THE ZIMBABWE ECONOMY IN 2006

Brian MacGarry

Introduction

'The problems' continue. The 2006-7 grain crop will fall far short of the country's need. Health, education, urban services are all decaying for lack of money, skills and equipment as the government falls deeper into debt and continues to interfere politically with municipal authorities and corruption is rampant. Life expectancy is down to 37 years for men and 34 for women. The malnutrition rate is 30% and vaccination coverage for children fell to 53% in 2005-6 from 67%.. CARE International says that more than 2.9 million people in Zimbabwe are in desperate need of food. The total population has dropped to somewhere between 8-11 million. My guesstimate is in the middle of this range, but the uncertainty shows how poor our information systems have become.

The IMF in March resolved not to restore Zimbabwe's voting rights and to maintain a freeze on loans Meanwhile, the country still has the highest inflation rate and fastest shrinking economy in the world. Every worker formally employed supports seven to eight people on average. Everyone who can get out does so. Zimbabwe could in the next 10 years continue to suffer from the effects of the migration of skilled labour to developed countries if conditions of employment and the macro-economic environment do not improve, says leading academic Hope Sadza. Zimbabwe has lost half of its public health professionals in the last few years. Over 3 million Zimbabwean nationals have fled from economic hardships to live abroad. They send an estimated US$100 million home every month.

Government continues buying military equipment and putting soldiers in charge of state enterprises. Recent examples are NRZ, GMB.

Industrial activity is shrinking fast and, if it was possible, the numbers of foreign tourists still dropping. Power cuts t increase as regional shortage threatens. Wellington Chibhebhe, secretary-general of the ZCTU, admitted retrenchments adversely affected the labour body's operations by reducing membership, down from a peak at 500,000 but now 143,000. Production of gold - one of the main foreign currency earners – dropped drastically, forcing mining companies to suspend explorations. The tourism sector, which used to generate an estimated US$400 million/year , 6% of gross domestic product , is gradually falling to pieces. Deals with new friends are unlikely to help the country. The business editor of the Financial Gazette said Zimbabwe's tight restrictions on international money transfers would discourage investors. The middle class has been destroyed by the hyperinflationary environment of the past few years.

The rule of law is vital to getting Zimbabwe's economy back on track, said Siddarth Tiwari, deputy director of the IMF's African department. But ZANU-PF has classified the declining economy (40% since 2000) as its main security threat and the IMF warns of "regional contagion"

RBZ Governor Gideon Gono has been determining policy, but can do nothing effective about inflation. The currency changeover when three zeroes were knocked off in August only caused short-term chaos and, if anything, accelerated price increases.

Agriculture and food

In July Mugabe admitted only 40% of the 11-million hectares of land seized from whites since February 2000 have been taken over by black farmers. An average 68% of land holders in communal and resettlement areas are not fully utilising their land, which had an adverse effect on crop production.

At new year 2006, fertiliser shortage and price threatened another food crisis 2006. Sable Chemicals, Kwekwe, needed US$35 million to overhaul its ammonia producing plant to help maximise the production of Ammonium Nitrate fertiliser. GAPWUZ warned a shortage of farm workers as a result of low wages could impact on 2006's harvest. By June reports of accelerated decline have poured in - winter cropping down 50% and the tobacco crop down by a third.

Fertiliser urban retail prices (revalued Z$):	January gazetted	Jan street price	October gazetted
Compound D, 50kg	$424	$650	$7,800
Urea, 40kg			$8,400
AN, 50kg	$252	$1000 -$1,300	

GMB imported 47,000t of fertiliser from South Africa by October:. Ammonium Nitrate and all compounds, under the Reserve Bank's revolving US$45 million fertiliser and grain import facility with Nedbank of South Africa. Zimbabwe needs 700,000 tonnes of AN, 800,000 tonnes of Compound D and several tonnes of other compound fertilisers annually.

Government announced plans in January to take over and merge the three fertiliser companies, but abandoned them in March. Fertiliser production had fallen to about 30% of local companies capacity to produce 1,3 million tonnes annually.

Fuel crisis, shortage of pesticides cripple efforts to fight armyworm

Country received above normal rainfall in 2005-6, but Pat Devenish, the chief executive of Seed Co said "There will not be a drought 2006 but seed production will be hampered by the shortage of agricultural inputs."

ZINWA has increased bulk water tariffs for farmers on May 13 but reversed the increases on June 1, when they should have taken effect.

Zimbabwe could become a net importer of timber within the next 10 years. Although the country still has substantial tracts of land with commercial trees, the current harvesting levels plus uncontrolled veldt fires could see it turning to other countries for its timber requirements.

In May the country was failing to meet billions of dollars worth of export orders from foreign members of the International Fair Trade Organisations, as the four local companies who are members of the trading body; Phytotrade, Speciality Foods of Africa, Dezign Incorporated and Mapepa are struggling to meet demand.

In a stand-off between the Parks and Wildlife Management Authority and fishing companies on Lake Kariba over $300 million annual fees per rig raged, it emerged that most of the operators accused of defying orders are incurring mammoth losses daily due to a depleted winter output amid escalating overheads. Forcing them to pay the fees will be hitting the final nail on the coffin of an industry already on the brink of collapse, players said.

The GMB has registered a 100% increase in deliveries compared to in 2005, thanks to last season's heavy rains and contract farming.

tonnes of	2005/6	2004/5
soya beans	37, 539	11, 700
sorghum	3,102	1,184
groundnuts	1 930	1 024 tonnes.

Source: The Herald

In July orange juice concentrates had to be imported to meet demand for Mazowe/

The Herald reported in August resettled farmers are to be compelled to produce crops such as grain on a portion of their land.

An August report jointly produced with relief agencies said 1.4 million rural people will need food aid before the next harvest. In December, FEWSNET reckoned government urgently needed to import more than 700,000 tonnes of cereals. Government was reportedly importing but has not sought aid.

The Zimbabwe Independent reported on 4/1/07 that 2006 was the worst agricultural year since Independence

Negotiations with tobacco growers over prices delayed opening of the burley selling season and interrupted sales in July. Despite a bonus offered for early delivery, the flue-cured selling season started slowly.

