploitation set in with the payments to the 'war veterans' in 1997. Those who in Washington advocate an ESAP II (or is it III?) are no doubt looking for the presidential candidate who can further their interests. If that sounds like Mugabe-speak, it is still unfortunately true.