THE ZIMBABWE ECONOMY IN 2004

Brian MacGarry

Introduction

Zimbabwe continues to have the fastest-shrinking economy in the world and arguably the highest inflation rate. There is room for argument because official statistics inspire less and less confidence. Even the Ministry of Finance no longer uses the figures produced by the Central Statistical Office. Describing the state of the economy in any detail therefore becomes a mixture of detective work, sifting rumours, comparing observations with official statements and sheer guesswork. Some inconsistency will be noticed in figures from different sources in this report and this cannot be resolved at the moment.

The agriculture-based economy has crumbled since the government began seizing thousands of white-owned commercial farms for redistribution to black Zimbabweans in 2000, leading to acute shortages of food, hard currency, motor fuel, medicines and other imports.

Economic and political refugees are reportedly leaving the country at the rate of about 1500 a day. Many are quickly returned from South Africa and promptly leave the country again, but clearly the country's population is still decreasing from the 11.3 million recorded in the 2002 census[i]. The country is being drained of people in the most productive age-groups, either by emigration or death from AIDS. The census figures are currently being revised, presumably to accommodate the 5.5 million voters who are reported to be on the registers, despite those registers containing 500,000 less urban voters than in 2000[ii].

Zimbabwe is set to lose more than US$1.5 billion annually in project funding if NGOs in the country are banned from receiving external funding under the NGO Act.

1. Agriculture and food

Total agricultural production has plummeted by about 60% since the farm invasions four years ago, and some sources claim it is as low as 35% of the 1998 level.

Despite the persistent claims by Mugabe and agriculture minister Joseph Made that this year's maize crop was a near-record 2.4 million tonnes, in early December GMB stocks stood at about 550,000 tonnes, including nearly 300,000 tonnes which had been imported. A parliamentary committee, which visited GMB silos, reporting on 3 December, said the country would more likely end up with a maximum of 574,000 tonnes of maize this season. The committee established that government had ordered over 200,000 tonnes of maize from outside the country by October despite official denials. Predictions are being increasingly voiced that the country faces a severe food shortage in the early months of 2005, with less in the GMB stocks than at this time last year and the big relief agencies denied permission to operate. WFP are still feeding some needy cases in a couple fo areas, but since the government told them they would not be needed this year, they have, under their terms of reference, to act as if they believe that. Many of the other agencies were distributing food sourced by WFP. Maize meal has almost disappeared from supermarket shelves in Harare and millers are selling any maize they can get as super-refined *ngwerewre*, which costs

---

i In 2002, Timothy Stamps, then Minister of Health, reckoned the birth and death rates were approximately equal, due largely to HIV/AIDS. Emigration thus reflects are a decrease in population. Death rates may well have increased since then.

ii A report for the Election Support Network in February 2002 estimated the country's population at 11.6 million, which, allowing for the loss due to emigration between February and August, agrees remarkably closely with the preliminary census figures.

more and brings them higher profits but has very little nutritional value.

Wheat output, already down in 2003 to 14% of previous levels is set to shrink still further. On 20 October Government increased the producer price of wheat to $1,749,218 a tonne for the 2004/2005 marketing season, up from $776,000 last season - but this was cancelled by Mugabe a few days later, for fear it would raise the price of bread too high.

Milk production is down to 35% of demand. Milk imported from the UAE was cheaper in December than the local product. Meat output is also down.

The commercial beef herd, which until three-and-a-half years ago earned more than R14 billion annually from exports, is on the verge of extinction as a result of the country's political turmoil. The national herd stood at 1,4 million animals in 2000. "By the middle of this year only 210,000 beef cattle survived," Paul d'Hotman, Cattle Producers' Association chief executive, said. "At the last count there were fewer than 125,000 animals, but the number will be lower by now. The entire national herd is on the road to extinction."

Ostrich production plummeted by an estimated 50% in the last four years, from around 42,000 birds slaughtered in 2000 to around 20,000 birds in 2003. This drop coincided with the general fall in the prices of ostrich meat and the skins on the international markets. A bird was fetching around US$200 in the last 24 months which is a significant decline from the US$270 that the producers pocketed in 2002. Skins were also selling at around US$8 per square foot.

Oilseeds production - critical to the stockfeed industry and for edible oils and fats - is now down to less than 40% of demand.

Coffee production has fallen from 9,000 tonnes before the onset of the land reform programme to 5,000 tonnes for 2004 up to 20 December.

Large-scale commercial farmers have increased soya-bean hectarage during the 2004/5 season, almost doubling the area the crop was planted on last season. The president of the Zimbabwe Commercial Farmers' Union (ZCFU) Davison Mugabe said new farmers began taking the growing of soya-bean seriously
three years ago. Government does not control soya-bean production and as a result many farmers had been selling their produce to private buyers. The large-scale commercial farmers have abandoned planting groundnuts in favour of soya-bean, as groundnut production was too labour-intensive.

When the tobacco sales ended in mid-September, only 64.5 million kg of leaf had been sold - less than half the crop in 1990 and 75% down on the record of 237m kg in 2000. The state media report projections of a huge increase in the crop next year, but industry sources say the September issue of tobacco bills to finance the 2004/2005 crop is too little and too late. Tobacco farmers predict that the 2005 crop will be even lower than in 2004, and possibly as little as 50 million kg. Eventually production could increase, but if so, re-entering the export market will be more difficult due to increased competition especially from China and Brazil.

The land reform programme has resulted in the closure of six major flower production projects in the past two years

A record low hectarage is expected to be put under crop in the 2004/5 season as only 32% of land normally planted has been prepared for planting. Farming experts who carried out a survey in September said less than 200,000ha of land had been prepared for planting in the commercial sector while an estimated 220,000ha were ready in communal and newly-resettled areas. Under normal circumstances, crop production should take up 1,3 million hectares. A survey said the fall in land planted would be exacerbated by the high degree of uncertainty prevailing. It said evictions of both commercial and newly-resettled farmers would result in a substantial decline in the planting of major crops such as maize and tobacco in the coming season. Planted land in newly-resettled areas would also decline as government evicts A1 settlers to make room for A2 farmers throughout the country.

