THE ZIMBABWE ECONOMY IN 2005

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Introduction

Zimbabwe's plunge continues: the world's fastest-shrinking economy with the world's highest inflation rate, the sharp decline in economic activity and per capital income, the rise in poverty, unemployment and human suffering and the accumulation of domestic and external debt arrears, all gathered pace in 2005. The economy had contracted to 1953 levels, when the average person had an income of $760/year. The speed of this decline is almost unknown outside a war situation. The country is not getting balance of payments support; direct foreign investment is minimal and there are no foreign currency inflows. Zimbabwe took record low positions in the world in terms of human development, quality of life and competitiveness.
The damage done by Murambatsvina exacerbated unemployment and shortages. Foreign exchange shortages have restricted essential imports, further exacerbating the decline of the formal economy and the government's revenue base. The budget deficit balloons and all the regime can do is to impose unenforceable controls or print money to throw at problems, only exacerbating them. "Look East" has meant selling off national assets to China and getting inferior 'zhing zhong' goods in exchange. The November policy on indigenisation, that half of the shares should be immediately taken up by indigenous entrepreneurs threatens investment.

By November, Zimbabwe was surviving on around 20% of the 2,2-2.5 million litres of fuel it needs daily. NRZ said it might have to re-introduce steam locomotives.

1. Agriculture and food

Production in 2005 fell 12,8%. It has declined at all Arda estates to almost zero. Zimbabwe faces its worst agricultural season since 1980. Shortages of seed, fertilizer and equipment threaten the 2005/6 targeted output of maize, cotton, tobacco and soya bean even before planting.

140,866 families have been resettled under the A1 scheme on 4,236,076ha of farmland, far less than the 300,000+ families that were claimed to be resettled since 2000. Under the A2 commercial farm scheme 14,500 families have been resettled on 2,329,285ha. Much land allocated to A2 farmers is lying idle, as most of the new farmers have failed to raise enough capital to begin production, 5years after they settled on the fields.

The CSC has not been meeting its 9,100 tonnes beef quota (generating more than US$38 million) to the EU for the past five years after exports were suspended due to an outbreak of foot and mouth disease.

Crop yields:

	1999-2000	2000-1	2001-2	2002-3	2003-4	2004-5
Maize	1519560	1476140			574000(est)	550,000(est)
Cotton	265130	339113		202000	331000	198000
Soya beans	107178	175080	60000	30000(est.)		
Tobacco	236900	190926	162027	83000	64500	73000
burley tobacco:		5505				871.8
paprika:		12798	12984	10000	7000	5000
wheat		280000	150000			126228
milk, cu.m	180000	165000	120000			85000
sugar, t		1200000		1253874	1070149	700000(est.)
beef cattle nos.:	1400000		200000		210000	

Problems beset the production of all crops:
shortage of forex for fuel, inputs and equipment; credit (underrnined in some cases by side-marketing or administrative failures); training for new farmers; irrigation and marketing facilities; bad allocation of land to settlers, high production costs, low prices and late or non-payment of prices and bonuses .

The 2004 tobacco crop fetched US$137 million. The 2005 crop was generally of poor quality so total earnings were 17% lower. This year's 73 million kg falls short of the RBZ target. Farmers should have planted tobacco by mid-November but inputs were late. 63,5 million kg of flue-cured tobacco were exported between January and December at an average price of US$3,17/kg, earning US$201 million while 871,800kg of burley raised US$2,5 million at an average price of US$2,88/kg.

The country was importing maize from July 2004. The grain for April 2005 - March 2006 is estimated to be 1.2 million tonnes. Government announced plans to import 1.8 million tonnes, but imports are slow, about 480,000 tonnes between April and September 2005. By 26 June, Zimbabwe had imported 36.1% of South Africa's surplus maize supplies since 1 May. Sourcing the total needed will not be easy. Official statistics indicate the country only harvested between 500,000 and 800,000t. Government increased the producer price for 2005/2006 by 299.7% for deliveries made from 1 April but the GMB's selling price remained unchanged. The GMB started paying farmers by 20 December $500,000/tonne bonuses for maize and small grain delivered between April and September. Only 30,000 tonnes of seed were available by 15 October, 40% of the requirement to grow enough food for next year. This seed was released late because government wanted producers to sell it at a loss. Fertilizers and chemicals are not available at all. Manufacturers have been operating well below capacity.

Crop prices:	2004-5		2005-6	
Z$/tonne	to producers	to millers	to producers	to millers
maize	$750,000	$600,000	$2,248,024	$600,000
wheat	$1,749,128		$9,920,780*	$12,300,000

*including Z$3 million bonus

In August government opened up trade in maize and wheat and waived duty on imports, hoping to increase inflow of the two staples. Farmers who delivered wheat in the 2005 marketing season will also get the new producer price. In November farmers were promised a $3 million/tonne bonus for deliveries before the end of the year.

Sugar output is likely to remain low. Under the 2000-3 on-off acquisition A2 farmers got about half the core of the estates, with no plans for sharing services or for residential plots. In 2003, Mkwasine Estate under its former owners produced 110t of sugarcane/ha. Today, new settlers can only manage 40t/ha of poor quality cane.

Cotton earnings for the 2004-05 season = US$80 million, down from US$150 million in 2003-4.
Paprika production continues to decline. Paprika exports used to bring in close to US$50 million.
Zimbabwe suspended exports of **ostrich** and other poultry after discovering a strain of avian flu that can be lethal to birds, but poses little risk to humans.
Dairibord is operating at about 25% of capacity due to shortages. Nestle's Harare factory was receiving 5 million litres/yr of fresh milk instead of the 12 million litres a few years ago. New dairy farmers are unlikely to boost the country's milk production.
Horticulture which earned US$143 million six years ago would this year bring only US$90 for exports.
The **fishing** industry faces collapse as it is presently suffering from erratic fuel supplies, an influx of cheap foreign fish varieties and massive poaching.

finance
Only $950 billion has so far been paid out of the $7 trillion earmarked for agriculture largely because of delays in processing by the banks and some farmers' ignorance of the application procedures. Crop financing, at $1 trillion, is inadequate when tobacco alone required over $3 trillion.

Input prices for the 2005-6 season are three and half to almost seven times last year's prices. 25kg of maize seed cost between $493,000 and $1 million and 50kg of fertiliser between $252,000 and $505,000, depending on the type.