Tobacco sales

flue-cured,kg	US$/kg	total income,US$	Burley,kg	US$/kg	total income,US$	source
40,300,000	2.95	119,000,000	429,722	1.80	775,483	Herald 5/10/06
59.900,00		180,500,000	593,862		1,760,000	Herald, 6/12/06
66,700,000		204,300,000	~1,000,000	2.61	2,447,025	Herald, 3/1/07

Total sales were reportedly slightly more than the of 64,4 million kg exported in 2005 , and earned about US$206.8 million, up from US$203,5 million in 2005. Most of the exported tobacco fetches significantly higher prices than at the auction floors where raw tobacco is sold.

Production costs for a hectare of tobacco for the 2006/7 season have risen sharply from less than Z$200 million l in 2005-6 to $1,4 billion.

Government-set prices for **maize** seed were 3.5-7 times higher than in 2005, and for fertiliser roughly four times greater. Government increased the maize producer price for the 2006/2007 season from $2,2 million to $31,3 million per tonne, effective from April 1, 2006. Transport problems and GMB failure to pay some farmers led some farmers to sell outside the GMB system for higher prices, between $35 million and $37 million/tonne.

In mid-July, when deliveries to the GMB had reached 16,000t - 20,000t/week, GMB was failing to provide adequate maize supplies to millers, with less that 100,000 tonnes having been delivered to the GMB. The army were deployed in September to force farmers to deliver all grain to the parastatal, to avoid looming mealie-meal shortages. Estimates of the total crop were then revised down to as little as 700,000 tonnes. Increasing the producer price to price to Z$52,450/t, in November effective retroactively to April was characterised as too little too late. By then GMB had only collected 480,000 tonnes of maize, about 25% of the country's requirement.

September: Zambia has exported 85,000 tonnes of white maize to Zimbabwe.

Wheat farmers countrywide were wary of growing the crop, accusing government and the GMB of failing to deliver inputs and not paying farmers for the crop delivered in time last season. They demanded a producer price of $25 million/tonne for the 2006 season, up from $7 million in 2005. Government wanted farmers to put 110,000 ha of wheat under irrigation this winter, but farmers said they could only manage 45,000ha due to shortage of money and inputs, prices of which had soared by over 700% compared to 2005-6. Only 57,835.8ha, 53% of the target was planted in time.

In March, RBZ released $250 billion to Agribank for disbursement to winter wheat farmers and was importing 50,000t of wheat to complement 15,000t already in stock.

In July the Herald admitted the new farmers have failed to meet the targets set for 2006 wheat production. Farmers expected to harvest only 218,046 tonnes. And Zimbabwe needs a minimum of 400,000t.

In September government increased the producer price for the 2006/2007 marketing season from $9,000 to $217,913.40/tonne, but by Mid-October RBZ had not provided the GMB with funds to buy from farmers when GMB had only received 2,000t of wheat. At the end of October, RBZ had loaned $20 billion.

The parastatal managed to import 30,000 tonnes by late October and increased its allocation to millers from 4,000 tonnes to 5,500 tonnes a week. Bakers were urged to concentrate on baking bread rather than cakes. By year-end the GMB had taken delivery of 135,000 tonnes of wheat out of a target of 220,000 tonnes for the 2006/7 season from 60,000ha under cultivation.

Sugar production in the lowveld has decreased 30-40% since 2000.
Government finally in April acquired Mkwasine Estates in Chiredzi to resettle indigenous sugar cane farmers, but in May the Parliamentary Portfolio Committee on Lands, Agriculture, Resettlement and Water Development ordered an audit in the allocation of sugar cane plots at Mkwasine amid reports that most newly resettled farmers ceded their plots to former estate owners.

A September parliamentary report showed rampant corruption in the allocation of farms has decimated sugar production in the Lowveld, reporting the emergence of a new type of land grabbers dubbed "A5 farmers" who hop from one mature sugar cane field to another.

In October the biggest sugar producer, Hippo Valley Estates, warned that the country faced severe shortages due to reduced production at the giant estate.

While players in cotton were yet to conclude negotiations on the crop's producer price in May, merchants were buying the crop at varying prices with major buyer, Cottco, paying up to $56,000 per kg for a top quality crop.

Paprika farmers sold 900t of the crop during 2006/s selling season, a major decline from the 10,000t in 2005,despite prices of up to $200 million/t (old currency). That price had not been set by the end of May.

In, March cash-flow problems were forcing the **CSC** to operate at a quarter of its capacity: about 1,300 beasts compared to the 5,000 every month needed for viability. The PIB warned of a shortage of pork products because of a critical lack of stock feed. By January 2007 CSC plans to export beef to Hong Kong and Malaysia had stalled because officials from those countries had failed to inspect the meat processor's facilities.

The mainly pro-government *Daily Mirror* claimed that smallholder farmers, who owned an estimated herd of 3,7 million between 1993 and 2003, now reportedly have close to 7 million cattle.

Smallholder **dairy farmers** claimed in March that Agribank had delayed in honouring a $210 billion loan facility that the farmers were expecting. The number of cows are dropping due to lack of stockfeeds and vaccines, from 104,483 milking cows in 1994 to 35,000 in 2005. Per capita consumption of milk declined from 25 litres in 1990, to 10 litres in 2002 and an estimated 7litres in 2005. Power cuts also had large adverse effect on milk production. National milk production had increased from 150 million litres in 1980 to a peak of 256 million litres in the mid-1990s. In 2005 milk had production declined to 97 million litres, because many new farmers lack expertise.

Initially, farmers sought $100 million(old)/t for **soya beans**, while merchants were offering $70 million. The GMB was offering the lowest price of $65 million/tonne. Soya bean prices now vary greatly as more than nine agro-based companies in the country compete for the crop, but production has fallen from up to250,000t/yr before 2000 to 35t in 2005. Optimists projected a 70,000t crop in 2006.

Flower export volumes remained depressed due to the prolonged cold spell in August and September, when exports usually start picking up.

