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1. INTRODUCTION AND BACKGROUND

1.1 As per the now familiar statutory norm, I have the honour and privilege of making public this mid-year Monetary Policy Statement in accordance with the requirements of Section 46 of the Reserve Bank of Zimbabwe Act [Chapter 22:15], which stipulates that the Governor's Monetary Policy Statement be issued bi-annually.

1.2 It is common cause that the Reserve Bank has over last 56 months of my tenure fully complied with this statutory requirement, including issuing additional quarterly monetary review statements to address urgent strategic policy needs whenever it has been necessary to do so.

2. SEARCH FOR HOMEGROWN SOLUTIONS…

2.1 This Statement comes at a historic moment when our Nation is collectively engaged in searching for a home grown political solution to some vexing political questions that have been threatening to tear apart the social fabric of our country through otherwise needless divisions.

2.2 The divisions have not only sapped our energies but they have also created destabilizing opportunities to many among our erstwhile enemies who do not want to see us succeed as a nation of talented citizens to which God has given amazing natural resources.

2.3 As I stand here delivering this Statement, I believe more than ever before that the Nation must come to grips with the reality of what I and others in Government and elsewhere have all along been pointing out is the greatest challenge facing our country: namely, the menacing and precipitous effects of the illegal sanctions that are bleeding our national economy.

3. CASH LIMITS…

3.1 Over the past few months and weeks, there have been critical voices that have been growing louder and louder against cash withdrawal limits, with some malicious quarters even speculating that Governor Gono was deliberately seeking to punish the people of Zimbabwe for unspecified mysterious reasons.

3.2 In all this, some have not turned the page of their argument to examine the role the sanctions on us are playing to injure the fabric of our National Payment Systems.

3.3 On 2 July, 2008, this Governor received a letter from Germany, indicating that because of political reasons, our currency paper suppliers for over 50 years were unilaterally terminating supplying us immediately.

3.4 This saw a fully paid up consignment of paper due for delivery to the Reserve Bank being denied exit from Germany.

3.5 As if this was not enough, Germany then immediately froze Zimbabwe's accounts in the process, impounding scarce foreign currency resources that were destined for food imports to feed the vulnerable in our society, including women, children, the elderly and the disabled.

3.6 Part of the foreign exchange that was impounded in Germany was earmarked to pay for medical drugs, including ARVS for HIV/AIDS patients.

4. SANCTIONS ARE FOR REAL…

4.1 Given these developments, I ask those in politics and the media who have been making a lot of noise claiming that the illegal economic sanctions are only targeted at individuals and they do not affect ordinary people whether they still believe their propaganda that these sanctions do not hurt the common folk?

4.2 Indeed, we have seen from the latest round of EU and US sanctions that the new targets are not just individuals including journalists whose crime is to report news and hold opinions not favourable to those imposing the sanctions but also parastatals and other national institutions that play important roles in the national economy.

4.3 It is difficult to avoid the inescapable conclusion that the inclusion of some journalists in the latest US sanctions is an audacious and yet most unfortunate attack not just on press freedom itself but also on the principle of tolerance that is at the heart of what many, including the US government, say is absent in our national politics today.

4.4 That this blatant attack on press freedom is coming from the very same quarters that pride themselves as champions of democracy and tolerance of diverse political opinions is not only sad but also demonstrative of the troubling double standards that are being displayed by elements of the so-called international community which should know better.

4.5 The same goes for the inclusion of some parastatals and national banking institutions as targets of the new sanctions. That inclusion provides the clearest evidence to date that these sanctions do indeed seek to cause the suffering of ordinary people who have nothing to do with the conduct of the politics of the day in the country.

4.6 It now appears that those imposing these sanctions, especially at a time when Zimbabweans are engaged in path breaking negotiations on the way forward for the country, have lost not just a sense of direction but also their moral marbles.

4.7 Indeed, there is no amount of pretence that can camouflage theses illegal sanctions as having anything even remotely connected with the pursuit of democracy and human rights in Zimbabwe.

4.8 Their real motives and intentions are now out and thus in the open for all Zimbabweans to see these sanctions for the inherent dangers that they pose to all of us and to condemn them in the strongest possible terms without any economic equivocation or political excuses.

4.9 Therefore, fellow Zimbabweans, if these are not sanctions that hurt all of us then I do not know what else would be called country-wide sanctions.

4.10 These latest illegal EU and US sanctions, that have been imposed even after it became clear to the whole world that Zimbabweans have committed themselves to resolving their differences through dialogue under the auspices of Sadc, clearly demonstrate beyond any doubt that democracy and human rights are no longer the issue if they ever were in the first place and that there is something else going on here which is fundamentally sinister and thus at odds with the interests of Zimbabweans.

4.11 As Monetary Authorities, we have deliberately chosen the path of responding and managing adversity through collected calmness, marked by specific action programmes that directly bring relief to the suffering people.

4.12 The decisiveness and calmness with which we are electing to respond to the precipitous sanctions has, however unfortunately provided crevices for some among us to throw uninformed abuses and criticisms at the Central Bank, alleging that we are insensitive to the plight of the people.

4.13 To the contrary, our actions and interventions are being driven by an unshakable conviction that the welfare of the people of Zimbabwe comes first, ahead of any personal or sectional considerations.

4.14 Fellow Zimbabweans, the times we are living in and the gravity of the challenges we are facing demand that extraordinary interventions be deployed to fend-off the wolves from our national door-steps.

4.15 It is for this reason that as Monetary Authorities, we urge all political formations in the country to set aside partisan lines and to rise above sectional or personal interests and to objectively engage to find lasting solutions in the common interests of the country, the economy and the strong-willed people of Zimbabwe.

4.16 Without the right political will and support; without the unity of purpose among fellow Zimbabweans; and without the patriotic commitment by all players in the country's productive sectors, no amount of singular institutional toiling will yield any solution to the diverse and intricate challenges we face as a country today.

4.17 WE NEED TO UNITE AND JOINTLY SPEAK AGAINST SANCTIONS.

4.18 We must unify our planning programmes and policy implementation frameworks to better strengthen and better coordinate our institutions.

4.19 We must tangibly extract and realize economic value from our minerals.

4.20 Our mines, large, medium and small, must operate honestly, shunning ill-practices of tax evasion, overstatement of expenses, under valuation of exports, smuggling or blatant disregard of the need to protect the environment and the welfare of communities in which they operate.

4.21 And as I have mentioned in my previous monetary statements over the last 56 months, we must eradicate the vices of pricing distortions, corruption and indiscipline in our systems.

4.22 Our manufacturers must think about the welfare of consumers when they set their pricing systems in the interest of ensuring good business practices.

4.23 Our transporters must think about the welfare of commuters when they set their fares.

4.24 Our Public Utilities in the areas of electricity, water, telecommunications, fuel, grain procurement and input supplies, air and railway transportation, among many others, must think about the best ways of operating efficiently and providing affordable, readily available service to the people when they go about their everyday work.

4.25 Only through these multi-prolonged pillars of economic patriotism, unity of purpose and solidarity against common adversity can Zimbabwe work its way out of the current set-backs.

4.26 In these efforts, we also need to expand and consolidate our circle of friends as a country.

4.27 As we have repeatedly stated, no country or economy, let alone a people, can exist as an island in today's integrated global economy.

4.28 For this reason, we urge all corporate, Government, individual, religious, gender and political constituencies to speak and practice the language of deepening Zimbabwe's integration into the regional and international mainstream of socio-economic, political and financial inclusion informed by and based on the pursuit and defence of our national interests.

4.29 Through this, particularly when done with parties interfacing with sincerity, Zimbabwe will soon overcome its current seemingly insurmountable challenges.

5. THIS MONETARY POLICY STATEMENT ...

5.1 The objectives of this Monetary Policy Statement are:

(a) To address the cash constraints in the payments system, as well as the financial and accounting IT systems challenges emanating from high-digit values;

(b) To deepen and integrate a focused Food Security promotion programme as an integral part of the strategy to stabilize inflation;

(c) To promote financial sector stability through supervisory vigilance, as well as insistence for adequate capitalization of financial institutions at all times;

(d) To establish a consolidated framework for the streamlining of the Central Bank's various intervention programmes in a manner that gives rise to a dedicated and wholly autonomous financial intermediary that would work to fill the observed typical developmental financing gaps caused by market failures in responding to the peculiar needs of some of the country's socio-economic sectors;

(E) To provide a synthesized depiction of the scope and benefits of the on-going Basic Commodities Supply Enhancement Programme being implemented as an integral part of the broad Basic Commodities Supply Side Intervention (BACOSSI);

(f) To reassure the Nation that all is not lost in the country's quest for macroeconomic stability, economic growth and balanced development as there are real hopes on the horizon;

(g) To proffer some advice to Government, the Productive Sectors, Labour, Civil Society, as well as the International Community in general on alternative focal areas requiring implementation as contribution to the on-going efforts to stabilize the Zimbabwean economy.

5.2 This list of objectives, whilst not exhaustive, does provide a reasonable starting point and foundation for speeded macroeconomic stability and the restoration of business confidence in the country.

5.3 It is hoped that stakeholders, elsewhere in the economy will play their modest part in contributing to these efforts.

6. CURRENCY REFORMS

6.1 Over the past few months, developments on the inflation front, accentuated by subdued productivity levels, as well as the constricting effects of the illegal sanctions imposed on the country, the demand for currency has significantly grown.

6.2 Also reflecting the high inflation environment prevailing in the economy, monetary valuations and transaction values have grown to nominal magnitudes that are now constraining the smooth operability of financial IT systems.

6.3 Members of the public, the corporate sector, as well as the banking sector recently made well motivated recommendations on how the Central Bank could address these constraints.

6.4 Accordingly, the following currency reforms are being introduced with effect from the 1st of August, 2008.

7. THE NEW CURRENCY REFORMS

(a) With effect from the 1st Of August, 2008, all monetary valuations have been re-denominated by a factor of 1:10,000,000,000 which effectively means the removal of ten (10) zeros from all monetary values;

(b) What this means is that $10,000,000,000 (ten billion dollars), therefore will translate to $1 (one revalued dollar) with effect from August 1, 2008.

(c) With effect from August 1, 2008, the Reserve Bank is issuing new currency, in the following new revalued denominations:

- $500 (note)
- $100 (note)
- 25 (coin)
- $20 (note)
- $10 (note and coin)
- $5 (note and coin; previous coins taking new value)

- $2 coin (taking new value)
- $1 (note and coin)
- 50c (coin; redeployment of previous coins taking new value)
- 20c (coin taking new value)
- 10c (coin (taking new value)

(d) The new currency will circulate together with the existing family of bearer cheques and agro-cheques, which bearer and agro cheques shall cease to be legal tender on December 31, 2008.