“Tractors available for tillage have slumped from over 30,000 to below 10,000 including those owned by farmers, firms and quasi-government organisations like the DDF and Arda," the survey said. If all the tractors were operational, they could till up to 400,000 hectares but over half of them have broken down and some have been overused. The DDF will not get close to last year's 100,000ha due to lack of spare parts for most of its tractors. Tobacco Growers Trust (TGT) past president Thomas Nherera said draught power remains the major stumbling block forcing farmers to reduce the area under crop. "So far TGT has brought 242 tractors into the country and their capacity is a maximum of 10,000 hectares," he said. "The ideal situation would be about 100,000 tractors. All farmers would be assured of access to a tractor to till land. Tobacco farmers alone need to plant up to 75,000ha."

The CFU August report said. "The total area of crops grown has dropped from normal levels of around 530,000 hectares to approximately 220,000 by last season." The availability of fertiliser and seed is still dogged by uncertainty. Local manufacturers have for the past three seasons failed to meet demand as foreign currency shortages have hampered imports of vital chemicals. Inputs expected in the market are likely to be inadequate for even half the traditional hectarage put under crop.

2. Cost of living

The Consumer Council of Zimbabwe (CCZ) figures for month for a family of six to meet basic needs were:

	2004	2003	increase, 12 months
July	Z$1.2 million		
August	Z$1,400,386		
October	Z$1,559,220	Z$474,900	228.4%
November	Z$1,630,755		
December	Z$1,706,114.00	Z$677,574	151.8%

But the CCZ is government-supported. My own observation in two local supermarkets was that a basket of groceries for such a family cost $735,720.25 on 1 January 2005. This assumed that all the family’s ‘meat’ was kapenta, did not include ‘luxuries’ such as margarine and jam, and did not include fresh vegetables except tomatoes. It did include soap. Add the other necessary food items and the Z$176,000 many workers would have to spend on public transport to go to work, rent, school and medical fees, water and electricity costs (which were raised in October and again in January) and clothing needed to be added to give something near a PDL, and the required list of school uniform for almost any school would cost Z$800,000 for the year.

The CSO claims that the annual inflation rate fell to 132.7% in December, after a November figure of 149.3%, but the figure does mean that, on a weighted average, the prices of goods and services rose just over 2,3 times between the end of 2003 and the end of last year. But the target of getting inflation down below 150% by the end of the year was more of an instruction to the CSO and CCZ as to what their December figure should be than an attempt to predict reality.

Prices in Zimbabwe are now higher than in South Africa in real terms - a first for this country

- and many prices are now at or above European levels, at whatever rate you choose to exchange Z$ for hard currency. Whereas the hyperinflation since 1997 was largely due to printing too much money and amounted to a devaluation of the Zimbabwe dollar, since mid-2004 goods are so scarce that whatever happens to money supply, there is still too much money chasing too few goods.

Leading medical aid society Cimas hiked monthly membership premiums by 25% in January 2005 to cushion itself from spiralling medical costs. A visit to the doctor now costs Z$350,000.

Zimpost increased postal rates by about 25% for both local and international mail, with effect from 1 December 2004. Posting an ordinary letter weighing about 20 grammes within Zimbabwe will cost $6,900 (50p), up from $4,600; and sending a letter within Africa will cost $25,000 (£1.80), from $20,000. The increase is the fourth this year.

The CCZ said recent increases in the cost and monthly rates of fuel and landline phones triggered a wave of price increases.

The beginning of September saw the prices of petrol and diesel hiked from $2900 and $2800 a litre to around $3400 and $3600 a litre respectively. They had gone up to between $4200 and $4500/litre at most outlets by November, but a number of outlets were selling at around Z$3500-3700/litre at the end of the year. In spite of the drop in fuel prices, urban families who traditionally visit their rural villages for Christmas were abandoning travel plans. Some waited in long lines for their buses for 10 hours, only to be turned away after a scramble to get aboard.

TelOne, the country’s sole fixed telephone services provider, increased tariffs for local and international telephone traffic by 385 and 275% respectively in September, effectively putting the service beyond the reach of the average person. The telephone services provider warned consumers to brace for more tariff increases since the new ones were only 90% of the desired total cost.

Recent tariff increases by ZESA Holdings and other public utilities go against the objective of further lowering inflation, the president of the Zimbabwe National Chamber of Commerce, Mr Luxon Zembe, has said.

A an estimated 80% of the 11 million people are living below the standard poverty line. ‘Coping mechanisms’ for impoverished families include cutting back on food - often to one meagre meal a day - selling household goods and personal belongings, street vending, begging and prostitution.

According to the Zimbabwe Human Development Report 2003 (ZHDR), transport costs ate into students’ shoestring budgets, and ‘(female school) students have relationships with commuter omnibus drivers who give them free transport in return for sexual favours’, which puts them at a higher risk of HIV infection.

Rates, tariffs and supplementary charges for Chitungwiza property owners are set to go up 30-fold beginning in January following the compilation of the cash-strapped municipality’s 2005 budget proposals. Lodgers are likely to bear the brunt of the rate increases as landlords have in the past invariably passed on the higher costs to them. Chitungwiza Municipality is grappling with a budget deficit of about $19 billion, which it plans to liquidate before year-end. The budget deficit stems from an overdraft of $19 billion which has accumulated over a six-year period dating back to 1998 and was now attracting interest at the rate of $3,4 billion a month.

Harare ratepayers should brace themselves for massive rates and tariffs hikes in next year-s budget, as the cash-strapped council seeks to improve its perennial cash flow problems and service delivery to residents.

While the November the official rate of inflation declined to 149.3%, the Parliamentary portfolio committee on the Budget, Finance and Economic Development has expressed grave concern on the credibility of inflation forecasts of between 30 to 50% by December next year, as stated in the 2005 budget statement. Relying on given figures, the committee inferred that the 2005 budget had been crafted on an inflation forecast of between 248 and 254% for the whole year depending on the real growth rate for the economy. According to the report, the minister's real growth forecast of between 3 and 5% or an annual average of 4% implied inflation rates of between 248 and 254%.

Beer drinkers received an unpleasant Christmas present on Boxing Day when they woke up to discover that the price of beer had gone up by an average 24% in most liquor outlets.

The Government is once again on a collision course with some private schools after it pegged the maximum tuition fees that the schools should charge at $8,5 million. Government has allowed private schools to hike school fees by a maximum of 100% during the first term of 2005 and directed some State schools that have been charging low fees to increase tuition charges to viable levels. Some have raised fees by as much as 500%.