Serious indebtedness by ARDA is set to scuttle government plans to revive agriculture. The parastatal is failing to pay suppliers. ARDA, expected to be the driving force in the agricultural revival plan, risks having about 10 of its latest vehicles auctioned after it failed to pay about $9 billion for seed and other inputs.

Minister of Finance Herbert Murerwa said that government would announce post-harvest crop producer prices mid-next year. ZCFU president Davison Mugabe said that the system would drive away farmers from growing certain crops especially maize, wheat and sorghum as they be unsure of their expected returns after harvest.

About $70,8 billion of the $118 billon that government set aside to fund agricultural inputs cannot be accounted for. The ministry's failure to repay has forced RBZ to stop allocating fresh funds for the 2006 season's inputs. Minister of Agriculture Joseph Made called upon the GMB to write off all loans issued to farmers in drought stricken areas last season, citing lack of resources to repay.

2. Cost of living

Consumer Council's poverty line calculations, for an urban family of 6 members:

		increase, 1 month	increase, 12 month
Jan-05	$1,774,686.00		
Apr-05	$2,347,063.00	10.5%	
Jul-05	$5,401,440.00	28.6%	
Oct-05	$11,600,000.00	20.1%	673.3%
Jan-06	$21,800,000.00	24.6%	1128.4%

CSO figures seem less reliable, e.g. in February the CSO said rents had gone down in the month, while property prices had risen sharply and rents with them.

Murerwa and Gono have said price controls 'do not help' - but they don't make the decisions. Tightening controls only make the commodities scarce.

High prices reduced demand for beef, local fish and butter, clothing, footwear and related accessories. Surging inflation hits pensioners and fixed income earners hardest.

CCZ urged Government to take a closer look at especially ZESA, Zimpost and TelOne tariffs which are a burden on consumers. ZESA cannot send out monthly accounts, so estimates the usage - a previous average usage of $250,000/m is estimated at $24 million

Most rents in Harare's high-density suburbs were hiked in April when the city commission imposed penalties on backyard structures, again in June, some more than threefold, when many lodgers were evicted in 'Operation Murambatsvina' and again in December by more than 25% as demand outstrips availability.

May: local authority rentals and rates increased in the smaller urban centres and Chitungwiza. Refuse, sewage and water charges rocketed while service declines. Council medical fees increased 100-500% in July. In August Harare sewage and refuse collection charges were cut to 1000% over the pre-increase levels. Still, garbage, corpses and sewage pile up because disposal costs are too high. Public transport fares rise with every increase in fuel prices, aggravated by rising world prices. Telephone and electricity rates rise every three months. Municipalities now use donkey- and ox-drawn carts for refuse collection, and ox-drawn ambulances.

Fees in Government schools increased by 1,000% in August, retrospective to 1 January. Stationery and uniform costs have increased by $4-$5 million. By October, hundreds of children were dropping out of school. Others fainted in class from hunger.

9 out of 10 Zimbabweans cannot afford formal healthcare as more people turn to traditional medicine to save costs. A monthly fixed-dose combination of antiretrovirals (ARVs) went up 500% between June and October. By November Harare's ambulance fleet was grounded for lack of fuel and spares. Harare Hospital risks closure due to a massive staff exodus and other problems. Patients are being left to die due to lack of drugs and equipment. Maternity registration fees at city council clinics increased from $300,000 to $1.2 million in November.

TV and radio licences rose to $650,000 and $20,000 respectively, from $12,000 and $1,000 annually on 19 November .

The army and police are turning to crime to survive. Over three quarters of the parents of new graduates are urging their offspring to emigrate, mainly because their families depend on remittances from abroad.

3. Exchange rate

Import demand at Zimbabwe's foreign currency auctions constantly exceeds supply, fuelling the parallel market. Demand surged more than 200-fold since January 2004 while inflows have only doubled.

RBZ says foreign currency inflows into the formal market surged to $1.7 billion in 2004 from $301 million in 2003. But industrialists said this does not meet demand.

To briefly summarise the complex exchange rates: introduction of the diaspora rate at Z$6200 = US$1 in February, the May increase to 9000 and the July rise to 17,500 temporarily narrowed ed the gap between official and parallel market rates. The reintroduced interbank rate on 22 October started around 60,000, spread from 58,000 to 85,000 at different banks within a week and then RBZ dictated that it should be held around 60,000. However, by year end it reached 72,000 against a parallel rate of 100,000. Through all these manouevres, forex supplies at the auctions could not meet 7% of demand.
Rate for the 25% Surrender Requirements for Govt now?

Traditional banks, Standard Chartered, Barclays and Stanbic, that among themselves control more than 50% of the country's banking market, also command the bulk of foreign currency traded on the inter-bank system. They have more foreign currency accounts for major corporate companies, most of which are in the export sector.

In May:

- Shortage of foreign currency to buy essential food and fuel led to ZIMRA officials raiding hotels and businesses to recover any forex being withheld from RBZ.
- Zimbabwe was rumoured to be settling its electricity debt to South Africa in gold.

Foreign exchange inflows January to April 2005 totalled US$385,7 million compared to US$448,6 million in the same period last year.

Zimbabwe on 2 August began selling fuel to motorists in foreign currency, at US$1/litre. The system was restricted by the end of the year because it was alleged to fuel the black market.

In September RBZ's top 1,000 defaulting debtors were given a week to pay or face prosecution. These exporters owe the bank US$212.7 million - enough to meet the country's fuel needs for almost four months - of which US$110.7 million is owed by delinquent exporters "who have gone into hiding".

A shortage of hard cash to import A1 jet fuel for grounded Air Zimbabwe's entire fleet in Mid-November..