8. CASH WITHDRAWAL LIMITS

(e) With effect from the 1st of August, 2008, individuals and companies' daily cash withdrawal limit has been increased more than twenty-fold from $100 billion (before revaluation) to $2 trillion (before revaluation) or $200 (revalued).

8.1 As Monetary Authorities, we once again wish to call upon stakeholders to exercise restraint in their demand for cash and in how prices are set in the goods and services markets.

8.2 As we work to consolidate speeded economic stabilization, expected to be bolstered by the on-going political dialogue between the key political parties in the country represented in Parliament, the Central Bank is working tirelessly to ensure that currency issues cease to be cause for concern to the public.

8.3 The current reform efforts will, therefore, work to sustain permanency of the new currency being rolled out, along with the conveniences it will bring.

9. FOREIGN EXCHANGE MANAGEMENT

9.1 Limited availability of foreign exchange remains a major constraint to the economy's recovery efforts.

9.2 Reflecting the limited supply of foreign exchange, the interbank exchange rate has experienced phenomenal pressure since its introduction.

9.3 Over the outlook period, the situation is, however, expected to significantly improve, as the exporting sectors respond to the lagged effects of enhanced competitiveness under the willing-buyer, willing seller foreign exchange market framework.

9.4 Current efforts to consolidate the country's mining sector regime, along with other initiatives are expected to uplift overall foreign exchange inflows over the remainder of the year.

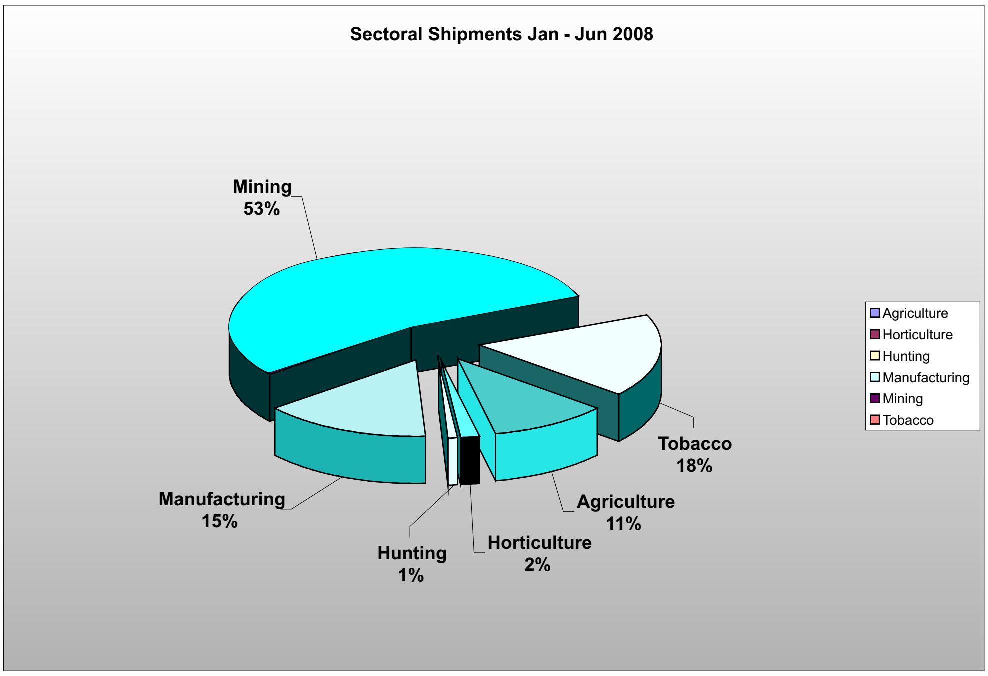
9.5 This expected favourable position will relieve current pressures on the exchange rate, under the willing-buyer, willing seller framework which is being retained under this Monetary Policy Statement.

10. EXPORT PERFORMANCE

10.1 For the period 1 January to 30 June 2008, total export shipments of goods amounted to USD758.97 million compared to USD882.70 million during the same period in 2007. This represents a 14% decline in exports of goods and services.

10.2 The Mining Sector contributed 53% of export shipments, followed by Tobacco which contributed 18% as shown in the Figure below:

Total Export Shipments



US$ VALUE OF SHIPMENTS BY SECTOR FROM 1 JANUARY 2008 – 30 JUNE 2008

	Agriculture	Horticulture	Hunting	Manufacturing	Mining	Tobacco	Grand Total
Jan	13,048,447	1,819,960	1,601,036	13,119,598	62,737,393	31,323,192	123,649,625
Feb	14,589,867	2,277,679	1,017,099	15,283,732	57,215,454	45,930,175	136,314,007
Mar	11,357,248	2,035,747	963,108	14,170,557	64,673,492	18,959,966	112,160,118
Apr	11,420,492	2,520,091	365,488	17,942,822	69,919,419	15,087,769	117,256,081
May	11,912,034	2,386,962	384,390	32,660,990	81,206,212	14,443,850	142,994,437
Jun	16,748,945	2,032,163	880,138	19,859,492	70,791,137	5,908,466	116,220,341
	79,077,033	13,072,601	5,211,259	113,037,190	406,543,108	131,653,418	748,594,609

US$ VALUE OF SHIPMENTS BY SECTOR FROM 1 JANUARY 2007 – 30 JUNE 2007

	Agriculture	Hunting	Manufacturing	Mining	Tobacco	Horticulture	Grand Total
Jan	15,794,499	884,190	17,443,436	63,590,867	72,469,956	2,691,173	172,874,121
Feb	16,830,745	1,124,617	18,200,951	56,898,369	17,239,070	2,954,492	113,248,244
Mar	12,919,386	1,070,845	21,575,273	97,138,491	12,222,523	2,821,260	147,747,778
Apr	8,192,453	842,128	17,281,713	87,537,598	6,988,803	2,782,585	123,625,280
May	13,793,242	1,008,194	40,116,557	86,061,014	9,916,081	3,099,007	153,994,095
Jun	19,332,825	1,352,967	30,265,125	81,940,250	6,136,726	2,424,761	141,452,653
	86,863,149	6,282,941	144,883,055	473,166,590	124,973,159	16,773,277	852,942,171

10.3 Mineral shipments for the period January to June, 2008 decreased substantially compared to those shipped during the same period in 2007.

10.4 The decrease of 16.34% in shipments can be attributed to the increasing operational costs, power cuts/outages, brain drain, fuel shortages and unavailability of foreign currency for the importation of basic spares and accessories.

10.5 A significant component of under performance in mining is the area of precious minerals which also is largely accounted for by rampant smuggling.

Mineral Shipments for 2008

Month	Shipment US$ 2007	Shipment US$ 2008	%ge Variance
Jan	63,590,867	62,737,393	(1.34)
Feb	56,898,369	57,215,454	0.56
Mar	97,138,491	64,673,492	(33.42)
Apr	87,537,598	69,919,419	(20.13)
May	86,061,014	81,206,212	(5.64)
Jun	81,940,250	70,791,137	(13.61)
Total	**473,166,590**	**406,543,108**	**(14.08)**

11. FORENSIC MINING SECTOR AUDITS

11.1 As Monetary Authorities, we once again wish to remind stakeholders in the mining sector that forensic audits by international auditors highly qualified in this area are now fully under way.

11.2 These audits which are being carried out by the widely acclaimed Audit firm, Alex Stewart International LLC, have already unravelled very glaring discrepancies and financial prejudices to the country by some mining houses against whom appropriate remedial measures will be taken in due course.

11.3 The focused audits are being broadened to cover all major mining houses, as well as introducing tighter oversight mechanisms at the country's exit points to plug the currently highly porous borders.

12. AGRICULTURE EXPORTS

12.1 For the period 01 January to 30 June 2008, total exports under the Agricultural Sector amounted to **US$210,730,451** compared to **US$228,609,584** worth of exports for the same period in 2007. This represents a decrease of 7.82%, largely explained by unfavourable weather conditions during the 2007/2008 agricultural season.

General Agriculture Export Shipments

Month	Value of Forms CD1Approved (USD) 2008	Value of Forms CD1 Approved (USD) 2007	Variance	%Change
January	13,619,316	15,794,499	(2,746,052)	(17)
February	14,783,058	16,830,745	(2,240,877)	(13)
March	11,412,479	12,919,386	(1,562,138)	(12)
April	11,135,197	8,192,453	3,228,039	39
May	11,912,034	13,793,242	(1,881,208)	(14)
June	16,748,945	19,332,825	(2,583,880)	(13)
Total	79,077,033	86,863,149	(7,786,116)	(9)

Tobacco Export Shipments

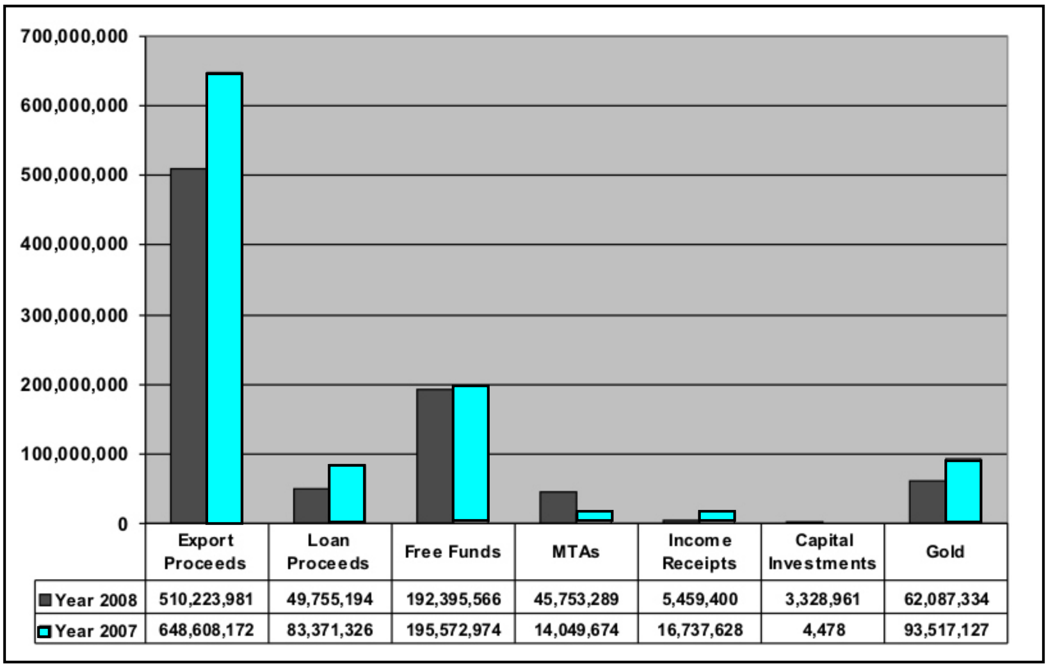
Month	Value of Forms CD1 Approved (USD) 2008	Value of Forms CD1 Approved (USD) 2007	Variance	% Change
January	31,323,192	72,469,956	(40,665,175)	(128)
February	45,930,175	17,239,070	28,698,854	62
March	18,959,966	12,222,523	6,752,943	36
April	15,087,769	6,988,803	8,358,040	54
May	14,443,850	9,916,081	4,527,769	46
June	5,908,466	6,136,726	(228,259)	(4)
Total	131,653,418	124,973,159	6,680,259	5