3. Exchange rate

The introduction of the foreign currency "auctions" in January effectively devalued the Z$ from 826.4462 = US$1 to Z$3500 at the official rate. The parallel market dropped from Z$6000= US$1 to Z$4500, temporarily vanished as the margin between the official auction rate and the free market rate did not justify the risk, but soon reappeared as the auction rate was artificially held down. RBZ pulled in as much foreign currency in the first three months of 2004 as it did in the whole of 2003, but the effort has also hurt Zimbabwean exports by making them more expensive.

The Z$ continued to sink, and even the RBZ governor's guarantee at the end of October that money from the diaspora would be exchanged at Z$6,200 =US$1 or the auction rate, if this was higher, did not increase the supply. The auction rate at this point was about Z$5600 =US$1 and exceeded Z$5700 at the end of December, reaching Z$5749.31 = US$1.00 on 6 January 2005. Fears were expressed that Zimbabwe would run out of foreign currency in the next few months if the current tide on the foreign currency auction market persists. In September-October, the RBZ has made available only US$270 million against total applications for foreign currency of US$891 million. The average rejection rate rose from 66% in August, to 87% in September and 88% in October. Total bids amounting to US$419 million were rejected in September and the RBZ allotted only US$90 million out of a total of US$509 million bids.

4. Wages

Minimum wages at the end of the year are shown in the table below.

Union	Minimum Wage per Month, Z$	With Effect from:
Automotive (AAWUZ)	565,000	1 November 2004
Civil Servants Employees*	914,000 +220,000 housing allowance +276,000 travel allowance	1 January 2005
Commercial (CWUZ)	500,000 750,000	1 October 2004 1 January 2005
National Engineering (NEWU)	523,769	1 October 2004
Construction (ZCATWU)	335,297.08 (85%)	1 July 2004

Printing and Packaging Industry (ZGWU)	1,059,094.60	1 December 2004
Textiles (ZTWU)	475,423	September 2004
Domestic (ZDAWU)	83,000 89,000 96,120	Gardener Housekeeper Child-minder
Food (FFAWUZ)	750,000 (Meat, Fish) 756,000 (Food Processing) 750,000 (Bakery)	October 2004 October 2004 October 2004
Education, Scientific (ZESSCWU)	410,000 (Mission Hospitals & Schools) 410,000 (Independent Schools and Hospitals) 410,000 (Nursery Schools and Creches)	September 2004 September 2004 September 2004
Catering (ZCHWU)	753,682.60	1 October 2004
Tobacco (ZTIWU)	750,019 (31.68%) (Manufacturing) 834,768 (25%) (Miscellaneous)	1 October 2004 1 October 2004
Leather (ZLSAWU)	102,469.74 (weekly wage) 444,036 (monthly wage)	1 July 2004
Tel One (CASWUZ)*	2,500,000	Current
Zimpost (CASWUZ)*	1,300,000	Current
POSB	4,100,000	Current
Courier Freight Group (CFG)	3,500,000	Current
Chemicals (ZCP&AWU)	800,000	1 July 2004
Furniture (ZFTATU)	625,600	1 October 2004
Lumber	650,000	1 July 2004
Banking (ZBAWU)	625,600	1 July 2004
Transport (ZT&GWU)	525,000	1 October 2004
Mining (AMWUZ)	735,000	1 October 2004
Radio & TV (ZR&TWU)	636,250	1 October 2004
Cement & Lime	763,280 (60% increment)	1 December 2004
Fibre-Cement	650,858 (30% increment)	1 October 2004
Pulp & Paper Workers Union	1,022,000	1 October 2004
Clothing (NUCI)	485,000	November 2004
Agriculture (GAPWUZ)*	130,000	Current
Agro-industry*	130,000	Current
Timber*	150,120	Current
Average minimum wage of private sector (excluding parastatals, agricultural and domestic workers)	850,438	
Average minimum wage (including parastatals, agricultural and domestic workers)	785,512	

source: ZCTU

Civil servants have been awarded a salary increase of almost 600% with effect from January 2005. The new entry salary for civil servants in the least paying grade (A1) has now been pegged at $830,680/month following the government's recent salary increment of 250% with effect from January 2005, while employees in the top bracket (F1) will be getting at least $12 million a month. Grade A1 employees used to earn $218,600 and those in the top grade were earning $3,289,767/month.

Since the postal and telecommunications strike in September, wages/salaries in this sector are hypothetical, as many workers have all been sacked and replaced by army, police and CIO personnel.

5. Employment

The CSO has published no employment figures since early 2001, when they, as usual, still did not have figures for the numbers of farm labourers in 2000. Neither ZCTU nor CZI have any more recent figures.

A report entitled The State of the Manufacturing Sector released by the CZI shows that about 2,600 jobs will be lost when 25 companies are forced to downsize and eight to shut down.

If, as the expected, the NGO Act forces many NGOs to close down, downsize or relocate to neighbouring countries it is estimated that as many as 20,000 Zimbabwean jobs could be lost.

The suspension of thousands of telephone operators in early November was likely to place a further strain on an already weak economy, a senior trade unionist has warned.

The textile industry, which had 25,000 workers in 1980, only employed 12,000 in 2004.

Unemployment is still reported as about 70% by the ZCTU and 9% by government. While the government figure is an understatement, obvious to anyone who sees the number of beggars, street vendors and job seekers on the streets, the ZCTU estimate may be an over-estimate because 2/3 of the working age population are estimated by some to have emigrated. But unemployment figures at this level cast doubt on the meaning of ‘unemployment’ in a situation like ours.

6. Financial

Gono's go-it-alone approach and drive for immediate compliance in the banking sector has had dire consequences. Of the country's 40 banks, 29 have met capital adequacy requirements, two others have three months to reach the desired levels while a further seven banks are under curatorship and two others are under provisional liquidation. "The financial market was crazy and he has managed to tame it, but at very high cost. He has created panic, bankers are fleeing, and he has chased away brilliant minds," said ZCTU chief economist Godfrey Kanyenze in April.

On 20 December 2004 CFX Bank was closed and riot police stood guard outside the Bank, a former foreign exchange dealership, to stop desperate account holders storming its offices and banking halls. The bank recorded an astronomical $115 billion loss as of October 2004. Thousands of ordinary depositors were left with empty pocketbooks and firms trading with the bank could not pay salaries or annual bonuses for the holidays. Top businesses stand to lose their investments in Zimbabwe’s chaotic banking sector this Christmas.

