

**FOR
AGENDA**

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August 5, 2005

To: Members of the Executive Board

From: The Secretary

Subject: **Zimbabwe—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2005 Article IV consultation discussions with Zimbabwe (SM/05/294, 8/1/05), which is tentatively scheduled for discussion on **Friday, September 9, 2005**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Zimbabwe indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Muñoz (ext. 36653) and Mr. Mohapatra (ext. 37683) in AFR, and Ms. Mbabazi-Moyo (ext. 38784) in MFD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, August, 15, 2005; and to the African Development Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, the United Nations Development Programme, and the World Food Programme, following its consideration by the Executive Board.

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ZIMBABWE

Selected Issues and Statistical Appendix

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Contents	Page
I. Recent Trends in Poverty and Social Indicators	5
II. Land Reform, Agricultural Policies, and Outcomes	11
A. Land Reform	11
B. Recent Performance in Agriculture	13
C. Food Security	13
D. Agricultural Growth and Food Security: A Way Forward	15
III. Fiscal Deficits and Inflation	18
A. First Phase: Mounting Deficits and High Inflation	18
B. Second Phase (2001-03): Accelerating Inflation and a Decline in Deficits	18
C. Third Phase (2004): Shift in the Financing of Deficit and Fall in Inflation	20
D. Conclusions	21
IV. High Inflation and Money Demand	23
A. Stylized Facts	23
B. Estimating a Money Demand Equation	25
C. Influence on Exogenous Factors on Velocity Movements	27
D. Conclusions	28
V. Estimating the Short Run Equilibrium Real Exchange Rate	35
A. Methodology	36
B. Data and Results	39
C. Conclusions	41
VI. Export Performance: the Impact of the Parallel Market and Governance Factors ...	43
A. Export Performance in Zimbabwe	43

Contents	Page
B. Analysis and Determinants of Export Behaviour.....	45
C. Comparative Measures of Competitiveness.....	48
D. Conclusions.....	49
VII. Recent Developments in the Zimbabwe Banking System.....	52
A. Structure of the Financial System.....	52
B. Weaknesses in the Banking Sector in 2003-04.....	53
C. Addressing the Banking Sector Problems.....	54
D. Impact of Exchange Rate Regime and Interest Rate Policies.....	58
E. Banking Sector Soundness and Resilience.....	60
F. Deposit Insurance.....	65
G. Conclusions.....	66
Boxes	
VII	
1. Zimbabwe Allied Banking Group (ZABG).....	57
2. Stress Tests.....	63
Figures	
III. 1. Fiscal Deficits and Inflation.....	18
2. Central Government Finances.....	19
3. Contributions to Reserve Money Growth.....	19
4. Contributions to Broad Money Growth.....	19
5. Shift in Financing of Deficit.....	20
IV. 1. Within-sample Forecast.....	31
2. Recursive Estimation.....	32
3. Chow Tests.....	33
V. 1. Exchange Rates and CPI.....	35
2. Percentage Deviation from Short Run Equilibrium.....	40
VII. 1. RBZ Liquidity Support to Banks.....	54
2. Bank Dependence on RBZ Funding.....	54
3. Commercial Bank Lending Rates.....	59
Text Tables	
I. 1. Summary of Progress in Achieving Millenium Development Goals.....	9

	Contents	Page
IV.	1. Unit-root Tests	29
	2. Cointegrating Tests	29
	3. Cointegrating Vector.....	30
	4. Diagnostic Tests.....	30
V.	1. Equilibrium Exchange Rate for External Balance	40
VI.	1. Business Climate, 2004.....	50
VII.	1. Financial System Structure	53
	2. Real Costs of Bank Restructuring.....	58
	3. Financial Soundness Indicators, 1999-2004	64
Appendices		
VII.	1 Deposit-Taking Institutions (end-March 2005)	68
	2 Banks Placed in Curatorship in 2004.....	69
	3 Balance Sheet Structure (end-March 2005).....	69
	4 Stress Tests.....	70
Statistical Appendix Tables		
1.	Expenditure on GDP, 1998-2003.....	71
2.	Gross Domestic Product, 1998-2004	72
3.	Agricultural Crop Production, 1998-2004	73
4.	Prices of Marketed Agricultural Crops, 1997/98-2003/04	74
5.	Area Under Cultivation for Major Crops, 1998-2004	75
6.	Volume and Value of Livestock Slaughtering and Milk Production, 1998-2004	76
7.	Livestock in Communal and Commercial Farming Areas 1998-2003	77
8.	Volume of Manufacturing Output, 1998-2004	78
9.	Mineral Production, 1998-2004.....	79
10.	Construction and Retail Trade, 1998-2004.....	80
11.	Electrical Energy Produced and Distributed 1998-2004	81
12.	Petroleum Products, 1998-2005.....	82
13.	Consumer Price Index, 1998-2005	83
14.	Consumer Price Index, December 2003-May 2005.....	84
15.	Employment and Employment Earnings 1998-2004.....	85
16.	Central Government Operations, 1999-2004.....	86
17.	Detailed Central Government Revenue, 1999-2004.....	87
18.	Detailed Central Government Expenditure and Net Lending, 1999-2004	88
19.	Expenditure and Repayments by Ministries 1999-2003.....	89
20.	Civil Service Employment Budgeted Posts, 1999-2003.....	90

Contents	Page
21. Central Government Debt and Debt-Service Payments, 1999-2004	91
22. Money Supply, 1998-2004.....	92
23. Monetary Survey, 1998-2004	93
24. Assets and Liabilities of Monetary Authorities, 1998-2004.....	94
25. Consolidated Accounts of Deposit Money Banks and Other Banking Institutions, 1998-2004.....	95
26. Required Reserves and Liquid Asset Ratios, 1998-2004.....	96
27. Selected Interest Rates, 1998-2004.....	97
28. Sectoral Analysis of Commercial Banks' Loans and Advances, 1998-2004	98
29. Sectoral Analysis of Merchant Banks' Loans and Advances, 1998-2004.....	99
30. Nonbank Financial Institutions' Assets, 1998-2004.....	100
31. Balance of Payments, 1998-2004	101
32. External Trade Indicators, 1998-2004	102
33. Exports by Commodity, 1998-2004.....	103
34. Direction of Export Trade, 1998-2004.....	105
35. Imports by Principal Commodities, 1998-2004.....	106
36. Direction of Import Trade, 1998-2004.....	107
37. International Reserves, 1998-2004	108
38. External Debt Outstanding by Creditors, 1998-2004	109
39. Summary of the Tax System as of June 2005.....	110

I. RECENT TRENDS IN POVERTY AND SOCIAL INDICATORS¹

1. **Zimbabwe's living standards and social indicators, which for a long time had been among the best in Africa, have deteriorated rapidly over the last few years.** The estimated proportion of the population living below the official poverty line has more than doubled since mid-1990s due to decreasing real incomes and rising unemployment.² Poverty has been on the rise in both urban and rural areas, as manifested in a growing number of street children, homeless people, and those in need of food aid. In the past couple of years the government redesigned its safety net programs. The Rural and Urban Public Works Program (PWP) and the Basic Education Assistance Module were put in place to help those in need. The PWP is designed to be scaled up when increased assistance is needed. However, the ability of the authorities to increase spending on social safety net programs in real terms is limited by the continuous economic decline and the resulting rise in the demand for social assistance. The adequacy of pensions has also been adversely affected by high inflation and savings schemes for the aged do not exist.

2. **The plight of the poor has been further worsened by food insecurity.** There was a substantial shortfall in food production during the 2003/04 and 2004/05 agricultural seasons on account of the overall contraction in agricultural production, which resulted in part from drought. About 40 percent of the population is expected to continue to be food insecure for the period April 2005 to March 2006 due to reduced food availability and decreased purchasing power.³

3. **The economic crisis in Zimbabwe has led to a sharp deterioration of the medical infrastructure and shortages of essential drugs and equipment, particularly in public hospitals.** The health sector is characterized by poor working conditions for staff as remuneration is inadequate and protective working materials are lacking. Staff attrition is high as health professionals seek better opportunities abroad or succumb to HIV/AIDS, thus exacerbating the already existing deficit in personnel. For instance, the public sector has a deficit of 843 medical doctors from an established complement of 1,530, and a deficit of 4,700 nurses from an established complement of 11,640. The high attrition, compounded by the lack of adequate resources to run health facilities, has greatly reduced the capacity of the sector to deliver services. The high prevalence of HIV/AIDS has also placed a huge strain on

¹ Prepared by Oleksiy Ivaschenko (World Bank).

² About 80 percent of the population is estimated to be living below the official poverty line. The most recent Poverty Assessment Survey Study (PASS) was conducted by the Ministry of Public Service, Labor and Social Welfare and UNDP at the end of 2003, with final results expected by the end of July, 2005. This survey is expected to shed light on recent poverty trends and changes in the poverty profile.

³ See Chapter II for more details on food insecurity.

the health delivery system, as AIDS patients occupy between 50 percent and 70 percent of all hospital beds.⁴

4. **Zimbabwe is among the hardest hit of the HIV/AIDS epidemic countries.** The prevalence rate among the adult population is estimated at 24.6 percent. The devastating impact of the HIV/AIDS epidemic has led to marked worsening of the quality of life with increased morbidity, mortality and orphan-headed households. Life expectancy at birth declined from its peak of 62 years to 39 years. The deteriorating economic conditions and their impact on the population, represents a serious constraint on reducing the incidence of infection. The recent Zimbabwe Human Development Report (ZHDR) reveals that economic hardships expose poor people to high risk of HIV infection through risky sexual behavior, including sex in exchange for cash, food, tillage and agricultural inputs, jobs and other basic necessities.

5. **The Government has been trying to come up with a coordinated response to the epidemic, but the financial and operational capacity to do so remains limited.**

Zimbabwe's National AIDS Policy was developed through a consultative process and is supported by legal instruments. The Government established the National AIDS Council (NAC) in 2000 to coordinate a multisectoral response to the epidemic and to mobilize additional resources. In 2001, the NAC launched the district response initiative to facilitate a decentralized national response. The Government established the National AIDS Trust Fund (NATF) financed through a 3 percent levy on personal and corporate income. Initially, the NATF lacked clear disbursement mechanisms and there were concerns about political interference in the allocation of resources. The NAC has since worked on establishing transparent guidelines for channeling the NATF resources to HIV/AIDS programs. Pressure from NGOs and civic groups also helped in establishing transparency. However, funding for AIDS treatment remains very low—only about 1 percent of those requiring treatment receive anti-retroviral medication.

6. **With regard to education, escalating tuition and related costs coupled with increased economic hardship has resulted in increased school drop out rates.** The primary school enrolment rates over the last five years dropped substantially for both boys and girls. Many households are too poor to afford the state school fees, equivalent to US\$4 a term. Drop-out rates have also increased because of the higher rates of teenage pregnancies and increased death rates of parents and guardians from HIV/AIDS.

7. **The standard of education has fallen significantly due to staff attrition and the resulting increase in pupil/teacher ratios.** As more qualified teachers opt for more accessible schools and HIV infected teachers seek transfers to areas where they can have better access to health services, the balance of demand for and supply of education in the country has been radically transformed. The increasingly unattractive working conditions, which include low salaries, heavy workloads and inadequate basic teaching materials have

⁴ Zimbabwe Human Development Report 2003, UNDP, 2003.

lowered the morale of teachers and resulted in a considerable number of teachers leaving the teaching profession or the country altogether to seek better opportunities elsewhere. Furthermore, the teaching profession has not been spared from the high mortality and morbidity rates due to HIV/AIDS, which has further reduced the capacity of teachers in terms of numbers and performance.

8. **The increasing number of professionals leaving the civil service undermines the capacity to deliver quality public services.**⁵ The major reason for the exodus of professionals from the public sector has been inadequate remuneration. Real wages of public servants declined substantially over the last five years as wage indexation lagged behind high inflation. As the Government attempted to address rising fiscal pressures, public sector wage earners effectively became ‘captive’ taxpayers who saw their tax payments increase due to inflation in the absence of full, systematic inflation-based adjustment of tax brackets.⁶ To stop the outflow of labor from the public sector, the government substantially increased wages in 2005 budget. However, as a result, the public sector wage bill increased from some 9½ percent of GDP in 2003 to about 18 percent in 2005, creating substantial fiscal pressures.⁷

9. **A Fast Track Land Reform Program (FTLRP) had also adversely affected various social dimensions.** In the past, almost every commercial farm provided or co-operated with neighbors to provide on-farm health schemes for farm workers, support for local clinics, on-farm schools or support for local area schools, on-farm adult education and support for HIV/AIDS orphans. As a result of the land reform program, nearly all of this social infrastructure has now collapsed. Close to 1 million children that attended the farm schools (almost 40 percent of the total junior school enrollment of the country) have either been relocated to less adequate education facilities in communal areas or have dropped out of school altogether.⁸

10. **The FTLRP also increased food insecurity and swelled the ranks of the vulnerable poor.** About 300,000 farm workers and their families are estimated to have lost property and incomes due to the land reform. Many of the displaced families have been forced to seek settlement in communal areas where health and school facilities were already stretched to fully absorb the additional people. These hardships forced many of the families

⁵ According to the 2002 National Population Census, Zimbabwe experienced a substantial brain drain, with 3.4 million people out of the country’s total population of 11.6 million people (at that time) living outside the country.

⁶ Before the September 2004 change in tax brackets, 70 percent of civil servants were subject to the highest marginal tax rate of 45 percent.

⁷ Official statistics.

⁸ Agricultural Growth and Land Reform in Zimbabwe: Assessment and Recovery Options. The JAG Trust’s Comment on the World Bank Report No. 3199 ZW. 2005.

to then relocate to squatter settlements near the towns and cities where they have subsisted mainly on informal activities.

11. **The recently launched “Operation Restore Order” that entailed the demolition of illegal dwellings and structures has created a humanitarian crisis that will have many social and economic ramifications.** The United Nations (UN) Special Envoy has estimated that some 700,000 people across the country have lost either their homes, or their source of livelihood, or both. A further 2.4 million people have been indirectly affected in varying degrees. The report notes that “[h]undreds of thousands of women, men and children were made homeless, without access to food, water and sanitation, or health care. Education for thousands of school age children has been disrupted. Many of the sick, including those with HIV and AIDS, no longer have access to care. The vast majority of those directly and indirectly affected are the poor and disadvantaged segments of the population. They are, today, deeper in poverty, deprivation and destitution, and have been rendered more vulnerable.”⁹

12. **Net donor aid flows have fallen from around US\$375 million in 1996 to an estimated US\$240 million in 2004.**¹⁰ The levels of net aid flows, as a percentage of GDP, have remained broadly constant due to the economic decline. However, in absolute terms, less aid has been provided while the need for it has drastically risen due to financial constraints arising from the over 30 percent decline in GDP from 1998 to 2004. The structure of aid flows has noticeably changed since 2000, with an increasing emphasis on integrated humanitarian relief, food security, and health (especially HIV/AIDS related problems). The UN Special Envoy’s report has urged the government to work with the international community to mobilize immediate assistance to address the consequences of “Operation Restore Order.”

13. **Zimbabwe is currently off-track in achieving most of the MDG goals.** The recent assessment of progress conducted by the Department for International Development (DFID) indicates that under current economic and social conditions, only the targets for the percentage of one-year old children immunized against measles and the proportion of the population with sustainable access to an improved water source are achievable (see Table 1). With one of the highest prevalence rates in the world, the HIV/AIDS pandemic affects most of the other MDGs. Progress on most MDGs will depend on returning to sustainable economic growth, tackling the impact of HIV/AIDS pandemic, and improve food security.

⁹ Report of the Fact-Finding Mission to Zimbabwe to Assess the Scope and Impact of Operation Murambatsvina by the UN Special Envoy on Human Settlements Issues in Zimbabwe, page 7.

¹⁰ The estimates come from the DFID Memo “Zimbabwe: Millennium Development Goals. Summary of Progress.” May 2005.

Table 1. Summary of Progress in Achieving Millennium Development Goals

MDG Target	MDG Indicator	Current Progress
Eradicate extreme poverty and hunger.	Proportion of the total population living below the total <i>consumption</i> poverty line (%).	80
	Prevalence of underweight children under the age of five (%).	17
Achieve universal primary education.	Gross enrolment in primary education (%).	86.9
	Proportion of children enrolled in grade one who reach grade five (%).	67.6
Promote gender equality.	Ratio of girls to boys in primary education (%).	97
	Ratio of girls to boys in secondary education (%).	89
	Ratio of girls to boys in tertiary education (%).	58
Reduce child mortality.	Under-five mortality rate per 1000 live births.	126
	Percentage of one-year old children immunized against measles.	82
Improve maternal health.	Maternal mortality per 100,000	1100
	Proportion of births attended by skilled personnel (%).	73
Combat HIV/AIDS, Malaria and other diseases.	HIV prevalence among pregnant women aged 15-24 years.	33
	Prevalence of Malaria, number of people.	600,000
	Deaths resulting from Malaria.	626
	Percentage of TB cases detected under DOTS.	46
	Proportion of TB cases cured under DOTS.	
Ensure environmental sustainability.	Proportion of the population with sustainable access to an improved water source.	87

Note: *Dark grey* shows that Zimbabwe is not achieving or is unlikely to achieve the relevant MDG/indicator. *Light grey* shows that it is on-track or highly likely to achieve the relevant MDG/indicator. *White* indicates that it is too early to judge the extent of achievement.

Source: DFID and the World Bank, June 2005.

References

Agricultural Growth and Land Reform in Zimbabwe: Assessment and Recovery Options. The JAG Trust's Comment on the World Bank Report No. 31699 ZW. 2005.

Interim Strategy Note for the Republic of Zimbabwe. International Development Association. Report No. 31553-ZW. February 2005.

Report of the Fact-Finding Mission to Zimbabwe to Assess the Scope and Impact of Operation Murambatsvina by the UN Special Envoy on Human Settlements Issues in Zimbabwe. July 2005.

Zimbabwe Human Development Report 2003: Redirecting our Responses to HIV and AIDS. UNDP. 2003.

Zimbabwe: Millennium Development Goals. Summary of Progress. Memo. DFID. May 2005.

II. LAND REFORM, AGRICULTURAL POLICIES, AND OUTCOMES¹¹

A. Land Reform

14. **In 2000, Zimbabwe initiated a Fast Track Land Reform Program (FTLRP) to redistribute land.** The FTLRP redistributed over 80 percent of former commercial farmland, and the racial distribution of access to land has been radically changed. By end-2004, about 9,000 farms were listed for acquisition, but few farmers had been compensated and many farms remained unallocated to new settlers; some 5.7 million hectares were allocated to 130,438 households under the A1 (small-scale farming) scheme for smallholder farmers and 12,556 farmers were allocated about 1.9 million hectares under the A2 (large-scale farming) scheme¹² for new commercial farmers.¹³

15. **The execution of the land reform was accompanied by significant losses in production during the past four years.** Agricultural output declined by 30 percent as the FTLRP has been accompanied by significant losses in the agricultural capital stock and in production, uneven distribution of land and infrastructure, the lack of security of tenure, and impoverishment of a large proportion of ex-farm workers. Government interventions in input, output, financial and foreign exchange markets were stepped up in an effort to deal with reduced farm profitability.