12.1 Tobacco exports amounting to **US$131.65 million** were approved, for the period 01 January to 30 June 2008. **This represents a 5.35% increase over 2007 exports.**

Global Foreign Currency Receipts for January June 2007 and 2008

TYPE OF RECEIPT	YEAR 2007	% CONTR	YEAR 2008	% CONTR	% CHANGE
Export Proceeds	648 608 172	61.66	510 223 981	58.71	(21)
Loan Proceeds	83 371 326	7.93	49 755 194	5.73	(40)
Free funds	195 572 974	18.59	192 395 566	22.14	(2)
MTAs	14 049 674	1.34	45 753 289	5.27	226
Income receipts	16 737 628	1.59	5 459 400	0.63	(67)
Capital investments	4 478	0	3 328 961	0.38	74240
Gold Receipts	93 517 127	8.89	62 087 334	7.14	(34)
TOTAL PER YEAR	**1 051 861 379**	**100**	**869 003 724**	**100**	**(17)**

Comparison of Global Foreign Currency Receipts for the periods 01 January-30 June for 2007 and 2008



12.3 **Export Proceeds:** 2008 saw Export proceeds decreasing by **21%** for the same period in 2007.

12.4 **Free Funds:** 2008 saw a decrease in the Free Funds of **2%.**

12.5 **Homelink MTAs:** An increase in Homelink MTA receipts by **226%** was as a result of the option to receive payouts in foreign currency.

13. EXPORT GROWTH PROMOTION

13.1 As Monetary Authorities, we continue to work to ensure that exporters are encouraged through various support programmes to enhance their viability.

13.2 The export growth model that we subscribe to is one where the exchange rate continues to act as the key variable of adequate compensation to exporters.

13.3 Under this thrust, there is, therefore need for Authorized Dealers and all generators of foreign exchange to ensure that they operate within the formal interbank foreign exchange market, so as to deepen its signalling capacity in the promotion of exports.

13.4 Increased volumes of foreign exchange traded on the formal interbank market will, in essence, work to stabilize the exchange rate, whilst at the same time enabling the rest of the productive sectors to access foreign currency for their critical needs.

Duty Drawback System

13.5 The rationale for duty drawback is to enable manufacturers and other exporters to compete in foreign markets without the handicap of including costs of imported inputs in the final export price.

13.6 Over the outlook period, we will work to persuade the fiscal authorities to deepen this support window for our exporters.

Manufacturing under Bonded Warehouses

13.7 This scheme allows manufacturers to seek from ZIMRA, Customs licences which enable them to hold in the bonded warehouses, imported raw materials intended for manufacture for exports.

13.8 Duties are then levied as and when they manufacture for the local market or exempted when production is for export.

13.9 This scheme makes available working capital, which would have been tied up through paying duties immediately at the time of importation.

13.10 Again, the Reserve Bank encourages the fiscal Authorities to deepen and sustain this support instrument, as it reduces the raw material supply lead times.

Management of FCA'S For Exporters

13.11 Currently, exporters retain 65% of proceeds received within 90 days in their FCAs and sell 35% to the Reserve Bank. The retained 65% must be utilized within 21 days.

13.12 With effect from 1st of August, 2008, the following FCA framework shall apply:

(i) The Upfront Open Market Disposal Requirement to the Central Bank has been increased to 45%, effectively meaning that exporters would now be retaining 55% in the FCA balances. The disposal is at the going interbank market exchange rate.

(ii) The 21 Day FCA liquidation period has been extended to 30 days with effect from the 1st of August, 2008.

The Tourism and Transport Sector Voucher System by Foreign Guests

13.13 In the spirit of harmonizing the repatriation of export proceeds, with particular reference to the Tourism Sector Voucher Payment System, the period for repatriation has been increased with immediate effect from 30 to 40 days.

Agent Commission in the Tourism Hunting Sector

13.14 As Monetary Authorities, we have noted that the 10% commission payable to foreign agents is not competitive enough to entice agents to market Zimbabwean hunting operators. Tourism players the world over, competing for the same clientele, are offering higher commissions.

13.15 Against this background, the commission payable to foreign agents marketing Zimbabwe's hunting sector has been increased from 10% to 15% with effect from the 1st of August, 2008.

Transport Sector

13.16 It has been noted with concern that some Cross Border Bus Operators have been observed to deposit their earnings with banks offshore.

13.17 As Monetary Authorities, we strongly urge cross border Bus Operators to use the General Services Declaration Form (GSD).

13.18 To support genuine logistical needs, Cross Border Bus operators are, with effect from the 1st of August, 2008, now allowed to utilize 20% of their foreign currency earnings for unavoidable expenses (Fuel, Toll fees, staff allowances etc) without seeking prior Exchange Control Authority and later furnish monthly returns and invoices to account for such transactions. This will improve operational and monitoring efficiency.

13.19 As Monetary Authorities, we strongly believe that sustenance of these support measures to exporters, buttressed by a coherent political environment will improve the overall foreign exchange supply situation in the country.

14. DOMESTIC DEBT DEVELOPMENTS

14.1 The stock of Government domestic debt by mid July 2008 stood at $790.6 quadrillion, reflecting an increase of 7 417.5% from $10.5 quadrillion recorded at the beginning of second quarter of 2008.

14.2 The surge in the domestic debt position largely reflects the needs Government, like in any elections, confronted to meet the smooth running of the 2008 Harmonized and Run-Off Elections.

14.3 The mismatch between fiscal revenues and expenditures also opened a significant funding gap which resulted in Government utilizing the overdraft window at the Reserve Bank, while at the same time borrowing from the domestic market.

14.4 Cumulatively, since the beginning of the year 2008, Government raised 365-days treasury bills amounting to $211, 5 quadrillion, of which 99% or $210.3 quadrillion was raised between April and mid July 2008.

14.5 Domestic Debt Stock by Tenor

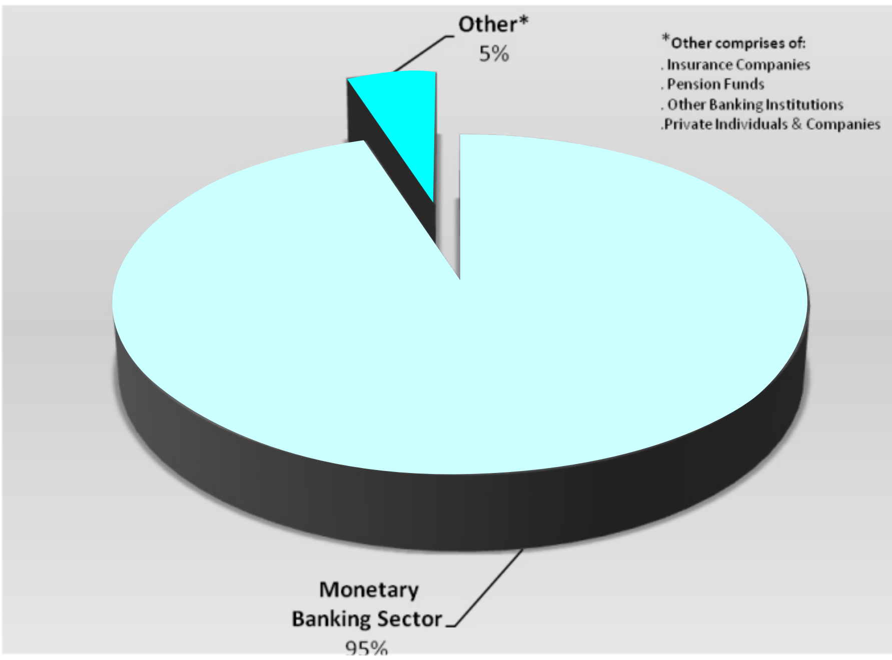
14.6 Notwithstanding the small amount of $13.4 billion in 3-year Government stocks, the whole amount of Government debt is in 365-day treasury bills.

14.7 This development means that a large portion of Government domestic debt is short term. There is need, therefore, to restructure Government domestic debt to a long-term maturity profile to anchor domestic debt sustainability.

Domestic debt by Holder

14.8 The Monetary Banking Sector remained the major holder of Government domestic debt at 95% or $751.5 quadrillion as at mid-July 2008.

14.9 Commercial banks accounted for about $750.7 quadrillion or 99% of the Monetary Banking Sector's holding of domestic debt. This is attributed mainly to banks' active participation in Open Market Operations.



FINANCIAL SECTOR DEVELOPMENTS

15. STATUS OF THE BANKING SECTOR

15.1 The Banking Sector has remained generally safe and sound despite the adverse macroeconomic environment.

15.2 The resilience of the banking sector is underpinned by the continuous enhancement of supervisory methodologies being deployed, as well as the adoption of sound risk management and corporate governance practices by the majority of our banking institutions.

Banking Institutions…

15.3 As at 30 June 2008, there were 28 banking institutions as tabulated below:

Composition of the Banking Sector

Type of Institution	Number
Commercial Banks	15
Merchant Banks	6
Finance Houses	0
Discount Houses	3
Building Societies	4
Total	**28**

15.1 Trustfin and National Discount Houses converted into TN Bank, a commercial bank, and NDH Bank a merchant bank, respectively. The institutions have, however, not yet commenced operations under their new lines of business.