Inputs and finance:
Eben Makonese, the CEO of fertiliser manufacturing company Chemplex, said the country needed 550,000 tonnes of AN for a good harvest each farming season. Due to the shortages of foreign currency to import some critical inputs, he said, the country could only produce about 300,000 tonnes this season.

Wheat growers who had initially been required to first secure capital from Agribank before accessing inputs from the GMB were offered inputs without capital to speed up preparations for the winter wheat season.

Recoveries of the 2005/2006 agricultural loans for production of cash crops like tobacco are seriously incapacitating the farmers' ability to go back to the fields in the coming season, The Agriculture Development Bank has loaned $14 billion (revalued) to farmers for the 2006-7 season.

A1 farmers are beginning to realise the new lease documents they received from government on November 16 it neither fully guarantee security of tenure nor can they be used as collateral to get loans from banks. The lease document is full of vague and loose legal statements that pose a serious potential risk to any financial institution that may want to accept it as collateral.

Agricultural experts said in January 2007 the failure of the GMB to pay communal farmers, who normally produce 60% of Zimbabwe's maize, has been a major contributing factor to the looming food crisis.

Cost of living

The Consumer Council's family basket survey for an urban family of 5 differs from CSO figures, usually, and more credibly showing higher inflation:

Month	Cost of living	Monthly increase	Annual increase
Nov-05	$12,900,000	11.2%	
Dec-05	$17,500,000	35.7%	
Jan-06	$21,800,000	24.6%	1128.4%
Feb-06	$28,000,000	28.4%	1328.6%
Mar-06	$35,000,000	25.0%	1548.5%
Apr-06	$41,000,000	17.1%	1646.9%
May-06	$49,100,000	19.8%	1512.4%
Jun-06	$61,000,000	24.2%	1352.4%
Jul-06	$75,439,000	23.7%	1296.6%
Aug-06	$96,326,000	27.7%	1284.4%
Sep-06	$112,034	16.3%	1060.4%
Oct-06	$141,706	26.5%	1121.6%
Nov-06	$209,000	47.5%	1520.2%
Dec-06	$245,661	17.5%	1303.8%
Jan 07	$458,986	86.8%	2005.4%

Source: CCZ

Shortages of some basic commodities have continued to bite into the new year and as a result the products used to measure the cheapest retail outlet have been few, the Consumer Council of Zimbabwe has said.
By March, mass hunger was reported killing the vulnerable as food prices soar.

The Brussels-based International Crisis Group blamed the inflation rate on printing US$230 million worth of Zimbabwean currency to pay international debts and sustain operations.

Medical aid societies increased monthly contribution rates by about 90% starting from January 2006, but doctors hiked fees by 1000% and ambulance fees were Z$5 million. Medical aid societies and clinics hiked fees from July by between 85% and 100%. Consultation fees went up from around $500,000 to $800,000 and maternity fees up to about $11 million from $7 million, barely three months after private hospitals and clinics raised consultation fees 240%. In September, Harare municipal clinics hiked maternity fees by more than 100%, the fourth increase since January.

Some sample prices, Z$:

	Fuel/litre	Official	commuter fare	Beer (Castle)	bread
Dec-05	50,000	23,000	20,000		
Jan-06	100,000	23,000	30,000	35,000	
31/1/06	140,000	23,000		50,000	
March	200,000	23,000	80,000		65,000
30/5/06	250,000	23,000		120,000	85,000
20/6/06	450,000	23,000	80,000	150,000	130,000
25/7/06	510,000	23,000	150,000		200,000
Revalued					
17/8/06	800	335			
28/9/06	1000 –1200	335	300		

1/11/06	1,650	335	500		295

Government attempts to control prices fell especially heavily on bakers and petrol suppliers. Military and police intervention, including arresting businessmen, did not stop the businesses protesting that allowed increases were usually too little and too late to cover costs.

Schools increased fees by over 200% in January. Most boarding secondary charging at least $13 million, up from about $4 million while public day institutions charged $2 million up from under $1 million per term. A child in primary school also required uniform and other items costing at least $2.79 million. Tuition fees at UZ went up from $6 - $9 million/year to $30 - $90 million from February.

ZINWA, with effect from January 1, increased water tariffs by 30 - 100% and again by 1,600% on 29th November. Electricity tariffs were raised by over 200% on 1 March, the first instalment of 770% spread over 9 months. Residential rentals went up more than ten times in 2006, much faster than wage increases.

The establishment of a new government watchdog to monitor prices and incomes in Zimbabwe is only likely to further accelerate the country's runaway inflation rate, according to analysts.

Exchange rate

Daily Exchange Rates (Z$ per unit of foreign exchange)

	US$1.000 =(official)	parallel rate	GB£	l Rand	
3/1/06	85,158.02		147,285.05	13,485.04	
24/1/06	99,201.58	Z$150,000.00	177,223.62	16,586.12\\	
Official rate frozen 24/1/06			Parallel GB£	parallel	parallel P
31/1/06	99,201.58	Z$165,000.00			
23/5/06	101000	Z$215,000.00			
28/07/06		Z$550,000.00	Z$1,000,000.00		
14/9/06	250 (new)	Z$670(new)	Z$980.00		
24/11/06	250	Z$1,800.00	Z$2,700.00	Z$280.00	Z$320.00
1/12/06	250	Z$2,400.00	Z$3,200.00	Z$320.00	Z$380.00
31/12/06	250	Z$2,800.00			

At the beginning of February foreign currency inflows at the interbank market were estimated to be less than US$5 million daily. In October, RBZ banned money transfer agencies. Interbank foreign exchange sales dropped 17.7% from September to October, when they totalled US$13.5 million, and purchases fell 10.5% to US$15.3 million. Supplies fell 4% to US$14,6 million in November. In December, RBZ re-registered seven of the 16 money transfer agencies.

In February, government cancelled the buying of fuel using foreign currency through its Foreign Exchange Fuel Coupon system amid revelations that it now was being abused

From 20 March Air Zimbabwe began quoting fares in US dollars.
1 May RBZ stopped compelling exporters to sell 30% of their forex earnings at an artificial rate.
27 June: Callisto Jokonya, vice president of the CZI, said the fixed exchange rate is hurting local industries and hindering efforts to boost exports, reducing exports to a virtual standstill.