23/12/05: The rand was trading at R1 to $13,000-$15,000 in Beitbridge.
On 29 December ZIMRA imposed a compulsory foreign currency exchange at Beitbridge Border Post and Plumtree, a minimum R500 and P500 for exchange. Failure to pay will be punished by confiscation of goods. The Rand fetched Z$14,000, US$92,000 and the Pula $17,000 on the black market

4. Wages

Real per capita incomes in 2005 will be the lowest since the 1960s, now about half their peak, 1991, level of Z$2,280 (at 1990 prices). Several sectors hit by strikes August 2005 including doctors

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

sector		**Oct-05 wages**
Mining		$2,660,000
automotive		$1,500,000
cement and lime		$3,000,000
	fibre cement	$4,500,000
civil service		$1,600,000
commercial		$1,800,000
food (avg)		$2,300,000
agriculture		$450,000
engineering		$900,000

sector		Oct-05 wages
clothing		$2,000,000
PTUZ		$2,070,000
RAU		$6,500,000
ZARU		$2,100,000
ZBAWU		$1,600,000
catering		$2,500,000
chemicals & plastics		
(weekly	A1	$698,000
by	A2	$715,000
Dec)	A3	$772,000
	B1	$811,000
	B2	$852,000
	B3	$928,000
domestics	according to grade:	$850,000 - $1,200,000
ZEEWU		$2,989,500
ferro alloys		$2,049,000
furniture	lumber	$2,072,000
	furniture	$1,800,000
leather		$2,100,000
graphical		$1,500,000
pulp & paper		$3,600,000
textile		$1,600,000

Compare these figures with the CCZ poverty datum line for an average urban family of Z$9.6 million/month for October. Disparities between top earners and lower workers continue to widen. Some of the highest earners get up to $300 million.

In January government hiked lecturers' salaries by up to 600% in an bid to stem the brain drain from state institutions of higher learning. The lowest paid university lecturer gets Z$20 million up from $4 million/month. Senior lecturers will get $24 million and professors$30 million/month.

In May government bowed to pressure from the Domestic Workers' Union to reverse wage increases gazetted in March to avoid massive job losses. Many employers earn wages hardly above the PDL.

Operation Murambatsvina/Restore Order effectively put to waste efforts by most Zimbabweans in the informal sector to make a living in a harsh economic environment and increased inequality between rich and poor.

September tensions between workers and employers rose over wage and salary increments. Employers said the demands for increases of more than 300% are unreasonable given the difficulties which companies operate under. Business now relies on bank overdrafts and loan facilities at rates as high as 300% per annum. Workers in various sectors of the economy demanded between 200% and 450% increments as a cushion against inflation. Labour representatives argue that any increment less than 100% is unreasonable.

Bank workers were awarded a 132,5% increase in July but Barclays Bank instead offered its workers only 50%.

NSSA is required to increase its prescribed asset ratio to 35% from August. This means lower returns for the pension fund and will adversely affect the lives of pensioners.

In September ZESA employees were awarded a 100% increment to be paid in phases, 50% in July 2005 and a further 50% in October. The lowest paid employee would be earning$2,9 million after the second phase.

October:

- government awarded doctors a paltry $98,000 transport allowance on top of the $880,000 they were getting before the increment, instead of the 800% salary hike they demanded.
- Government employees said they are reducing the number of days they report for work because transport

fares and food prices continue to soar.
- ARDA has failed to pay more than 200 workers in Matabeleland.
- Harare City commission has failed to award its workers the 120% salary increment ordered by arbitration
- The only magistrates earning slightly above the poverty datum line were the regional magistrates.
- ZCTU rejoins Tripartite Economic Forum.

5. Employment
Manufacturing has lost 42% of its labour force in two years as companies closed or downscaled operations.

Formal sector employment peaked at 1 350,000 to 1,400,000 in 1998. The best estimate for 2004 is around 950,000, implying a loss of at least 400,000 jobs since the downturn started. Losses continue, suggesting that formal employment at the end of June was about 900,000.

Evidence suggests that in Harare alone by far the majority of informal sector people have been put out of work. Countrywide, some 750,000 people probably lost their livelihoods by the end of May, and the number increased through June - July and the number of people employed in, or providing services to, small-scale agriculture fell

Sackings reported:
July- An estimated 100,000 long distance drivers and conductors and 200,000 from the informal transport sectors (kombis) drivers in the public transport sector around the country have been sent on forced leave due to the fuel shortages.
August- TelOne: up to 1,600 workers are to lose their jobs due to the restructuring and restrategising programme.
August- the baking industry: an estimated 10,000 employees in 320 urban bakeries have closed shop since the advent of price controls. Half of the surviving 80 bakeries might also go under unless the government lifts the lid on prices and improves fuel and wheat supplies.
Aug- City of Harare proposes to fire all workers and re-advertise their posts - meant to rid council of non-performers.
Sep- The Chitungwiza Dairy Plant, formerly the second largest employer in Chitungwiza, employing more than 300 workers, now retains around 20 workers.
October- National Foods that employs several hundred people had shut down its flour making plants in Harare and Bulawayo.
Nov- RK Footwear Company (Ratanje) has laid off about 51 workers after hurriedly shutting down.
Nov- RBZ: 103 employees - 20 managerial and 83 non-managerial.
December- The PSC more than 170 workers who were attached to the Parks and Wildlife Management Authority.
Further retrenchments threaten:
9 September ZIMPAPERS, clearing sit-in correspondents and freezing recruitment of new staff.
October government, whose wage bill has been gobbling up 20% of GDP for the past two years, considered retrenching up to 60,000 of its more than 160,000 workers.

26 October: The High Court overturned TelOne's decision to fire 1,254 workers who went on strike a year before, after management refused to implement an arbitrator's award of a salary increment.
THE Parirenyatwa Group of Hospitals has vacancies for over 200 nurses in September. According to one estimate, 60% of state-registered nurses and about half of the medical doctors have left the country since 1999.
10/12/05: SA to recruit 1,000 Zim teachers - unconfirmed.
More than 56% of Zimbabwean final year college and university students are likely to emigrate within 6 months of completing studies. Most seriously affected is the health sector.

6. Financial

External debt, US$ million	2003	2004	2005
LONG-TERM	3346	3927	
government	2411	2844	
public enterprises	615	714	

to **IMF**	288	291
private sector	32	78
SHORT-TERM	403	298
public & publicly guaranteed	51	69
private	118	75
suppliers' balance	234	154
TOTAL OUTSTANDING	**3749**	**4225**
external debt/GDP	74%	95.0%
private, %	4.0%	3.6%, of which half is short-term
DEBT SERVICE		
government	244	204
parastatal	85	83
private	23	14
TOTAL	352	301
principal	255	241
interest	97	60
Exports (goods & services)	1540	1896
debt service ratio	22.9%	15.9%

The growth rate of government domestic debt, about 200%/yr in October 2004, shot to 1,200% in March 2005 and dropped to just over 600% in November 2005. Private sector credit fluctuated throughout around 200%. The debt reached Z$12 trillion in August and Z$14.3 trillion by the end of the year, from Z$2.8 trillion in Sept 2004..