Asset Management Companies…

15.2 As at 30 June 2008, there were seventeen (17) operating asset management companies.

15.3 Concentration in the sector remains high, with three (3) asset management companies accounting for about 80% of total funds under management.

15.4 The Reserve Bank continues to call upon asset management companies to focus on core business and consolidate their operations.

Microfinance / Moneylending Institutions…

15.5 Out of the cumulative 309 registered microfinance /moneylending institutions registered to date, only 150 are still operational. A significant number of these institutions have ceased operations and surrendered their licenses citing viability constraints.

16. MINIMUM CAPITAL REQUIREMENTS

16.1 The Reserve Bank has, from time to time, formally and informally, urged banking institutions to closely monitor their capital levels in order to ensure on-going compliance with regulatory requirements, as well as provide adequate economic capital for their levels of operations, business strategies and the prevailing macroeconomic environment.

16.2 With effect from the **31st of August 2008**, the following minimum capital levels shall apply, as was fore-advised to the Banking sector repeatedly in the past.

Institution Category	Minimum Capital Requirement (USD)
Commercial banks	12.5 million
Merchant banks	10 million
Building Societies	10 million
Finance Houses	7.5 million
Discount Houses	7.5 million
Asset Management Companies	2.5 million
Moneylending /Microfinance Institutions	5 000.00

16.3 All financial institutions are required to ensure ongoing compliance with the stipulated minimum capital levels at the prevailing interbank exchange rates.

16.4 As Monetary Authorities, we urge those institutions whose shareholders have no realistic chances of meeting the requisite capital thresholds to actively consider mergers and amalgamations with other institutions.

17. ENHANCEMENT OF RISK MANAGEMENT AND CORPORATE GOVERNANCE PRACTICES

17.1 In view of the challenging macroeconomic environment, we urge all financial institutions to continue strengthening their risk management and corporate governance practices.

18. FINANCIAL INCLUSION

18.1 The Reserve Bank continues to call upon all financial institutions to devise innovative ways of ensuring availability of financial services to the unbanked and underbanked communities.

18.2 To this end we urge financial institutions to enhance their **service delivery channels** in order to reduce dependency on cash and/or brick and mortar structures.

19. THE REAL SECTOR

19.1 The Zimbabwean economy continues to experience acute macroeconomic challenges.

19.2 The adverse effects of sanctions, high production costs, power outages, fuel shortages, shortages of foreign currency and drought have largely constrained production, culminating in widespread shortages of goods and services, high unemployment levels and declining living standards.

19.3 The 2008 agricultural season was adversely affected by both incessant rains in December 2007 and intra season dry spells as from January 2008. The poor performance of the agricultural sector had economy wide effects due to the forward and backward linkages between agriculture and other sectors of the economy.

19.4 Tobacco production is expected to increase marginally from 73 million kg in 2007 to 75 million kg in 2008. The increase in production is due to better preparations and grower support for the crop by Government which resulted in improved yields.

19.5 The Table below shows total cumulative tobacco deliveries and the average price as at 10th July 2008.

Tobacco Sales as at 10 July 2008

	TOTAL AUCTION	CONTRACT	TOTAL 2008
Mass sold(kg)	10,603,555	18,696,750	**29,300,305**
Value(US$)	34,860,857	58,114,708	**92,975,565**
Average price Usc/kg	**328.77**	**310.83**	**317.32**

19.6 Improved access to a wide range of farm machinery and equipment through the Farm Mechanisation Programme, and inputs such as fertilisers, seeds and chemicals during the 2008/2009 farming season, will enhance agriculture activity.

19.7 Notwithstanding the general surge in global mineral prices, the mining sector, however, remains depressed, underpinned by smuggling, as well as viability constraints at some mines.

19.8 Gold deliveries as at 11th July 2008 amounted to 2 113.2kg. Disparities in prices offered by Fidelity Printers and Refiners and the parallel market have resulted in rampant smuggling of the yellow metal, a development which the Reserve Bank is working closely with other arms of Government to address.

19.9 Uncertainties associated with the finalisation and implementation of the Mines and Minerals Act have also undermined overall Performance of the Sector by putting on hold capital investments in the Mining sector.

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

19.11 Reduced through put from agriculture, coupled with shortages of raw materials have resulted in capacity underutilisation in the manufacturing sector, and it is for this reason that the Reserve Bank urges manufacturers to reduce their unit overheads through toll manufacturing.

19.12 The liberalisation of the exchange rate has, however, enhanced export competitiveness, which must now be consolidated through rapid disinflation.

20. TOURISM

20.1 Tourist arrivals recorded an 11% increase, from 305 757 in the first quarter of 2007 compared to 340 810 recorded during the first quarter of 2008, despite negative publicity that the country is currently going through.

20.2 The Table below shows statistics on tourist arrivals.

Tourist Arrivals

Tourist Arrivals	First Quarter 2007	First Quarter 2008	% Change
Africa	259 105	252 948	**-2%**
Europe	24 375	26 230	**8%**
America	7 057	42 076	**496%**
Asia	9 278	12 775	**38%**
Oceania	5 515	6 332	**15%**
Middle East	427	449	**5%**
Total	**305 757**	**340 810**	**11%**

20.1 Room and bed occupancy rates have increased in tandem with tourist arrivals.

20.2 Average room occupancies rose from 38% in the first quarter of 2007 to 43% during the same period of 2008.

20.3 On the Financial Sector, performance has remained resilient, notwithstanding the difficult operating conditions prevailing in the economy.

20.4 Over the outlook period, prospects of a rebound in positive economic activity are looking up, against the background of the expected breakthrough in resolving the country's political difficulties.

20.5 As Monetary Authorities, we once again wish to reiterate that as Zimbabweans, we cannot, and we should not separate the economy and its performance from the politics of the day.

20.6 Our political environment must provide the needed conducive environment to give investors and the generality of the productive sector confidence.

20.7 This, coupled with the combined effects of the foreign exchange market reforms, the various supply side interventions in agriculture and the manufacturing sector is expected to gravitate the economy towards lasting recovery, growth and prosperity.

20.8 This outlook must be bolstered by coherent investment promotion strategies and other supporting measures, such as realignments in the regulatory environment in the areas of mining and general investment management.

21. INFLATION

21.1 Inflation, the economy's enemy number one, has now evolved to alarming levels that threaten the socio-economic stability of the country.

21.2 The exponential growth in headline inflation is attributed to price increases in both food and non-food categories in the country's consumer price index (CPI) basket.

21.3 It is important to underscore that the following factors have largely combined to build the high inflation momentum currently being experienced in the economy:

(a) General increase in global energy prices;

(b) Shortages and the resultant surge in global food prices;

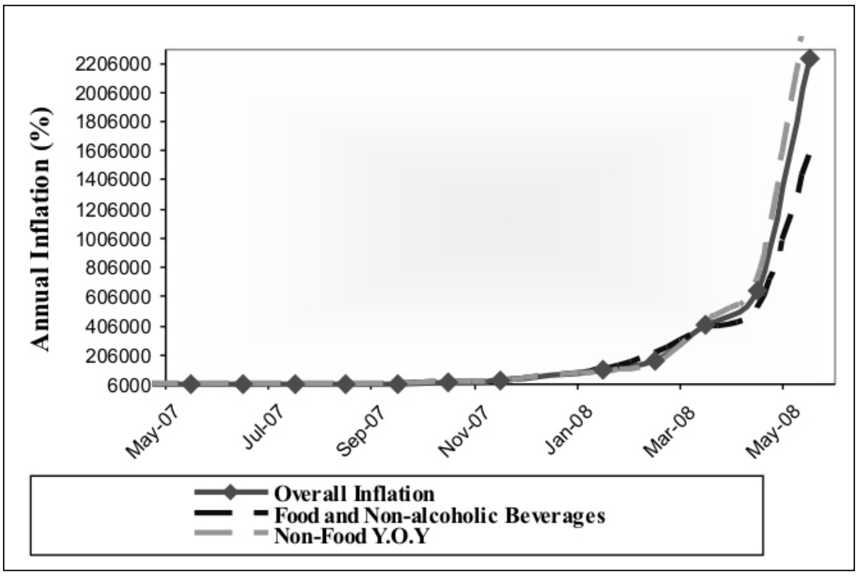
(c) The adverse effects of the illegal sanctions against the country which have significantly constricted the supply-side of the economy through closure of external funding;

(d) High monetary growth rates occasioned by the inevitable supply-side interventions that the Reserve Bank has had to carry out in order to bridge the sanctions-induced resource gaps. It should, however, be noted that the bulk of these interventions by the Central Bank are expected to bear much more beneficial fruits over the medium to the long-term;

(e) Negative speculative expectations in the economy, which have become a significant psychological inflationary phenomenon and;

(f) The knock-on effects of foreign currency parallel market exchange rates and the indexing of general transactions to foreign exchange benchmarks.

Annual Inflation Profile



WINNING THE BATTLE AGAINST INFLATION

21.1 Resolving the inflation monster requires an unfailing combination of the following critical pillars.

(a) The **expeditious** resolution of the current political differences among the country's major political players to create an environment marked by a deep sense of national cohesion and unity of purpose in committing to resolve the economic challenges facing the country.

(b) An immediate unified call by all Zimbabweans across the board for the lifting of the illegal sanctions against Zimbabwe. Out of sight from the public eye, the illegal sanctions are crippling literally all the veins and arteries of the Zimbabwean economy, contributing to the current surge in inflation, among many other difficulties.

(c) Within the context of the Social Contract, Zimbabweans must realize that the country is in a practically binding state of socio-economic emergency. As such, there is need for a universal moratorium on all incomes and prices for a minimum period of 6 months.

(d) As a guide, the Reserve Bank has carried out a comprehensive survey of the prices as at 25 July, 2008 and if stakeholders mutually agree to commit to the 6 months moratorium, Government, Labour, Business and Civil Society must immediately map out a Social Pact, giving effect to this intervention. The pact must be accompanied by a comprehensive package of economic reforms across the board.

(e) Radical streamlining of fiscal expenditure, and hence, reduction of reliance on monetary financing of the fiscal budget. Through this, there will be scope for the rapid deceleration of Money Supply growth.

(F) Increased productivity in agriculture under the Food Security theme.

(g) Reduction of overheads in manufacturing through increased utilization of capacity via toll-manufacturing.

21.2 As Monetary Authorities, we once again wish to reiterate that the battle against inflation cannot be consigned as a lone effort of singular institutions or of singular groups among us.