Among those affected are the ZimInd, publishers of the country’s only independent newspapers, the *Independent* and the *Standard,* both weeklies. Current accounts in the bank that have been frozen for six months, along with all other transactions. Creditors of the CFX Bank face months of waiting to learn whether they will get part or any of their money back. By then, inflation - the highest in the world - will have cut swaths out of it.

NMB Bank Ltd, the soundest of the indigenous banks, was feared to be lurching into a serious liquidity crisis amid reports that several financial institutions are in dire straits. Market sources said NMB was trying to secure liquidity support from RBZ to avert collapse. The bank, whose founding directors fled to London earlier this year to avoid arrest, has been struggling to get stop-gap finance from the RBZ's Troubled Banks Fund. There is also trouble at discount house NDH, which was struggling to pay maturities and has not been writing new business. Insiders said NDH was also facing a serious liquidity crunch. The sources said NDH was surviving on overnight accommodation from the central bank. though NDH managing director Ernest Matienga was not available for comment, an official confirmed the financial institution was facing a liquidity crisis. "Like any other financial institution, we are facing liquidity problems," said the company official.

Despite meeting the RBZ's capital adequacy deadline, many financial institutions are still facing serious liquidity problems. Analysts say the Reserve Bank contributed to the liquidity crisis through its treasury bills. The analysts said in June the central bank forced banks to buy its treasury bills and promised to give them overnight lending. The purchase of the bills wiped out banks' reserves. In October, the market was in a serious deficit of about $300 billion and this has seen most banks scurrying for cover. Almost all banks are under stress and are using the overnight lending facility to stay afloat.

The government now plans to bring the troubled banks, which include Trust Bank, Royal Bank, Time Bank, Intermarket Commercial Bank and Barbican Bank, together under the umbrella of the Zimbabwe Allied Banking Group, modeled on the lines of South Africa's ABSA and originally scheduled to start operating in January 2005. This date has now been pushed back to April 2005.

Debt

These two tables show the change in size and structure of Zimbabwe's debt, public and private, from the beginning of the present crisis in 1997 up to the latest figures available:

External debt, US$ million

	1997	1998	1999	2000	2001	2002	2003
long-term	4059	3653	3527	3222	3161	3126	3346
government	3173	2555	2461	2255	2274	2241	2411
bilateral creditors	1009	934	935	1092	1130	1082	1203
multilateral creditors	1553	1298	1235	1163	1144	1159	1208
private creditors	611	323	291	0	0	0	0
public enterprises	417	503	540	523	528	561	615
bilateral creditors	168	266	316	302	301	333	372
multilateral creditors	242	234	224	221	227	228	243
private creditors	7	3	0	0	0	0	0
IMF	0	407	364	292	292	279	288
private sector	469	188	162	152	67	45	32
short-term	849	669	532	298	265	368	403
public & publicly guaranteed	216	232	150	42	13	26	51
private	633	437	382	256	154	157	118
suppliers' balance	0	0	0	0	98	185	234
TOTAL OUTSTANDING	4908	4322	4059	3520	3426	3494	3749
external debt/GDP	59%	109%	68%	59%	31%	52%	74%
DEBT SERVICE							
government	311	324	315	337	284	258	244
principal	186	209	223	224	211	190	175
interest	125	115	92	113	73	68	69
parastatal	120	142	181	209	212	97	85
principal	87	107	125	144	147	74	60
interest	33	35	56	65	65	23	25
private	120	168	92	69	52	48	23
principal	94	84	62	49	32	40	20
interest	26	84	30	20	20	8	3
TOTAL	551	634	588	615	548	403	352

principal	367	400	410	417	390	304	255
interest	184	234	178	198	158	99	97
Exports (goods & services)	3083	2555	2545	2531	1820	1606	1540
debt service ratio	17.9%	24.8%	23.1%	24.3%	30.1%	25.1%	22.9%
of which							
principal	11.9%	15.7%	16.1%	16.5%	21.4%	18.9%	16.6%
interest	6.0%	9.2%	7.0%	7.8%	8.7%	6.2%	6.3%

Source: RBZ

The share of the external debt attributable to private industry and commerce fell from 22.5% in 1997 to 4.0% in 2003. This is some indication of the decline of these sectors over this period.

Government's credit rating with private lenders fell dramatically after the payout to the 'war veterans' at the end of 1997 and has been zero since the land seizures after February 2000.

Government domestic debt, Z$ millions

	government stocks		treasury bills		RBZ advance to govt.[1]	other	total
end of	outstanding	interest paid	at cost	interest			
2000							162804.3
2001							210036.9
2002							346362.7
2003							1769489.5
Oct-2003	14664.8	521.3	299997.7	279960.8	52344.6	40.1	647008.0
Nov-2003	14664.8	1.9	302469.5	286715.6	44566.9	40.1	648456.9
Dec-2003	14373.0	1.1	287534.6	284132.6	4663.9	40.1	590744.2
Jan-2004	14373.0	0.0	911436.0	416050.1	427590.3	40.1	1769489.5
Feb-2004	14373.0	159.3	1058272.4	449969.4	-278080.6	40.1	1522654.9
Mar-2004	14373.0	11.4	945428.3	428044.2	-43995.3	40.1	1387885.6
Apr-2004	99131.1	518.3	492766.6	317811.7	-197465.6	40.1	909749.5
May-2004	191589.4	116.1	927438.4	396771.4	-179574.4	40.1	1515839.3
Jun-2004	267133.9	1.1	994639.0	319987.7	-240004.7	40.1	1413796.0
Jul-2004	267133.9	0.0	1199484.0	972852.2	-568769.4	40.1	2439510.2
Aug-2004	267103.9	157.6	1157568.7	1113147.1	211119.5	40.1	2537859.8
Sep-2004	459292.4	22.7	1233634.5	1133175.2	-377580.0	40.1	2826142.2