By 3 August only four Zimbabweans living outside the country subscribed to RBZ foreign currency bonds issued two years ago to entice the exiles to supply the government with hard cash.

Early in August, Gono, let exporters keep 70% of their receipts in corporate foreign currency accounts while selling the remainder to RBZ at the official rate. He also devalued the Z$ by 60% to the US$.

Wages

Sector Oct-05 Jan-07, revalued % of PDLMining $2,660,000 $105,000 18.8%

automotive	$1,500,000	$60,000
civil service	$1,600,000	$30,245
commercial	$1,800,000	$89,000
food (avg)	$2,300,000	$100,000
agriculture	$450,000	$8,320
engineering	$900,000	$93,000
clothing	$2,000,000	$70,000
PTUZ	$2,070,000	$84,000
RAU	$6,500,000	$320,000
ZARU	$2,100,000	$180,000
ZBAWU	$1,600,000	$65,000
catering	$2,500,000	$132,000
chemicals & plastics		$75,400
domestics	$850,000	$12,500
ZEEWU	$2,989,500	$36,000
ferro alloys	$2,049,000	$96,000
furniture		$130,000
leather	$2,100,000	$100,000
graphical	$1,500,000	$80,000
pulp & paper	$3,600,000	$88,500
textile	$1,600,000	$80,000
education (ZESCWU)		$50,000
tobacco		$152,750
iron & steel		$120,000
construction		$143,000
ZUJ		$40,000
motor vehicle		$100,000
communication		$86,000
rural district councils		$75,000
urban councils		$105,000
national airways		$93,000
RAE		$180,000
transport		$112,000
PDL	**$9,700,000.00**	**$560,000**

Source: The Worker (ZCTU), Feb 2007

EMCOZ changed in March from reviewing wages twice a year to every quarter due to soaring inflation
The gap between managerial and non-managerial salaries continues to grow, according to a report presented in May, by more than 125% in a year. ago. A low-tier worker earned a minimum of $2 million/month in 2005 against $250 million for a senior executive.

NSSA increased monthly payouts for its pensioners with effect from July 1.Retirement pension will be increased from $252,000 to $5 million a month while the invalidity pension would rise to $2,2 million from $110,880.

Government more than doubled transport and housing allowances for all civil servants from 1 October.

Police Commissioner Augustine Chihuri said in a confidential memo at year end that at least 10% of the country's 26,000 police officers would leave the force within the first quarter of 2007 because of poor pay. Junior soldiers are also said to be leaving the army in their hundreds

Employment

The CSO’s 2004 Labour Force Survey claims 87% of those over 15 in a population of 10.8 million were ‘economically active’

CSO figures indicated that the formal sector employed about 998,000 people as of the end of 2004. But the ZCTU and business associations found only 700,000 workers in the formal sector in December.

Job losses in 2006 include many at ZABG due to a realignment, 5,000 teachers because of poor pay and political violence, 30% of Air Zimbabwe’s 2000 workers, 1,200 at TelOne, 700 at Innscor due to grain shortages, hundreds of contract workers at bakeries as the wrangle over price controls on bread continued and at least 5,000 workers in tourism.

- The country's hospitals had a medical staff deficit of 70%, according to a May report.
- The 200 firms sampled in a February CZI survey laid off 42% of their workforce during 2005.
- 15 milling companies, including the two largest, Blue Ribbon Foods and Victoria Milling, have halted operations in September.
- Leading construction companies were losing many engineers and skilled artisans by December.
- May: About 200,000 people are employed on farms and plantations across the country, down from an official 337,700 in 1999.

THE Ministry of Small and Medium Enterprises Development in 2005 sustained 293 companies that faced collapse, saving 1 323 jobs. The ministry also funded 205 companies and created 1,777 jobs.
In March AREX was battling to fill 6,600 posts for extension officers and crop specialists

The CSO said in May at least 423,880 children (16% of the school-age population) are involved in child labour.

Some 70 - 90% of Zimbabwean graduates are working outside the country. The heaviest losses were among teachers, doctors, nurses and pharmacists. Most health professionals head for the UK. More than 50% of skilled people intend emigrating either indefinitely or permanently.

Financial

In October 2005, RBZ ordered commercial banks to raise their capital to a minimum of $100 billion then (or US$10 million) by September 2006. But after September, banks would be required to link the US$10 million (about Z$1 trillion) to the ruling exchange rate as their minimum liquid capital.

RBZ demanded a statutory reserve ratio of 60% commercial banks as from September, but by July 21 this was reduced to 50% while the ratio on savings and time deposits was cut to 40% from 45%.

RBZ cut its offer of treasury bills open to the public to Z$1,4bn from Z$500bn on March 23. It sold Z$780m, or 56% of the offer, at an average yield of 515%.

The five biggest commercial banks, soon after the 2003-4 crisis which resulted in 10 banks closing shop, faced a new crisis in May due to costly treasury bill portfolios that could wipe out their accumulated capital, with ripple effects across the economy.

RBZ, after introducing short-term 91-day treasury bills in February, tendered open market operations bills with a similar short term tenure.

RBZ cancelled registration of Time Bank Limited in May.

International rating agencies in June placed Zimbabwean banks on watch.

Knocking 3 zeroes off the currency on 1 August and introducing new bearer cheques did nothing to reduce inflation. A short 3-week transition period had to extended in some areas caused chaos as people struggled to unload the limited allowed daily amounts of old bearer cheques. For a few months, tills had a currency they could handle, but the zeroes were on their way back by the end of the year.

Debt

Zimbabwe's external debt fell by 2,3% after it paid a total US$169 million to the IMF in 2005

Government failed to win back IMF support despite paying off US$155 million arrears to the General Resources Account in February. It still owes US$119 million under the poverty reduction and growth facility account. The IMF also queried the source of the funds repaid. By 2 December the arrears had risen to US$127 million.