16. **Large scale commercial farming has been effectively destroyed over the course of the last four years.** As a result of the land reform, the number of large-scale farming units declined from 3,217 at the beginning of 2000 to about 250 partially-operational (at 40-60 percent of the maximum capacity) units as of 2005. As a result, the output of the commercial agricultural sector plummeted to 5-20 percent of the 2000 level across all four major crops.

17. **Much of the on-farm infrastructure was removed, stolen, or vandalized in the process of taking over farms.** Key machinery was moved by original owners to warehouses and/or sold, while much of what remained was looted or broke down. In addition, as about 80 percent of the original land owners have either left the country or stopped farming, the wealth of knowledge and skills, acquired over many years, has been severely depleted.

¹¹ Prepared by Oleksiy Ivaschenko (World Bank).

¹² Agricultural Growth and Land Reform in Zimbabwe: Assessment and Recovery Options. The World Bank Report No. 31699 ZW. 2005.

¹³ At the height of land ownership large scale commercial farmers owned about 37 percent of the 39 million hectares of arable land. By the beginning of the FTLRP, that percentage was down to 22 percent (18.5 percent and 3.5 percent by white and black farmers, respectively). These statistics are provided in the JAG Trust's Comment on the World Bank Report No. 31699 ZW. 2005.

18. **The land reform program displaced almost all of the highly specialized seed production farmers.** The seed production capacity in Zimbabwe was created over many decades and effectively underpinned the success of the country's farmers by catering to widely differing growing conditions. The seed that is currently being imported is mostly found to have been produced for climatic conditions and altitudes different from those in Zimbabwe, contributing to disappointing yields.

19. **A number of key issues fundamental to the revival of the agricultural sector remain unresolved.** Among these is a lack of consensus within the government on the direction of policies to be pursued. The outstanding issues include legal procedures, compensation to previous farm owners, security and transferability of property rights, and multiple claims of farm ownership.

20. **The farm acquisition process has not been managed as stipulated in the Land Acquisition Act.** At the start of the land reform, the sequence of the acquisition process according to the Land Acquisition Act was as follows: notice of the intent of acquisition (Section 5), decision of the court stipulating that land can be acquired (Section 7), and acquisition of land (Section 8). As many courts ruled in favor of farmers, the Act has been amended at the end of 2002 to allow acquisition of land to take place before legal authorization. Moreover, many of the judges who did not issue decisions in favor of land acquisition were dismissed or forced into early retirement, compromising the integrity of the judicial and legal process.

21. **Compensation offered so far to individual farmers is far below market value, and the process of compensation has been highly non-transparent.** The compensation value appears to consider only fixed assets—the government has stated that it would not compensate for the value of land—and at a value of only 10-15 percent of that derived by the Valuers Consortium, who are all registered Real Estate Valuers in Zimbabwe. Moreover, the compensation offers have so far been made to only about 25 percent of the total number of dispossessed farmers, and it is not clear how the selection process is taking place. Those offered compensation are generally being given a verbal quote as to the amount of such compensation, with little indication provided as to how the value has been determined. Payment in Zimbabwean dollars, and over a number of years, as is being proposed, will under the current high inflation environment significantly diminish the value of compensation being offered nearly worthless. About 1,500 former commercial farmers whose land has been acquired compulsorily by the government have taken their case for fair compensation to international arbitration.

22. **The Government's plan to replace title deeds with 99-year leases for all land seized under the land reform program appear unchanged, but little progress has been made on implementation.** Most of the title deeds for 6,700 confiscated farms, covering about 11 million hectares, are still in the hands of the original owners, and it is not clear how the transfer of property rights will take place, especially since the issue of compensation is not resolved. It appears that the government is considering legislation that would nationalize

all land before moving ahead with the 99 year leases. It is not clear whether these leases will be transferable, and if so, under what conditions.

23. **There is little transparency on how the recipients of the most productive farms acquired under the A-2 scheme have been selected.** Issues regarding the equity and openness of the redistribution process remain, especially given that no payments have been made by the recipients for the land itself. There is also little transparency as to the identity of those currently residing on the confiscated farms. Currently less than 20 percent of the original owners are still residing on their farms.

B. Recent Performance in Agriculture

24. **Agricultural production in the 2004/05 season is estimated to have declined, with further difficulties expected in 2005/06.**¹⁴ In addition to being affected by drought conditions experienced in January-February 2005, production also suffered from the late delivery of seed and fertilizer to farmers, failure to provide new farmers with adequate tillage units, and fuel shortages. The competing needs created by drought and food shortages coupled with lack of fuel are expected to result in late planting and/or reduced tillage, thus negatively affecting prospects for the 2005/06 season as well.

25. **The market incentives required for revival of the agricultural sector are lacking, and input and output markets are highly distorted.** The agriculture sector is becoming increasingly driven by the principles of a command-based economy. There are large inefficiencies and considerable selectivity involved in obtaining inputs at subsidized prices. Moreover, the multiplicity of agricultural subsidies and support prices contribute to the perpetuation of economic distortions given their complexity and provide opportunities for rent seeking. The central bank's efforts to sustain thousands of new loss-making small-scale farms through numerous subsidies and support prices also contribute to macroeconomic instability.

C. Food Security

26. **A substantial gap currently exists between food needs and the estimated availability of food.** While the food (maize) needs are estimated at approximately 1.8 million metric tons (MT), the estimate of the maize crop is around 0.6 MT, putting the gap at 1.2 million MT (the output of maize is well below normal levels due to the factors discussed above, delays in distributing seed and fertilizer last year, and lower-than-normal rainfall).¹⁵ Contrary to the situation observed last year, the authorities' estimate of food needs is broadly similar to that of NGOs and international observers.

¹⁴ The authorities' expectation was that agricultural production would grow by more than 20 percent.

¹⁵ The production figures refer to the April 2004-March 2005 period, while the assessment of the gap refers to the April 2005-March 2006.

27. **As many as 4 million people (some 40 percent of the population) are likely to be food insecure from April 2005 to March 2006.**¹⁶ The problem of food insecurity is likely to be exacerbated by the recent “Operation Restore Order,” which has, according to the United Nations (UN) Special Envoy, directly affected 700,000 people and indirectly affected some 2½ million people.¹⁷ With the informal economy severely curtailed, the loss of livelihood and reduction in real income of such a large proportion of the population is likely to make Zimbabwe’s food needs even higher this year.

28. **The government has made no formal request or appeal for food aid.** The authorities have indicated they have plans and logistical arrangements in place to import 1.2 million MT for direct distribution and 0.6 million MT for the Strategic Fund Reserve (SFR), which is completely depleted at this point. Maize imports come primarily from South Africa, which is not affected by the drought. Some estimates suggest that maize imports have averaged 30,000 MT per month over the past few months. This will have to increase to an average of 100,000 MT per month to fulfill the target of importing 1.2 million MT for direct distribution.

29. **It is estimated that about US\$270 million would be needed to cover the cost of importing 1.2 million MT of grain.**¹⁸ Although financial constraints dominate, infrastructural capacity could also affect the speed and volume of grain distributed, given limitations of existing port and railway facilities and the current fuel shortage.

30. **The United Nations World Food Program (WFP) plans to submit an appeal to donor for food assistance equivalent to 300,000 MT of maize, or 25 percent of the estimated total requirement.** Although not explicitly requested by the government, the WFP declared its readiness to mobilize assistance. Of the proposed assistance in the amount of 300,000 MT of maize, the current in-country stock is 9,000 MT, and confirmed contributions as of end-June are 62,000 MT.¹⁹

31. **It could take up to 6 months before the pledged support from the WFP reaches those in need.** The promptness of receiving food aid depends on the time the donors need to

¹⁶ The Report on Food Security Situation in Zimbabwe. The United Nations World Food Program, June 2005.

¹⁷ Report of the Fact-Finding Mission to Zimbabwe to Assess the Scope and Impact of Operation Murambatsvina by the UN Special Envoy on Human Settlements Issues in Zimbabwe.

¹⁸ This estimate is obtained using the price of US\$225 per MT of maize, which consists of US\$100 purchase price (South Africa), US\$100 for delivery to Zimbabwe, and US\$25 for distribution within the country.

¹⁹ The Report on Food Security Situation in Zimbabwe. The United Nations World Food Program, June 2005.

make a decision, and on the composition of the donors. For example, food aid from the United States is provided in-kind, which can extend the time between when the pledge is made and when the food is received by up to 6 months. Food aid from some other donors comes in the form of monetary pledges, which the WFP can use to buy food stocks in international markets (in the case of Zimbabwe, the WFP would buy maize in South Africa).

32. **WFP support normally takes the form of targeted feeding programs aimed at vulnerable groups such as orphans and AIDS sufferers through school feeding and supplementary feeding programs run by NGOs.** The 300,000 MT in assistance currently being raised will cover these regular programs. Large-scale distributions are also carried out from time-to-time depending on the need. Substantial geographical variation in the extent of crop failure creates additional challenges for targeting food support on large-scale distributions. Southern areas of the country have been affected much more by the drought compared to northern areas, with some areas in the south having virtually no crop at all.

D. Agricultural Growth and Food Security: A Way Forward

33. A recent World Bank assessment of land reform and agricultural policies sets out a possible way forward for agricultural recovery and enhanced social protection for the rural population in Zimbabwe that is rooted in a comprehensive strategy based on the following major pillars:²⁰

- **Removing tenure insecurity and completing the land reform process.** It is important to finalize the acquisition process of the expropriated land via confirmation by the Administrative Court and payment of adequate compensation to former land owners. The policy and implementation rules have to be clarified and disseminated through information campaigns and training. Clear land rights (title deeds, leases, permits, or any other form of arrangement protected by the law) should be granted to all new and old farmers. All disputes related to already or yet to be completed allocation of land and infrastructure on the acquired farm among A1 and A2 settlers, the remaining former farmers, and the remaining former farm workers need to be resolved in a transparent manner.
- **Restoring and enhancing agricultural productivity.** This would involve the gradual removal of all export controls and foreign exchange restrictions, as well as price controls, for both agricultural inputs and outputs. It is also important to ensure adequate allocations in the government budget, within the limitations imposed by macroeconomic stabilization needs, to target rehabilitation of infrastructure and the agricultural research and extension system. It is crucial to facilitate improved access

²⁰ Agricultural Growth and Land Reform in Zimbabwe: Assessment and Recovery Options. The World Bank Report No. 31699 ZW. 2005.

to purchased inputs (farm machinery, fertilizer, seed and agro chemicals) by improving the operating environment for private sector input suppliers.

- **Implementing a broader social protection program for poor and marginalized groups of the rural population.** This would include the expansion of the existing public works programs during off-peak agricultural periods, using both existing and new community-driven modalities (including for communal farm families, A1 settlers, farm workers, the HIV/AIDS affected, vulnerable female headed households, etc.); the direct provision of food to the poor and marginal groups who lack the necessary means and cannot earn them via their supply of labor; and free or heavily subsidized access to social services for all the poor and marginal groups.
- **Building and/or rebuilding a cohesive policy and institutional framework for land administration and management, and for agricultural growth and development.** The effective institutional arrangements are crucial for policy formulation and implementation to promote an expanded and improved environment for agrarian reform policy dialogue with stakeholders, based upon increased public information, research and sound analysis. It is important to have a policy and administrative framework for a more permanent system to allocate land to remaining and future marginal and impoverished groups who lack sufficient access to land.
- **Mobilizing necessary financial resources.** The resources received from taxation, community and private sector, and external partners can be used to fund the array of activities and programs for completing the land reform and stimulating agricultural recovery and growth. There should be a sustainable resource mobilization strategy which specifies the cost burdens to be shouldered by the Government, farmers, private service agents and development support agencies (NGOs and donors), and demarcate clearly the benefits to be derived from cost recovery and grants. The issue of land taxation also needs to be resolved.

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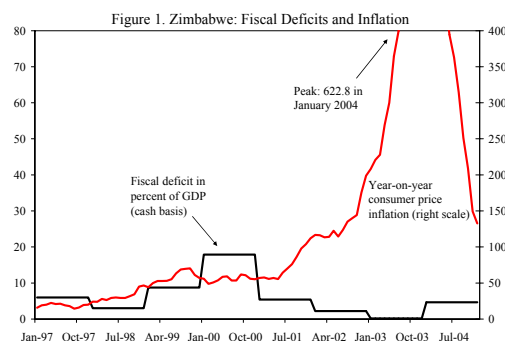
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III. FISCAL DEFICITS AND INFLATION²¹

34. While fiscal deficits have typically been at the heart of inflation, particularly in high and hyper-inflation developing countries, the normally positive long-run relationship is not immediately evident in Zimbabwe for the period 1997-2004.²² The deficit-inflation relationship has been influenced in recent years by an overvalued official exchange rate and quasi-fiscal activities of the Reserve Bank of Zimbabwe (RBZ), including producer and credit subsidies, exchange rate-related losses from multiple exchange rates, and interest payments on sterilization operations. High inflation itself has also affected the size of fiscal deficits by eroding real government expenditures such as wages and salaries, with the deficit ballooning at intervals when these expenditures are ratcheted up in order to catch up with inflation. Three distinct phases of this relationship can be identified for Zimbabwe.

A. First Phase: Mounting Deficits and High Inflation

35. In the first period (1997-2000), mounting fiscal deficits contributed to a rise in consumer price inflation as would normally be expected. A large unbudgeted payment to war veterans in 1997 was followed by significant increases in civil service wages in the run-up to the parliamentary elections in June 2000. Together with a sharp increase in defense spending reflecting continuing involvement in the Democratic Republic of Congo (DRC) conflict and a surge interest payments, these expenditures pushed the overall budget deficit to nearly 18 percent of GDP by 2000.²³ Broad money growth picked up from 14 percent in end-1998 to nearly 60 percent by end-2000. As a result, year on year consumer price inflation rose from 24 percent in January 1998 to over 55 percent by December 2000.



B. Second Phase (2001-03): Accelerating Inflation and a Decline in Deficits

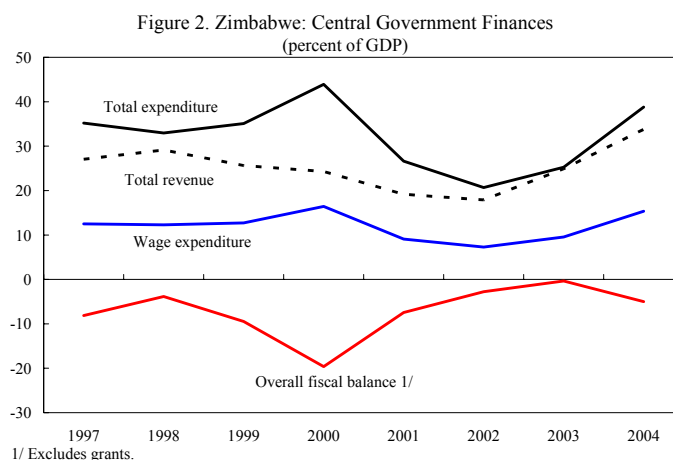
36. **The relationship between deficits and inflation turned negative during 2000-03.** The budget deficit declined as public expenditure—particularly the wage bill—was allowed to erode in real terms as inflation continued to accelerate. The government wage bill fell from some 16½ percent of GDP in 2000 to less than 7½ percent of GDP in 2002. In addition,

²¹ Prepared by Sanket Mohapatra (AFR).

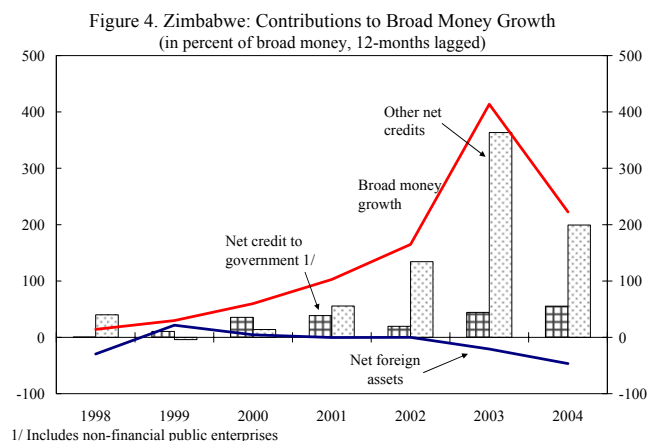
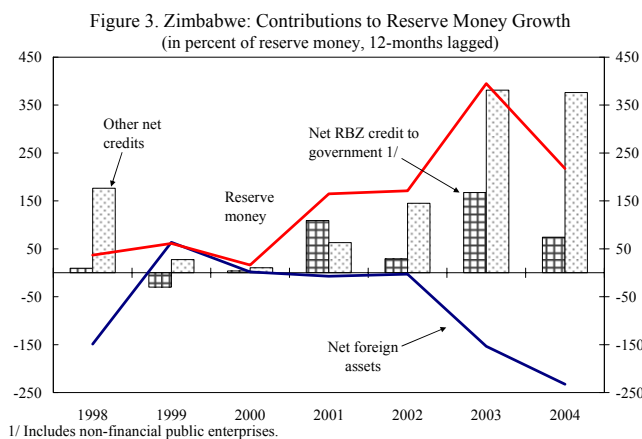
²² See, for instance, Fischer, Sahay and Végh (2002); and Catão and Terrones (2005).

²³ There may also have been an attempt to make up for a shortfall in external financing as two successive adjustment programs supported by Fund Stand-By Arrangements in 1998 and 1999 went off-track.

nominal interest rates were kept at low levels, implying increasingly negative real interest rates on treasury bills as inflation picked up. The budget moved from an overall deficit (on a cash basis) of 5½ percent of GDP in 2001 to near balance by 2003.



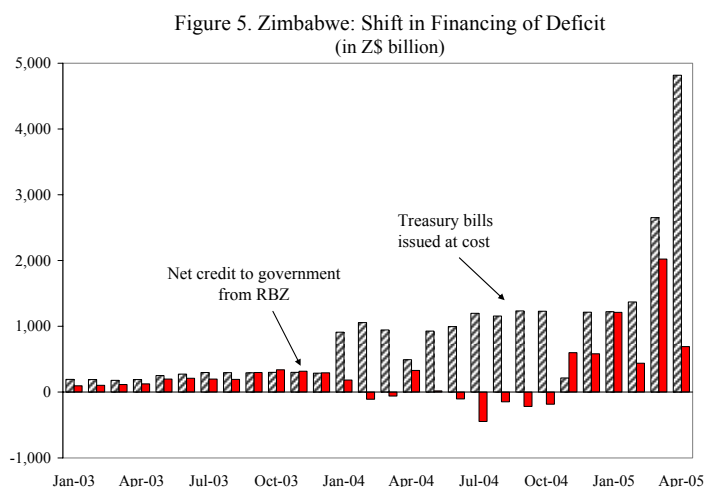
37. **Broad and reserve money grew sharply during this period, driven mainly by credit to the non-government sectors as the quasi-fiscal activities of the RBZ expanded.** With the exchange rate that was held broadly constant—initially at Z\$55/US\$ and then at Z\$824/US\$—the official exchange rate became increasingly overvalued.²⁴ The authorities attempted to compensate the burden on exporters by providing producer subsidies and credit to the private sector at highly concessional rates through special credit facilities at the RBZ. As nominal interest rates rose with inflation, the implicit subsidy on these credits increased. Although fiscal deficits contributed, it was the expansion of the RBZ’s quasi-fiscal activities that mainly fueled the sharp increase in reserve money as well as broad money during this period (see figure below). The growth of the monetary aggregates picked up to some 400 percent by end-2003 while consumer price inflation accelerated sharply to nearly 600 percent during the year.