Source: RBZ

Lending rates,%/yr

	commercial banks lending rate	accepting houses lending rate	finance houses hire purchase rate	building societies residential mortgages (low cost)	commercial mortgages	industrial mortgages
Oct-03	82-150	127-166	87.5-150	34-55	42-60	40-60
Nov-03	82-180	140-220	120-200	34-55	42-60	40-60
Dec-03	82-610	145-850	180-650	34-55	42-60	40-60
Jan-04	82-890	45-780	245-650	28.5-35	38-48	38-48
Feb-04	82-660	280-415	245-600	28.5-50	38-60	38-60
Mar-04	82-660	280-415	200-500	32-120	42-150	42-150
Apr-04	82-450	275-415	200-300	32-85	42-130	42-130
May-04	82-450	115-415	250-275	35-100	45-200	45-200
Jun-04	82-450	100-325	250-270	45-85	130-150	130-150
Jul-04	150-370	100-390	250-260	45-85	130-150	130-150
Aug-04	150-307	100-390	180-250	34-85	42-130	40-130
Sep-04	150-270	100-195		34-85	42-130	40-130

source: RBZ

In the first week of December, CABS mortgage rates dropped:
residential from 130%/yr to 97.5%
Commercial & industrial from 130% to 110%

Money supply, Z$millions

at end of	notes & coin in circulation	demand deposits	total m1	commercial banks savings fixed deposits	total m2	change over 12mth	total M3	change over 12mth
Aug-03	183029.7	905486.2	1088515.9	617649.7	1706165.6	395.2%	1841379.0	355.6%
Sep-03	236520.7	1289794.0	1526314.7	647131.7	2173446.4	465.7%	2325937.5	418.7%
Oct-03	339960.5	1427364.4	1767324.9	730341.2	2497666.1	462.8%	2702900.5	437.8%
Nov-03	491393.8	1676959.8	2168353.6	733143.3	2901496.9	476.2%	3151530.5	438.6%
Dec-03	433167.4	1637748.8	2070916.2	914351.6	2985267.8	443.7%	3240271.4	413.5%
Jan-04	484932.3	2276828.1	2761760.4	1083881.9	3845642.3	538.4%	4030655.1	490.9%
Feb-04	531936.9	2318270.5	2850207.4	1057667.3	3907874.7	510.5%	4061592.9	457.4%
Mar-04	561269.1	2718521.3	3279790.4	1157642.3	4437432.7	474.2%	4596377.1	421.8%
Apr-04	685260.1	2934497.5	3619757.6	1303887.2	4923644.8	450.6%	5229629.4	399.7%
May-04	802067.0	3384512.8	4186579.8	1219186.2	5405766.0	447.1%	5681846.5	400.3%
Jun-04	990155.5	3675813.5	4665969.0	1579501.5	6245470.5	461.9%	6478584.8	410.2%
Jul-04	1115295.1	3551412.6	4666707.7	1648465.3	6315173.0	359.1%	6640681.5	335.6%
Aug-04	1133732.2	4084537.0	5218269.2	2057996.9	7276266.1	326.5%	7745010.3	320.6%

Source: RBZ

Most ATMs in Harare ran out of cash early in the year and again at the weekend 25-6 September, as panicking depositors stormed financial houses to withdraw their savings, amid reports that at least eight banks would be closed by the RBZ for failing to meet the central bank's capital adequacy requirements. RBZ tried to stem panic withdrawals from several troubled banks on 28 September, saying it won't let the finance houses collapse. A run on banks was triggered by a Sept. 30 deadline set by the Reserve Bank for all financial institutions to declare their capital reserves and show they have enough liquidity to continue operating, or face being shut down.

Financial sector insiders say a number of banks rushed to the central bank to seek accommodation and funds from the liquidity support scheme. David Hatendi, the chief executive of NMB one of Zimbabwe's strongest banks, said the bank was talking with the RBZ. Panic withdrawals at NMB have been worsened by the booting out of its chairperson, Paddy Zhanda. In one week the bank had more than three meetings with Reserve Bank authorities seeking accommodation and liquidity support. Sources said NMB was scrounging for $160 billion. Hatendi said: "The market has been in a short position and like any other bank we have been affected," Hatendi said. "In anticipation of this eventuality we did alert the central bank and the talks have resulted in an understanding," he said without giving details of the 'understanding'.

I haven’t seen any new banknotes recently. All those in circulation carry the signature of former RBZ governor Tsumba. As these wear out, a shortage of cash on the streets looms.

Government budget

Central government accounts, Z$million

	revenue & grants	total expenditure	surplus (deficit)	domestic borrowing	net foreign borrowing	total financing	deficit/ revenue
1997/8	59095.4	69722.8	-10627.4	13535.5	-2908.2	10627.3	18.0%
1999	60707.5	79638.4	-18930.9	23825.9	-4895.0	18930.9	31.2%
2000	91341.6	162309.7	-70968.1	68233.2	2734.9	70968.1	77.7%
2001	138892.0	176715.9	-37823.9	41593.4	706.7	42300.1	27.2%
2002	304984.1	363665.9	-58681.8	60164.2	-1483.0	58681.2	19.2%
2003	1380958.6	1393140.7	-12182.1	12144.5	37.6	12182.1	0.9%
2004 to Aug	8605113.4	11228291.6	-2623178.2	2664068.4	22.6	2623178.6	30.5%
Sep-2003	108883.6	149303.2	-40419.6	40392.3	27.3	40419.6	37.1%
Oct-2003	169224.5	234986.0	-65761.5	65758.0	3.5	65761.5	38.9%
Nov-2003	232459.8	182266.7	50193.1	-50192.2	-0.9	-50193.1	-21.6%
Dec-2003	301818.6	173148.4	128670.2	-128671.4	1.2	-128670.2	-42.6%
Jan-2004	281676.0	626666.3	-344990.3	344990.9	-0.7	344990.2	122.5%
Feb-2004	460000.0	442327.0	17673.0	-17677.3	4.2	-17673.1	-3.8%
Mar-2004	477209.0	663555.6	-186346.6	186347.0	0.0	186347.0	39.0%
Apr-2004	478391.5	759972.9	-281581.4	302037.6	0.0	281581.4	58.9%
May-2004	533464.3	864407.9	-330943.6	330935.3	8.3	330943.6	62.0%
Jun-2004	640021.4	469574.0	170447.4	-170447.4	0.0	-170447.4	-26.6%
Jul-2004	859230.0	907108.5	-47878.5	47879.0	-0.5	47878.5	5.6%
Aug-2004	572564.5	880533.6	-307969.1	307969.1	0.0	307969.1	53.8%

Source: RBZ

The full figures for the year usually show more restraint in spending towards the end of the year, but the amount of money spent this year to bail out ailing banks may give us a different picture.

On 15 December Parliament approved 2005 budget estimates of expenditure for the 23 Government ministries and departments without amendments. Most of the estimates of expenditure were approved without debate.