21.3 What every Zimbabwean has to realize is that if we all continue as we are doing to increase prices, exchange rates, interest rates, wages, salaries, rentals and other service charges, including bank charges, at the current daily and in some cases hourly rates, we will soon have no economy to talk about.

21.4 If we do not immediately come to realize that the trigger for rapid disinflation is to arrest the current run-away speculative mode in our markets, then soon, our workers will practically be confronted with employers who cannot pay for their hourly wages.

21.5 Indeed soon, we will find out that by allowing our markets and pricing systems to degenerate on the inflamed path of perpetual daily incomes and prices hikes, we are incinerating the very fabric of our collective existence.

21.6 The stage where the economy is, therefore, requires nothing short of a total change of approach and commitment by all stakeholders to arrest the speculative bubble through the moratorium route.

21.7 In suggesting the adoption of this intervention, Monetary Authorities are by no means implying that the fixing of incomes and prices is the ultimate panacea of the inflationary pressures.

21.8 Rather, the 6 months moratorium is suggested here as the most credible foundation and seed for the re-transformation of market trends and micro-level pricing behaviour into stable and predictable modes.

21.9 The gained stability will allow the swift implementation of supportive and more comprehensive reforms that would engender medium to long term-term stability in the country's price-income formation system.

21.10 Fellow Zimbabweans, the time for finger-pointing and bickering at the Social Contract Negotiation table is over.

21.11 With the wolves literally at the door, and it is at everybody's door here in Zimbabwe, it is high time we wake up to the reality that we must swiftly set aside our differences and close ranks to confront the inflation scourge and illegal sanctions as a coherent force.

21.12 Without this, crops and crops of central bankers can be cycled, but this would not bring about the desired result.

21.13 Against this background, we urge stakeholders to put their heads together as a matter of urgency to arrest any further slippages into the hyper-speculative mode in the interest of bringing about macroeconomic stability

22. MONETARY DEVELOPMENTS

Money Supply

22.1 Annual broad money supply (M3) growth has maintained an upward trend reflecting the inevitable Central Bank interventions to stimulate the supply side of the economy in the absence of external support.

22.2 Resultantly, broad money supply growth increased from **64 113%** in December 2007 to **420 867.4%** in April 2008.

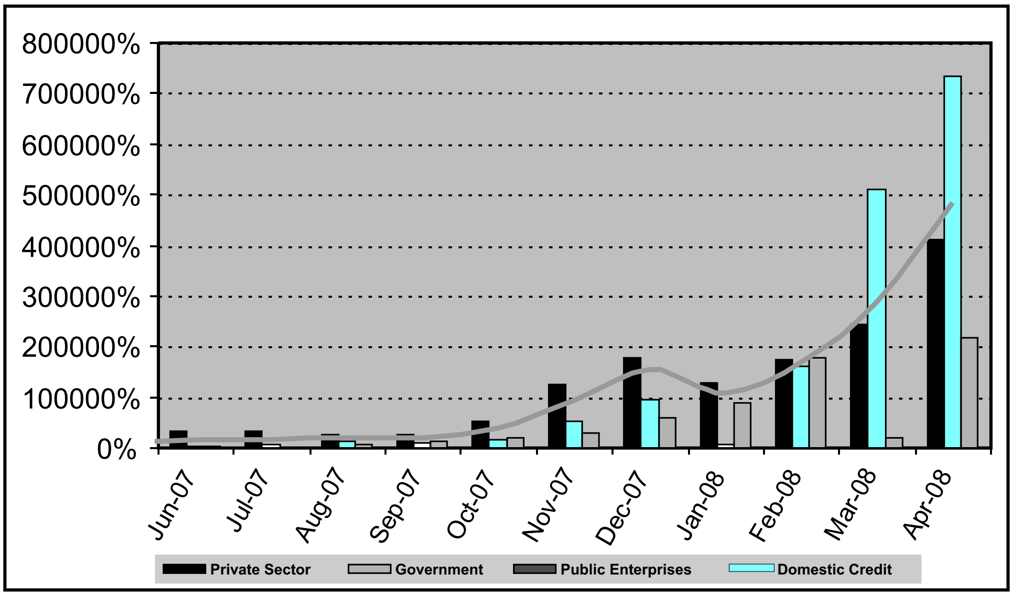
22.3 On an annual basis domestic credit grew by 482 460.9% in April 2008, largely driven by growth in:

(i) Credit to the private sector, 412 919.7%;

(ii) Credit to Government, 734 013.7%; and

(iii) Claims on public enterprises, 216 066.7%.

Domestic Credit Sectoral Annual Growth Rates



22.4 Credit to Government, has largely been from domestic banks due to the drying up of external credit lines.

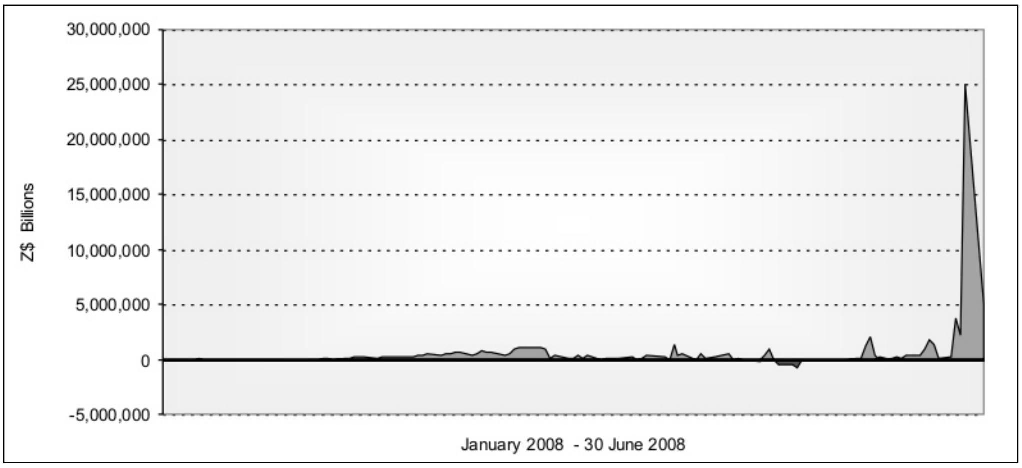
Money Market Position

22.4 The money market experienced liquid conditions for the greater part of the first half of 2008.

22.4 Significant liquidity injections were mainly due to increased Government expenditures, largely related to the 2008 Harmonized and National elections, which were held in March 2008 and June 2008, respectively.

22.7 As a result, money market surpluses surged significantly, peaking at $25 quadrillion by the end of June 2008.

Daily Money Market Positions



22.1 Liquidity injections during the First Half of the year amounted to about **$1 057 quadrillion**, largely emanating from Government expenditures ($410 quadrillion), gold and foreign purchases ($332.2 quadrillion), as well as disbursements in support of economic and social activities ($275 quadrillion).

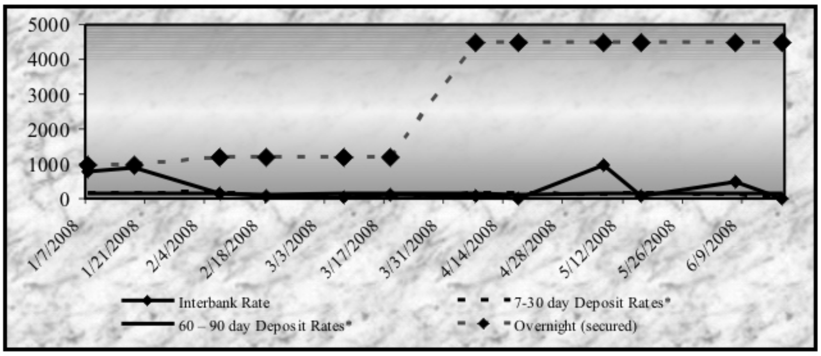
22.2 Offsetting these injections were withdrawals of **$516.6 quadrillion**, largely in the form of statutory reserve payments by banks ($193 quadrillion) and Government revenue collections ($115 quadrillion).

22.3 Short term interest rate fluctuations largely mirrored changes in daily money market liquidity conditions.

22.4 The inter-bank rate fell to as low as 0% during periods of large surplus conditions, to levels of 1 000% during periods of intermittent money market shortages.

22.5 Other short term interest rates remained largely depressed throughout the first half of the year, on the back of huge surplus conditions on the money market.

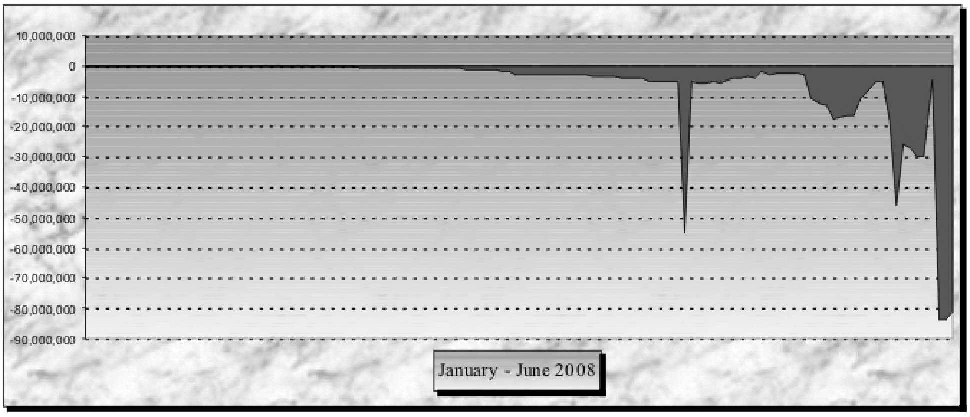
Selected Money Market Rates (%) End-Period



22.1 Government account at the Central Bank recorded sustained deficit positions since February 2008, consistent with increased expenditures associated with elections, as well as civil servants' salary adjustments.

22.2 Consequently, Government overdraft position peaked at $83.6 quadrillion, as at the end of June 2008.

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



INTEREST RATES POLICY

23.1 At current rates of 8500% and 9500% for secured and unsecured accommodation, respectively, the Reserve Bank's interest rates levels are deemed to be prohibitive enough in discouraging over reliance on Central Bank borrowing by banks.