In March ZESA owed the World Bank and other international institutions about US$334 million

Government domestic debt

January 2006	Z$14.3 bn
1 May	Z$15 trillion
2 June	Z$21 trillion
15 June	Z$43 trillion
30 June	Z$48,2 trillion (old)
1 Sept	Z$64 billion (new)
15th Sept	Z$127.4 billion
29 Sept.	Z$119,4 billion
31 October	Z$107,1 billion

The September rise in domestic debt was mainly due to increases in Treasury bills, totalling $44,8 billion, and attracting interest of $80,8 billion. Foreign debt stood at US$3.968mn, of which $2.122mn was arrears, on 30 June.

On 2 December the current account deficit stood at US$543,3 million.

Money supply, Z$ million

at end of	notes & coin in circulation	demand deposits	total M1	fixed deposits	total M2	Change over 12mth	total M3	change over 12mth
Nov-05	8264.5	24908.5	33174.0	14864.9	48038.9	421.2%	51484.7	411.5%
Feb-06	13804.9	41070.7	54875.6	20693.0	75568.6	543.4%	81265.3	528.2%
May-06	28223.0	68645.8	96868.8	37490.3	134359.1	657.6%	146699.7	669.9%
Aug-06	53493.5	194493.6	247987.1	71852.7	319839.8	1219.0%	335763.1	1138.9%
Nov-06	147403.7	314222.6	515075.8	239647.0	754722.8	1471.1%	791996.1	1438.3%

Gono said Government printed$21 trillion to buy foreign currency to pay off IMF arrears. They would have to print an estimated $60trillion (old) to fund the bill for soldiers' and teachers' January salary increments as only $30 trillion was budgeted for civil servants.

The short notice for the August currency changeover and regulations that individuals could only convert Z$100 million a day led to a nation-wide shopping spree and fuelled inflation. 78% of the $45 trillion old currency in circulation was recovered, so dealers and speculators could have been left holding $10 trillion unaccounted for when the old bearer cheques were phased out on August 21

A dispute between Finance Minister Herbert Murerwa and Gono over Murerwa's authorising printing money for "quasi-fiscal operations", involving Air Zimbabwe, wheat imports (for ZW$3,25 trillion), agricultural inputs ($836.3 billion), an expanded programme to capacitate A1 and communal farmers as well as utilising some dormant Arda farms($56.2 billion), bridging finance for the construction of dams such as Gwayi-Shangani and Tokwe Mukorsi ($375 billion) contributed to Murerwa's 'removal' at the end of the year.

In December several banks were reportedly struggling to supply $1000 and $500 notes while this cash is plentiful across the borders. In Harare only Z$10,000 denominations are readily available. In neighbouring countries the Zimbabwe dollar trades vigorously on the black market. reflecting the dwindling activity in Zimbabwe. People have to source goods outside the country. Some traders are selling Zimdollars back to Zimbabwean shoppers returning home and also sell foreign currency to those travelling outside the country.

Interest rates

RBZ accommodation rate:

Jan	550%	
21/2:	650%	
24/2(?)	700%.	
March 16	750%(secured)	785% unsecured
Apr 25	800%(secured)	850% unsecured
May 22	850%	900%
Aug 10	300%	350%
Oct 9	500%	600%

By April, many local companies are threatened with collapse due to high interest rates, as they can hardly afford to borrow for their working capital requirements.

Commercial banks followed the RBZ lead. When RBZ reduced accommodation rates in August, Zimbank took the lead, reducing its lending rate from 560% to 290%. When RBZ raised rates in October, at least 5,000 workers in the tourism industry. Kingdom Bank increased its lending rates from 295% to 400%. Metropolitan also went to 400% while ZABG was loaning at 375%. CBZ Bank and Agribank did not review rates, lending at 275% and 250% respectively. Productive sector financing, however, carried interest of 50%/yr. Rates shot up again in December. Deposit rates were averaging 300% for 7 to 14 days up from a low of 50%. Banks were quoting 250% for 30 days, 60 days and 91 days.

Government budget

IMF says the fiscal deficit rose to about 60% of GDP in 2005.

Government in January awarded civil servants a 231% salary hike, likely to push the wage bill through the $30 trillion ceiling.

The War Veterans received hefty allowances in May, making an ordinary war veteran now equivalent to an army warrant officer Class 1: the monthly allowances and benefits would be the same, between Z$27 million and Z$35 million. Every war veteran's child in secondary and tertiary education would now get Z$90 million, while those at primary school would be entitled to Z$20 million for school fees.

A presumptive tax on informal traders, transport operators etc. has been proposed, but the modalities are uncertain.

28/07/06 Fiscal policy review highlights
* Government unveils $327,2 trillion supplementary budget;
* First half suffers $17,8 trillion deficit;
* Tax-free threshold raised to $20 million;;
* Additional revenue of $140 trillion to be raised;
* Domestic debt shoots to $46,1 trillion;
* External debt climbs to US$3,968 billion;
* Current account US$434 million in the red;
* Inflation to average 950-1000% 2006;
* GDP was hoped to grow by between 0,3-0,6%;
* Agriculture was hoped to grow by 23%;
* Mining projected to decline by 10,8%;
* Gold production to fall;
* Tobacco production declines;
* Manufacturing on the decline;
* Multiple fuel prices to be phased out;
* Maize selling price to be reviewed;
* Stakeholders call for devaluation;
* Parastatals continue making losses;
* Arda to be restructured and;
* Corruption now a major problem

The $372,2 trillion (now $372,2 billion) supplementary budget was passed without amendments. This makes the budget deficit 24% of GDP. RBZ pumped out $8,6 billion for currency reforms of which $4,6 billion was for capital expenditure while $4 billion was channelled towards the printing of the new bearer cheques

Zimbabwe will buy 12 military aircraft from China, parliament heard on 22 August. The total cost of the deal is unknown, but US$4,6 million had already been paid to the manufacturers.

By September CMED was owed $1,2 billion by govt departments.

In October, government had not released $487.18 million due to the new Price Stabilisation Committee.

ZNCC have urged government to cut the number of foreign missions abroad as they are a drain on the fiscus.