²⁴ See Chapter V on “Estimating the Short Run Equilibrium Exchange Rate.”

C. Third Phase (2004): Shift in the Financing of Deficit and Fall in Inflation

38. The relationship between deficits and inflation reversed during the third phase in 2004, as inflation fell dramatically despite a rise in the fiscal deficit. Although revenues increased sharply (reflecting new measures including the introduction of a VAT at the beginning of the year), the fiscal position deteriorated in 2004 because of an even sharper rise in government spending. Total expenditure increased from a range of 20-27 percent of GDP in 2001-03 to some 40 percent of GDP in 2004 as spending on wages, capital projects and transfers picked up ahead of the parliamentary elections in March 2005. However, the rate of consumer price inflation decelerated as the RBZ tightened monetary policy (interest rates rose sharply in the first quarter of 2004) and the financing of the fiscal deficit shifted towards non-RBZ domestic borrowing. With the government increasingly resorting to treasury bill sales,²⁵ the expansion in net credit to government from the RBZ was contained. Reserve and broad money growth slowed and inflation declined to around 133 percent by end-2004, as the RBZ kept interest rates high and engaged in substantial mopping up operations to offset (at least partly) the provision of liquidity support to troubled banks and the monetization of exchange losses.²⁶



39. While the shift in the financing of the deficit towards non-RBZ sources reduced inflationary pressure, it also resulted in some crowding out of credit to the private sector. The share of government borrowing in overall credit growth increased from 17 percent in 2003 to over 31 percent in 2004, squeezing the private sector. Subsidized credit facilities were maintained to ease the burden on producers from the high (double-digit) real interest rates

²⁵ Although the government pays highly negative real interest rates on treasury bills, banks and other financial institutions (pension funds, insurance funds) appear to have held them willingly partly because there are few alternatives, other than real assets, that provide a better rate of return. Many nonbank financial institutions' holdings of treasury bills exceed the mandated liquidity ratio.

²⁶ Exchange losses stemmed mainly from the fact that although exporters were paid the more depreciated tender rate, almost half the inflows to the official market were sold outside the tender at Z\$824/US\$ for official imports of oil, electricity and essential inputs.

and the increasingly overvalued tender rate (indicated by the widening parallel market premium).

D. Conclusions

40. **Although fiscal deficits and inflation are clearly related, the relationship has not been a simple positive one in Zimbabwe.** Fiscal deficits have experienced sharp swings, partly reflecting election cycle, but inflation has not always followed in a similar direction. The analysis above suggests three main factors that complicated the relationship:

- **Feed back effects from inflation to budget deficits.** It appears that the rise in government expenditure in some years (e.g., ahead of an election) were followed by a period of accelerating inflation, which was allowed to erode the real value of spending, particularly on the wage bill.
- **Quasi fiscal activities of the RBZ that expanded even as the deficit shrank in some years.** A number of factors underlay the RBZ's quasi-fiscal activities, including attempts to compensate for an overvalued exchange rate, and more recently, to support troubled banks.
- **Increased resort to nonbank financing of fiscal deficits.** While nonbanks have for many years been a source of funding for the government, the scale of the financing has risen recently. There is nonetheless an indirect, but important, link to inflation: the upward pressure on real interest rates from fiscal deficits crowds out the private sector and intensifies the demand for subsidized credits and other quasi-fiscal supports that ultimately fuel money growth and, thus, inflation.

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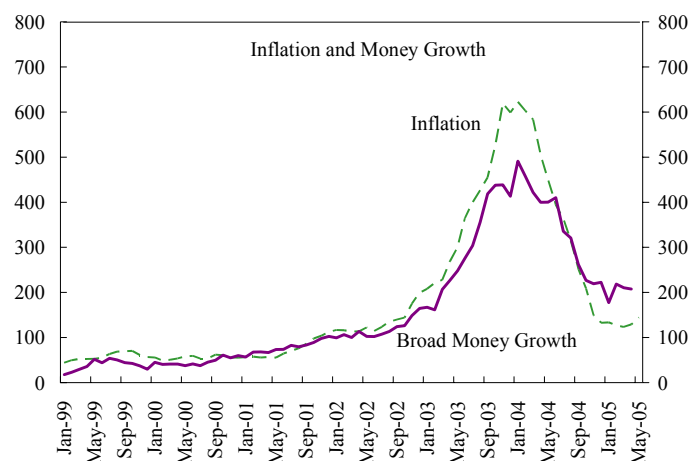
IV. HIGH INFLATION AND MONEY DEMAND²⁷

41. Until mid-2003, inflation closely tracked the growth rate of monetary aggregates. However, since late 2003 the substantial decrease in velocity and increasing levels of real money balances have reflected a divergence inflation and monetary expansion. Possible explanations for the divergence could include an unstable demand for money; a sudden shift in the underlying demand for real balances due to a sharp change in an explanatory variable; or a structural break or aberration in a normally stable money demand relation reflecting some unexplained factor, including possibly repressed inflation (given administered prices) or measurement errors in the consumer price index.

42. The chapter is structured as follows. Section A presents background information on the evolution of inflation and money aggregates in Zimbabwe. Section B analyses the demand of money since the late 1990s. Section C discusses other factors that can lead to diverging paths of inflation and money growth in the short-run while Section D concludes.

A. Stylized Facts

43. **Money growth²⁸ and inflation paths started to diverge from late 2003.** Inflation soared from about 20 percent in December 1997 to a peak of 623 percent in January 2004, but decelerated sharply from March to around 130 percent at end-2004. Broad money growth, however, started decelerating only in July from over 400 percent at end-2003 to some 130 percent by end-December 2004.²⁹ This is contrary to the experience under recent stabilization efforts in most countries, where inflation inertia has been evident. That is, inflation lags—rather than leads—the

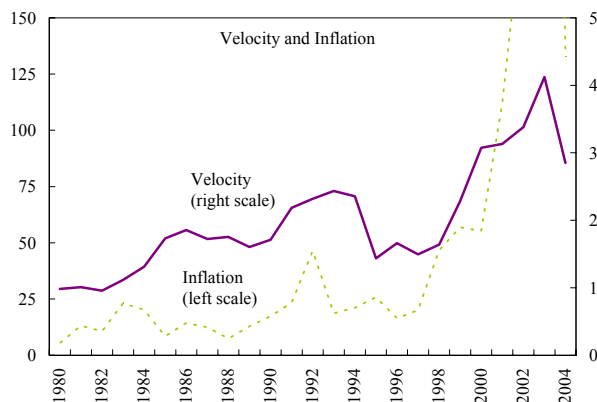


²⁷ Prepared by Sònia Muñoz (AFR).

²⁸ All growth rates in the paper are twelve-month changes.

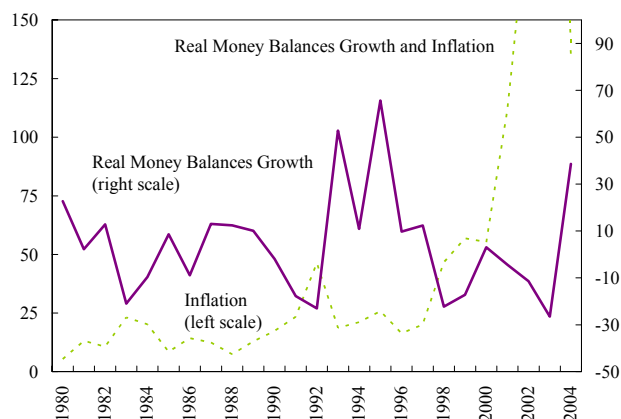
²⁹ Policy interest rates were raised sharply in the first quarter of 2004 (reaching a peak at 5,242 percent in annualized basis in March 2004) and subsequently lowered as inflation declined, but real interest rates were nonetheless maintained at very high levels throughout the year. However, with high real interest rates and an increasingly overvalued official exchange rate putting pressure on domestic producers and exporters, the Reserve Bank of Zimbabwe (RBZ) continued to operate its subsidized credit facility, which provided low-interest loans to selected borrowers.

decline in money growth because price and wage expectations are likely to be based, at least partly, on the past behavior of inflation and expectations of the future stance of monetary policy are likely to react slowly to shifts in the observed rates of money growth. Accordingly, changes in the rate of monetary expansion would be slow to translate into changes in the rate of inflation. Further, a significant monetary tightening might not be perceived as credible until well into the stabilization program. By contrast, prices in Zimbabwe appear to have responded to factors other than just changes in monetary policy.



44. **Velocity³⁰ declined in the same year that inflation started to fall.** In 2003, the significant rise in velocity was associated with the sharp acceleration in inflation, but declined quite quickly in 2004. By contrast, a sharp increase in the level of velocity is common during the initial stages of stabilization,³¹ followed by a decline when stabilization is achieved.³²

45. **Zimbabwe's real money balances started increasing in 2004 while inflation was still very high.** This is at odds with the "conventional wisdom" that the evolution of real balances typically exhibits a U-shaped pattern over the course of a stabilization program,³³ with a decline during the initial phases of a program. The period of declining real money balances normally coincides with high but rapidly declining inflation, while the increase in real money balances is



³⁰ Estimates for velocity are derived as an implied index from the path of money, prices, and real output following the standard Fisher equation $\left(\pi_t = \left(\frac{(M_t \times v_t) / Y_t}{(M_{t-1} \times v_{t-1}) / Y_{t-1}} - 1 \right) \times 100 \right)$ with π equal to the year-on-year change in the consumer price index rebased to the GDP deflator in 2000, M to broad money, V to velocity of broad money and Y to real GDP).

³¹ Stabilization is defined as being achieved in the first month when 12-month inflation falls below 40 percent.

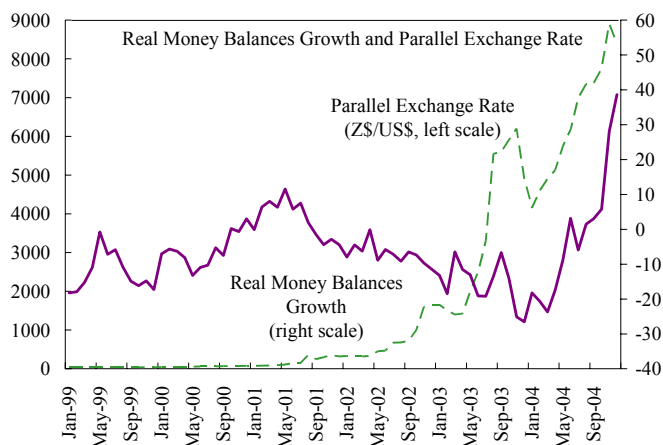
³² See Anderson and Citrin (1995) for details.

³³ See De Broeck et. al. (1997) for details.

accompanied by relatively stable and moderate inflation rates. However, in most cases, the rate of increase in this period of remonetization is smaller than the rate of decrease during the demonetization period, so that the U-shaped pattern is not symmetric.

46. Despite a depreciation of the parallel market exchange rate in 2004, the demand for real balances increased.

The parallel exchange rate appreciated in early 2004 as a result of the introduction of a managed foreign exchange tender system and the clamping down on the parallel market, where the bulk of foreign exchange transactions was taking place in 2003. However, the tender rate depreciated only moderately for the rest of the year, despite a growing gap between demand and supply in the tender. As a result, the parallel market resurfaced with a rapidly depreciating exchange rate. Real money balances, however, continued to increase despite the continuous depreciation of the parallel exchange rate.



B. Estimating a Money Demand Equation

47. What factors account for the behavior of real money balances and velocity in 2004? The observed outcome could reflect (i) a historically unstable money demand relationship; (ii) a sharp movement in some independent variable within a stable money demand relationship; or (iii) an aberration or structural break within a historically stable money demand relationship. To explore these questions, we employ Friedman's model of demand for money as follows:

$$(M/p)_D = f[W, r - (1/r)(dr/dt), (1/p)(dp/dt), h] \quad (1.1)$$

where $(M/p)_D$ is the demand for money in real terms, r is the interest rate, W is wealth (which is proxied by real income), h is the ratio of human to nonhuman wealth (not used in our empirical work), p is the price level and $(1/r)(dr/dt)$ and $(1/p)(dp/dt)$ are expected rates of change in interest rates and prices. The stability of the long-run relationship is assessed through the traditional specification (the log-linear form of Equation (1.1)).³⁴

³⁴ In the long-run, the expected and actual values of the variables determining money demand will coincide, and Equation (1.1) can therefore be rewritten in terms of the actual rate of inflation, Δp , and the actual rate of depreciation, Δe .

$$(m - p)_t = \gamma_0 + \gamma_1 y_t + \gamma_2 R_t + \gamma_3 \Delta p_t + \gamma_4 \Delta e_t + u_t \quad (1.2)$$

The data are broad money, M3 (m), the domestic consumer price index (p), real GDP (y)³⁵, the 3-month time deposit interest rate (R), and the parallel exchange rate (e); and variables in lowercase are in logarithms and Δ is the first difference of natural logarithm of a variable. All data are monthly and seasonally unadjusted from 1998:1-2004:12. R , Δp , and Δe measure returns on M3, goods and US dollars, respectively. A cointegration system is estimated using the Johansen procedure.

48. **The empirical results support the stability of the demand for money.**³⁶ The empirical results are described below:

- The ADF test cannot reject the null hypothesis of the presence of a unit root in all series,³⁷ therefore a stochastic trend exists in the series of interest (Table 1).
- The maximal eigenvalue and trace eigenvalue statistics with a degrees of freedom adjustment (λ_{\max}^a and λ_{trace}^a) reject the null hypothesis of no cointegration in favor of one (and possibly more than one) cointegrating relationship (Table 2).
- The coefficients of inflation and depreciation of the currency³⁸ are negative and significant, confirming that goods and US dollar are substitutes for money (Table 3).
- The estimated income elasticity is statistically not different from 0.5 and consistent with the Baumol-Tobin model of transactions demand for money (Table 3).³⁹

³⁵ Monthly GDP data was generated by using the cubic spline interpolation method.

³⁶ Kovanen (2004) estimated extensive specifications of long-run money demand for Zimbabwe from 1980 to 2001 using the official exchange rate, inflation, financial innovations, real GDP and different monetary aggregates (currency, narrow money and M2). He concluded that a stable relationship could be found during 1980-1995 for currency demand, but was unable to find a stable relationship for the latter period or other monetary aggregates.

³⁷ Given the short time period considered, the results of any formal unit root test should be considered highly tentative.

³⁸ Following Kremers and Lane (1990), a (9-month) lag in inflation and the exchange rate was used as independent variables in the estimation.

³⁹ The low income elasticity might reflect the use of a cubic spline interpolation method, which does not capture seasonal variation that could be important in Zimbabwe. Kovanen (2004) used a monthly manufacturing index and Jenkins (1999) used agricultural output to

- Broad money is composed primarily of interest-bearing deposits, therefore the time deposit interest rate should exert a positive effect on money demand. However, the coefficient is strikingly low and has the wrong sign. It could be that most of the impact from the variation in the nominal interest rate is being captured by the more powerful inflation variable. The lack of variation in the interest rate series could also be a factor (Table 3).⁴⁰
- The diagnostic tests show that the estimated residuals are free of autocorrelation and heteroscedasticity. The hypothesis for normality cannot be rejected with the exception of weak non-normality for real GDP and depreciation of the currency (Table 4). Figure 2 shows that the coefficients are constant using recursive estimation.
- Within-sample forecasts show that real money balances would not have been expected to increase by end-2004 as was the case (Figure 1).
- Only one spike is found in the test for structural changes in the coefficients of the regression in Figure 3. Interestingly the structural break is in 2004, the year where velocity deviated from the expected path.

C. Influence of Exogenous Factors on Velocity Movements

49. **While inflation is a monetary phenomenon in the long run, in the short run inflation can be influenced by a host of other factors that could lead to fluctuations in real money balances and the velocity of broad money.** First, inflation may simply have an inertial component, resulting in a lagged response of prices to changes in monetary expansion. Second, changes in the demand for money due to changes in its underlying determinants (e.g. a rise in inflationary expectations) will be reflected in movements in the velocity of broad money (i.e., short-run deviations in inflation relative to the rate of monetary expansion). Third, factors such as wage policies, exogenous import price increases, and changes in domestic relative prices owing to changes in administered prices can also lead to diverging paths of inflation and money growth in the short run. Finally, observed differences in the paths of inflation and monetary expansion can reflect improper measurement of one or both of the variables.

50. **Underestimation of the official inflation could explain the unconventional behavior of velocity.** The actual CPI could have increased by more than the measured CPI

proxy the seasonal pattern, however, none of these series are available for recent years. Moreover, it is not clear how meaningful the real GDP data is given the large parallel market activity in the country.

⁴⁰ There is no time series available on a market-based rate of return on an alternative asset to money.

because the index (i) suffers from inadequacies in the area of coverage (goods traded in the parallel market are not included in the CPI index), (ii) includes controlled and monitored prices, and (iii) uses outdated weights in the CPI basket—from 1997. In particular, Kovanen (2003) estimated that if a full price liberalization would have taken place in April 2003 with administered prices being adjusted to market levels, overall CPI would have adjusted upward by about 47 percent. Moreover, more recently, domestic prices of energy were allowed to remain low in the face of increases in prices of energy imports. In addition, the parallel market premium widened sharply from 13 percent in January 2004 to about 53 percent in December 2004 and, although the pass through to actual market prices may have been relatively rapid (anecdotal evidence suggests that this is normally the case), the increase may not have been fully captured by the measured CPI. Therefore, these factors put together could have understated inflation during the sharp recorded disinflation in 2004 and explain the dramatic fall in velocity.

D. Conclusions

51. **The empirical results indicate that, except for 2004, a stable demand for money as a function of parallel market exchange rate, inflation and real output can be found in Zimbabwe.** The paper explores whether the outcome in 2004 can be explained by a sudden sharp shift in some explanatory variable during that period or a breakdown in the demand for money relationship. When controlling for movements in the parallel market exchange rate, inflation and real output, the analysis shows a structural break in 2004. Despite the depreciation of the parallel exchange rate in 2004, real money balances increased. Although one explanation could be that expected inflation fell quickly, this behavior is not normally observed in disinflation episodes where there is inflation inertia and a lag in the adjustment of expectations. It is therefore difficult to identify the factors could explain the unconventional behavior of velocity in 2004, although repressed inflation and the mismeasurement of inflation are possibilities.

Table 1. Unit-root tests

Variable	Levels	
	t	lags ¹
m-p	-1.914	1
y	-0.191	2
R	-2.179	2
Δp	-2.666	1
Δe	-2.626	3

Note: ADF test with constant.
5% Critical Value: -2.90
Sample period: 1998:1-2004:12.
¹Lag orders selected by AIC.