23.2 Accordingly, these interest rates levels are being maintained unchanged.

24. REGIONAL AND INTERNATIONAL DEVELOPMENTS

24.1 Global economic growth is projected to slowdown from 4.9% in 2007 to 3.7% in 2008. Global growth has been adversely affected by **turmoil in financial markets, slower growth in high-income countries, and rising inflation.**

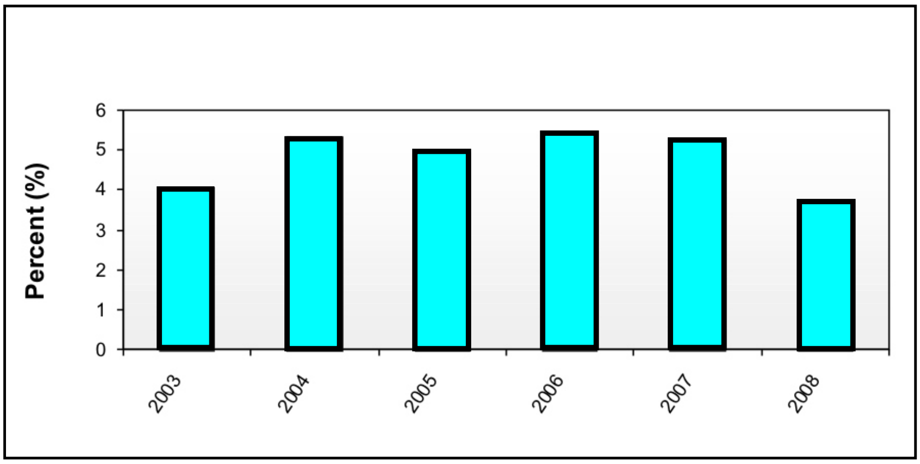
24.2 The turmoil in financial markets deepened since late 2008. **This development saw major banks, securities firms, and financial guarantors recording sizable valuation losses on mortgages and other assets, which have strained their balance sheets.**

24.3 The ensuing tightening of credit conditions, and the disruption to the financial system have been felt mostly in the United States, where the housing sector has borne the brunt of the fallout from the sub-prime crisis.

24.4 Global headline inflation has edged upwards on the back of high food prices associated with bio-fuels-related demand, as well as high oil prices. World inflation is projected to increase from 4% in 2007 to 4.8% in 2008.

24.5 In the US, inflation increased from 2.8% to 3% in 2007, while in other advanced economies, it rose from 2.1% to 2.6%. In the emerging economies, inflation increased from 6.3% to 7.4% over the same period. In the Sub-Saharan Africa, inflation is projected to increase from 7.2% in 2007 to 8.6% in 2008.

World Economic Growth

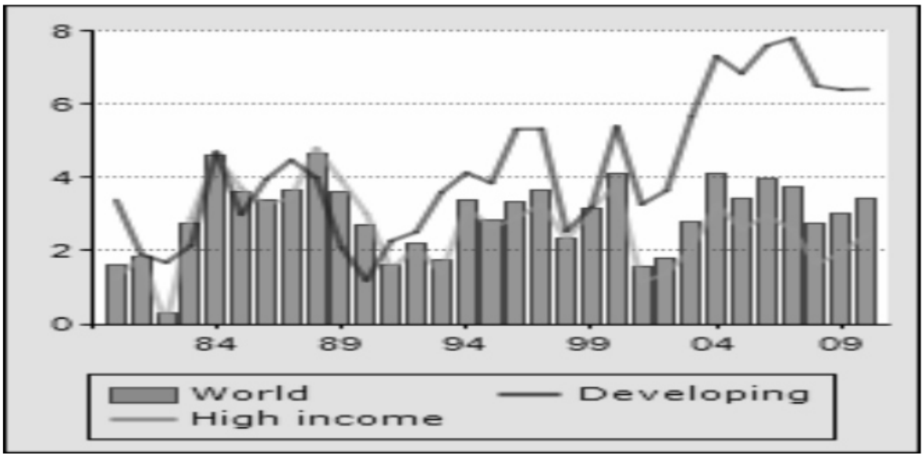


24.1 Although vulnerable countries that depend on foreign capital flows are likely to experience a sharper slowdown, most countries have shown impressive resilience in this turbulent environment. As such, growth for developing countries as a group is expected to moderate from 7.8% in 2007 to a still strong 6.5% in 2008.

24.2 Moreover, the continued strength of domestic demand and imports in developing countries is helping to cushion the global effects of the slowdown in high-income countries.

24.3 Developing-country imports have become an increasingly important driver of global growth, with more than half of the growth in global import demand originating in developing countries. As a result, U.S. and, to a lesser extent, European exports have been booming, thereby moderating economic performance.

Real GDP Growth, 1980-2010



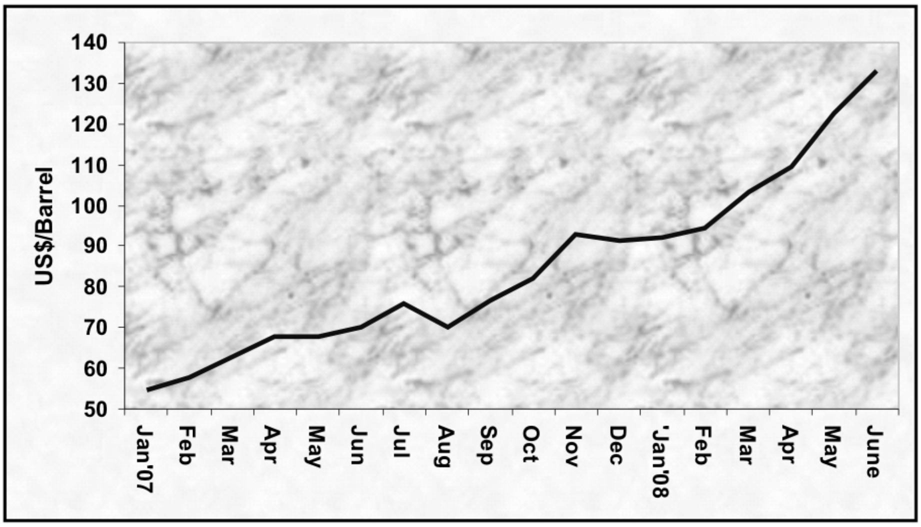
***Source: World Bank data and forecasts*.**

24.4 In Europe and Japan, the second half of 2008 **is expected to be weaker than the first, as leading indicators point to weakness in activity over the period three to six months ahead.** Based on these indicators, the strong outcomes for GDP growth in the first quarter, Euro Area 3% and Japan 3.3%, are unlikely to be repeated.

25. INTERNATIONAL OIL PRICES

25.1 International crude oil prices continue to rise beyond the US$100/barrel mark, on the back of supply cutbacks by OPEC. The pass-through effects on local production costs will further erode export competitiveness and generate inflation pressures.

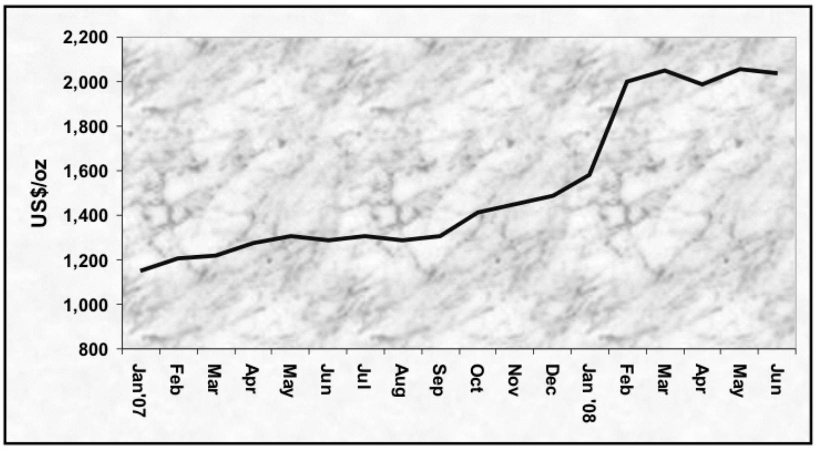
International Crude Oil Prices (2007-2008)



25.2 In addition, rising international oil prices are exerting considerable pressure on the country's Balance of Payments.

25.3 The international price of platinum increased significantly by 56% from an average price of US$1 147.55 per ounce in 2006 to US$2 038.12 per ounce in 2008.

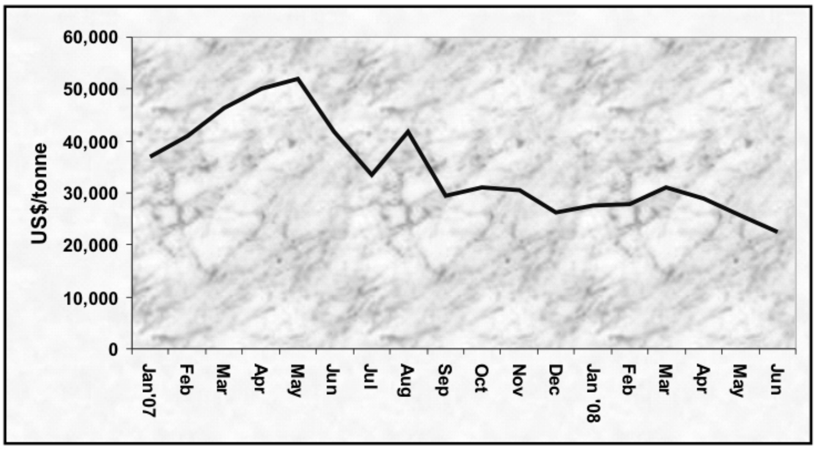
International Platinum Price Trends (2007-2008)



25.4 The surge in platinum prices reflects growth in platinum demand, driven by the growth in the diesel vehicle industry and the electronics sectors, particularly in China and Europe. This is against the backdrop of falling supply due to a combination of industrial action, safety-related stoppages as well as geological and equipment problems experienced in South African mines. South Africa is the leading producer of platinum in the world.

25.5 Nickel prices declined by 56% from US$36 932 per tonne in January 2007 to US$22 620 per tonne in June 2008.

International Nickel Price Trends (2007-2008)



25.6 The significant decline in nickel prices is on the back of large stocks on the London Metal Exchange, and a sluggish stainless steel market. A 50% cutback by Chinese mills in May 2008 owing to poor demand, has further depressed nickel prices.

26. PAYMENTS THROUGH THE CLEARING HOUSE

26.1 As announced in a Public Statement on cheque payments, the Reserve Bank suspended the Cheque Limit of $900 billion on 11 July 2008 in response to representations made by various stakeholders. This move is in line with our principle of improving convenience to the transacting public.