Money supply

note a revision in the definition of some of the elements of M1 mean the original figures published for Jan & Feb were later adjusted. Most of the adjustments were reclassified under M2, but, as the figures show, not all.

	notes & coin in circulation	demand deposits	total M1	comm. Bank savings fixed deposits	total M2	change 12 month	total M3	change 12 month	cash as total of M2
Sep-04	1226535.7	4382933.3	5609469.0	2375409.0	7984878.0	267.4%	8426174.2	262.3%	14.6%
Jan-05	1729420.6	7501206.6	7251383.9	2879017.9	10130401.8	163.4%	11188814.8	177.6%	15.5%
Feb-05	2059418.1	8653942.7	8618818.2	3285711.7	11904529.9	204.6%	13094048.7	222.4%	15.7%
Revised:									
Jan-05		5521963.2							
Feb-05		6400744.7	8460162.8	3285711.7	11745874.5	200.6%	12935393.3	218.5%	17.5%
Mar-05	2632202.1	6828558.0	9460760.0	3521056.4	12981816.4	192.6%	14265090.5	210.4%	18.5%
Jun-05	3914859.8	9193488.9	13108348.7	6020751.6	19129100.3	206.3%	20671296.4	219.1%	18.9%
Sep-05	5933140.8		20459061.1	7281819.0	27740880.1	247.4%	30817460.8	265.7%	19.3%
Dec-05	9615883.6		44610682?	15518646.7	60129328.7	552.2%	64816132.1	520.0%	14.8%

Most banks in Harare failed to cope with demand for cash before Christmas. ATMs are limited to 40 notes at a time - a maximum withdrawal of $800,000.-.

Interest rates

RBZ Lending rates:

	secured	unsecured
20 May	160% pa (about 815.0%/yr)	170%, both compounded daily.
	190%	
17 Aug	200%	210%
18 Aug	260%	270%
16 Sep	280%	290%
13 Oct	405%	415%

21 Oct	415%	430%
17 Dec	540%	550%.

Banks charge 300% interest on overdraft but pay 0,001% interest on current account balances

lending rates, %

	commercial banks lending rate	accepting houses lending rate	finance houses hire purchase rate	building societies residential mortgages	commercial	industrial mortgages
Sep-04	150-270	100-195		34-85	42-130	40-130
Nov-04	150-270	140-180	140-190	34-85	40-130	40-130
Apr-05	105-195	110-120	110-120	34-80	40-135	40-135
Jul-05	175-240	185-225	175-180	35-80	110-135	110-135
Aug-05	188-335	190-300	175-190	35-80	110-135	110-135
Sep-05	200-350	285-315	200-270	35-80	110-135	110-135
Oct-05	280-440	295-315		35-80	110-135	110-135
Nov-05	280-350	295-315		35-80	110-135	110-135
Dec-05	280-550	295-450		35-80	110-135	110-135

CABS cur its mortgage interest rates in July for both commercial and concessional housing loans with funds from RBZ, attracting 20%/yr interest, but hiked the rates in October, for industrial and commercial properties from 130 to 220%, from 70 to 100% for new developments in the low-density areas and from 100 to 150% for existing residential dwellings. Mortgage rates for developments in the high-density areas were increased from 35 to 50% while rates for business secured by housing were increased from 130 to 220%.

Government budget

The IMF said the fiscal deficit would widen to 11,5% of GDP, from 4,7% in 2004, due to an increase in the government wage bill from 15,5% of GDP in 2004 to about 20% in 2005. It is impossible to estimate the government's current account deficit.

May: the Parirenyatwa Group of Hospitals is owed over $10 billion by patients and organisations, among them several Government departments, plunging the country's biggest referral centre into serious financial problems. Zim Standard, 30 2005

Parirenyatwa Group of Hospitals was turning away patients under the department of social welfare scheme in October because the department had not been paying the health institution for several months now

15/7/05: Finance minister Murerwa was next month expected to present a $12 trillion supplementary budget in August to fund food imports and Operation Garikai. This comes as government's domestic debt last week reached $12 trillion from $10 trillion in June due to government's appetite for funds.

Value added tax, which raised $2,34 trillion in the first six months of the year, was increased to 17,5% from 15% in September. This is estimated to yield additional revenue of $320 billion. A special VAT rate of 22,5% will now be levied on mobile phone airtime. At least $20 billion in revenue will be raised as a result. A tax on drinks and cigarettes has been increased by 50%. Duty on maize and wheat has been suspended: these have become VAT zero-rated as from June 2005.

Withholding tax on the sale of listed marketable securities was temporarily re-introduced at 10% and reduced after 12 days to 5% due to market resistance.

Murerwa's mid-term policy review showed the tax base is shrinking. PAYE amounted to $2,67 trillion against a target of $3,54 trillion, while customs duty contributed $667,7 billion instead of the targeted $846,4 billion. VAT and corporate tax raised $2,34 trillion (target= $2,29trillion) and $1,82 trillion ($1,17 trillion) respectively.

The President approved the Appropriation (supplementary) (2005) Bill and the Finance Bill on 18 September. The Appropriation Act provides for a supplementary budget of $3,378 trillion, with $2,968 trillion going to finance; $340 billion to public service, labour and social welfare and health and child welfare receiving $70 billion. The Finance Act provides for the taxing of commuter omnibus operators, informal traders, and small-scale miners, among others.

Zimpost could lose well over $43 billion worth of property to about 839 workers it dismissed in 2004 for embarking on collective job action. Government lost billions of dollars due to the misappropriation of funds by companies involved in the exploration of the Lupane Gas Project, the largest gas fields in eastern and southern Africa.

The government says it is willing to accept UN assistance to house people affected by its urban clean-up campaign, but donors, wanting to help all those in need and left homeless, are not clamouring to fund the programme. The government wants them to build for its own beneficiaries.

Mzingwane High School undewent a $6 billion facelift to ensure comfort for more than 5,000 delegates to December's ZANU-PF national conference.