Table 2. Cointegrating Tests

Rank	Trace test	T-nm	Max test	T-nm
0	109.13	0.00	56.86	0.00
1	42.27	0.05	30.52	0.02
2	21.75	0.13	17.15	0.17
3	14.61	0.11	12.34	0.10
4	2.26	0.13	2.26	0.13

Table 3. Cointegrating Vector

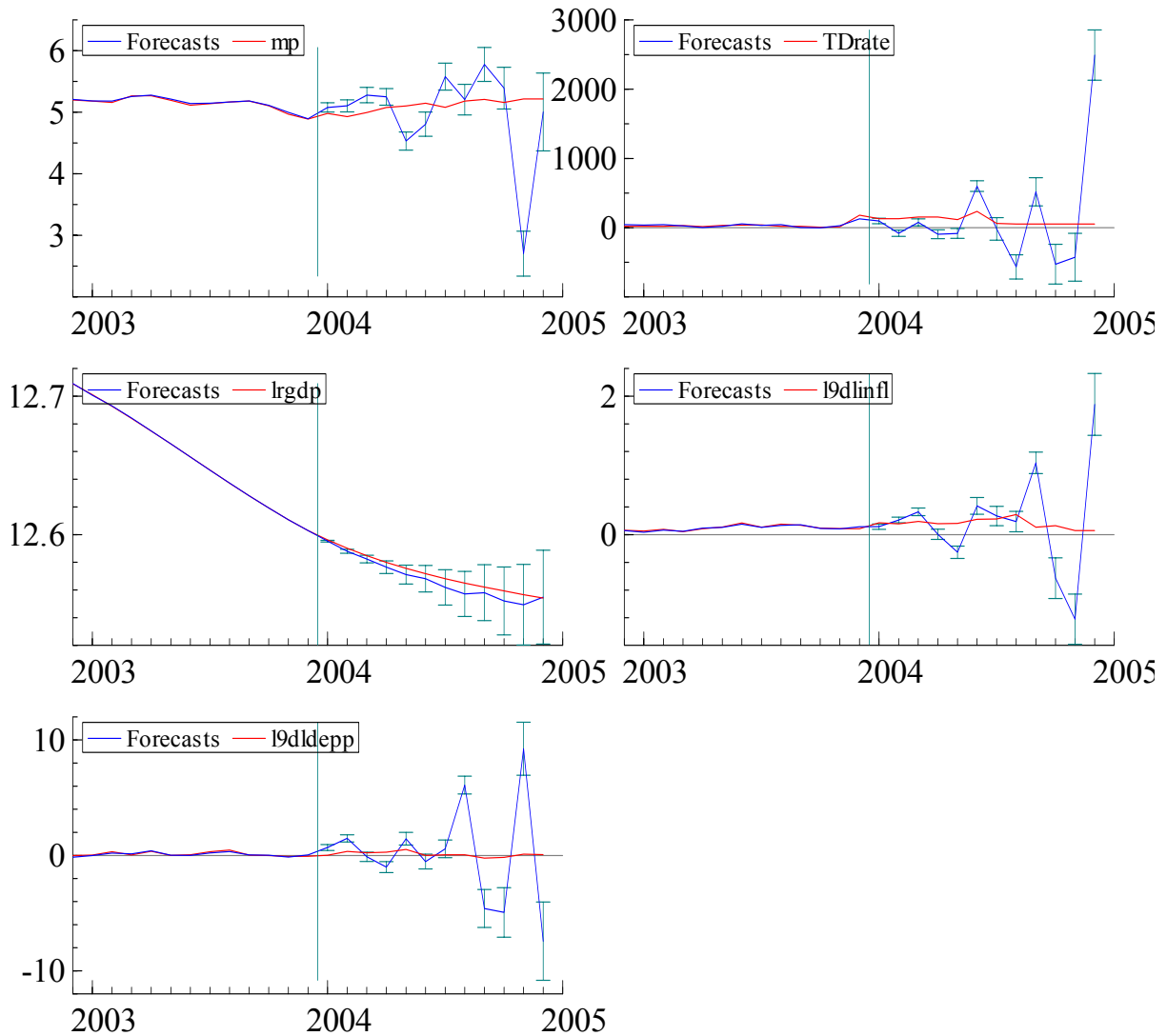
Dependent variable: Real broad money		
Variables	Estimate ¹	Std. Err.
Real GDP	0.4127***	0.106
Time-deposit interest rate	-0.0007***	0.000
Inflation	-1.2817***	0.326
Depreciation	-0.1214*	0.093
Seasonal dummies	yes	
Constant	yes	
R ²	0.82	
Sample period	1998:1-2004:12	
Frequency of data	Monthly	
Number of lags used in the VAR	6	

¹ *, **, and *** correspond to the 10, 5 and 1 percent significance levels, respectively.

Table 4. Diagnostic Tests

	AR 1-5 test		Normality test		ARCH 1-5 test		Hetero test	
	F(5,27)	Prob	χ^2 (2)	Prob	F(5,22)	Prob	χ^2 (60)	Prob
Real broad money	2.1621	0.0883	3.6296	0.1629	0.0953	0.9920	60.6990	0.4505
Real GDP	1.1470	0.3603	5.4080	0.0431	0.2737	0.9226	52.4850	0.7439
Time-deposit interest rate	0.9679	0.4548	4.4064	0.1105	0.5486	0.7377	70.8250	0.1600
Inflation	0.8252	0.5428	0.5174	0.7720	0.2641	0.9279	62.6390	0.3828
Depreciation	0.5602	0.7294	5.0560	0.0450	0.1523	0.9771	61.8600	0.4095

Figure 1. Within-sample Forecast



Note: mp is the log of real broad money, TDrate is the time-deposit interest rate, lrgdp is the real GDP, l9dlinfl is the log of the (9-month) lag of inflation, and l9dldepp is the log of the (9-month) lag of the depreciation of the parallel exchange rate.

Figure 2. Recursive Estimation

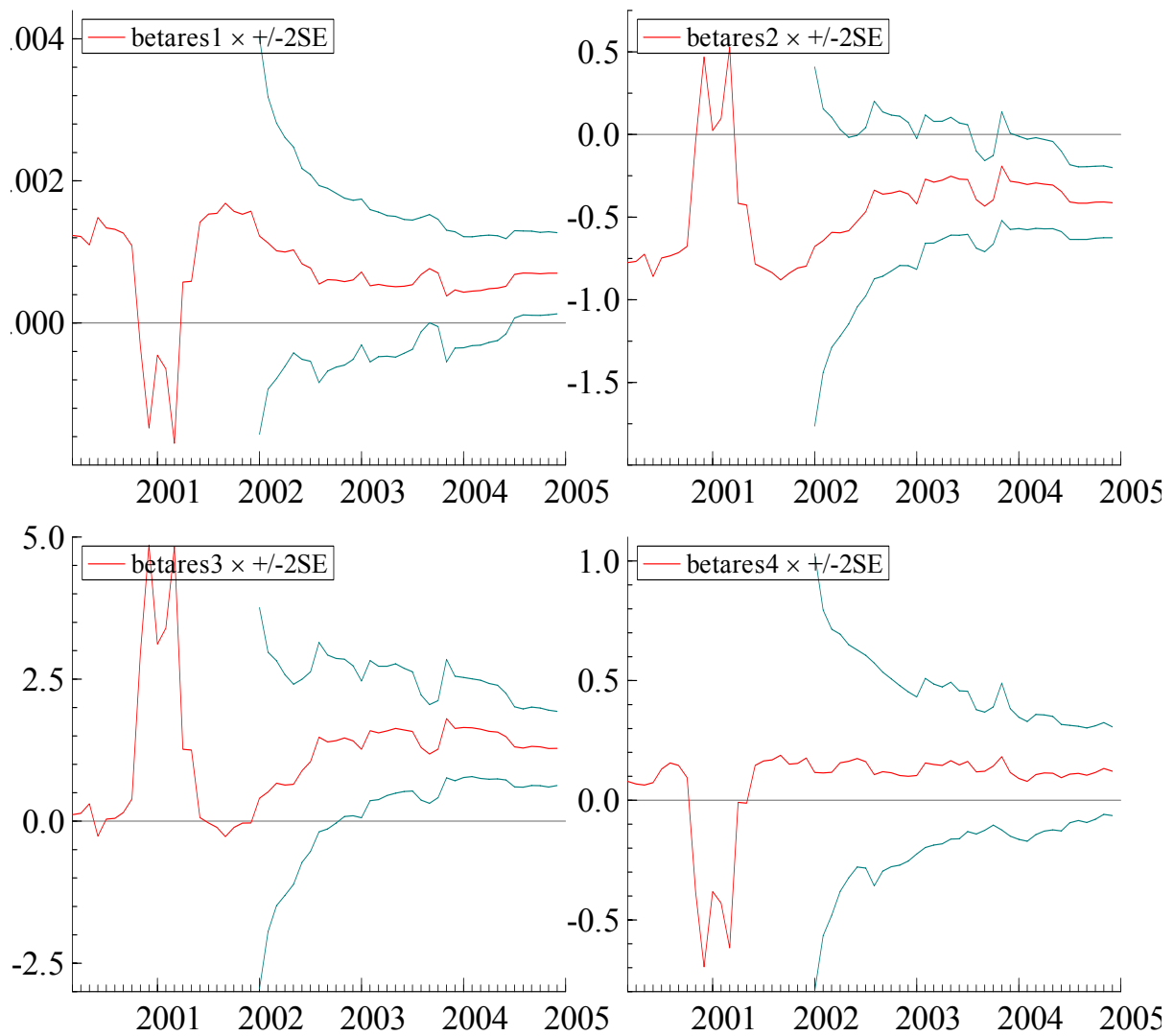
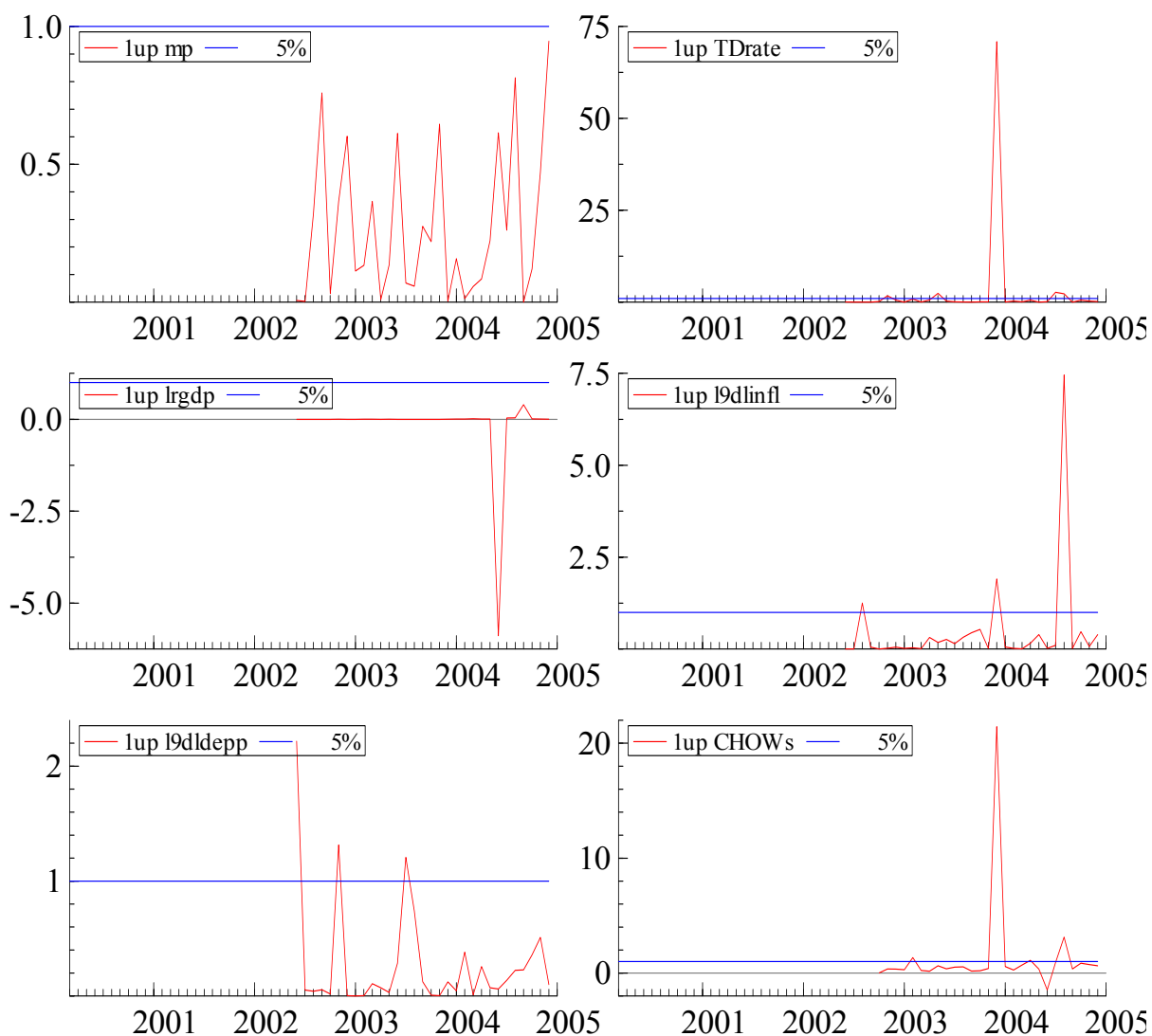


Figure 3. Chow Tests



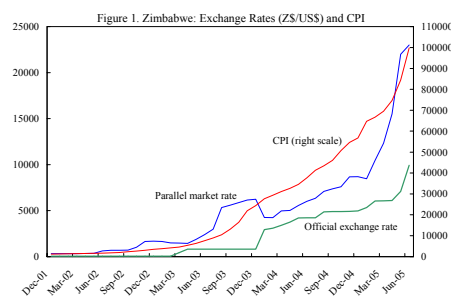
Note: mp is the log of real broad money, $TDRate$ is the time-deposit interest rate, $lrgdp$ is the real GDP, $l9dlinfl$ is the log of the (9-month) lag of inflation, and $l9dldepp$ is the log of the (9-month) lag of the depreciation of the parallel exchange rate.

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V. ESTIMATING THE SHORT RUN EQUILIBRIUM EXCHANGE RATE⁴¹

52. **The Zimbabwean dollar appears to be overvalued despite a recent depreciation of the official exchange rate in mid-May 2005.** The exchange rate at the heavily managed tenders was allowed to depreciate to nearly Z\$ 10,000/US\$ following the Monetary Policy Statement on May 19. However, both consumer price inflation and parallel market activity have also picked up during this period, and the parallel exchange rate has depreciated rapidly while less than a tenth of bids submitted at the official foreign exchange tender have been met (Figure 1). This raises the question of what would be an appropriate value for the Zimbabwean dollar if it were allowed to be freely determined by demand and supply.



53. **This paper attempts to address this question by taking a first cut at estimating the exchange rate that would prevail under a unified exchange rate regime,** assuming unchanged monetary and fiscal policies, over the immediate short term. The approach to modeling the exchange rate uses trade equations to compute the real exchange rate that would be consistent with the external sector being in balance under a unified exchange rate regime.⁴² The extent of overvaluation (undervaluation) of the official exchange rate under the current exchange regime is estimated as the depreciation (appreciation) of the prevailing official exchange rate that would be required for the external sector to be in balance.

54. **Trade equations have been used in a number of previous studies to model external sector balance,** most notably in the “macroeconomic balance” or fundamental equilibrium exchange rate (FEER) literature (Williamson (1994) and Isard and others (2001)). In this literature, empirical trade equations are used to derive a real exchange rate that is consistent with both internal balance (economy operating at potential output) and a medium-term sustainable current account. However, Zimbabwe has a dual exchange rate system—with a heavily managed official foreign exchange rate and an active parallel market—which complicates the task of estimating the medium-run equilibrium for real economic variables with any reasonable degree of precision.⁴³ Further, external official and

⁴¹ Prepared by Sanket Mohapatra (AFR).

⁴² The current levels of external financing are assumed to persist under the unified exchange regime.

⁴³ For instance, estimating potential output is fraught with considerable difficulty for an economy that has faced extremely high inflation and large concurrent output shocks, which in addition may have affected the long-run supply of physical and human capital.

private capital flows that can potentially finance the current account have shrunk considerably over the last few years, making the concept of a sustainable medium-term current account interest of secondary interest. In view of these factors, this paper develops a simpler short run partial-equilibrium approach to modeling the real exchange rate in a unified exchange rate regime under current policies.

55. **Based on this approach, the Zimbabwean dollar appears to be significantly overvalued relative to its short-run equilibrium.** The estimates show that the Zimbabwean dollar has become progressively overvalued over the recent past, with the extent of overvaluation increasing sharply during the first two quarters of 2005. However, as with any model-based estimation, given parameter uncertainty and sensitivity to underlying assumptions, the results should be considered as providing a general sense of the extent of overvaluation under the prevailing exchange rate regime compared to that under a unified regime, rather than any specific level of the equilibrium exchange rate.

A. Methodology

56. **The equation for the trade balance is modeled as a function of domestic and foreign demand and the relevant real exchange rates for exports and imports.** Export demand X is assumed to depend on the real exchange rate for exports (RER^x), expressed as the relative price of domestic goods in terms of foreign goods, and foreign GDP (Y^f); and import demand M is assumed to depend on the real exchange rate for imports (RER^m) and domestic GDP (Y^d).⁴⁴

$$TB = X(RER^x, Y^f) - M(RER^m, Y^d) \quad (1)$$

More specifically, following the empirical trade literature, the import and export demand functions are modeled as:

$$\log M = \alpha + \gamma_m \log RER^m + \eta_m \log Y^d \quad (2)$$

$$\log X = \delta - \gamma_x \log RER^x + \eta_x \log Y^f \quad (3)$$

where $-\gamma_x$ and γ_m are the price elasticities of export and import demand with respect to the real exchange rate, η_x is the elasticity of exports with respect to foreign output and η_m is the elasticity of imports to domestic output.⁴⁵ While in this methodology, exports have been

⁴⁴ This formulation explicitly recognizes that the real exchange rate relevant for export and import demands can differ when there is a constrained foreign exchange market with multiple exchange rates.

⁴⁵ The income elasticity of imports η_m is sometimes estimated relative to domestic output net of exports, i.e. total domestic production, rather than real GDP (For instance, see Senhadji (1998)). However, this difference is not consequential for purposes of the short run analysis of this paper.

modeled as depending on the official real exchange rate for simplicity, in reality they may also depend on the parallel market exchange rate due to the diversion of some exports to the parallel market (e.g. through under-invoicing or smuggling) as the parallel market premium rises.

57. In the official market for foreign exchange, the foreign exchange available for imports is given by the sum of exports and the external financing of the trade deficit. Exports are assumed to be a function of the official exchange rate and foreign demand.⁴⁶ The equation for recorded or official level of imports (M^O) is given by:

$$M^O = X(RER^O, Y^f) + TDF \quad (4)$$

where RER^O is the real exchange rate based on the effective official exchange rate, and the trade deficit financing (TDF) is assumed to be independent of the real exchange rate.