26.2 However, in order to avoid unnecessary inconveniences, customers are repeatedly requested to ensure that their accounts are adequately funded before cheques are issued.

26.3 Simultaneously, banks are urged to continue managing risks associated with high value cheques, particularly for items going through the Clearing House and in light of the various payment streams that are available to the transacting public.

27. STRAIGHT THROUGH PROCESSING (STP) PROJECT

27.1 The Central Bank would like to commend the significant progress made by the banking sector in implementing the Straight Through Processing (STP) Project. The tireless effort has seen 90% of the financial institutions making STP a reality in our midst.

27.2 STP seeks to link the core banking systems with the RTGS system in order to improve operational efficiency by minimizing delays associated with manual and human intervention.

27.3 However, like any other project, challenges are bound to occur in the initial stages of going live. The benefits of STP, as evidenced in other countries that have implemented, this kind of project give us confidence to urge the banking community to maintain the momentum of fully automating RTGS transactions.

28. AGRICULTURAL SECTOR PRODUCTIVITY ENHANCEMENT FACILITY (ASPEF)

28.1 As was outlined in the 2008 April Monetary Policy Review Statement, the expiry date for ASPEF has been extended to the end of 2009 summer cropping season.

28.2 Assessment of applications will now be more targeted and beneficiaries will be expected to exhibit the positive impact of prior funding to their operations and the economy as a whole.

28.3 As usual, farmers will be required to support their loan applications with evidence of actual past performance and that they are showing commitment to their projects by reinvesting their own incomes into farming programmes.

ASPEF Utilization

28.4 Demand for support continues to rise and as at 15 July 2008, a cumulative amount of $ **24.6 quadrillion** had been disbursed under ASPEF through banks.

28.5 The greater part of the above amount translated to supporting facilities such as livestock production with a particular emphasis on rebuilding the national herd, the 2008 Winter Wheat Programme and finishing off the 2008 summer crop.

28.6 The ASPEF intervention strategy has seen our farmers being able to sustain production under economic hardships. Without this support, farmers could have been exposed to greater hardships and would have folded up.

28.7 The distribution of the amount disbursed per facility is as follows;

28.7 The distribution of the amount disbursed per facility is as follows;

Distribution of ASPEF loans as at 15 July 2008

Facility	Amount (Z$) trillion
All Crops and Other Livestock	6 082
Horticulture Support Facility	8 400
Piggery and Poultry Support	3 346
Beef Cattle Support Facility	1 613
2008 winter wheat	4 459
Irrigation Support Facility	499
Dairy Support Facility	148
Other facilities	73
TOTAL	**24 625**

Monitoring of Beneficiaries

Monitoring of beneficiaries continued to be undertaken to ascertain the following;

i. Utilization of funds by farmers;

ii. Level of production on the ground; and

iii. Challenges being faced by farmers in implementing funded projects, with a view of making appropriate recommendations

29. NATIONAL CATTLE HERD REBUILDING PROGRAMME

29.1 The Reserve Bank of Zimbabwe through FISCORP (PVT) LTD is purchasing cattle as one of the methods of re-building the national herd.

29.2 The main objective of the facility is to increase the national cattle herd by **2.1 million** within the next **3-5 years**.

BASIC COMMODITIES SUPPLY SIDE INTERVENTION (BACOSSI) FACILITY

30.1 In the Mid Term Monetary Policy Review Statement of 1 October, 2007 the Reserve Bank of Zimbabwe established the **Basic Commodities Supply - Side Intervention Facility (BACOSSI)** aimed at boosting production through targeted financial support to manufacturers of basic goods as well as selected wholesalers and retailers.

30.2 Since inception, BACOSSI has directly benefited both manufacturers and retailers through provision of concessionary local financing and foreign currency to procure imports.

30.3 BACOSSI has remained a multi-pronged approach designed to enhance capacity utilization of manufacturers and retail distribution of goods. As a result beneficiaries of the BACOSSI facility managed to increase capacity and availability of basic commodities however the current inflationary environment continues to cause serious challenges on this sector.

30.4 Many of these manufacturers and retailers were facing imminent closure, with over-arching consequences cascading across all sectors of the economy. Only the Bank's timely intervention provided respite and impetus for future recovery.

Disbursements to Date

30.5 As at 14 July 2008, a total of **US$13.5 million** and ***ZW$2,704 quadrillion*** had been disbursed to ***95*** manufacturers.

30.6 In addition, a total of **ZW$ 160 trillion** was disbursed to support **15 major** grocery and **hardware** wholesalers and retailers.

Impact

30.7 Within a month after the introduction of BACOSSI, there was a marked improvement in the supply of goods especially in the months of November and December 2007.

30.8 Capacity utilization in the manufacturing sector rose to at least 40% from as low as 10% in the sector. The major determinant was the lead time and cost of acquiring raw materials.

30.9 In the retail and wholesale sectors on the other hand, similar increases in capacity utilization were recorded and could have been much higher if major suppliers had enough product to sell to consumers.

Modified BACOSSI Facility

30.10 In the last Monetary Policy Statement issued on 29 April 2008, the Output Based BACOSSI (Score-Card Principle) was unveiled to ensure effective deployment of BACOSSI funds into production.

30.11 In addition, to cushion companies against the adverse effects of price controls, a Strategic Price Controls Mitigation Fund (SPPC) has been created.

30.12 Under this Fund, which has been set at an initial $300trillion, producers of strategic and basic commodities are getting financial support to make up for and recover the genuine adverse effects of price controls and/or delays in the approvals of justified price reviews.

31. TOWARDS FOOD SECURITY: PRACTICAL APPROACHES

31.1 Agriculture is at the heart of the Zimbabwean economy, accounting for close to a fifth of gross domestic product and also critical for foreign currency generation and food self sufficiency.

31.2 Food security and foreign currency generation are the integral twin components of any disinflation or stabilization programme.

31.3 The food basket accounts for at least a third of the consumer price index basket and therefore unfavourable agricultural seasons have been characterised by relatively high inflation levels.

31.4 The watershed Land Re-distribution Programme brought significant positives such as the generation of a new diverse indigenous breed of both commercial and communal farmers.

31.5 The current surge in international oil prices and escalating global food prices justifies targeted intervention for enhancing agricultural sector productivity.

31.6 And of course the added effects of illegal sanctions have compounded these challenges facing the economy.

31.7 Zimbabwe has an annual national requirement of about 1.8 million tonnes of maize with 1.5 million tonnes for human consumption and 0.3 million tonnes for livestock.

31.8 The current maize yield ranges from **600kgs per hectare** for communal farmers to about **7 tonnes per hectare** for A2 and large scale commercial farmers.

31.9 To ensure food sufficiency, it is recommended that Government should mobilize high performing farmers to grow maize on a contract basis. In this regard, Government could designate say 500 000 hectares for maize production under the contract farming scheme.

31.10 The identified farmers for the above hectarage under this targeted production would then be guaranteed support, especially access to tillage, seeds, fertilizers, chemicals and harvesting capacity as and where necessary.

31.11 The recommended target hectarage for maize which is 500 000 ha could be spread across the country, according to the natural climatic regions of Zimbabwe. The contracted farmers could be in natural regions 1 to 3.

RECOMMENDED SPREAD OF TARGETED FARMERS

CROP	FARM SIZE	NUMBER OF FARMERS	TOTAL HECTARAGE
Maize	200 Ha	500	100 000
	100 Ha	2000	200 000
	50 Ha	3000	150 000
	20 Ha	2500	50 000
Total Maize	- -	8000	500 000
Wheat	200 Ha	250	50 000
	100 Ha	700	70 000
	50 Ha	600	30 000
Total Wheat	**- -**	**1550**	**150 000**

WHEAT REQUIREMENTS

32.1 In order to produce 350 000 to 400 000 tonnes of wheat sufficient for national requirements as much as 150 000 hectares have to be put under wheat production.

32.2 Government is also urged to implement a wheat production programme under contract schemes to promote food security.

33. ADDITIONAL SUPPORT TO FARMERS

33.1 On the back of the strategic importance the Government attaches to agriculture, it is imperative that farmers be also provided with the following support:

(a) Technical advice and logistical support through the Agricultural and Research and Rural Extention Services (ARREX);

(b) Tillage support through the Government-owned District Development Fund (DDF);

(c) Continued farm mechanization through the Farm Mechanization Programme being implemented by the Central Bank;

(d) Concessional financial support for working capital and infrastructure development;

(e) Dam construction and irrigation support funded through Government; and

(f) Output-based competitive pricing schemes.

33.2 The Reserve Bank is mobilizing fertilizers, seeds and agrochemicals as part of the Food Security Programme.

33.3 Our farmers are urged to ensure maximum utilization of all arable land, so as to enable the country to secure self-sufficiency in food production.

34. GRAIN MOBILISATION PROGRAMME

34.1 The current agricultural season has seen very poor yields in all provinces because of a bad rainy season. Consequently there will be a shortage of grain to meet national requirements. The bank therefore saw it fit to mobilize grain from all farming sectors to GMB depots for strategic stocks, in addition to ongoing imports.

34.2 Under this programme a Grain Mobilization committee was set up comprising officers from the Bank, GMB and Agritex. Procurement commenced on 9 May 2008.

34.3 The main objectives of the intervention were as follows:

i. To urgently procure excess maize and small grains from farmers in order to boost national Strategic Grain Reserve;

ii. Ensuring timeous payments to farmers for their grain;

iii. To mitigate against inflationary pressures by paying farmers for their produce even before they supply the crop to enable them to purchase inputs for the next season; and

iv. To save the scarce foreign currency resources and channel them to other critical sectors of the economy.

Grain Purchase by Province as at 11 July 2008.

Province	Cumulative Purchases (tonnes)	Percentage of Total (%)
Mashonaland Central	23 091.384	48.94
Mashonaland West	11 924.446	25.27
Mashonaland East	4 678.000	9.91
Manicaland	2 978.347	6.31
Harare	1 417.516	3.00
Masvingo	918.448	1.95
Matabeleland South	873.216	1.85
Midlands	859.542	1.82
Bulawayo	223.800	0.48
Matebeleland North	221.202	0.47
TOTAL	**47 185.902**	**100.00**

PARASTATALS

35.1 The country's Parastatals continue to largely operate under extremely difficult conditions, mainly because of many years of pricing distortions which have seen these entities subsidizing their consumers, without any other source of funding to cover the resultant gaps.

35.2 The situation has been aggravated by high inflation coupled with slow tariff reviews, a situation that has left the Parastatals in even more desperate financial circumstances. .