The principal departmental estimates are:

Ministry	budget
Education, Sport and Culture	$5,6 trillion
Defence	$3,043 trillion
Health and Child Welfare	$3 trillion
Office of the President and Cabinet	$849,2 billion
Parliament of Zimbabwe	$63,8 billion
Vote of Credit	$40 billion
Finance and Economic Development	$2,4 trillion
Public Service Labour and Social Welfare	$1,043 trillion
Water Resources and Infrastructural Development	$272,8 billion
Agriculture and Rural Development	$1,005 trillion
Small and Medium Enterprise Development	$26 billion
Energy and Power Development	$15,7 billion
Mines and Mining Development	$81,3 billion
Industry and International Trade	$55,049 billion
Audit	$25,1 billion
TOTAL:	$28,363,606,415,000

source: *Herald*

There is little for business to either cheer or complain about in this 2005 budget. With parliamentary elections due in March 2005, Murerwa pulled out all the stops, pumping Z$5 trillion (US$90m) into consumer spending, but raising the tax threshold to Z$12m (£1000) a year. Despite this largesse, no meaningful tax hikes were needed to maintain an unchanged budget deficit of 5% of GDP (Z$4,5 trillion). So business is expected to believe that the economy is so strong that it can afford to slash taxes and treble public spending simultaneously. There has to be a catch somewhere and, in fact, there are two. One is the exclusion of known expenditures such as the estimated Z$2 trillion (8,5% of GDP) to recapitalise failed banks, and the omission of payments to parastatals to cover losses of at least Z$750bn. Late in 2004, the GMB reported losses of around Z$300bn and ZESA another Z$190bn. If these are added to the budget, then the budget deficit rises to 7,5% of GDP from Murerwa's 5%.

But more important is the basis of the finance ministry's calculations of both output and revenue growth in 2005. RBZ and Murerwa both predict that inflation will fall from 209% in October 2004 to between 35% and 50% by the end of 2005. This implies an average annual inflation rate next year of 100%. But the treasury's forecast of GDP growth in 2005 and its revenue projections assume average inflation of nearly three times that - about 285%. If the central bank is right, the budget deficit will be much larger, partly because GDP in 2005 would be nearer to Z$50 trillion than the Z$90 trillion budget estimate. In this case, the budget deficit (assuming unchanged revenue) would be 9% of GDP. However, with a slower inflation rate, revenue inflows would be lower than projected. As a result, the budget deficit would be around Z$10 trillion or 20% of GDP.

Private-sector economists question both inflation forecasts. Some expect inflation to continue to fall for a few more months and then pick up again in the first quarter of 2005. But few expect it to average anything like the 285% implicit in the budget. Time will tell whether the budget numbers are just a gaffe or whether the finance ministry really does expect inflation to be nearly three times as rapid as that predicted by the central bank. Whatever the explanation, there are some serious holes in the budget which, if left unplugged, will spill over into much higher inflation in 2005/2006. Murerwa is upbeat on economic prospects. He predicts that real GDP growth will turn positive in 2005, at between 3,5% and 5% - the first since 1998. He expects 2004 GDP to decline only 2,5% - much less than earlier forecasts of between 5% and 7,5%. Agriculture is the key to economic recovery: the minister forecasts a 28% jump in farm output next year, with tobacco production up 140%. Tobacco industry sources are sceptical, predicting the 2005 crop will be marginally greater than the 65m kg grown this year. Mining production, which rose 11.6% in 2004, is projected to slow to 7.5% in 2005. But manufacturing continues to slide, declining 8.5% this year.

The balance of payments deteriorated again in 2004, with the overall deficit widening to US$523m from US$335m last year. (But see the ‘Trade’ section below, where the CSO and Zimtrade report a trade deficit of US$5,137 million in 2003. It is difficult to see how other sources, mainly remittances, which I estimate at no more than Z$1 billion through official channels, could have filled this gap, though remittances through other channels might) Murerwa expects a recovery in 2005, however, on the back of stronger exports and some recovery in tourism, based largely on Zimbabwe having been accorded "approved destination status" by China. But Murerwa was silent on two crucial aspects of foreign payments: the build-up of unpaid foreign arrears estimated by the IMF at US$2,6bn, and the yawning gap between foreign currency inflows and outflows. The solution to both problems is out of Murerwa's hands, dependent on a change of heart in the international community that would open the door to resumed foreign lending and eventually to debt relief.

Under the new corporate tax system, to come into effect in January 2005, companies would pay 100% of their 2004 profits and 35% of their 2005 forecast profits in the coming year. In

2006, government proposes that companies pay 65% of their 2005 profits and 70% of their 2006 forecast profits while in 2007, 30% of the 2006 profits and 100% of the 2007 profits would be paid.

Contributing to debate on the Audit estimate of expenditure vote, Glen Norah MP Ms Priscilla Misihairabwi-Mushonga (MDC) said the Department of the Comptroller and Auditor-General should be structured in a way that enabled it to perform its duties effectively. She said the department should be removed from the civil service and accorded the right to determine salaries for staff in order to compete for skills with the private sector. In response, Finance and Economic Development Deputy Minister Cde David Chapfika said the issue of salary discrepancies was being addressed, as Government was keen to retain experienced staff in the department. Government, he said, had also put in place measures to ensure that there was accountability of financial resources by public institutions.

Harare North MP Ms Trudy Stevenson (MDC) said the money allocated to the Ministry of Industry and International Trade was not enough as the ministry had the key responsibility of stimulating the economy through trade promotion. Industry and International Trade Deputy Minister Cde Kenneth Manyonda agreed the vote allocated to his ministry was indeed far from adequate. The ministry, he said, had deployed six trade attaches to various countries and was planning to deploy 10 more next year.

Ratepayers, satellite towns and government departments owe Harare nearly $52 billion, against a $56,3 billion debt to creditors. Meanwhile, the city's computerisation project is not performing to expectations. Zvikaramba said this was compromising accurate debtor statistics and managerial reports.

The government owes cash strapped local authorities nearly $50 billion, a Parliamentary Portfolio Committee has said. However, the report reviewing the 2005 budget by the Parliamentary Portfolio Committee on Local Government, Public Works and National Housing presented in Parliament on Tuesday, did not give a breakdown of the dues to each council. Acting city of Harare Treasurer this week said the government owed them $7,9billon. 'Local authorities are owed huge debts by different government departments. The $15 billion allocated for amortisation of central government debt is inadequate, as local authorities are owed $49 billion by different government departments', said the committee report chaired by Gabriel Chaibva, MDC legislator for Harare South.