Registrar-General could not produce passports for lack of cash: 30 November, 2006

The budget deficit for 2006 was Z$824bn (US$3.3bn). At 43% of GDP this is more than double the 18.7% estimated in mid-year. Finance minister Herbert Murerwa announced a $24 trillion 2007 budget with a 17% deficit, which parliament approved without amendments. The Parliamentary Portfolio Committee on Budget, Finance and Economic Development said Minister Murerwa should make public the exchange rate he used in drawing up the 2007 National Budget, as this would determine the reliability of the budget estimates.

According to figures made available by Murerwa, total quasi-fiscal expenditure at the beginning of November 2006 amounted to $372.9 billion. Of this amount, $60.4 billion is for quasi-fiscal expenditure for 2005, while $8.4 billion is for the 2004 fiscal year. Quasi-fiscal expenditure for the current fiscal year stands at $304.1 billion.

Government has no capacity to meet the total financing requirements for the agricultural sector. Murerwa told Parliament that government will continue to play its part, and expects greater involvement of the private sector including the banking community to fund the farming sector.

The Public Accounts Committee has accused Finance Minister Murerwa of exceeding borrowing limits without parliamentary approval. The committee said the Act and RBZ regulations were that: government could not borrow more than 30% of the previous year's revenue. In addition, the government's overdraft with the RBZ should not exceed 20% of the previous year's revenue while its guarantees should not be more than 40% of the previous year's revenue.

THE rate of Value Added Tax, which was supposed to go up by 2,5 percentage points to 17,5%, will remain at 15% while the maximum individual income tax has risen to 47,5%.

Parastatals

In January RBZ paid for some of ZESA's electricity imports from Mozambique and the DRC 'ZESA claimed it did not have the Zimbabwe dollars to pay RBZ for foreign currency because of sub-economic tariffs. The company's electricity import bill had risen from US$4,5 million/month to about US$9 million. By November ZESA was insolvent and incurred a loss of $35 billion (new currency) in the first 6 months of 2006. In June Hwange Colliery Company had cut supplies to ZESA by 40% over unpaid bills. ZESA was now generating only 90 MW of power at the 650MW Hwange station.

Airzim remains insolvent. Travel agents were instructed in October to "collect taxes that do not accrue to government and remit these to Air Zimbabwe" as AirZim increased fares by 300% - 350%. Passengers travelling to and from London must now pay US$76 above the $1,4 million fare. Taxes for travelling to China are US$11, Dubai US$8 and South Africa US$31. The local currency component of these fares is $2,5 million, $1,3 million and $340,000 respectively.

Industry

February moves by SA to halt power supplies virtually crippled Zimbabwe's industry.

Zimbabwe has been experiencing fuel shortages since 2000, due to a combination of foreign currency shortages, corruption at NOCZIM, ruinous economic policies and deteriorating diplomatic relations with key countries and international institutions. In addition, increased company closures, unemployment, soaring inflation and low production, with many remaining manufacturing companies operating at less than 20% capacity, have put great pressure on government as it promises to implement a turnaround programme.

Government ministries and companies in June signed deals with Chinese firms for the supply of broadcasting transmission, irrigation, tillage and construction equipment but Chinese companies assigned to projects in the country are abandoning the sites because of non-payment. These include companies contracted to clear and install irrigation facilities at Nuanetsi ranch; to finance renovation projects at ZESA Holdings and Hwange Colliery, the dualisation of the Harare-Bulawayo and Harare-Masvingo highways and construction of the Southern Africa Regional Police Chiefs Conference centre in Harare. It was uncertain this week whether Russian energy firm TurboEngineering would invest in the energy sector in July after officials from the company expressed dissatisfaction at Zimbabwe's single buyer model for electricity and erratic subsidies from the government.

In June reports of accelerated decline poured in, with electricity supplies down to 70% of demand, threatening economic activity across the board.

Captains of industry said in December the year 2006 had been the worst in the country's 6-year recession. Industrial volumes plunged to fresh depths and corporate executives being prosecuted for pursuing profit-oriented pricing systems.

AN Indian firm, Olam Cotton Company, has built a US$2,5 million cotton ginnery at Mutora Growth Point, Nembudziya in Gokwe North, creating employment for 300 people, most of them from the local community. The board of Indian-based Apollo Tyres Limited has approved the acquisition of the US$200 million Dunlop Tyres International. There are now more than 35 Chinese companies operating in Zimbabwe, according to the Herald.

Manufacturing

The all manufacturing index stood at 52.4 points in December 2005 compared to 57.1 points in November 2005 and 59.7 points in December 2004. Factory output has fallen by 45.6% since 1998, and manufacturing levels are at their lowest since 1971, with 32% of manufacturing firms now operating at 30% of capacity. In October, industry secretary Christian Katsande said another 40% of firms were producing at between 50-70% of capacity, an apparent improvement on 2004/05 when only 13% of companies were utilising over 75% of capacity.

Production was suspended:

- of Hansard since late in 2005, owing to the availability of raw materials
- at Bulawayo-based National Blankets due to shortages of working capital, despite large export orders.
- The CSC ceased operations, in November.
- At least 30 companies operating under the Export Processing Zones Authority closed or suspended operations from January to May.
- Jongwe Printers, has had its two printing machines put up for auction over a $300 million debt
- National Foods suspended production of vegetable oils due to a foreign currency shortage and was in March only operating two grain milling plants out of a total of 12 due to allocation constraints

Scaled down:

- FARM equipment manufacturer Hastt a sharp decline in domestic demand.
- Steel production at ZISCO had plunged by 88% from 14,200 to 1,600 tonnes in February.

And resumed: by Unilever after a serious foreign currency crunch.

David Whitehead Gweru branch closed in July after the company was placed under a provisional judicial management in May. The company reportedly owes its more than 2,300 employees more than $100 billion in unpaid salaries and over $800 million to the ZTWU in union dues.

Hwange Colliery has drastically reduced supplies to Zisco due to an unpaid debt which stood at more than $500 billion in July. The colliery is reportedly supplying only strategic businesses. Olivine Industries is therefore facing serious coal shortages.

In June Cashel Valley factory was set to reopen.

Building costs in the office market escalated from (old)$17,5 million/sq.m in January 2005 to $275 million/sq.m by the first quarter of 2006. Construction costs for residential accommodation have ballooned by about 350% to (new)$100,000 - $250,000/sq.m in the third quarter of the year.