35.3 Efforts must therefore be pursued to facilitate strategic Parastatals such as ZESA and Hwange Colliery Company to partner with foreign investors to stabilize the energy sector.

35.4 Our consistent position is that the Parastatal sector continues to be a major missing link in the economy.

35.5 Accordingly, therefore, our reform strategies must encompass measures that radically transform this sector, so as to meaningfully invoke supply response in the economy.

35.6 Where possible, those Parastatals that can be divested must be opened up to private sector participation in the areas of telecommunications, railway transportation, and power generation.

35.7 Through this, Government will be able to unlock immediate economic value, whilst at the same time, inducing operational efficiencies in service delivery.

36. THE MECHANISATION PROGRAMME

36.1 The Mechanisation Programe was conceived as part of the broader and swift measures to revitalize and capitalize the agricultural sector of the country and consolidate the gains of the historic Land Reform programme.

36.2 As a strategic national developmental programme, the intervention has significantly transformed the equipment and productive landscape of the sector by mechanizing both communal and commercial farmers.

36.3 Thousands of diverse equipment (tractor drawn and animal drawn implements) have been distributed to thousands of beneficiaries across the country under the programme to enable them to produce at optimal levels and achieve food security and sustenance.

36.4 This has resulted in a critical mass of the farmers being empowered to achieve the strategic vision of the programme mainly food security.

Programme Impact and National Outreach

36.5 The Mechanisation Programme has culminated in huge injection levels of equipment across the country.

36.6 A global glance of the national injection levels by type of equipment reveals that greater empowerment has been attained through the programme as depicted in the two tables below.

TRACTOR DRAWN EQUIPMENT: PROVINCIAL GLOBAL DISTRIBUTION SUMMARY: PHASE I, II & III

Provinces	Combines	Tractors	Ploughs	Harrows	Planters	Sprayer	Vicon	Hay Baler
Masvingo	3	482	175	122	21	43	8	1
Manica	8	272	77	101	42	43	27	5
Mash East	13	512	153	225	90	90	45	4
Mash Central	20	357	114	160	72	73	38	5
Mash West	16	560	144	231	123	113	58	6
Midlands	8	226	96	67	19	25	13	
Mat North	1	122	61	24	11	15	1	
Mat South	2	138	67	38	13	12	5	1
	71	**2669**	**890**	**958**	**391**	**414**	**195**	**22**

NATIONAL CAPITALISATION / INJECTION LEVELS GLOBAL SUMMARY: PHASE I, II, III

Province	Knapsacks	Animal-Drawn Ploughs	Animal-Drawn Harrows	Animal-Drawn Planters	Animal-Drawn Cultivators	Scotch carts	Chains
Mash West	5682	5876	2005	30	1615	1535	5932
Mash Central	6352	6251	1015	17	519	527	5652
Mash East	7384	7408	1616	24	869	656	7433
Manicaland	9001	6341	1559	17	1118	949	8951
Masvingo	7568	7437	2235	16	1718	1408	9468
Midlands	6100	6700	1864	24	568	479	6200
- 78 - Mat North	5350	5650	377	8	234	103	6100
Mat South	5350	5000	286	8	234	93	5350
Totals	52787	50663	11057	144	6875	5750	55086

36.7 This empowerment is intended to translate into accelerated economic growth by way of increased productivity and greater returns from the empowered farmers.

IMPACT ASSESSMENT

36.8 The Bank carried out a country wide impact assessment that generally revealed fair and meaningful equipment utilization levels among the beneficiaries.

36.9 Based on the survey, greater accountability and utilization as well as technical up keep of the equipment are essential to achieving the envisioned productive levels necessary for the turnaround of the economy.

PHASE 4 OF THE MECHANISATION PROGRAMME

36.10 As part of the on-going efforts to anchor lasting productivity in agriculture, under the theme to promote food security, the Reserve Bank will in due course unveil the 4th sequel of the Agricultural Sector Mechanisation Programme.

36.11 Under the forthcoming Phase 4, emphasis will continue to be across all clusters of farmers, covering A2, A1, Communal and Resettlement categories.

36.6 As Monetary Authorities, it is our fervent conviction that this intervention is transforming Zimbabwe's agricultural sector in ways that would soon restore the country to its status as the bread basket of the sub-region.

37. CLOSING THE DEVELOPMENTAL FINANCING GAP

37.1 Our experience over the past few years has amply demonstrated the prevalence of serious market failures in the country's savings and investment cycles

37.2 Invariably, the existence of thin financial markets that are traditionally inclined towards basic project finance has created an environment where some unique developmental needs have been left unfinanced.

37.3 In the case of Zimbabwe, the historic Land Reform Programme did bring with it a fundamental structural shift in the manner in which private sector banks view and finance agriculture.

37.4 For instance, in the late 90s lending to agriculture accounted for as high as over 80% of total commercial bank loans, yet by 2003, this figure had declined to under 12% of total commercial bank loans due to the changed risk assessment profiles in agricultural finance.

37.5 It was for this reason that the Central Bank had to step in with the Agricultural Sector Productivity Enhancement Facility (ASPEF).

37.6 Similar market failures in the country's savings-investment cycles are to be found in the following critical needy areas, among several others:

(a) Financing of farm mechanization programmes in ways that benefit A2, A1, Communal and Resettlement farmers on a sustainable and high-impact basis;

(b) Coordination and development of appropriate financing programmes for strategic imports such as maize, wheat and fuel, where the end-use of such products intersects with Government's Welfare Promotion interventions to vulnerable groups.

(c) Coordinating and financing of local authorities' developmental programmes; and

(d) Development of financial packages for the resolution of developmental gaps prevailing, especially in rural areas.

37.7 Prevalence of these apparent financing gaps, most of which are being accentuated by the adverse effects of shrinking external financing impelled the Central Bank to further step in at various times over the last 56 months with various interventions including the following:

(a) The Parastatals Reorientation Programme (PARP);

(b) The Local Authorities Reorientation Programme (LARP);

(c) The Agricultural Sector Productivity Enhancement Facility (ASPEF);

(d) The Basic Commodities Supply Side Intervention (BACOSSI) Programme; and

(e) Grain Procurement and Commodity Producers' Support Prices, among others.

37.8 As we work to consolidate the macroeconomuc stabilization programme, it has become necessary that a more permanent financing vehicle be created to fill up the developmental financing gap arising from market failures.

37.9 Accordingly, therefore, the Reserve Bank is working to transform Fiscorp (Pvt) Ltd into a dedicated financial intermediary with the following features:

(a) It will be attracting its own funding outside the Reserve Bank or the Public purse, save for the initial seed money;

(b) It will be attracting joint share-holding by foreign investors up to a foreign ownership level of 49%;

(c) Developing financial packages and solutions to bridge developmental financial gaps created by market failure;

(d) Consolidate and oversee the full implementation of the Mechanisation Programme, as well as the follow-up to secure repayments on all leased out equipment and implements;

(e) Participating in fund-raising activities as part of overall domestic debt management programmes; and

(f) Structuring trade financing instruments for the importation of Strategic requirements, such as fertilizers, maize, agrochemicals, seeds and spare parts, among many others.

37.10 This consolidation will allow the Reserve Bank to remain with streamlined roles, as well as laying the foundation for rapid monetary austerity.

37.11 Once all the on-going consultative processes are completed, a fully-fledged launch of the institution will be done in due course.

38. INTERNATIONAL RELATIONS

38.1 As Monetary Authorities, we wish to reiterate our commitment to being a part of the regional and international financial community.

38.2 This commitment is born out of our full appreciation of the symbiotic benefits that come with regional and international financial integration.

38.3 As we work to live up to this Commitment, we call upon the international community to help us through constructive engagement, as opposed to the adoption of precipitous actions against us.

38.4 The histories of Nations amply testify that constructive dialogue has always emerged as the most prudent and effective instrument towards cohesion and gainful socio-economic and financial interface.

38.5 In responding to this call for constructive engagement, it is our fervent hope that the International Community will allow the imperatives of facts, grounded in individual countries' historical backgrounds to guide amicable paths into the future.

38.6 Zimbabweans, like any other country's citizenry, seek to earn an honest living out of their heritage of natural resources.

38.7 It is our appeal to the international community that this wish be complemented through supportive initiatives that take objectivity and sincerity as central guiding principles in helping Zimbabweans as opposed to compounding their situation to make it worse.

39. CONCLUSION

39.1 Fellow Zimbabweans, our Nation stands at the cross-roads, with one road leading to a prosperous destination of a vibrant economy and the other leading to a perilous destination where only us as Zimbabweans will be the ultimate victims of perennial socio-economic hardships.

39.2 The pursuit of the stable and prosperous path and its fruition is well within our reach as the generation that is confronted with choosing what is right for our Great Country. This is a generational challenge that we must not fail whatever else happens.

39.3 Government, Business, Labour and Civil Society, therefore, have the golden opportunity to sway the course of Zimbabwe's history out of the jaws of adversity through the much needed unity of purpose.

39.4 In the same vein, we call upon our politicians to swiftly conclude their ongoing strategic deliberations in a constructive manner which puts Zimbabwe first.

39.5 Equally important, we urge all political leaders, from the community to the national level, to place the interests of the country, the economy and the people ahead of every other sectional or partisan interests.

39.6 To the regional and international community, we once again call for fairness and just treatment of Zimbabwe's circumstances on the public jury, anchored on a sincere desire to see the Zimbabwean people working in harmony to resolve their internal differences.

39.7 Introduction of precipitous actions that further weaken the economy is only working to cause needless pain to the vulnerable and already suffering members of society.

39.8 As Zimbabweans, we must remain committed to being an integral part of a cooperative regional and international network, fortified by mutual respect for sovereign nations, rich, poor, strong or weak.

39.9 Now, more than ever before, is the time to recall once again the enduring liberation spirit of the founders of this nation, some now gone and many still with us, that we are our own liberators.

39.10 It is my hope and prayer that this spirit will guide our national political leadership as it ponders and reaches agreement on the best way forward for our country as a prelude to the much needed turnaround of our national economy to which we at the Central Bank are committed to bringing about in the interest of all Zimbabweans regardless of their political affiliation.

39.11 The time has come for us to shame our detractors who want us to remain divided for their own purposes. We must now prove that we can indeed work together as one nation with one destiny for all its diverse peoples.

39.12 In God's hands, I commit this Monetary Policy Statement.

Thank you.

DR. G. GONO
GOVERNOR