2004's budget provided for total expenditure and lending of $27,5 trillion and revenue of $23 trillion. This implied a budget deficit of $4,5 trillion or 5% of GDP. The supplementary budget raised the 2005 total expenditure and net lending to $31 trillion. Government's deficit reached Z$10.9 trillion by the end of August.

Budget Highlights

Murerwa raised concerns over lack of fiscal restraint, but said financial disbursements will now be strictly based to revenue inflows. He also proposed that the 2006 civil service wage bill would not exceed $30 trillion.

* Budget deficit to be $13.9 trillion (-4.6%) of GDP
* $1.1 trillion for water and sewer infrastructure development in both urban and rural areas
* Restructuring of parastatals through strategic alliances and joint ventures
* Civil servants wage bill for 2006 to be within $30 trillion
* Ministries that exceed budget allocations will be garnished 10% on vote
* Government committed to honour its external obligations when balance of payment position improves
* Further liberalization of the foreign exchange transactions in 2006.
* $11.4 billion for Securities Commission
* Penalty imposed to discourage exportation of raw materials with potential for value addition
* Duty to be charged in foreign currency on selected luxury motor vehicles effective 8 December 2005.
* Tax-free bonus income increased from $5 million to $20 million as from 1 November 2005

effective 1 January 2006:

* Tax-free threshold raised to $7 million/month from $1.5million.
* Unit trusts exempted from capital gains withholding tax to avoid double taxation.

Unrealistic projections of growth, especially in agricultural production, particularly maize and cotton, are used to predict GDP growth in 2006 and a drop in inflation to 80%/yr by the year's end.

The government has considerably reduced the corporate tax payments for 2006 and staggered the debt burden to the second half of the year. The 2006 first quarter payment was reduced from 10% to 5%. The second and third quarter payments were reduced from 25% each to 10% and 20% respectively, whilst that for December would increase to 35% from 10%. This will bring the corporate tax to 70% of 2006 forecast profits.

THE $5.2 trillion allocated to the health sector in the 2006 Budget is not enough to improve conditions.

In December government failed to pay operation Garikai contractors. The unbudgeted $3 trillion (about US$300 million) housing project will plunge the economy deeper into crisis.

ZIMRA surpassed its 2005 revenue target by 33% to net $32,1 trillion, surpassing the $24 trillion target for 2005 due to various measures aimed at bolstering revenue collections undertaken during the course of the year.

ZESA, NOCZIM Record Cumulative Z$9 trillion Loss in 2005

RBZ has said the fuel and electricity shortages, which crippled public transport and industrial operations in mid-year, resulted from state spending in the run-up to general parliamentary elections on March 31.

7. Industrial production

Zimbabwe is producing fewer manufactured goods than in 1971 when our population was less than half its size today.

China was the biggest source of investment in Zimbabwe last year, putting Z$123 billion into the manufacturing industry and Z$3 billion into tourism and services, according to the Zimbabwe Investment Centre. India was second at Z$92.8 billion. The state-run centre did not provide totals in US dollars.

Production has plummeted to between 40 and 50% of capacity as an acute fuel crisis has brought Zimbabwe to a virtual halt, economists and business leaders said yesterday. Firms were losing valuable man-hours as workers reported for duty late en masse, while they also had to be released earlier than normal to join queues at public transport terminals or so they could begin walking home early.

Zim Online 28 July 2005
About 100 Zimbabwean firms collapsed in the past 12 months alone due to the country's worsening economic and foreign currency crisis, the ZNCC said on 27 July. In all about 600 firms had closed shop over the last three years.

Mirror: 2005-Aug-11
MAJOR hotels in the Eastern Highlands have not been spared from the pronounced fuel shortages that have hit the country since April this year, resulting in occupancy rates falling below 30% at some hotels.

Sunday Mail, 28 August 2005
Suppliers of building materials fail to cope

Mirror: 2 Sep 2005
Electricity tariff hike not cost reflective
THE 82% overall interim electricity tariff awarded to the Zimbabwe Electricity Distribution Company (ZEDC), a subsidiary of Zesa Holdings Limited, does not adequately reflect the costs involved in the provision of electricity to the country, ZEDC managing director Ben Rafemoyo said. He said without a cost reflective tariff increase, electricity services and distribution would decline.

FinGaz 9/15/2005
Zimbabwe's business sector, battling to arrest accelerating economic decline, has blasted the government for its disruptive economic and political policies, which have created a hostile environment for business. Business leaders who met at last week's CZI congress in Nyanga took turns to chide the government, which they accused of "stifling industrial capacity". Industry said it was doing business in a disruptive environment resulting in capacity utilisation falling to levels around 20%. Among some of the problems besetting industry are crippling fuel shortages, which business leaders say are affecting product delivery, infrastructural collapse, rising inflation, unpredictable policies, low capacity utilisation and lack of capitalisation.

The ZNCC said although it is yet to conclude a comprehensive study on the state of industry, preliminary research indicates that most companies are now operating at 25% of capacity.

Foreign direct investment to Zimbabwe stood at US$60 million in 2004, representing a 100% growth on the US$30 million registered in 2003.

In October the country was spending between 22 and 25 million rand per week for electricity imports.

Several businesses have been forced to shut in Beitbridge due to serious water shortages caused by a burst water pipe and low water levels in the town's reservoirs.

At least 120 small companies have been struck off the companies' register mainly for inactivity. 67 companies registered this year were struck off, representing more than half the companies deregistered.

The High Court placed the Bulawayo Tyre Services (Pvt) (Ltd) under judicial management in October.

33 firms, or about a fifth of Zimbabwe's export companies, closed during the first six months of the year due to the economic crisis and land seizures. Of the 33, 12 agricultural firms stopped operating after their farms were acquired by the government under the land reform programme, the Export Processing Zone Authority of Zimbabwe (EPZ) said. The closures resulted in a loss of export revenue totalling about US$17,6-million . Close to 7,000 jobs were lost due to the closures in the export sector, which employs 26,000 people. 183 companies were licenced for export in Zimbabwe at the start of 2005. These firms' earnings totalled $220-million in 2003.

Zimbabwe was importing only 20% of its normal liquid fuel consumption in November while it generated about 65% of its electricity power needs.

AFTER taking over vast tracts of land formerly belonging to ARDA, the Chinese, who already own abattoirs in the country, are interested in the Cold Storage Company Ltd (CSC).