The level of imports M^O is related to the import demand function through the parallel market exchange rate RER^P .

$$M^O = M(RER^P, Y^d) \quad (5)$$

For a given domestic GDP, the parallel market exchange rate is assumed to equilibrate the demand for imports with the amount of imports allowed through the official foreign exchange market. Combining equations (4) and (5) gives an equation that relates export and import demand functions under the prevailing exchange rate system.

$$M(RER^P, Y^d) = X(RER^O, Y^f) + TDF \quad (6)$$

58. Under a unified system, the official and parallel market real exchange rates converge to an equilibrium real exchange rate. The equilibrium with a unified exchange rate $RER^e = RER^P = RER^O$ is given by:

$$M(RER^e, Y^d) = X(RER^e, Y^f) + TDF^e \quad (7)$$

Taking the difference of equations (6) and (7), under the current exchange rate regime and the unified regime respectively, gives:

$$[(M(RER^e, Y^d) - M(RER^P, Y^d))] = [(X(RER^e, Y^f) - X(RER^O, Y^f))] + \Delta TDF$$

$$\text{or, } \Delta M = \Delta X + \Delta TDF$$

Expressing the above equation in terms of percentage changes of M , X and TDF ,

⁴⁶ The financing items for the trade deficit include net official and private inflows, humanitarian aid, worker remittances, trade credit, arrears and other items.

$$\frac{\Delta M}{M_{-1}} \frac{M_{-1}}{X_{-1}} = \frac{\Delta X}{X_{-1}} + \frac{\Delta TDF}{TDF_{-1}} \frac{TDF_{-1}}{X_{-1}}$$

where M_{-1} , X_{-1} , Y_{-1} and TDF_{-1} are imports, exports, output and trade deficit financing under the prevailing exchange rate regime, and Δ indicates the difference of these variables across the current and unified exchange rate regimes.

Rewriting percentage changes of the variables in logs, the above expression becomes:

$$\begin{aligned} & [(\log M(RER^e, Y^d) - \log M(RER^P, Y_{-1}^d))] \frac{M_{-1}}{X_{-1}} \\ & = [(\log X(RER^e, Y^f) - \log X(RER^O, Y_{-1}^f))] + (\log TDF^e - \log TDF_{-1}) \frac{TDF_{-1}}{X_{-1}} \quad (8) \end{aligned}$$

Substituting the import and export demand functions in equations (2) and (3), under the prevailing and unified exchange rate regimes, into equation (8) gives

$$\begin{aligned} & [(\gamma_m \log RER^e + \eta_m \log Y^d) - (\gamma_m \log RER^P + \eta_m \log Y_{-1}^d)] \frac{M_{-1}}{X_{-1}} \\ & = [(-\gamma_x \log RER^e + \eta_x \log Y^f) - (-\gamma_x \log RER^O + \eta_x \log Y_{-1}^f)] \\ & \quad + (\log TDF^e - \log TDF_{-1}) \frac{TDF_{-1}}{X_{-1}} \quad (9) \end{aligned}$$

59. **Assuming no change in external financing ($\Delta TDF = 0$), the equilibrium real exchange rate can be solved in terms of the official and parallel real exchange rates, price and output elasticities of exports and imports, and output changes.** The equation for the short run real exchange rate in the unified exchange rate regime is given by solving equation (9):

$$\begin{aligned} \log RER^e &= \lambda \log RER^O + (1 - \lambda) \log RER^P \\ &\quad - \kappa (\log Y^d - \log Y_{-1}^d) + \frac{\eta_x}{\gamma_x} (1 - \frac{\gamma_m}{\eta_m} \kappa) (\log Y^f - \log Y_{-1}^f) \quad (10) \end{aligned}$$

where

$$\lambda = \frac{\gamma_x}{\gamma_x + \gamma_m \left(\frac{M_{-1}}{X_{-1}} \right)} \quad \text{and} \quad \kappa = \frac{\eta_m \left(\frac{M_{-1}}{X_{-1}} \right)}{\gamma_x + \gamma_m \left(\frac{M_{-1}}{X_{-1}} \right)}$$

Assuming unchanged foreign and domestic demand, the real exchange rate under the unified regime can be expressed as a weighted average of the official and parallel market real exchange rates. Assuming that foreign and domestic real GDP are unchanged across the current and a unified exchange rate regime gives the short run equilibrium exchange rate as:⁴⁷

$$\log RER^e = \lambda \log RER^O + (1 - \lambda) \log RER^P \quad (11)$$

where the weights λ and $(1-\lambda)$ are functions of the elasticities of import and export demand functions and the level of imports and exports under the current exchange rate regime.

B. Data and Results

60. **The estimates for the real exchange rate consistent with a unified exchange regime in the immediate run are derived for Zimbabwe for the period 1999-2005.** There are three key steps. The first step is to obtain real exchange rates for both the official and parallel markets for the relevant period. The second step is to use equation (11) to estimate the real exchange rate that would prevail under a unified regime under current conditions. The final step involves backing out the nominal exchange rate (in terms of Z\$/US\$) from the short run equilibrium real exchange rate.

61. **Data on exchange rates and trade volumes were obtained from both official and market sources.** Official real exchange rates were obtained from the IMF's Information Notice System (INS), which uses data on nominal exchange rates and relative prices provided by national authorities for Zimbabwe and its major trading partners. A similar procedure was used to arrive at the real parallel market exchange rate using data on nominal parallel market rates from private sector sources. Trade volumes were obtained from the national authorities. The real exchange rate for current transactions is estimated under certain assumptions for trade price elasticities relative to the relevant real exchange rates for export and import demand. The trade price elasticities—1.1 for import price elasticity and 0.5 for export price elasticity—are in the range of empirically derived price elasticities.⁴⁸ The nominal equilibrium exchange rate (in Z\$/US\$) is backed out from the equilibrium short run real exchange rate assuming stable cross-exchange rates between the U.S. dollar and other major trading partner currencies. The results are presented in Table 1.

⁴⁷ Reflecting the partial equilibrium and short run nature of the model, the response of aggregate GDP to a devaluation (and other second-order effects) are assumed not to be felt immediately but only over the medium run.

⁴⁸ Empirical import price elasticities have been estimated for Cameroon (0.80), Malawi (1.63), South Africa (1.04), and Zambia (1.22); and export price elasticities for Cameroon (0.17), Malawi (0.11) and South Africa (0.19) (See Senhadji (1998) and Senhadji and Montenegro (1999)). The assumed export price elasticity of 0.5 is higher than neighboring countries as there may be excess capacity that can be used to expand exports as the country moves from a constrained to an unconstrained system.

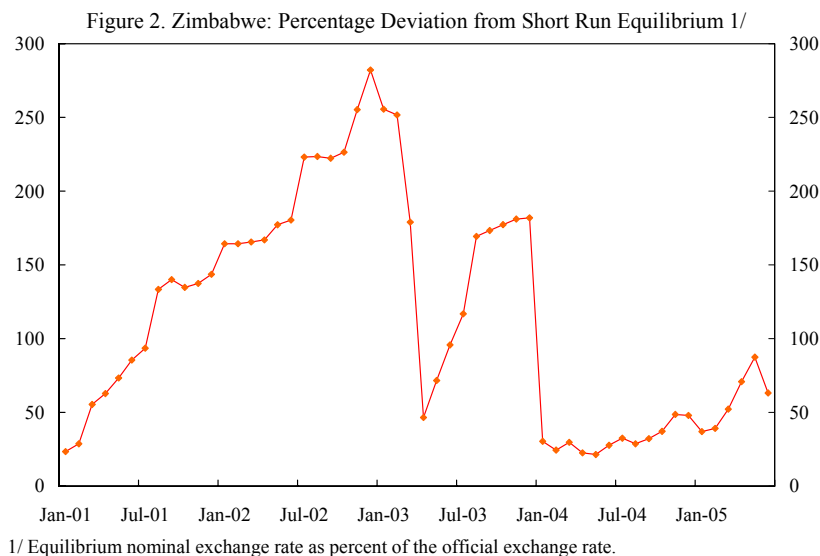
Table 1. Zimbabwe: Equilibrium Exchange Rates for External Balance

	1999 Dec.	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 June
Nominal exchange rates (Z\$/US\$)							
Official exchange rate	38.1	55.0	55.0	55.0	824.0	4,968.8	9,922.6 1/
Parallel exchange rate	46.0	70.0	315.0	1,681.5	6,235.4	8,695.5	23,000.0
Real exchange rate (mult. trade weighted)							
Official exchange rate	71.5	81.6	179.3	464.7	181.8	60.3	45.2
Parallel exchange rate	59.3	64.2	31.3	16.0	24.0	36.1	17.8
Short-run equilibrium RER	63.5	70.2	73.6	127.7	64.4	42.7	25.3
Equilibrium nominal exchange rate (Z\$/US\$)	43.0	64.0	134.1	210.3	2,323.0	7,350.9	16,187.8
Overvaluation in percent 2/	12.6	16.3	143.7	282.4	181.9	47.9	63.1

1/ Official tender exchange rate on June 13, 2005.

2/ Equilibrium nominal exchange rate as percent of the official exchange rate.

62. **The percentage deviation of the official exchange rate from the short run equilibrium seems to have picked up in the first half of 2005 (Figure 2).** The Zimbabwean dollar was fixed first at Z\$55/US\$ till February 2003 and then at Z\$824 till December 2003. The introduction of a foreign exchange tender in early 2004 and the gradual reduction of surrender requirements for exporters resulted in a de facto depreciation, which reduced the degree of misalignment. The model based estimates are consistent with a decrease in the extent of overvaluation from 180.1 percent of the official exchange rate in the fourth quarter of 2003 to 28.1 percent in the first quarter of 2004 as foreign exchange shortages eased and the parallel market rate appreciated (See figure below). However, during the remainder of 2004, the official exchange rate became progressively overvalued—with the extent of overvaluation increasing to around 44.6 percent by year end—as the tender exchange rate was not allowed to depreciate in line with inflation. With the parallel market rate at around Z\$25,000/US\$ in the second quarter of 2005, the average deviation of the official exchange rate from equilibrium almost doubled to 87.4 percent by May 2005. The devaluation of the official exchange rate to around Z\$10,000 in early June, and a consequential small appreciation of the parallel market rate, helped to reduce the extent of overvaluation to around 63.1 percent.



63. **These model-based estimates are however sensitive to the underlying assumptions and should therefore be treated with caution.** For instance, if a different set of empirical trade elasticities, for instance those of South Africa (0.19 for exports and 1.04 for imports) the short-run equilibrium exchange rate increases to over Z\$19,000 in June 2005. Further, the actual responses of exports and import demands may differ from empirically derived elasticities—which are based on past time-series data—when large changes in exchange rates and substantial movement in other macroeconomic variables (e.g. money supply, fiscal deficits) are involved. In view of these factors, the estimates provide only a broad sense of the extent of overvaluation of the official exchange rate and should be regarded as illustrative.

C. Conclusions

64. **The approach used for estimating the short run real exchange rate is subject to several caveats.** The estimation of the real exchange rate assumes unchanged policies and is based on a very short run partial-equilibrium approach.⁴⁹ Further, external financing is assumed not to change across the prevailing and unified exchange rate regimes. In addition, exports are assumed to be a function of only the official exchange rate rather than both the parallel and official rates. Finally, as with any model-based estimation, the results are sensitive to the choice of the model and underlying assumptions. On the other hand, this approach has its advantages. It requires prices and not quantities transacted in the official and parallel markets (where data would be impossible to obtain). Nor does it require much knowledge of macroeconomic policies, nor makes assumptions such as output being at potential.

65. **Subject to the caveats above, the paper has used a simple methodology to obtain a broad sense of the degree of overvaluation of the Zimbabwean dollar.** Overvaluation is shown to have increased sharply in 2001-03 and then to have declined in 2004 before picking up again in the first half of 2005.

⁴⁹ For instance, this would preclude situations where the central bank increases the rate of money growth or the fiscal deficit widens further, both of which could put additional pressure on the real exchange rate.

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VI. EXPORT PERFORMANCE: THE IMPACT OF THE PARALLEL MARKET AND GOVERNANCE FACTORS⁵⁰

66. Improving export performance will be critical to a turn around in Zimbabwe's economic situation. The growth rate of total exports declined dramatically in the early 2000s, following a large real appreciation of the currency and the introduction of the fast-track land reform program. Using quarterly export data from the Fund's Direction of Trade Statistics (DOTS), this chapter (i) analyzes Zimbabwe's export performance in recent years and (ii) identifies the factors that could improve export performance, from both a quantitative and qualitative perspective. A key finding of the paper is that policies that reduce (and eliminate) the parallel market premium and lower ethnic tensions would be key in promoting export growth.

67. The chapter is structured as follows. Section A presents the evolution of export performance in Zimbabwe. Section B analyses the determinants of export demand. Section C compares measures of competitiveness with neighboring countries and, in Section D, policy measures are suggested.

A. Export Performance in Zimbabwe

68. **Export performance is key to the Zimbabwean economy.** Trade is a substantial share of GDP and exports are the main source of foreign exchange for the economy. In particular, agricultural exports, which have declined dramatically in recent years, have traditionally been an important driver of growth in the Zimbabwean economy, given the sector's extensive backward and forward linkages. Hence, fostering competitiveness is important for Zimbabwe's long-term growth and external viability.

69. **The growth rate of total exports was high in the second half of the 1990s, but then turned negative since the early 2000s.** Zimbabwe's export performance was well above the average of African countries in the 1990s due to its comparative advantage in agriculture which was dominated by large commercial farms, and manufacturing. However, following the increasing overvaluation of the currency, export performance dropped off significantly in 2001-2004, including relative to the average of developing countries and neighboring countries. With the official exchange rate fixed from October

Zimbabwe: Exports Growth, 1991-2004
(Annual average rate, in percent)

	1991-95	1996-00	2001-04	1991-2004
Zimbabwe	6.9	15.5	-1.1	7.7
World	8.7	4.8	9.7	7.6
Developing countries	12.2	7.8	12.5	10.7
Africa	2.1	9.2	10.7	7.1
South Africa	...	...	11.3	...
Tanzania	11.4	1.9	16.1	9.4
Kenya	11.5	0.8	14.7	8.6
Uganda	38.0	-4.2	17.7	17.1

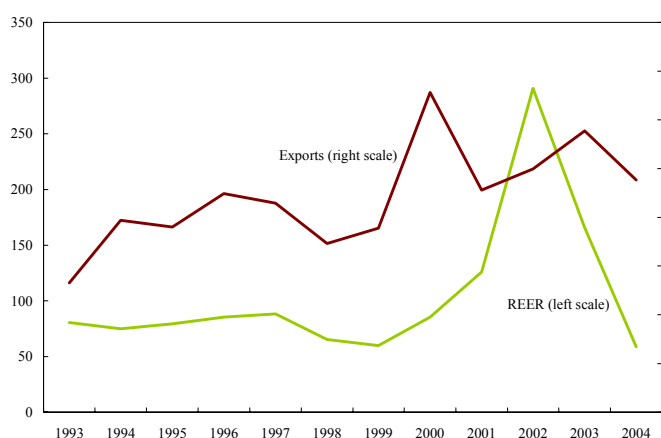
Source: IMF, Direction of Trade Statistics.

⁵⁰ Prepared by Sònia Muñoz (AFR).

2000—first at Z\$55/US\$ and later at Z\$824/US\$—until end-2003, the currency became increasingly overvalued, and the authorities responded with a series of ad hoc measures, including the creation of special regimes for tobacco and gold exporters. The introduction of a managed foreign exchange tender system early in 2004 and the gradual relaxation of the surrender requirements on exporters resulted in a de facto depreciation of the official Z\$824/US\$ rate to Z\$5,213/US\$ by end-2004. However, the currency became overvalued again since the demand for foreign exchange continued to pick up. As a consequence, the parallel market premium rose from 13 percent in January 2004 to 53 percent by end-2004.

70. The sharp swings in the real exchange rate since 2000 were met with a relatively muted export response, suggesting that other factors may be at play. In contrast to the

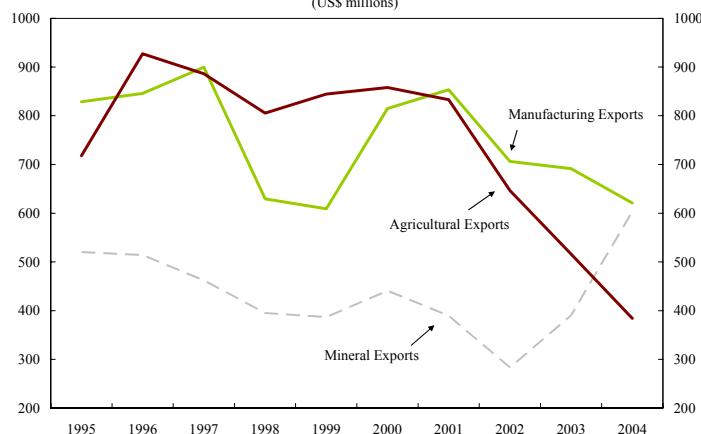
Figure 1. Zimbabwe: Exports and Real Effective Exchange Rate



mineral sector, manufacturing and especially agriculture have been much less responsive to movements in the REER. Other factors such as internal conflict, poor infrastructure, access to credit and poor governance, among others, could be having important effects that may limit the positive impact of a more competitive exchange rate. In particular, agricultural production and exports—the mainstay of the

Zimbabwean economy—collapsed with the disruption caused by the violent implementation of the fast-track land reform, which saw the seizure of largely white-owned commercial farms.⁵¹ The manufacturing sector, primarily agro-processing, was also affected since a large amount of inputs come from the agricultural sector.

Figure 2. Zimbabwe: Exports by Sector (US\$ millions)



⁵¹ The collapse of the commercial farming system also resulted in increased reliance on government-supplied inputs (seeds, fertilizers), which have often been delayed (See Chapter II on “Land Reform, Agricultural Policies, and Outcomes”).

B. Analysis of the Determinants of Export Behavior

71. **The export data used in this study is drawn from the DOTS database.** The DOTS present current figures on the value of merchandise exports disaggregated according to Zimbabwe's most important trading partners. This analysis uses exports to Zimbabwe's ten major trading partners: United States, Germany, South Africa, United Kingdom, Japan, France, Italy, Netherlands, Canada and Switzerland for the period 1984:Q1-2004:Q4.

72. **The empirical work is based on the imperfect substitutes model proposed by Goldstein and Kahn (1985).** The major assumption of the model is that neither imports nor exports are perfect substitutes for domestic goods. Exports are imperfect substitutes in world markets for other countries' domestically produced goods, or the third countries' exports. According to conventional demand theory, consumers maximize utility subject to a budget constraint. In this respect, export demand is specified as a function of the real exchange rate and the real incomes of the rest of the world. Thus, the export demand equation can be expressed as:

$$\log Q_{i,t} = \alpha_i + \beta_1 \log I_{i,t} + \beta_2 \log \bar{R}_{i,t} + u_{i,t}, \quad i = 1, \dots, 10 \quad t = 1, \dots, 84 \quad (1.3)$$
$$\beta_1 > 0, \quad \beta_2 > 0$$

where i denotes the ten countries that are the most important trade partners of Zimbabwe and t denotes time. Descriptions of the variables are listed below:

$Q_{i,t}$: Real exports of Zimbabwe to country i . (IMF, DOTS)

$I_{i,t}$: Industrial production index of country i (a proxy for foreign income). (IMF, GSTS)

$\bar{R}_{i,t}$: Real exchange rate of country i . (IMF, IFS and INS)

The formula of the real official exchange rate is as follows:

$$\bar{R}_{i,t} = \frac{\bar{e}_i * P_i}{P_d}$$

where:

\bar{e}_i : Nominal official exchange rate with country i ;

P_i : Consumer price of country i ;

P_d : Price of domestic goods (as a proxy for wages).