Mining

Mining houses froze billions of dollars in exploration, expansion and new investments over a proposed law that they should relinquish half their shareholdings to black Zimbabweans. The Zimbabwe Chamber of Mines said these plans will drive away foreign investors and force most mines to shut down. Mines that fail to cede 51% stake to state risk seizure. Mugabe claimed Zimbabwe had sealed joint mining deals with China, but has delayed signing laws that will protect the business interests of investors.

Zimbabwe earned $52,5 billion (revalued) from the sale of various minerals in the first seven months of 2006. The Chamber of Mines reported that gold, platinum, nickel and high-carbon ferrochrome were among the major contributors to mineral earnings. Production of several minerals had declined in these months, but production of rhodium and ruthenium increased.

Mineral	June 2005, t	June 2006, t	Jan-July 06	Value (rev)	Jan-Sep 06	Jan-Sep 05	Jan-Sep 04
Asbestos	10,829t	9,064t					

Mineral	June 2005, t	June 2006, t	Jan-July 06	Value (rev)	Jan-Sep 06	Jan-Sep 05	Jan-Sep 04
Gold	1,188kg	908kg	6,031kg	Z$12,8 billion	8,335kg	10,966kg	16,153kg
Ferrochrome			122,401t	$8.2 billion			
Chrome			409,817t	$3.9 billion			
Platinum	350kg	389kg	2 804kg	$9,2 billion	6,265kg	4,000kg	3,665kg
Palladium	304kg	313kg	2,281kg	$2,1 billion			
Rhodium			232.15kg	$2,7 billion			
Coal			846,402t	$1.2 billion			
Unclear			56,642t	$1.9 billion			
Nickel	741 tonnes	676 tonnes	5,146 t	$8,8 billion	6,556t	7,082t	
Copper				Jan-Oct:	2,201t	2,135 t	
TOTAL				$52.5 billion			

Mining accounts for about 4% of GDP, about 4.5% of employment and 16% of total foreign exchange earnings.

Due to Chinese eagerness to buy, copper prices have increased six-fold since a 2001 low, topping $8,000/ton in some trading by June. Platinum prices tripled over that time. Gold production has plunged by 48% since 2004.

The Chamber of Mines attribute the generally decline in mineral deliveries in the first quarter to low capacity utilisation and shortages of spare parts for production.

The country earned US$591 million from mineral sales for the first 10 months of the year compared to US$103 million in the same period in 2005, due to surging international prices. A total 749,096 tonnes of minerals were sold , a decline of 6% from 797,294 tonnes in the same period in 2005, but a gain in value of 470%. The drop in volume, according to MMCZ is due to the poor showing of high carbon ferrochrome, diamonds, steel and copper. Platinum group metals' concentrates earned US$123,86m compared to US$71.96m in 2005, but steel brought in a total of US$704,000 compared to US$1.2m in 2005. Steel volume slumped 50%, to 2,116 tons from 4,161t in 2005. However the country registered an increase in both value and volume of chrysolite asbestos fibre: 92,479 tons worth US$27.1m in 2006 compared to 83, 687 tons worth US$20.7m in 2005. Although mining surpassed agriculture in export earnings, Zimbabwe needs extensive re-capitalisation at existing mines and investment in new exploration. Problems are increased by erratic power supplies, shortages of equipment and spare parts, breakdowns of machinery, rising production costs and smuggling of precious stones and gold.

Gold deliveries to the official buyers, Fidelity Printers (an arm of RBZ) dipped by 40%, to 12117kg, in 2005 and fell 24% from 10,552.04kg in the first 9 months of 2005 to 7,991.57 in the same period of 2006. Gold sales were 27666kg in 1999. Surface ore mining has been exhausted and many small miners do not have the capacity for hard rock mining. Also, smaller miners often do not declare their production. They only get 40% of the price in forex, with the rest in Z$ at the official rate. RBZ increased the local price of gold on 28 March to Z$2,5 million (US$25,20)/gram, up from 1,2 million, but it fetches more than Z$2,7 million on the black market. By July several gold mines faced closure, when the world price of gold was the highest since the early 1980s. The Chamber of Mines said a viable support price would be Z$6.8mn. In September, RBZ agreed to index local gold prices to those on the world market. The price thus rose to between Z$5,000 and $5,023/gm (revalued).

Some estimates say some 30t of gold is mined and sold through the informal sector each year. This is worth a considerable sum at world gold prices of over US$600/fine ounce and provided a living for some 500,000 people - almost as many as the whole formal sector. All this was threatened by the blitz on 'gold panning' in which at least 22,554 'illegal' miners were arrested by the end of December.

Zimplats agreed to effectively cede to government 36% of its platinum resource base on the Great Dyke. It had announced by the end of the year a US$258 million investment in expanding its Ngezi project and spending of . $23,2m, from retained cash flows, at Mimosa Platinum Mine, operated jointly with Aquarius.

Hwange Colliery's production has declined by up to 40%, loading 40 wagons for consumption daily against a demand of 120. Coal mining declined to 883,000 tons for 2006 to September from 1.4 million tons in 2005.

However, Hwange Colliery says 3-month production at its new Chaba Open Cast Mine increased from 22,000 tonnes to 117,000 tonnes from April to June 2006. An Indian firm, Steelmakers (Private) Limited, is said to intend mining coal in Gudo communal lands in Chiredzi, an area believed to have an estimated 500 millions tonnes of coal covering over 2 500 ha.

Zimbabwe and China reportedly signed a deal in June worth US$1.3bn for the development of thermal power stations and provision of TV transmitters in return for chrome.

ZMDC's newly acquired Sandawana emerald mine was due to resume operations by end of September following the injection of $60 million as start-up capital.