Presenting the 2006 budget, Finance minister Murerwa said government agreed to uphold Bilateral Investments Promotion and Protection Agreements which were violated during the land reform programme, would honour obligations and pay compensation for all Bippas it has ratified.

International fuel distributor Mobil Oil Zimbabwe has started disposing of its assets in the country

Investment in the manufacturing sector has gone down and gross investment as a percentage of the GDP dropped from 22.3% in 1998 to 12.5% in 2003 and 11% in 2004. This is despite an array of investment incentives, among them five year 0% tax holidays, the signing of the UN Convention on International Trade Law and the New York Convention on the Enforcement of Foreign Arbitral Awards.

A recent report compiled by the Investment Climate Department of the World Bank ranks Zimbabwe 126 out of 155 countries surveyed. Zimbabwe is one of the most difficult countries to do business in because of bureaucracy, corruption-prone systems and high start-up costs.
A number of companies might delay re-opening after Christmas due to lack of raw materials and components.

Companies threaten to stop production if Harare water quality remains poor According to the report by the Harare Municipality, water in the capital fails to meet minimum safety specifications set by the WHO and Standards Association of Zimbabwe. The report says the water has very low concentrations of chlorine, high levels of bacteria and sedimentary impurities and is acidic.

Electricity supplies have come under threat following revelations that Hwange Power Station has run out of aluminium sulphate - a critical input used to purify water used in boilers for the generation of electricity.

Rising inflation dragged construction activity down over last 3 months of 2005.

A report released by the CZI in February 2006 concluded that corruption and bureaucracy in the public sector, particularly government institutions negatively affected businesses. 13% of the companies that were surveyed are operating below capacity, with the clothing sector being the only sector operating optimally. The major reason cited for the low capacity utilization was lack of foreign currency to import raw materials.

1,112 companies have been struck off the list by the registrar of companies in the past four years for failing to submit their annual returns

a. Manufacturing

According to the CZI, manufacturing growth will continue negative, around -8% in 2005 and a further -7.9% in 2006 mainly because of capacity utilisation constraints. By mid-year the protracted fuel crisis had left manufacturing industry running on average at 30% capacity[1].

More than 750 firms are estimated to have shut down between 2000 and 2003. Apart from the high inflation, companies have been battling foreign currency shortages, frequent power cuts and loss of offshore lines of credit. The transport sector, badly affected by fuel shortages, was last year estimated to have declined by 61.8%, while the textile industry contracted by more than 59%. The CZI last year said a steep rise in production costs had affected the government's stated objectives of fostering export-driven growth. The CZI says the number of retrenches trebled from 1,187 in 2002 to 3,585 in 2003. More than 40 companies closwd shop, while 25 scaled down operations in 2004.

The CZI said stringent price controls, worsening foreign currency shortages, galloping inflation, rising interest rates, collapsing infrastructure, water and power shortages particularly in Harare, were throttling an already struggling manufacturing sector. A long-standing but worsening fuel crisis has become the single largest threat to any efforts to transform the economy. Increased company closures, unemployment, rising inflation and low manufacturing production, with many companies reportedly operating at less than 20% capacity, prejudice the programme's survival. Key workers are forced to queue for hours for fuel, a man-hour loss impairing companies' ability to produce goods and services and meet profit and turnover targets.

80% of businesses interviewed in a ZNCC study did not record any significant growth over the first six months of 2005 largely because of the unavailability of foreign currency and poor pricing strategies. Capacity utilisation in most companies was in a range of 40-50%, due to shortage of foreign currency, fuel and electricity, thirdly pricing strategies, interest rates and taxation. The survey covered manufacturing, retail and marketing firms.

In May:

- Several firms had already drastically reduced working hours.
- Lion Match Company closed, so that we now import Lion matches from Zambia, and Lever Brothers have stopped manufacturing Surf, their most popular detergent.
- Harare was again hit by a shortage of beverages, as manufacturers could no longer supply crown corks for lack of forex to purchase materials.

In July shortage of coal, coupled with equipment breakdowns Hwange Thermal Power Station, plunged the country into an electricity shortage of about 400Mw/day.

In August:

- On the threshold of a massive housing programme to accommodate victims of the clean-up campaign the country faced imminent shortage of paint because of lack of forex to import raw materials. Building contractors and materials manufacturers were operating below capacity due to lack of fuel and foreign currency. PG Industries was planning to reduce investment in manufacturing and to dispose of properties. PG's output of building materials fell below 50% of capacity due to unscheduled shut downs of suppliers. UBM were unable to import building materials due to foreign currency shortages.
- Schindler Lifts Zimbabwe is no longer able to repair lifts and escalators due to shortage of fuel and forex.

Windmill, one of the country's largest producers of fertiliser, was threatened with closure, raising the spectre of a serious farming input crisis ahead of the 2005/06 agricultural season. Windmill has been facing an acute

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[1] The Financial Mail (SA), 15 July 2005

shortage of raw materials - the result of Zimbabwe's foreign currency crunch - and the company said this week it was only left with two weeks' cover of the critical imports.

ZSR, which produces about 40% of Zimbabwe's sugar requirements, was hamstrung by shortage of coal and foreign currency problems.

In September:
THE country's sole ammonium nitrate manufacturer, the Kwekwe-based Sable Chemicals, is facing imminent closure as the pricing impasse between the Government and the fertiliser company has weighed heavily on operations

October:
- Dunlop, Zimbabwe's sole tyre manufacturing firm has shut down throwing 820 workers into the streets. The closure of the Bulawayo based firm threatens the of more than 30,000 downstream jobs.
- Lobels announced they will lower the quality of their bread, citing difficulties in supply of fuel and flour.
- President Mugabe made an undertaking to respect the sanctity of Bilateral Investment Protection and Promotion Agreements (Bippas) and to regularise bilateral investments affected by the land reform.

November:
- Bulawayo-based National Blankets Limited is seeking a $20 billion soft loan to boost the ailing company/s production and enhance operations in the company.
- Harare business tycoon Nagin Ratanje has laid off about 51 workers from his RK Footwear Company, one of Zimbabwe's largest footwear companies, after shutting down the firm citing viability problems and other financial concerns.
- In his budget speech, Murerwa predicted a 3% decline in industrial production over the year. 7 December figures from CSO claimed production increased over the first 9 months of 2005. While overall production has certainly declined, the destruction of the informal sector (whose activities are not recorded by the CSO) may have led to some increase in formal sector activity to narrow the gap.
- electrical goods manufacturer, Powerspeed, plans to shut down its Ruwa operations next year as production had plunged to 25% of capacity.
- ZISCO is teetering on the brink of collapse. Thousands of people who depend on it hope that it does not make Redcliff yet another ghost town.