73. **Given the economic environment in Zimbabwe, the model is extended to include a dual exchange rate regime (with official and parallel markets) as well as nonprice factors.** Exports to the official market (which is measured in the DOTS) are modelled as a function of the real exchange rates in both the official market and parallel market.⁵² Moreover, as noted above, Zimbabwe's export performance likely reflects many factors other than the real exchange rate, such as governance, cost of doing business, quality of infrastructure, and lack of property rights. Consequently, we expand the equation to include qualitative measures of such factors. With the inclusion of these variables explaining export supply, the model becomes a reduced form representation of export behaviour.

$$\log Q_{i,t} = \alpha_i + \beta_1 \log I_{i,t} + \beta_2 \log R_{i,t} + \beta_3 \log \bar{R}_{i,t} + \sum \beta_j \text{qualindexes}_t + u_{i,t} \quad (1.4)$$
$$\beta_1 > 0, \quad \beta_2 < 0, \quad \beta_3 > 0, \quad \beta_j ?$$

where:

$R_{i,t}$: Real parallel exchange rate with country i . (World Currency Yearbook, Techfin, and IMF, IFS and INS)

$\bar{R}_{i,t}$: Real official exchange rate of country i . (IMF, IFS and INS)

The formulae of the real official exchange rates are as follows:

$$R_{i,t} = \frac{e_i * P_i}{P_d}, \quad \bar{R}_{i,t} = \frac{\bar{e}_i * P_i}{P_d}$$

where:

e_i : Nominal parallel exchange rate with country i ;

\bar{e}_i : Nominal official exchange rate with country i .

qualindexes_t : contains measures for corruption, bureaucracy quality, democratic accountability, economic risk, internal conflict, ethnic tensions, law and order, and investment profile (International Country Risk Guide).

⁵² Such a formulation—where the supply of official exports is a function of both the real parallel and real official exchange rates—would be consistent with a model where the variable cost of supplying (or distributing to) the official and parallel markets differ (for a given good), but the same fixed factor is used in production. The (variable) cost of distribution are aimed to be measured by domestic prices (See Coorey (1990), p. 178).

The model estimations are based on quarterly data between the years 1985-2004. The export demand equation is estimated using a panel data model with random effects. Overall, the signs obtained for the coefficients are consistent with economic theory and are robust to different specifications.⁵³

Dependent variable: Real official exports			
Variables	Estimate ¹	Std. Err.	Prob
Real official exchange rate	0.110**	0.05	0.03
Real parallel exchange rate	-0.262***	0.05	0.00
Industrial production index	0.155	0.22	0.47
Ethnic tensions	0.045**	0.02	0.02
Constant	1.651*	0.10	0.10
Seasonal dummies		yes	
Random effects		yes	
Wald Chi2	77.67		0.00
No. of observations ²		840	

¹ *, **, and *** correspond to the 10, 5 and 1 percent significance levels, respectively.

² Balanced panel.

74. **According to the estimation results (reported above), a real exchange rate devaluation would be the most important factor in boosting exports.** As the variables are estimated in log form, the coefficients represent elasticities of real export demand:

- The elasticity of official exports with respect to a change in the official real exchange rate is 0.11 while the elasticity with respect to the parallel market real exchange rate is more than double at -0.26. A depreciation of the official exchange rate generates a positive price effect, which leads to increased export demand in line with the theoretical prediction. The elasticity of export demand with respect to the real parallel exchange rate is negative (as predicted) and highly significant at -0.26. This result is consistent with the hypothesis that a more depreciated parallel exchange rate provides an incentive to smuggle rather than export through official markets. The larger coefficient on the parallel market real exchange rate suggests that an equal (in

⁵³ Given the times series component of the data, dynamic heterogeneous cointegrated panel data models—which allow for heterogeneity in parameters and dynamics across exports to the different countries—were also estimated. The variables were found weakly integrated of order 1 and formed a cointegrating vector.

percentage terms) depreciation of the official and parallel market rates (which implies a widening of the parallel market premium) results in a shift in exports away from the official market.

- The income elasticity is found to be small and insignificant suggesting that exports are insensitive to foreign income.

75. **Ethnic tension is identified as an important determinant of export performance.** Different indices measuring political and economic risk components were included in the equation. Some of the indices were perfectly correlated or had coefficient signs that were not robust to the specification. Therefore, a generic to specific approach was followed and the ethnic tension index was the only index robust to the specification. According to the rating system of the International Country Risk Guide, the ethnic tension index measures the degree of tension within a country attributable to racial, nationality, or language divisions.⁵⁴ The table above shows that the coefficient for ethnic tension is significant, indicating that higher ethnic tensions adversely affect export performance. Given the close link between ethnic tensions and land ownership issues in Zimbabwe, it is plausible that the results reflect the adverse impact on exports of the fast-track land reform.

C. Comparative Measures of Competitiveness

76. **This section presents an analysis of other qualitative factors that affect export performance that are difficult to incorporate in the quantitative analysis.** It is based on two sources: (i) The Growth Competitiveness Index (World Economic Forum) is composed of three pillars for 104 countries: the quality of the macroeconomic environment, the state of the country's public institutions, and, given the increasing importance of technology in the development process, a country's technological readiness. (ii) The Snapshot of the Business Climate (World Bank) identifies specific regulations and policies that encourage or discourage investment, productivity, and growth and compares Zimbabwe with regional averages. The results are summarized in Table 1.

- **Zimbabwe's poor macroeconomic and institutional environment lowers its competitiveness' relation to other countries in the region.** Zimbabwe ranks below neighboring countries in the overall Growth Competitiveness Index due primarily to having the lowest score relative to the other 103 countries on the Macroeconomic Environment Index. Moreover, Zimbabwe also scores worst compared to neighboring countries—with the exception of Uganda—on the Public Institutions Index, which includes, among other factors, measures of corruption and rule of law.

⁵⁴ Lower ratings are given to countries where racial and nationality tensions are high because opposing groups are intolerant and unwilling to compromise. Higher ratings are given to countries where tensions are minimal, even though such differences may still exist.

- **The microeconomic conditions for doing business in Zimbabwe are comparable to regional averages.** However, the costs in terms of GNI per capita of starting a business and registering property are higher than the regional average. Zimbabwe's labor market is less rigid than the regional average but performs worse than Zambia, Uganda, and Botswana.

D. Conclusions

77. **The performance of Zimbabwe's official exports is significantly affected by the parallel market exchange rate and ethnic tensions.** Policies that give rise to a widening of the parallel market premium (such as maintaining an overvalued exchange rate and lax monetary and fiscal policies) would, other things equal, adversely affect the performance of "official exports". Conversely, exchange rate unification and tight macroeconomic policies can be expected to improve export performance. Similarly policies that improve governance and reduce ethnic tensions (particularly in this context, an orderly resolution of land issues) can be expected to have a beneficial impact on exports.

Table 1. Zimbabwe: Business Climate, 2004

Indicator	Zimbabwe	South Africa	Zambia	Uganda	Botswana	Regional average
Growth Competitiveness Index (rank order)	99	41	83	79	45	...
Technology Index	86	40	90	77	64	...
Public Institutions Index	73	35	66	86	39	...
Macroeconomic Environment Index	104	48	95	75	42	...
Business Competitiveness Index	82	25	78	71	62	...
Starting a business						
Number of procedures	10	9	6	17	11	11
Duration (days)	96	38	35	36	108	60
Cost (% of GNI per capita)	304.7	9.1	22.8	131.3	11.3	225.2
Min. Capital (% of GNI per capita)	53	0	2.7	0	0	254.1
Hiring/Firing workers 1/						
Flexibility of hiring index	11	56	0	0	0	53.2
Flexibility of firing index	20	60	40	0	40	50.6
Firing costs (weeks of wages)	29	38	47	12	19	59.5
Registering Property						
Number of procedures	4	6	6	8	6	7
Duration (days)	30	20	70	48	69	114
Cost (% property value)	18.1	11.3	9.2	5.5	5	13.2
Getting credit						
Cost to create collateral (% of income pc)	2.4	2.3	19.2	11.9	2	41.8
Legal rights index 2/	7	6	6	5	9	4.6
Protecting Investors						
Disclosure Index 3/	6	6	1	2	5	2.1
Enforcing Contracts						
Number of procedures	33	26	16	15	26	35
Duration (days)	350	277	274	209	154	434
Cost (% of debt)	19.1	11.5	28.7	22.3	24.8	43.0
Closing a business						
Duration (years)	2.2	2	2.7	2.1	2.2	3.6
Cost (% of estate)	18	18	8	38	18	20.5
Recovery rate (cents on the dollar)	9.2	31.8	19.4	35.5	50.9	17.1

Source: World Economic Forum and World Bank.

1/ The indices vary from 0 to 100 with higher values representing more rigid regulations.

2/ It ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit.

3/ The index varies between 0 and 7, with higher values indicating more disclosure.

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VII. RECENT DEVELOPMENTS IN THE ZIMBABWE BANKING SYSTEM⁵⁵

78. Faced with contraction in the economy and the challenges of unsustainable exchange rates and high interest rates, the Zimbabwe banking system continues to demonstrate remarkable resilience. With the exit of identified weak institutions in 2004, the sector is now largely populated by banks with high capital adequacy ratios, little foreign currency risk and loans books limited to about one quarter of assets. High nominal yields on treasury bills and an emphasis on zero-cost demand deposits has contributed to strong profitability. Stress testing confirms that individual institutions have limited vulnerability to even extreme shocks. This resilience, however, comes at the expense of limited financing for the real sector, very high costs to the small number of creditworthy borrowers, and the discouragement of savings through the negative real interest rates paid to depositors.

79. This paper presents an overview of the developments and the performance of the Zimbabwe banking sector and is structured as follows. Section A presents the structure of the financial system while section B discusses the weaknesses in the banking sector during the period 2003-2004 and section C evaluates the approach to dealing with these problems. Section D discusses the impact of the exchange rate regime and interest rate policies on the financial sector while section E considers the financial sector soundness and resilience. Section F deals with deposit insurance and section G concludes.

A. Structure of the Financial System

80. Zimbabwe has all the elements of a modern developed financial sector, including life and general insurance, public and private pension funds and active capital markets including the Zimbabwe Stock Exchange and twelve stockbrokers.⁵⁶ The banking sector comprises twelve commercial banks, five merchant banks, five discount houses, four finance houses and four building societies (Table 1).

81. Commercial banks dominate the financial system, and the largest five banks (two majority domestically owned and three foreign owned) account for 65 percent of banking sector assets. The majority foreign-owned banks accounted for 45 percent of banking sector assets at end-March 2005 (Appendix 1). Bank branches are widespread as evident from a total of 429 branches at end-March 2005. Of these, 219 are building society branches while 192 are commercial bank branches, 124 of which belong to the largest five banks.

⁵⁵ Prepared by Michael Andrews and Jennifer Mbabazi-Moyo (both MFD).

⁵⁶ With a market capitalization of about Z\$ 14 trillion (59 percent of GDP) or US\$2.48 billion at the official exchange rate at December 2004.

Table 1: Financial System Structure

December, 2004	Total Assets (US\$ million) 1/	Percent of Total	Percent of GDP 2/
Commercial banks	2,818.62	79.6	80.0
Merchant banks	208.34	5.9	5.9
Building societies	166.33	4.7	4.7
Finance Houses	59.36	1.7	1.7
Discount Houses	42.31	1.2	1.2
Post Office Savings Bank	32.85	0.9	0.9
Insurance and Pension funds	153.16	4.3	4.3
Prescribed securities	59.34	1.7	1.7
Microfinance Institutions	..	..	..
Total Financial system	3,540.31	100	100.5

Source: Reserve Bank of Zimbabwe (RBZ).

1/ Converted at Official exchange rate.

B. Weaknesses in the Banking Sector in 2003-04

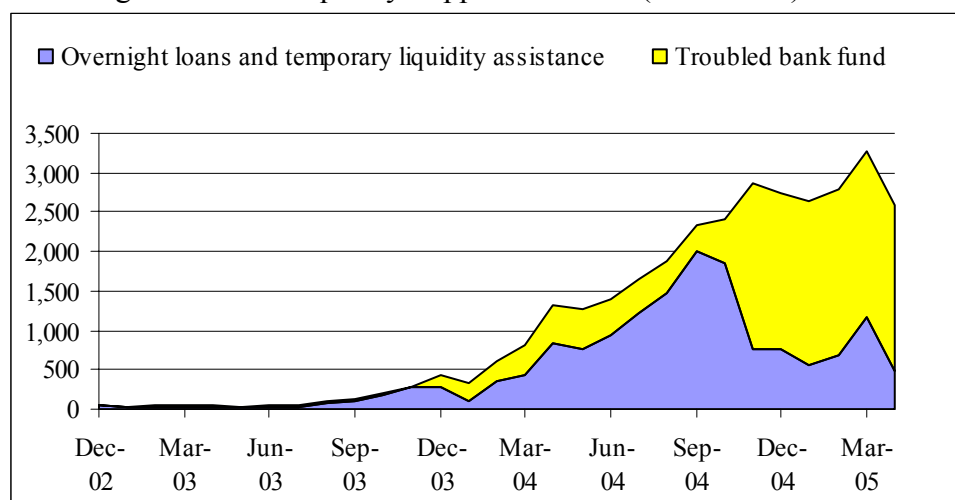
82. The macro-economic developments in 2003-2004 brought to light underlying weaknesses in the financial sector. Notable among these were poor standards of corporate governance, inadequate risk-management, and the use of depositors' funds for speculative investments. In addition, there was abusive self-dealing, including unreported insider transactions, use of subsidiaries and affiliates to evade prudential limits, and use of RBZ liquidity advances to support group companies and deliberate misreporting to RBZ to conceal losses and overstate capital. These were most prevalent and damaging in the "new generation" of deposit-taking institutions licensed in the 1990s.

83. A contributing factor to the weaknesses in the banking sector was inadequate supervision. Both the number of staff and their level of training and experience was less than required for appropriate supervision, with the further shortcoming that the ultimate supervisory authority rested with the Ministry of Finance rather than the RBZ. Thus, the independence of the RBZ was limited by the need to refer licensing decisions to the Ministry of Finance. As a result, even when serious problems were identified in the banking sector, there was more likely to be forbearance than decisive supervisory action.

84. Pressures were already evident in the banking sector by December 2003, with dependence by banks on RBZ advances having increased significantly over the year (Figure 1). Some of this nominal increase was due to the effects of high inflation, but considering that total RBZ advances increased from an amount equal to about 4 percent of bank deposits at mid-year to 15 percent at end-2003, it is clear that some banks were having increasing difficulty funding themselves with deposits (Figure 2). These pressures continued to build following the December 18, 2003 monetary policy statement, which increased

statutory reserve requirements effective January 2004 from 20 to 30 percent for commercial banks.

Figure 1. RBZ Liquidity Support to Banks (\$Z billions)



Source: Reserve Bank of Zimbabwe.

Figure 2. Bank Dependence on RBZ Funding



Source: Reserve Bank of Zimbabwe.

C. Addressing the Banking Sector Problems

85. The RBZ recognized the need to address both the underlying weaknesses that had led to the emergence of problem banks, as well as to resolve the identified weak banks. A package of policy measures was introduced to address the underlying weaknesses in the system by strengthening supervision and prudential standards, and thus check the flow of new problem banks. However, the delay in intervening in some banks making heavy use of RBZ liquidity support increased losses to depositors and other creditors. Also, it appears that

the decision to expend public funds for bank restructuring was not motivated by concern over the potential systemic risk, but to preserve the existing level of indigenous ownership of the banking system. Such policy decisions are within the purview of government, but it is important to identify the full cost of these policies.

86. Transferring the powers of the Registrar from the Ministry of Finance to the RBZ through the Financial Laws Amendment Act in August 2004 was one of the most important measures to enhance the soundness of the banking system. The significance is two-fold. First, having obtained the authority for bank licensing, the RBZ is better placed to ensure that potential new entrants to the market meet stringent standards, thus avoiding the problems that can be generated by licensing weak banks. Second, it enhanced RBZ's ability to take corrective actions. Equally important in enhancing the credibility of the RBZ was the placement of weak institutions into curatorship or liquidation, which clearly signaled a break from past practices of forbearance.

87. The enhanced credibility of the RBZ was used to enforce compliance with prudential requirements and its supervisory authority was extended to include asset management companies. New prudential guidelines were issued in 2004 to establish minimum standards for corporate governance, internal audit, and the relationship between the supervisor and external auditors. Further, significant steps were taken in 2004 to strengthen the practice of banking supervision, through recruitment of new staff, ongoing training for examiners including through the Financial Stability Institute and regional seminars and the introduction of electronic submission of prudential returns and an automated system for supervisory analysis. These measures were in addition to the continuation of earlier initiatives to introduce risk-focused supervision and consolidated supervision of banking groups.

88. Decisions on problem bank resolution appear to have been driven more by the policy objective of maintaining indigenous ownership rather than concerns about systemic stability. It is possible, however, that in early 2004 uncertainty about the true state of the financial system could have raised concerns about the potential for the failure of a number of smaller banks to have a contagion effect which might threaten larger banks and hence systemic stability.

89. Provision of open-ended liquidity support is also consistent with the long-established practice of the RBZ in dealing with problem banks, dating from well before the bank problems of 2003-2004. The initial hope that banks would be able to work through their problems has proved ill-founded. Liquidity and time were not enough to address the underlying problems in many banks, and the decision to place nine licensed deposit-taking institutions in curatorship during 2004, and three other institutions in liquidation was a departure from the previous adherence to the "wait and hope" approach to problem institutions.

90. It seems clear in retrospect, even if there was uncertainty at the time, that the difficulties faced by the banking sector in 2003-2004 were not systemic. The institutions intervened in 2004 were all relatively small, collectively accounting for only about

12 percent of bank deposits and 16 percent of assets (Appendix 2). The flight of depositors to perceived quality in late 2003 and early 2004 improved the already satisfactory liquidity of the five largest banks. Considering that throughout the period of turmoil, institutions constituting the majority of the banking market remained sound and any threat of contagion was limited to smaller banks, the risk of systemic crisis was not nearly great enough to justify the provision of liquidity support to insolvent banks.