The RBZ disclosed in the first week of November that Zimbabwe is now repaying US$5 million quarterly to clear the money it owes the IMF.

RBZ Governor Gideon Gono, warned the government on 7 November against awarding grants to former liberation war activists, saying this would throw plans to reduce inflation off course. However, on 8 November he said plans to reward about 6,000 ex-political prisoners, detainees and restrictees will not have any serious repercussions on the economy or frustrate the country's economic turnaround programme.

The dreaded CIO spy agency is set to gobble a massive Z$395.8 billion next year, according to the expenditure estimates. Rumour has it that 1 person in 50 is, in some way, on their payroll. The budget allocation for the Office of the President and cabinet, under which the CIO falls, is more subject than most to further expansion during the year with little debate or accountability and many more government activities now fall under this office. Two of some note are the Ministries of Lands, Land Reform and Resettlement and for Anti-Corruption and Anti-Monopolies.

Corruption

A total of 6,376 people were arrested in connection with various cases of economic crime in the country this year, according to Police Commissioner Augustine Chihuri. But police believe there are more economic crimes still to be unearthed in the corporate world whose operations had over the years escaped the scrutiny of the police. Some of those arrested are quite senior in ZANU-PF, so membership of the party is no longer a ticket to immunity. Who gets sacrificed is, of course, a political decision as tensions and rivalries within ZANU-PF grow daily. Economist John Robertson says the arrests may be an attempt to curry favour with the IMF and the World bank. "There's an element of proving that the rule of law is in place," Robertson said. "They (Zanu-PF) are trying to show that no one is safe, but there are people who are safe. They have the whole landscape rigged to their advantage and there are people who are beyond arrest." Zimbabwe, which is heavily indebted to the IMF, saw the lender close its Harare office last month.

A foreign account opened by the GMB in 1997 that had about 9 million rands in 1999 is now empty, with none of the money being accounted for. The parastatal now wants one of its suspended senior officials hauled to court for allegedly misappropriating the funds. Going by the current exchange rate, the account should be holding at least $9 billion, before the inclusion of interest accrued and other investments.

7. Industrial production

The CSO have published no figures on manufacturing or mining production since 2000. Figures given here are generally accepted by the economic analysts writing for the independent press and, as far as I am aware, not contradicted in Gideon Gono's *Financial Gazette*.

The new corporate tax system is most likely to strain the operations of some of the country's already hard-pressed companies.

a. Manufacturing

Manufacturing production continues to slide, declining 8,5% this year. As the trade figures below (see 'Trade' section) show, the level of processing of mineral exports has dropped.

There are no material economic gains to show for the massive chunks of money poured into the productive sectors of the economy early this year, industrialists say. They said there is really nothing to show on the ground in terms of economic benefits within the first year of doling out the cheap funds. "It is almost a year now since the unveiling of the Productive Sector Facility but the facility is not showing in terms of economic activity," says Luckson Zembe, president of the ZNCC. Since January the RBZ has disbursed concessional financing facilities valued at over $2 trillion to the productive sectors of the economy. Furthermore, the Zimbabwe Development Bank is currently disbursing an ambitious $200 billion loan facility meant to breathe life into several companies in poor health. "We have pumped a lot of money into the economy but the results are really hard to come by," laments Zembe.

AT least 20 major projects licensed as Export Processing Zones have shut down since the inception of the export-oriented industrial zones and more are facing imminent collapse due to viability, political and economic problems.

In November it was announced that the People's Republic of China had injected US$179 million to assist Air Zimbabwe and NRZ. Both have perennially faced viability problems associated with their ageing fleets and foreign currency shortages to import spare parts, among others. China was said to have undertaken to facilitate the acquisition of 10 locomotives, eight commuter trains and three intercity passenger trains for NRZ. These acquisitions would be covered under a US$140 million soft loan while another US$39 million had been pumped into Air Zimbabwe for the purchase of two aircraft. The aircraft would be used for the reopening of regional routes. Both NRZ and Air Zimbabwe were said to be technically insolvent at some time.

A survey commissioned by the CZI in September established that at least 40 companies were forced to shut down in 2003 after losing the market to cheaper goods mostly from China. Among the 8 companies closed in 2004 was Thomson Publications, publishers of the popular 'Parade' magazine and a number of trade and professional journals. The loss of these latter will be a further blow to the infrastructure of industry and commerce.

b. Mining

Mining production, which rose 11,6% in 2004, is projected to slow to 7,5% in 2005.

Gold production to September was 16 tonnes, so output for the full year could reach 20 tonnes; compare 28t in 2001 and less than 12t in 2003.

8. Stock market

Zimbabwe Stock Exchange indices, (=100 in 1967)

			industrial shares		mining shares	
Date	industrial	mining	dividend%	earnings%	dividend%	earnings%
1999	14426.6	1396.2	2.7	7.9	2.76	12
2000	17987.6	1597.7	1.8	14.7	3.25	5.2
2001	46351.9	2435.0	0.9	35.4	0.7	16.7
2002	103495.1	6525.2	1.5	11.7	0.5	19.9
2003	401542.9	127571.2	3.3	5.0	2.1	30.1
Oct-03	613298.1	130874.2	1.7	11.5	0.1	32.5
Nov-03	714249.8	210703.3	2.5	7.3	0.2	38.6
Dec-03	401542.9	127571.2	3.3	5.0	2.1	30.1
Jan-04	484857.9	146957.6	3.0	5.8	1.8	22.5
Feb-04	470423.4	163031.4	3.3	5.0	1.6	20.4
Mar-04	347708.4	92555.5	7.6	2.5	2.7	12.0
Apr-04	391732.1	144111.2	6.9	2.7	8.6	8.4
May-04	510074.0	145301.3	5.0	3.8	9.2	7.9
Jun-04	693147.1	155767.8	4.6	3.9	7.7	9.3
Jul-04	922549.0	170942.2	3.8	4.9	9.5	7.5
Aug-04	897581.0	158267.1	4.6	4.1	10.7	5.3
Sep-04	872533.8	172446.7	3.5	3.8	7.3	2.1

Source: RBZ

Newspaper reports gave the indexes on the following dates as:

date	industrial	mining
1 December	897097.8	179748.6
8 December	922212.96	178818.57
30 December	1082553.28	225335.48

The bubble has not burst yet.