Local and international buyers cancelled a total of $3 billion worth of clothing orders from Zimbabwe in 2005. Chinese-made buses cost an average of US$56,000 each including freight charges, while those assembled by local suppliers cost around US$90,000.

b. Mining
Mining's foreign-exchange contribution has fallen in recent years from more than 30% of the country's total income to 25%. Foreign investors and multinational mining corporations, fearful that new legislation planned to compel them to cede shares to locals could spark another round of property seizures, were steadily disinvesting from the country.

Anglo American sold its profit making Zimbabwe Alloys to a local consortium in May and its shares in Bindura Nickel as part of a restructuring of its Zimbabwe operations. RioTinto bequeathed its shares in the country to focus on the potentially lucrative Murowa Diamond where it owns 78% shares. While the disinvestments seemingly benefit locals, the benefits attendant to foreign direct investment such as skills training and foreign currency inflows were lost. Many potential local partners do not have the financial resources to add value to large mining ventures. A15% stake Zimplats has reserved for locals for years has not been taken yet up because local firms cannot raise the US$36 million asking price.

The three key platinum mines Ngezi, Unki and Mimosa have shelved expansion plans apparently unhappy about a government directive last year requiring them to localise all offshore foreign currency accounts. In September Implats and Aquarius Platinum, who jointly own Mimosa, did agree to go ahead with a $14m expansion of operations. Zimplats threatened to stop production at Ngezi because of a US$16,6 million ($400 billion) withholding tax dispute with ZIMRA.

South Africa's November move to ban the use of asbestos could devastate Zimbabwe's asbestos industry.

Smugglers have spirited out minerals, mostly gold, platinum, diamonds and chrome worth more than $100m to buyers in SA and abroad this year, says the mines ministry. Zimbabwe produced 494 tonnes of platinum in 2005. Official gold output dipped from 21 342kg in 2004 to 13 453 in 2005. RBZ governor Gideon Gono blamed the drop on smuggling which led to losses estimated at $160m. On international markets gold is over US$500/oz, platinum over US$1000 and all other base metals and minerals are at record or near record levels. The gold support price was increased from Z$130,000/g to Z$175,000/g early in the year..

8. Stock market

ZSE indices, =100 in 1967 (RBZ)

date	industrial	mining
2004	1097493.0	211176.7
2005		
Oct-04	879470.6	174032.5
Nov-04	851250.1	183823.3
Dec-04	1097493.0	211176.7
Jan-05	2055815.0	423161.2
Feb-05	2191379.0	532087.3
Mar-05	2483961.0	587278.3
Apr-05	3007873.0	591945.3
May-05	2845275.0	516860.2
Jun-05	2856530.0	498188.3
Jul-05	4005953.8	637729.0
Aug-05	3812916.0	595228.7
Sep-05	6176377.3	842618.4
07/10	8224071.0	1141283.6
14/10	8654965.3	1194548.0
21/10	14012868.5	1579926.2
11/11/05	19778525.4	4360289.9
17/11/05	16710737.3	3793839.3
08/12/05	16430219.9	3828714.3

The stock market bubble fluctuated but never burst throughout the year. The market responded negatively to the first quarter RBZ monetary policy review.

ZSE faced possible collapse when government required pension funds to increase government bonds and bills as a proportion of their portfolios. Pension funds, the biggest investors on the ZSE, are required to invest 35% of their total assets in government bonds and Treasury bills. They had been calculating that on book value but now Finance Minister Murerwa said they must calculate them on market value, which traders said would force companies such as First Mutual and Old Mutual to offload their shares to buy bonds and bills up to the required percentage. Murerwa also announced a 10% withholding tax on listed marketable securities. There was no trade in shares on the ZSE from 16 Aug - 7 Sep as there were no buyers. On 8 September government cut the 10% tax to 5% of gross sales.The market reportedly returned to normal.
Up to half of Zimbabwe's residential properties depreciating in value due to inadequate maintenance because maintenance costs for low-density properties rose in the 12 months ending May 2005 to about $3 million/sq. metre, from $570,000/sq.m. However, prices shot up in Sept-Oct, being quoted at between $1 billion and $40 billion. Properties in the high-density areas have breached the $1 billion barrier for the first time.

9. Trade

Imports and exports by principal countries, 2004, in US$:

country	imports,US$	% of total	exports,US$	% of total	balance
S.Africa	1174169290	56.5%	636053599	38.0%	-538115691
Botswana	104647798	5.0%	50361194	3.0%	-54286604
UK	93462641	4.5%	107661079	6.4%	14198438
Zambia	77664863	3.7%	67971378	4.1%	-9693485
Mozambique	74404834	3.6%	71291602	4.3%	-3113232
China	54382967	2.6%	74654830	4.5%	20271863
USA	44511247	2.1%	38594318	2.3%	-5916929
UAE	40052376	1.9%	6246824	0.4%	-33805552
Germany	38897537	1.9%	59717247	3.6%	20819710
unspecified	34522150	1.7%	38404694	2.3%	3882544
Switzerland	18528494	0.9%	86950156	5.2%	68421662
Japan	23301963	1.1%	53470954	3.2%	30168991
all countries	2079171089	100.0%	1675641906	100.0%	-403529183

Source: Zimtrade

Imports and exports by major commodity categories:

Trade 2005	Imports	% of total	Exports	% of total	Balance	%
base metals and products	312540797	15.0%	417483631	24.9%	104942834	133.6%
machinery	240191055	11.6%	16697522	1.0%	-223493533	7.0%
other agriculture	234689442	11.3%	47187547	2.8%	-187501895	20.1%
mineral products	219647725	10.6%	284682163	17.0%	65034438	129.6%
textiles exc.clothing	78734000	3.8%	195700337	11.7%	116966337	248.6%
tobacco	71546267	3.4%	305552110	18.2%	234005843	427.1%
TOTAL:	2079171087		1675641908		-403529179	80.6%

Source: Zimtrade

Note the favourable balances with UK, China, Switzerland, Japan and Germany. In August Zimbabwe tied itself to a loan service structure that commits 25% of exports towards servicing loans advanced by Chinese firms. It could take several years to pay its debts before seeking new loans. The country continued to export raw materials to other industrialised countries while importing finished products.