91. The decision to extend liquidity support to banks identified through on-site examinations as insolvent has proved costly, although the effects of high inflation obscure the true costs. Recoveries by curators and liquidators are impressive in nominal terms. The value of physical assets of banks (for example staff cars) as well as the chattels and property held as security for loans, has increased at or above the rate of inflation, while interest ceased to accrue on the liabilities of the institution at the date of closure. Thus, while depositors and other creditors are likely to receive significant nominal distributions from the failed banks, in real terms, the depositors and creditors have effectively lost the bulk of their claim

92. The inflationary effect of the over \$2 trillion provided in liquidity support through the Troubled Bank Fund (TBF) is another hidden cost of bank restructuring. Had the problem banks been closed earlier rather provided with liquidity support, the RBZ's efforts to tighten monetary policy would not have had to cope with this injection of money into the system. In addition to the possibility that inflation and interest rates might have been lower, earlier closure of the insolvent banks would have checked the accumulation of losses, reducing the ultimate costs borne by depositors.

93. Total liquidity support from the TBF to the banks placed in curatorship or liquidation in 2004 exceeded three times their total deposit base (as at September 2004). Not all of this Z\$ 2 trillion will be lost, and in fact, if Zimbabwe Allied Banking Group (ZABG) is only moderately successful, the entire nominal loss may be more than recouped through the intended sale of ZABG shares (Box 1). Two to three years of high inflation could easily result in a nominal valuation of ZABG well in excess of Z\$ 2 trillion, however, it would be a mistake to then view the Troubled Bank Resolution Strategy as a financial success.

94. The final costs to depositors, creditors and the TBF are not yet known for any of the banks placed in curatorship or liquidation in 2004. The write-down of creditors' claims by the curators of the three banks combined into ZABG resulted in a loss to the TBF of almost Z\$ 1.2 trillion, and a portion of the other \$1 trillion advanced under the TBF will be lost. As noted above, it is possible that the subsequent sale of ZABG may recoup some or all of these

Box 1. Zimbabwe Allied Banking Group (ZABG)

ZABG is a kind of “bridge bank,” incorporated to receive assets and liabilities of three failed banks, Barbican, Royal and Trust. The determination was made by the curators of each bank that potential recoveries were greater through this approach than the alternative of liquidation. The basis for the determination was primarily that the branches, physical assets and some loan assets had greater value as a going concern than in liquidation. ZABG was capitalized by the conversion of depositors and creditors claims into equity.*

Attempts to recapitalize banks by conversion of deposits into equity frequently fail for the following reasons:

- The conversion of the deposits to equity does not address the liquidity problems of the bank
- The restructured bank continues to be hampered by poor quality assets
- Forcibly converted depositors often do not make good owners and seek to withdraw their funds at the earliest opportunity, often by taking loans which they have no intention of repaying

However, the current high inflation environment has helped to address these issues.

Recoveries by curators, aided by the inflationary environment, were sufficient to enable cash payments to be offered to depositors with balances of less than Z\$5 million, and to provide the recapitalized institution with adequate opening liquidity. When invested in relatively high-yielding treasury bills, combined with the liability side of the balance sheet consisting largely of equity, the restructured bank is positioned to be profitable and liquid from the outset. The 44 branches of the legacy banks have been consolidated into 25, with 250 of 860 former staff retrenched, and about 40 new well-qualified employees recruited, including most of the senior management team. All of the operations of the three legacy banks have now been converted to a single information technology platform, which was less difficult than it might have been as two of the three legacy banks used the same system.

Notwithstanding the promising start, there are significant challenges ahead. The business plan calls for growth in the full range of financial services, and targets may be difficult to achieve against the backdrop of a shrinking economy. For ZABG to be successful, it will have to be operated on a commercial basis without political interference, notwithstanding its public ownership. A good start has already been made with the recruitment of a well qualified board of directors, but experience elsewhere indicates the strong temptation for government to use state-owned banks to implement policies of supporting specific regions and sectors regardless of commercial considerations.

The use of the powers of the curator to sell the assets of the three failed banks to ZABG has been challenged in court. If the plaintiffs (Trust Bank shareholders), are successful, the legal foundation of ZABG could be undermined. There is also uncertainty about the intended conversion of TBF loans into equity in ZABG. ZABG shows the amount as common equity, however, it does not appear that the company incorporated to hold the government shareholding, Allied Financial Services, has yet acquired either the debt or equity, which suggests the need to regularize the holding arrangements for ZABG.

Assuming that ZABG survives the legal challenges noted above, it may be used as a resolution vehicle for other banks currently in curatorship. No firm decisions have been made regarding the intended divestiture process, but it is expected that an initial public offering will be made of a minority shareholding to provide additional capital for expansion. The announced intention is to fully divest public ownership by end-2007.

ZABG Balance Sheet and Income Statement, May 30, 2005 (Z\$ billions)

Assets		Liabilities and Equity		Income Statement (Jan-May)	
Cash, liquids	41	RBZ (PSF)	19	Interest income	106
Treasury bills	174	Deposits	127	Interest expense	1
Statutory reserves	49	Other	48	NII	105
Loans	172	Preference shares	45	Non-interest income	2
Fixed assets	82	Common shares	570	Gross income	107
Other	294	Retained earnings	3	Non-interest expense	86
Total	812	Total	812	Loan loss expense	2
				Net income (pre-tax)	19

* Public and private ownership is 87 and 13 percent respectively.

losses in nominal terms, but in real terms, depositors and the TBF have lost the bulk of their claims (Table 2).

Table 2. Real Costs of Bank Restructuring

	Depositors Z\$ 5 million or less		Depositors over Z\$ 5 million and TBF		
	Change in CPI from date of curatorship to payment January 2005 (percent)	Real value of claim when paid (percent of original claim)	Haircut imposed to recapitalize the bank (percent of depositor and creditors claims)	Real value of claim after conversion to equity January 2005 (percent of original claim)	Real value of claim at end-2005, assuming 190 percent average annual inflation
Barbican	98.5	50.4	20	40.3	13.9
Royal	48.8	67.2	50	33.6	11.6
Trust	36.8	73.1	75	18.3	6.3

Source: Staff estimates from Reserve Bank of Zimbabwe data.

95. The apparent success of the current approach to bank restructuring is misleading. The real costs are obscured by high inflation, and depositors would be better served by faster and less disruptive resolutions. Ultimately, losses on the TBF will be borne by the taxpayers. It would be more transparent for these losses to be immediately acknowledged, and accounted for as fiscal expenses. This facilitates identifying the true cost of the policy decision to provide liquidity support to insolvent banks, and so is preferable to quasi-fiscal financing by the central bank.

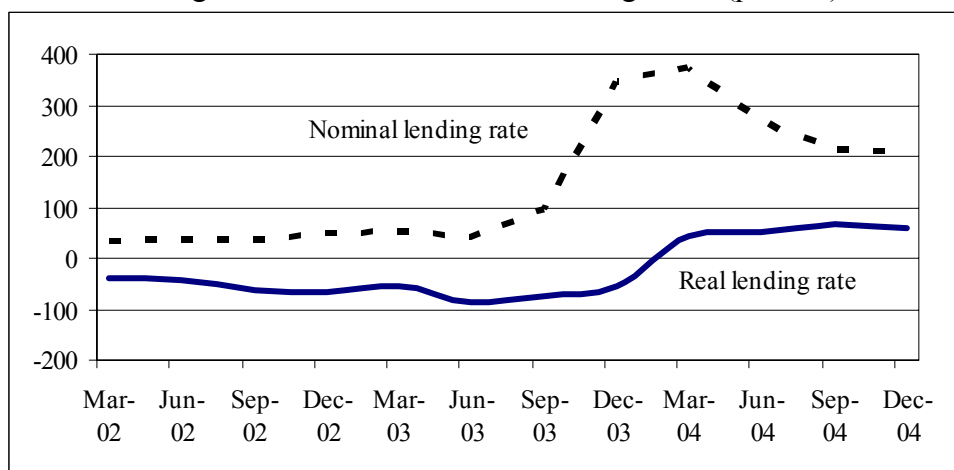
D. Impact of Exchange Rate Regime and Interest Rate Policies

96. Macroeconomic issues create significant challenges for the RBZ in its role as the banking supervisory authority. These have a prudential dimension, as economic contraction, volatile interest rates, high inflation and divergent exchange rates all pose serious risks to the financial sector. In addition, the attempts by the authorities to mitigate the impact on the real sector have led the RBZ to devote significant resources to enforcing regulatory requirements that have no prudential foundation.

97. The high nominal and real interest rates that have been required to counter inflationary pressures and support the official exchange rate present challenges for the banking sector (Figure 3). There are few borrowers, typically exporters or traders, who can sustain real lending rates of about 60 percent by quickly liquidating inventory or selling finished goods to repay the funds borrowed for stock or inputs. Traders pass on these high financing costs to their customers, resulting in a higher cost of goods in the real economy. Exporters, however, may find themselves unable to pass on these higher financing costs. The authorities have attempted to compensate for the lack of competitiveness induced by high interest rates and an overvalued exchange rate in part through concessional interest rates for loans to targeted sectors, and support prices for exporters.

98. These attempts to direct lending to particular sectors have created their own perverse incentives. The recipients of subsidized credit may be tempted to invest the funds in relatively high yielding government debt, or real property and goods in the expectation of earning a quick inflationary gain, rather than using credit for more uncertain commercial returns. Businesses outside the designated sectors are tempted to misrepresent their business to obtain access to credit. Those in productive sectors may borrow unneeded funds, and on-lend at a margin to borrowers unable to access credit. These abuses have led to the increasingly more stringent requirements for borrowers receiving subsidized credit. Whether fully effective or not, the additional restrictions add to the administrative burden on borrowers and banks, and require greater policing activities by the RBZ. The higher administrative burden and lower return to the banks under the new programs is likely to limit banks' willingness to provide these facilities.

Figure 3. Commercial Bank Lending Rates (percent)



Source: Reserve Bank of Zimbabwe.

99. The binding constraint to credit expansion is the lack of bankable opportunities, which becomes more severe as the economy continues to shrink. Banks generally have excess liquidity, with liquid assets amounting to almost 50 percent of total assets at end-2004. However, high interest rates, uncertain foreign exchange rates and availability all place strains on businesses, increasing credit risk. In the personal lending market, the rapid erosion of salaries by rampant inflation makes personal (retail) lending difficult, as individuals easily able to service a line of credit when granted may have no disposable income within a few months as salary increases lag the price increases in essential expenditures on food and shelter.

100. The fragmented foreign exchange market creates distortions and perverse incentives. The crackdown by the RBZ since 2004 is said to have resulted in banks and other regulated financial institutions ceasing to trade in the parallel market. Individuals and businesses will not willingly lose the difference between the auction rate and parallel market rate, so forced

surrender requirements and vigorous enforcement primarily serve to drive the transactions outside the regulated financial sector or offshore.

101. Despite holding large portions of their assets in liquid investments, banks face severe challenges in managing their day to day liquidity position. In addition to the high statutory reserve requirements, an even more punitive measure is the sweeping of banks' accounts with the RBZ at the close of business each day, with excess liquidity applied to the compulsory purchase of two year zero-coupon 17 percent special treasury bills.⁵⁷ While serving to encourage interbank activity, this can result in severe penalties for banks unable to manage their excess reserve position to zero each day since the excess is swept into below market-rate instruments, while any shortfall must be covered through borrowing from the RBZ at the overnight rates.

102. Spreads between lending and deposit rates are inflated by the very high statutory reserve ratios. This increases the cost of borrowing, further dampening growth, and depresses the remuneration on deposits, providing a disincentive for savings. For banks making advances under concessional rate financing, the impact of the reserve requirements is mitigated because the RBZ provides zero interest advances to banks which are then on-lent. The RBZ considers these facilities to be funded from statutory reserves. Despite this, about 17 percent of bank assets are non-earning due to the reserve requirements, and a further 13 percent are in low yielding concessional rate loans, and a further portion is held in below-market compulsory purchased T-bills. This contributes to high lending rates and low deposit rates because the margin earned on about half the balance sheet has to cover non-interest expenses, the cost of unremunerated and below market rate assets, and provide a profit margin.

E. Banking Sector Soundness and Resilience

103. Given the measures taken by the RBZ, at present, the banking sector appears broadly sound and the quality of supervision generally adequate.⁵⁸ There are still some weak banks in the system although they are small and not of systemic importance. Further, these weak banks are under close scrutiny by the RBZ which has since 2004 taken more decisive action to address the problem banks. The quality of supervision has been enhanced through staff recruitment and ongoing training to enhance capacity. More importantly, decisive supervisory action has been taken to deal with identified problem banks, which is a marked improvement over the practices of regulatory forbearance evident prior to 2004.

⁵⁷ Statutory requirements are currently 60 percent for demand deposits and 37.5 percent for savings deposits.

⁵⁸ This is based on the presumption that government continues to service its debt. A banking crisis could ensue if banks suffered losses through default on their large holdings of government securities.

104. The remaining banks in the system have shown remarkable resilience in the face of a difficult macroeconomic environment. As a coping strategy, there has been an increasing preference for liquid low-risk assets evident in the noticeable shift towards securities (mainly treasury bills and investments) which constituted 25 percent of total assets at end-March 2005, up from 19 percent at end-2003 (Appendix 3).

105. Consequently, balance sheet growth has not resulted in a corresponding growth in loans. Although banking sector assets have grown by 50 percent in real terms between end-2003 and end-2004, loans have increased by only 20 percent in real terms.⁵⁹ The increase in loans has largely been driven by the subsidized credit available through the Productive Sector Finance Facility (PSF), as there are few businesses able to sustain the high interest rates.⁶⁰

106. Reported asset quality has deteriorated significantly, but the evident decline is in part attributable to improved supervisory capacity and more accurate reporting by banks. A decline in asset quality is not unexpected given the adverse macroeconomic conditions. The full impact of high interest rates has been mitigated for many borrowers by the PSF loans, which has lessened the deterioration in asset quality that might otherwise have occurred. Further, the increase in adversely classified loans from about 4 percent at end-2003 to 23 percent at end 2004 likely overstates the decline in asset quality. The figure from end-2003 was almost certainly much larger than reported by many banks, while the 2004 figure is likely much closer to a true picture as a result of more stringent supervision by the RBZ.

107. Banks profitability increased marginally despite the pressures on asset quality. This reflects large spreads, increased income from investments in government securities and cost minimization through retrenchments and streamlining operations in addition to the ongoing emphasis on funding with zero-cost demand deposits.⁶¹ Depositors continue to keep funds in the banks in spite of the limited returns due to the transactions demand for money in a high inflation environment and the absence of alternatives. The return on assets for commercial banks increased from 6.1 percent at end-2003 to 9.7 percent at end-2004. The return on equity was 125.4 percent at end-2004 but this remained below the rate of inflation.⁶²

108. Loans are largely concentrated in the agriculture, distribution, and manufacturing sectors (Table 3). The exposure to the agricultural sector doubled from 11 percent at end-

⁵⁹ The nominal increase was much higher at 213 percent for assets and 155 percent for loans but this may be misleading given the high level of inflation.

⁶⁰ The Productive Sector Facility (PSF) was introduced in the December 2003 monetary policy statement with a view to provide subsidized credit (at 50 percent when the facility wound up at end-June 2003) to key productive sectors.

⁶¹ Demand deposits attract zero interest.

⁶² Inflation was 133 percent at end-2004.

2003 to 21.4 percent at end-2004, largely due to the increased PSF loans causing a re-allocation from the distribution and services sector to the agriculture sector.

109. The banking sector appears well-capitalized with a capital adequacy ratio (CAR) of 34 percent at end-2004 compared with 15 percent at end-2003. The considerable increase reflects increased retained earnings and capital injections to meet the higher minimum capital requirements introduced in January 2004 and the large holdings of zero-risk-weighted treasury bills. However, the reported figures need to be treated somewhat cautiously because despite the improvement in regulatory reporting, there may still be some under-provisioning, leading to the overstating of CARs. Reported CARs would decline if there were a significant shift in banks' portfolios from zero-risk weighted government securities to loans to the private sector.

110. Liquidity ratios increased considerably and remained significantly above the prudential levels of 10 percent. These increased from 18.1 percent end-2003 to 47 percent of total assets at end-2004 largely reflecting the shift towards the short term investments in order to match the funding base as the public is increasingly investing short-term in response to continuing high inflation. A substantial proportion of short-term assets comprise government securities whose actual liquidity may be limited by the absence of secondary markets particularly in a time of distress.

111. The foreign exchange risk is minimal given the severe shortage of foreign exchange in the economy. Banking sector foreign currency denominated assets and liabilities estimated at 0.2 percent of total assets at end-March 2005 are negligible. Banks do not extend foreign currency loans, consequently there are no concerns about whether foreign currency borrowers are unhedged.

112. Stress testing indicates limited vulnerability to extreme but plausible shocks to the system (Box 2).⁶³ The stress testing considers only the direct effects of the shocks. In particular, the second-round effects of the interest rate increase and devaluation on asset quality are not considered. However, given the limited size of banks' loan portfolio, the prevalence of subsidized credit, and the self-liquidating nature of many working capital loans,

⁶³ RBZ has performed stress testing in line with previous IMF stress testing. The stress testing undertaken here differs from the RBZ in its treatment of the interest rate shock and in the magnitude of the shocks.

Box 2. Stress Tests

Stress tests were conducted to assess the potential vulnerabilities in the Zimbabwean banking system. Overall, the results indicate that the banks are resilient to direct economic shocks (Appendix 4). Using end-December 2004 banks' data, and based on changes in the macroeconomic environment in Zimbabwe assuming the adoption of a policy package, stress tests were conducted to assess credit risk, foreign exchange risk and interest rate risk on the data of commercial banks, merchant banks, building societies, finance houses and discount houses.

Extra provisioning to provide 100 percent coverage of reported non-performing loans (NPLs) has a minimal impact on banks' capital adequacy. Although it results in seven banks with CAR less than the statutory 10 percent, these constitute only 8 percent of the banking sector assets. Further, given that before the shock, six banks already had CARs less than 10 percent, the effect of the shock is extremely limited as only one extra small bank with banking assets comprising about 1.23 percent of total banking assets has its ratios fall below 10 percent. Three small banks become insolvent but these constitute less than 2 percent of total banking sector assets.

Credit risk is minimal as evidenced by the effect of the increase in NPLs of about 12 percent. The PSF subsidized credit program expires at end-June 2005 and assuming that the outstanding PSF loans as at end-May 2005 become nonperforming resulting in a increase in NPLs of 12.17 percent, the results show that the impact on the CAR would be very small and similar to the effect of increasing provisioning to adequate levels. The increase in NPLs leads to an increase in provisioning for the NPLs of about 40 percent which is similar to the increased provisioning to bring it up to required levels.

Devaluation has limited effect on the banking sector. Direct exchange risk is limited given that the banking sector on average has a long net open position in foreign exchange as at December 2004. Accordingly, a 100 percent devaluation only has a limited effect on the banks with only one extra bank constituting about 3 percent of total assets becoming undercapitalized compared to the situation before the shock.

An interest rate increase initially benefits the Zimbabwean banking sector. Demand deposits in Zimbabwe attract a zero interest rate while most interest-bearing liabilities are very short term (three months or less) in view of the high inflation environment. On the asset side, 77 percent of total credits are short term (three months or less). Therefore, applying the interest rate increase on the three months cumulative gap between assets and liabilities after having accounted for the zero-interest demand deposits, only 5 banks comprising 3.20 percent of the banking sector assets become undercapitalized. Indeed, one bank with a market share of 3.49 percent benefits from the interest rate increase because of the increased net income since the assets greatly exceed their liabilities in the three-month window. A further increase in interest rates to 25 percent is even more beneficial for the banking system as only 4 banks (less than the 5 banks under the 10 percent interest rate increase assumption) with assets worth 2.10 percent of total assets are undercapitalized. These short term benefits will, however, be partially offset by the second round effects of deterioration in asset quality due to higher interest rates.