Stock Market

ZSE indices ('revalued' from January for simplicity)

	industrial	Increase, year	mining	Increase, year
Oct-05	13704664.0	1558.3%	1758931.2	1010.7%
Nov-05	16458232.6	1933.4%	3708181.2	2017.3%
Dec-05	18483884.0	1684.2%	6459153.4	3058.6%
Jan-06	45276294.8	2102.4%	12070712.6	2752.5%
Feb-06	38920636.7	1676.1%	12086834.2	2171.6%
Mar-06	31015030.9	1148.6%	9200575.6	1466.6%
Apr-06	34737970.8	1054.9%	7613607.0	1186.2%
18/05/06	45201608.6	1488.7%	12756915.1	2368.2%
Jun-06	50484093.8	1667.3%	15609727.0	3033.3%
Jul-06	75356824.9	1781.1%	31373359.5	4819.5%
Aug-06	1836227.0	48058.1%	107921.0	18031.0%
Sep-06	354173.3	5634.3%	194310.6	22960.3%
Oct-06	497651.1	3631.3%	175666.0	9987.1%
Nov-06	447460.3	2718.8%	181168.5	4885.6%
13/12/06	547579.5		266435.5	
18/12/06	~500000	2705%	~280000	4335%

In some months, figures are given for the last day of business. In May brokers went on strike over VAT demand backdated to 2004, which would ruin most of the stockbroking firms. The dispute cost ZSE at least $500 billion in potential revenue and govt $10bn/day, before ZSE agreed to pay the levy.

RBZ in February re-introduced short-term 91-day treasury bills, a move that caught both the money market and stock market by surprise. As a result, institutional investors moved to the money market.

Zimbabwe's stock market is regarded as the world's cheapest, and its performance in dollar terms has been better than SA's 2006.

Investment

ZIC in 2005 approved a total of 74 projects worth over $6,4 trillion in the 12 months to December. Tourism, with only two projects approved, got $4,8 trillion of this.

In May China was said not to be keen on further involvement in Zim economy because Zim govt has not paid for imports. An investment deal RBZ governor Gono signed with a Russian group which proved to be bogus. Political interference has scuttled a US$400 million deal with an Indian firm to rehabilitate ZISCO.

Legal experts and investment analysts said the Zimbabwean Reconstruction of State-Indebted Insolvent Companies Act (Chapter 24:27) is a ghost that is targeted to give the state control over the companies that operate in Zimbabwe. The Act, promulgated on 26 February 2005, has been used to take over control of a number companies.

The state has started another "blitzkrieg", threatening to take 51% of the equity in all foreign-owned businesses.

According to Tony Hawkins, Professor of Business Studies at UZ: South Africa's share of investment in Zimbabwe has risen as there has been bargain-basement buying by some mining and industrial groups.

On January 1, 2007 the Zimbabwe Investment Authority Act came into force, providing for a one-stop investment shop to implement promotion of decentralisation of investment activities, to supervise the implementation of approved projects and other issues.

As Z$ plunges, surging demand for properties by Zimbabweans in the Diaspora pushed property prices to levels locals cannot afford. By April the property market was at a standstill owing to the high rate of inflation, with few owners willing to part with their properties.

Trade

CSO only gave annual trade figures in Z$, which makes quantitative analysis impossible due to hyperinflation: Z$ in which month? However the top trading partners in 2005: S.Africa, Botswana, UK, Zambia, Mozambique, China and the USA appear in roughly the same ranking as in 2005, but even this is not reliable.
The size of the deficit in hard currency is unascertainable, but clearly the balance is unfavourable.

Trade by top commodities, 2005

Exports, Z$:
Mineral products 12.1%,base metals and products 11.5%, textiles excluding clothing 10.0%, tobacco 8.5%, Wood & wood products 6.3%, other agriculture 5.3%, Furniture 5.1%, chemicals 2.8%, leather & hides 2.7%

Imports, Z$:
Chemicals 13.5%, Machinery 12.4%, base metals and products 10.6%, plastic and rubber 9.3%, other agriculture 9.0%, mineral products 8.9%, transport equipment 8.6%, electrical products 5.5%

The electricity import bill had shot up by March to $600 billion a month, from $5 billion.

Textile exports to COMESA have declined by more than 40% in the past five years.

In the first seven months of the year, Chinese dealers bought 30 tons of ivory from the Parks and Wildlife Management Authority, representing the tusks of some 2,250 elephants. Trade between Zimbabwe and China surged to $280m in 2005 and bilateral trade for the first eight months of 2006 reportedly reached $210m.

Smuggling of goods, mostly; textiles, gold, cigarettes and fuel in and out of the country has led to the loss of millions of dollars in revenue every year and has cost the people jobs.

Tourism

Annual income has dropped more than 70% in the last six years from $340 million to $98 million, as there were less high-spending Western tourists. ZTA reports tourist arrivals were up by 45% in first nine months of 2006: 1,596,364 compared with 1,104,368 in the same period in 2005, but most of these come from the Middle East, China and Asian countries.

Air Zimbabwe has cancelled 20% of its international routes, and is battling major financial losses and a chronic network shrinkage. The airline's routes shrank from 15 international destinations to 9, while regional destinations dropped from six to a mere one. Revenue has also declined, while costs have gone up considerably due to high fuel costs, high interest and inflation rates and the unfavourable exchange rate, ageing equipment and a combination of other factors. The airline lost US$1.2 million in potential revenue daily, while it had a debt of US$14.6 million. In 1999 Air Zimbabwe carried 1 million passengers, but in 2005 it dropped to 230,000.More than 100 tour operators and restaurants were ordered to close after they refused to heed government’s June 22 call to regularise their operations.

Balance of payment

The RBZ had stopped publishing figures of foreign currency inflows but analysts said the failure of state firms to access forex from the central bank for their import requirements showed its coffers were dry.

Conclusion

There can be no economic improvement until there is political change, but even after that, an analyst reckons Zimbabwe's future economy will reorganise around the following sectors:
..Service sectors led by mobile communications and Internet
..Retail of cheap Asian goods as well as of food
..Mining dominated by platinum group metals, diamonds and gold (asbestos is in its twilight)
..Financial services (especially international financial transactions fuelled by transfers from the Diaspora)
..Leisure and hospitality (with a growing domestic component financed by Zimbabweans living in the Diaspora)
..Housing development and housing related services
..Entertainment (people will always need entertainment.)

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