In 2005:

- Zimbabwe's exports declined by 9.04% from US$1.58 billion in 2004 to 1.43 billion,
- Grain imports cost US$135 million.
- Horticultural exports increased from US$93 million ($588 billion) in 2004 to US$97,7 million ($1,5 trillion).
- Export volumes plunged steeply between January and November, although their nominal value rose about 73% due to inflation, but nominal import value ballooned 247% in the same period.
- January to April gold exports fell to US$80,4 million from US$90,7 million in 2004.
- More than 9,000 tonnes of ivory stocks were lying in the country due to the CITES trade ban.
- According to the Herald, tobacco exports raked in US$181,3 million in the first 11 months.
- In October Dairibord reduced its exports due to low milk supplies. The company used to export 12 million litres per year of super milk to Tanzania and Kenya but the figure has dropped to 2,8 million litres.
- RBZ reported that for the six months to June 2005 Africa and Europe took a combined 81,37% of Zimbabwe's exports. Total exports were worth US$801 million during the period. Africa took goods worth US$330 million (41,12%) and Europe while US$323 million (40,25%). China is classed in the "others" section which contributed a combined US$124 million (15,49%) in foreign currency.
- agricultural exports earned US$388 million during the first nine months of the year, down 24,6% from US$514,4 million in the same period in 2004
- April saw a ban on machinery exports - but how much is left?
- During the first four months of the year, the country only managed to import fuel worth US$111.1 million

Zimbabwe may have lost close to US$1.5 billion in potential earnings from tobacco exports over the past five years.

"We will never be a colony again!" but sold more of the country's resources to China: in July, more than a year's worth of gold and tobacco production in exchange for military hardware and diplomatic support. China also made a deal giving it a share of Zimbabwe's platinum deposits. This dependence increased when, early in August:, Mugabe rejected a SA bail-out loan because of its political conditions.

Tourism
In 2003 the tourism sector shrank 13%, and a further 4% in 2004. At its peak in 1997, tourism contributed 6,5% to GDP, but earnings have plummeted from US$201.6 million in 1999 to US$152.3 million in 2004. Arrivals fell almost half from 2.24 million in 1999 to 1.27 million in 2004. The number of foreign tourists declined 27% to 336,971 in the nine months to September 2005, from 463,471 in 2004. Arrivals from the key overseas markets dropped 36% from 146,045 visitors in the first half of 2004. African markets suffered marginal declines. Visitors from Hong Kong and China dropped 70% from 11,800 in the first half of 2004 to 3,500.

The Parks and Wildlife Management Authority expected to earn about US$5,8 million by the end of this year's hunting season, an official said. ZIMBABWE earned over $12 billion (US$1.2 million) a month from hunting from May to September. But Zimbabwe's big game are dying in record numbers because of a man-made water crisis, with Gonarezhou and Hwange particularly badly hit. Hunting used to bring in as much as US$30 million/year.

AIR Zimbabwe teeters on the verge of bankruptcy, losing $1.2m in potential revenue daily, with a cumulative debt of $14.6m. Starwood (Sheraton) Hotel pulled out of Zimbabwe at the end of 2005, leaving Rainbow Tourism Group to run major hotels such as the Harare Sheraton and conference centre on its own after April 2006.

Balance of payment
Zimbabwe is running a balance-of-payments deficit of at least $600m and possibly a good deal more. This year our export revenue is likely to closely match the US dollar values of our exports in 1982, so we can afford to pay for imports of only that value, but then we had a perfect debt service record, credit lines, foreign loans and aid donations to help pay for imports. We could cope with temporary set-backs like poor harvests.

NOCZIM imported and sold fuel at a loss of about $297 billion in April-June, pushing its external debt to US$80 million ($840 billion at the official auction rate). The liberalization of fuel procurement is a response to clamours by the industry to stimulate autonomous inflows of fuel through price incentives.

10. Gross Domestic Product
GDP is estimated by the IMF to have dropped 7.2% in 2005, to US$4.3 billion, about 67% of its 1999 peak. With population growth estimated to be flat, income per head will fall by the same amount. With an estimated 20% drop in the formal economy, responsible for 63.2% of GDP, the decline could be 12.6%/yr greater.
National debt now exceeds annual GDP by a wide margin.

11. Conclusion
Recorded GDP (from the formal economy) has fallen more than a third in real terms since 1998. Income per head has declined 36% since 1998.
The effect of the destruction of the informal economy by Operation Murambatsvina on national output (GDP) will be a likely reduction of some 17.5%. Knock-on effects might add another 2.5% to give a 20% reduction. With population growth apparently zero, income/head will have dropped in the same proportion.

The foreign exchange crisis has been exacerbated by considerable expenditure on arms costing at least US$400 million by mid-year, with possible further orders from eastern Europe and China. We expect formal sector exports to decline to US$1,1 billion in 2005, making the forex crisis unmanageable and fuel and food supplies are at an all time low.

Central government domestic borrowing rocketed and there is no sign of Government curbing its appetite for borrowing. With falling real output and rising expenditure the budget deficit for the first 8 months of 2005 was 142% over the original estimate for the whole year, despite refusing any further funds to line ministries this year and implementing measures to increase revenue. There will be after shocks on output, income and employment.

RBZ midyear review said Zimbabwe badly needs to keep international ties, repay foreign debts, respect bilateral agreements and property rights and manage its macroeconomics; Mugabe seems deaf to this.

Comment from Eddie Cross:
For the government it has been a year of failure - failure of the "economic recovery", failure of their agricultural policies, failure to get any sort of growth and recovery in mining and tourism, failure to halt the slide in the public service and in all social sectors. Zimbabwe is likely to drift towards social unrest in 2006 with no respite in the six-year-old free-fall of the country's economy and deteriorating political conditions. The fiscal and revenue crisis threatens the viability of state salaries and pensions, most notably those of the security services. Despite placating them so far with massive pension payouts, seized farms and the spoils of war in DRC, options are running out.