Residential property prices went up by 30% in the first week of November owing to a high demand for properties, which has resulted in the shortage of sellable stock on the property front.

9. Trade

Zimtrade has these figures for 2003, released by the CSO in October, so presumably we will have to wait till October 2005 for the 2004 figures[iii]:

By principal countries:

country	imports(US$)	% of total imports	exports (US$)	% of total exports
China	4761655	0.062	1085643055	43
South Africa	276253271	4	552708460	22
Japan	23206523	0.30	164964234	7
Germany	10471308	0.14	126292239	5
Switzerland	5237212	0.068	95892160	4
UK	13890881	0.18	74950145	3
Botswana	13632402	0.18	50636745	2
Zambia	4781990	0.062	39348805	2
Netherlands	1677083	0.022	38007076	2
Malawi	2115160	0.028	28727555	1.1
Italy	8545655	0.11	25673444	1.0
Namibia	528011	.007	22299939	0.88
USA	11379176	0.15	21773139	0.87
unspecified	7203961760	94	-	-
total	7653235616	100	2516418553	100

source: Zimtrade, based on CSO figures

This shows a grossly unbalanced trade situation, with imports amounting to 304.1% of exports. Since the CSO did not record the source of 94% of imports, it is impossible to make sense of trade balances with any particular country. China is, according to these figures, Zimbabwe's chief trade partner, though it might not seem so preponderant if the sources of the country's oil imports were identified.

By principal products:

product	imports, US$	% of total imports	exports, US$	% of total exports
mineral fuels, oils & products	7269754280	95	17818666	1
vehicles & accessories	117814289	2	5450512	0
cereals	37005206	0.3	190914	0
iron & steel	5207726	0.068	1458977742	58
ores, slags & ash	68094	0.0009	235623329	9

iii If you have a sufficiently high-powered computer, the databases are available at www.zimtrade.co.zw Go to trade databases/trade statistics.

precious stones, & metals, coin etc.	1552453	0.020	146595446	6
tobacco & manufactured substitutes	16033602	0.21	122742810	5
salt, sulphur, earth& stone, lime&cement	1085851	0.014	83942402	3
nickel & nickel articles	202615	0.0026	69126204	2
cotton	885745	0.012	48357679	2
sugar & confectionery	594128	0.0078	47919142	2
printed books &c	1688649	0.022	31753934	1.26
paper & paper board	9227688	0.12	8982417	0.36
live trees, cut flowers &c.	68684	0.0009	27135980	1.08
copper & copper products	6558919	0.086	8081700	0.32

source: Zimtrade, based on CSO figures

Little needs to be said in summary, except that oil accounted for 95% of total imports and ‘iron & steel’, entirely crude ferrochrome, accounted for 53% of exports.

The breakdown of exports of ‘mineral fuels, oil and products’ does not appear in ZimTrade’s database, but is presumably all coal.

The exports of ‘ores, slags and ash’ were 92% nickel ores and concentrates. Most of the rest is described as ‘precious metal ores and concentrates’ but no breakdown of which precious metals is available from CSO. One suspects it should cover platinum concentrates, which were mentioned in newspaper reports, mainly when consignments went astray. 0.7% of ‘ores, slags and concentrates’ falls into neither category and does not appear in any further breakdown of categories.

The ‘salt, sulphur, earth& stone, lime&cement’ category seems to be all granite.

Of the ‘jewellery, precious stones and precious metals’ exports, gold (unwrought or semi-manufactured), at US$91.1 million, accounts for 62.2% and platinum, at US$52.4 million for 35.7%. The jewellery, precious and semi-precious stones categories account for about US$ 1 million (0.7%) leaving 1.4% of this category unaccounted for.

Of the iron and steel exports, 73.4%, worth US$1,070,235,678, went to China and amounted to 99% of exports to that country, but included no vanadium steel, which in the 1980s a high value product for which China was a very good customer. The total of identified imports from China was US$2246. Even if this figure should be thousands of dollars, it leaves 52.8% of the total imports from China unaccounted for, in a list which does not mention clothing. Cheap clothing exports from China were so high in 2004 that duty on all clothing imports, including used clothing, was restored in October.

Cereal imports were 20 times as large as cereal exports. Total agricultural exports, at 10% of a much reduced total, have dropped dramatically since 1999.

Exports and imports of paper were approximately equal.

Tourism

ZIANA said that 2.2m tourists visited in 2003, a slight increase from the previous year. Some

40,000 people, from Asia, mostly China, India and Japan visited in 2003, an increase of 40%. However, earnings were down from $76m to $44m. But of visitors from traditional destinations, since Zimbabwe started experiencing problems, there had been a marked increase in the number of tourists coming to view Victoria Falls on the Zambian side and a corresponding drop in the numbers of visitors to Zimbabwe. Most of the recorded visitors cannot be international tourists, as the recorded earnings were only US$20 per visitor. Even if all were on package holidays with most costs paid to parent hotel and tour companies abroad, this is a very low level of expenditure for tourists.

There were 29% less arrivals between January and September this year compared to the same period last year, according to the Zimbabwe Tourism Authority. In its latest report the ZTA said efforts by the government to shift focus from traditional markets in the West to China and the Far East did not pay off with 1,271,904 people visiting Zimbabwe in the first nine months of the year compared to 1,793,128 visitors between January and September 2003. Among these were 24,437 from China in 2004 compared to 4960 in 2003.

ZimSun hotel group reported their operating costs in the first half of 2004 as Z$66 billion, which was 91% of their income. Finance costs of Z$1.6 billion left a net profit for the half-year of Z$5 billion.

10. Gross Domestic Product

GDP is down to about US$4,8 billion from US$8,4 billion in 1997.
The UN Economic Commission for Africa said in a report in 2003 that Zimbabwe recorded a Gross Domestic Product growth rate of -5.5%. It will take time for more precise and recent figures to emerge.

11. Conclusion

The decline continues, with the ZANU-PF elite now scrambling to grab control of what is left. This increases political tensions within the party because, as John Robertson said recently the "trough was getting smaller with less room for the snouts" in Zimbabwe's embattled economy. This kind of political infighting is not good for the economy, but the way towards any improvement in the economy is probably through the political realignment it will unleash.

Sent to BZS Review, tt/09/jj
NOTES

1 A negative advance represents a deposit