The combination scenario of 100 percent depreciation and a 10 percentage point increase in the interest rate does not pose a significant threat to the soundness of the banking sector. The test captures only direct effects and the results show a small increase in undercapitalized banks to 6 comprising 8.50 percent of the total banking sector assets. Overall, and compared to the starting point, the effect is rather minimal given that before the shock already 6 banks representing almost 7 percent of banking sector assets are already undercapitalized.

Table 3: Zimbabwe Financial Soundness Indicators, 1999-2004
(In percent, unless otherwise indicated 1/)

	1999	2000	2001	2002	2003	2004
Capital adequacy						
Capital to risk-weighted assets	15.3	18.3	22.4	16.2	15.0	34.4
Tier 1 capital to risk-weighted assets	11.9	16.9	12.1	7.1	12.4	33.4
Capital to total assets	6.0	9.5	10.4	8.0	7.5	12.1
Asset quality						
NPLs to gross loans	14.1	18.2	13.7	7.9	4.2	23.2
Total provisions to NPLs	38.9	45.4	50.0	70.5	75.5	48.6
NPLs net of specific provisions to capital	48.2	45.5	35.7	10.1	14.9	38.2
<i>Loan concentration</i>						
Agriculture	15.8	14.5	12.8	11.2	10.9	21.4
Construction	1.5	4.3	1.9	2.3	3.1	2.2
Communication	1.6	0.7	3.0	1.3	0.7	2.5
Distribution	17.4	16.5	27.8	23.8	22.0	15.3
Finance & investments	3.1	12.1	10.8	5.0	1.7	0.4
Financial Organizations	2.7	7.4	1.6	6.8	2.1	0.3
Manufacturing	17.6	14.0	20.6	20.9	19.1	20.6
Mining	7.2	9.7	4.4	2.5	6.0	9.5
Services	19.9	11.3	6.7	14.0	18.7	15.1
Transportation	3.3	3.4	2.3	3.3	2.3	3.1
Individuals	8.7	5.6	6.5	7.8	11.6	7.6
Others	1.2	0.4	1.6	1.2	1.8	2.0
Earnings and profitability						
Return on assets	2.4	3.8	1.4	3.4	6.1	9.7
Return on equity	50.1	43.1	18.7	62.7	121.6	125.8
Interest income to noninterest income	482.0	515.0	230.0	300.0	482.7	744.1
Net interest income to interest expenses	89.0	103.3	351.1	565.3	77.3	176.6
Personnel expenses to gross income	16.1	15.3	28.1	21.3	10.4	13.2
Liquidity						
Liquid assets to total assets	..	..	..	..	18.1	47.4
Liquid assets to demand deposits	..	53.5	44.8	53.9	56.6	164.2
Total (non-interbank) loans to customer deposits	..	..	..	..	74.1	65.0
FX deposits to total deposits	..	..	..	..	6.8	12.0
Sensitivity to market risk						
Net open positions in FX to capital	..	..	..	..	-5.9	3.8
<i>Memorandum Item</i>						
Inflation (end of period)	56.9	55.2	112.1	198.9	598.7	132.7

Source: RBZ

1/ Based on commercial banks only which account for about 80 percent of total banking sector assets.

the second-round impacts would not be as significant as might otherwise be expected. In line with the key assumption that government securities are low-risk (Footnote 4), sovereign risk was not assessed. Sovereign default could trigger a banking crisis.

113. In addition, the risks to the banking system have been reduced through enhanced supervision leading to the exit of weak banks, and the improved approaches to corporate governance and risk management although these will take time to be fully effective. New prudential guidelines were issued in 2004 to establish minimum standards for corporate governance, internal audit, and the relationship between the supervisor and external auditors. These new guidelines have already had a substantial effect in the banking industry, with the reconstitution of the boards and/or senior management of a number of banks and while on-site examinations in 2004 did identify some progress within the banking sector in implementing these improved approaches, they will take time to be fully effective.

F. Deposit Insurance

114. The establishment of the Deposit Protection Board (DPB) in July 2003 was ill-timed given the absence of the basic pre-conditions for deposit insurance. This has been reflected in the minimal role played to date by the DPB in problem bank resolution. Nonetheless, its first premia were received in December 2003. It is chaired by the governor of the RBZ, and two deputy governors are also ex officio board members. The other three board members are appointed by the governor. This dominance of the DPB by the RBZ raises potential conflict of interest issues, as fiduciary responsibility to minimize costs to the DPB could, in some circumstances, conflict with RBZ objectives.

115. The DPB incorporates some elements of best practices, most notably compulsory membership for all licensed deposit-taking institutions to avoid adverse selection, and partial coverage to mitigate moral hazard. The insurance coverage was increased from Z\$ 200,000 (about US\$20) to Z\$ 5 million (about US\$500) in April 2005. Currently, a flat premium of 0.00738 percent of average deposits is applied to all financial institutions but the DPB is considering the merits of introducing a risk-adjusted premium in order to moderate the 'subsidy' provided by the strong to the weaker institutions. In practice, however, it is difficult to make an objective assessment of the size of the risk premium needed to have an impact on bank behavior.

116. The capital fund of the DPB is currently inadequate to meet insured depositors' claims should a large bank fail. The relatively small size of the DPB largely reflects the fact that it is less than two years old. The DPB is empowered under section 68 of the banking act to borrow money for the purposes of the fund, and while there is no written agreement, the DPB believes that in time of need funds could be borrowed from the RBZ and/or government.

117. One of the challenges for the DPB is to keep its coverage meaningful in a high inflation environment while simultaneously ensuring the accumulation of an adequate fund. At end December-2004, the capital fund was worth Z\$ 42 billion or 2 percent of total

deposits of the largest bank. Although the capital fund increased to about 79 billion at end-May 2005, its exposure has increased significantly to about Z\$ 246 billion given the higher coverage levels since April 2005.

118. The DPB's current effectiveness is limited on two counts. First, the consensus in the financial industry is that customers have little or no awareness of deposit insurance, and thus the fund cannot perform its expected function of assisting smaller banks in competing against those banks perceived to be too big to fail. Second, even if consumers are aware, the rapid erosion through inflation of the real value of the insured limit, coupled with the current need for depositors to execute claims before a notary, can result in costs to the depositor of more than the value of the deposit. This view is substantiated by the failure of the majority of depositors to claim in the two institutions to date in which the DPB has been involved.

119. The DPB fund is a 'paybox' in the sense that it is only mandated to make payments to depositors of banks in liquidation. To date it has made payments to depositors of Century Discount House (Z\$ 33.9 million representing 45 percent of total depositors) while ongoing payment is being made to Rapid Discount House (so far Z\$ 64 million representing 30 percent of total depositors has been paid). The DPB should have the express legal capacity to make payments for transactions such as purchase and assumption agreements when these result in a lesser cost to the fund than paying depositors in liquidation.

120. The DPB plans a review of its legal framework, including amending the structure of the Board, and to allow DPB to participate in bank resolution and play a role as a liquidator. Further, it is expected that once the memorandum of understanding (MOU) between DPB and RBZ is operational, there will be increased information sharing and coordinated bank supervisory activities particularly in the case of problem banks. Further, its effectiveness will be enhanced by increased publicity.

G. Conclusions

121. Removal of weak banks from the system, strengthened supervision and improved governance has contributed to the enhanced resiliency of the Zimbabwe banking system. Most banks are coping surprisingly well with the difficult environment, although the ability to intermediate resources to support economic growth has been weakened. Further problems in the banking sector cannot be ruled out, but a continuation of current government policies is more likely to result in the slow wasting away of a still vibrant financial sector than it is to trigger a systemic crisis.

122. Three conclusions emerge from the foregoing analysis. First, the myriad of producer and credit subsidies which do not have a prudential foundation increase the administrative burden on borrowers and banks, and require greater policing activities by the RBZ, diverting scarce resources from more productive activities. Elimination of subsidized credit, introduction of a market determined exchange rate, and removal of restrictions without a prudential foundation would enable the banking system to more effectively intermediate to support economic growth.

123. Second, provision of full supervision powers to the RBZ has been crucial to the strengthening of the financial system through decisive action to remove weak institutions. The recent amendments to the banking act to require the RBZ to consult with the Minister of Finance on issues of licensing and intrusive supervisory action is a step backward. The RBZ should retain all supervisory powers, including licensing and the ability to intervene in weak institutions.

124. Third, it is important that erroneous conclusions not be drawn from the recent experience with curatorship, bridge banks and the use of public funds for bank resolution. The RBZ should instead develop contingency plans based on quicker intervention, faster resolution, and preservation of only the viable portions of failing banks, which will require a review of the deposit insurance scheme legal framework to allow the DPB to participate in bank resolutions such as purchase and assumption transactions. The true costs of the current approach have been obscured by high inflation, and depositors and other creditors would be better served through faster and less disruptive resolution of problem banks.

Appendix 1: Zimbabwe Deposit-Taking Institutions (end-March 2005)

	Public	Private	Foreign	Total Assets (Z\$ billion)	Total Deposits (Z\$ billion)	Market Share
Commercial Banks						
AGRIBANK	100.0	0.0	0.0	1,038.5	292.9	3.9
BARCLAYS	0.0	100.0	67.7	3,021.9	1,538.9	11.4
CBZ	17.2	82.8	40.8	3,960.1	1,996.1	14.9
FBC	0.0	100.0	0.0	654.5	300.1	2.5
KINGDOM	0.0	100.0	0.0	627.2	456.0	2.4
MBCA	0.0	100.0	78.5	822.6	119.3	3.1
METROPOLITAN	0.0	100.0	0.0	274.2	107.5	1.0
NMB	0.0	100.0	0.0	741.5	222.9	2.8
STANBIC	0.0	100.0	100.0	2,391.9	884.6	9.0
STANCHART	0.0	100.0	100.0	5,620.4	2,274.1	21.2
ZABG	70.0	30.0	0.0	685.2	37.5	2.6
ZIMBANK	75.8	24.2	0.0	2,388.8	1,153.4	9.0
Merchant Banks						
ABC Zimbabwe	0.0	100.0	0.0	442.3	89.9	1.7
GENESIS	0.0	100.0	0.0	175.0	1.0	0.7
INTERFIN	5.0	95.0	0.0	421.2	280.6	1.6
RENAISSANCE	0.0	100.0	0.0	401.8	117.4	1.5
Building Societies						
BEVERLEY	0.0	100.0	100.0	456.3	304.7	1.7
CABS	0.0	100.0	100.0	993.3	426.7	3.7
INTERMARKET	0.0	100.0	0.0	193.5	113.0	0.7
ZBS	40.0	60.0	0.0	65.5	49.7	0.2
Finance Houses						
SUNPOL	..	..	..	22.3	9.3	0.1
TRUSTFIN	..	..	..	29.0	13.9	0.1
ABC	0.0	100.0	0.0	353.7	303.1	1.3
ZDBFS	76.4	23.6	15.8	52.2	41.8	0.2
ABC	0.0	100.0	0.0	67.8	19.2	0.3
HIGHVELD	0.0	100.0	0.0	137.4	0.0	0.5
DCZ	0.0	100.0	0.0	70.9	0.2	0.3
NDH	16.3	83.7	0.0	32.3	0.0	0.1
PREMIER	0.0	100.0	0.0	166.4	1.0	0.6
TETRAD	0.0	100.0	0.0	236.7	0.0	0.9
Under Curatorship						
CFX Merchant Bank	0	100	0	..	..	..
CFX Bank	0	100	0	..	..	..
Time Bank	0	100	0	..	..	..
Intermarket Banking Corp	0	100	0	..	..	..
Intermarket Discount House	0	100	0	..	..	..
Under Liquidation				..	..	..
Rapid Discount House	0	100	0	..	..	..

Source: Reserve Bank of Zimbabwe.

Appendix 2. Banks Placed in Curatorship in 2004

	Date of Curatorship	Resolution/ Current Status	Total deposits (billions, Sep 04)	Market share (percent of commercial bank deposits)
Barbican Bank Ltd.	15 Mar 04	Incorporated into ZABG from end-January 2005	49.4	0.9
CFX Bank Limited	17 Dec 04	Ongoing negotiations with potential new investors	127.6	2.4
CFX Merchant Bank	17 Dec 04	Ongoing negotiations with potential new investors	23.9	0.4
Intermarket Banking Corporation Ltd.	12 Mar 04	Pursuing merger with Finhold Group	11.0	0.2
Intermarket Building Society Ltd.	12 Mar 04	Pursuing merger with Finhold Group	75.5	1.4
Intermarket Discount House Ltd.	12 Mar 04	Pursuing merger with Finhold Group	n.a.	n.a.
Royal Bank Zimbabwe Ltd.	4 Aug 04	Incorporated into ZABG from end-January 2005	90.6	1.7
Time Bank of Zimbabwe Ltd.	27 Oct 04	Legal action against RBZ has stayed action	112.9	2.1
Trust Bank Corporation Ltd.	23 Sep 04	Incorporated into ZABG from end-January 2005	157.5	3.0

Source: Reserve Bank of Zimbabwe.

Appendix 3: Zimbabwe Balance Sheet Structure (end-March 2005)

	All Banks 1/	FoBs 2/	Banks by CAMEL rating		
			1	2	3 - 5
Percentage of total assets 1/					
Cash	2.5	2.2	2.5	1.8	5.3
Securities and Investments	25.2	23.1	22.7	28.9	20.6
Of which Tbills	23.7	20.0	21.3	27.1	20.3
Statutory Reserves	17.4	23.4	19.8	15.0	8.0
Foreign Currency assets	0.2	0.1	0.1	0.3	0.5
Loans	24.5	18.4	18.4	30.5	35.8
Others 3/	30.2	32.7	36.5	23.4	29.9
Percentage of total liabilities & capital					
Total deposits	43.0	40.6	40.1	42.9	50.9
of which Demand deposits	22.3	30.7	26.0	17.7	14.9
of which Savings deposits	19.0	9.1	13.2	25.1	22.0
Capital	11.3	13.1	13.4	13.6	11.7
Foreign currency deposits	3.1	4.3	3.8	2.4	2.0
Borrowing from RBZ	1.0	0.3	0.7	1.6	0.0
Borrowing from other FI	1.0	0.0	0.0	1.2	6.1
Other liabilities	28.8	24.2	24.4	35.0	18.0
Others	14.9	21.8	21.3	5.7	13.3
Percent					
FX loans -Fx deposits	0		0	0	0

Source: Fund Staff computations from RBZ data

1/ Total assets and all banks information exclude ZABG which has not yet been rated.

2/ Foreign-owned banks

3/ This mainly constitutes interbank loans and contingency assets.

Appendix 4: Stress Tests

Groups of Banks	Before shock	Provisioning 1/	NPLs increase 12.17%	Devaluation 100%	Interest rate 10%	Interest rate 25%	Combined
All banks	31.39	29.80	29.22	32.19	31.22	30.97	32.02
Commercial banks	30.98	29.54	29.00	32.17	30.75	30.40	31.93
Merchant banks	14.87	10.82	9.09	13.39	14.72	14.50	13.24
Building societies	81.75	81.64	81.63	81.75	14.72	14.50	82.72
Finance houses	33.77	24.92	22.88	28.74	34.00	34.35	28.97
Discount houses	-4.84	-4.84	-4.84	-4.84	-5.27	-5.91	-5.27
Banks with CAR<10%	6	7	7	7	5	4	6
Their share of assets	6.69	7.92	7.92	9.95	3.20	2.10	8.50
Banks with CAR<0	1	3	3	1	1	2	1
Their share of assets	0.26	1.70	1.70	0.26	0.26	0.34	0.12

Source: Reserve Bank of Zimbabwe and Fund Staff estimates

1/ Involves bringing provisioning up to required levels.

Table 1. Zimbabwe: Expenditure on GDP, 1998-2003

	1998	1999	2000	2001	2002	2003
(In millions of Zimbabwe dollars)						
Consumption	116,320	189,765	314,880	701,291	1,910,200	6,334,993
Private	93,647	158,797	269,035	636,753	1,824,491	6,214,782
Central government	22,673	30,968	45,845	64,538	85,709	120,211
Gross fixed capital formation	29,593	30,922	38,432	51,757	92,992	174,659
Government	2,458	3,199	2,300	11,600	25,200	107,700
Private	27,135	27,723	36,132	40,157	67,792	66,959
Change in stocks	214	4,066	8,941	-12,201	-242,074	-892,526
Gross investment	29,807	34,988	47,373	39,557	-149,081	-717,867
Net exports of goods and nonfactor services	-2,482	3,630	-880	-31,634	-62,939	-98,370
Exports	62,332	105,877	118,151	105,235	93,022	84,118
Imports	-64,814	-102,246	-119,031	-136,868	-155,961	-182,488
GDP (at market prices)	143,645	228,384	361,373	709,214	1,698,180	5,518,757
Net factor income from abroad	-9,155	-9,431	-11,286	-11,934	-8,930	-7,068
Factor income received from abroad	414	1,491	1,268	755	799	863
Factor income paid abroad	-9,569	-10,922	-12,554	-12,690	-9,729	-7,931
Gross national income	134,490	218,952	350,087	697,280	1,689,251	5,511,689
(In percent of GDP)						
National savings, excluding grants	13.4	12.5	10.1	-0.6	-13.1	-14.9
Government	-1.2	-5.7	-18.1	-6.6	-1.2	2.1
Private	14.6	18.2	...	...	...	...
Gross fixed capital formation	20.6	13.5	10.6	8.2	8.2	8.2
Government	1.7	1.4	0.6	1.6	1.5	2.0
Private	18.9	12.1	10.0	5.7	4.0	1.2
Change in stocks	0.1	1.8	2.5	-1.7	-14.3	-16.2
Gross investment	20.8	15.3	13.1	6.5	-6.1	-8.0

Source: Central Statistical Office.

Table 2. Zimbabwe: Gross Domestic Product, 1998-2004
(Percent change at constant 1990 prices)

	1998	1999	2000	2001	2002	2003	2004
Agriculture, hunting, fishing, and forestry	2.3	3.6	3.2	-3.9	-22.7	-1.0	-2.9
Mining and quarrying	8.4	-7.0	-6.9	-13.5	2.2	-28.7	24.9
Manufacturing	-3.4	-4.5	-11.5	-5.4	-13.2	-13.8	-9.5
Electricity and water	-4.3	7.6	-1.0	10.3	6.2	1.5	-1.5
Construction	6.0	-11.1	-15.0	-35.2	-41.0	-15.5	-4.5
Finance and insurance	6.2	-4.5	0.8	-1.2	21.2	-23.7	-3.0
Real estate	5.4	5.1	4.9	4.2	3.9	2.2	-5.0
Distribution, hotels, and restaurants	0.8	0.4	-8.8	-5.2	-4.5	-30.8	-4.3
Transport and communications	-11.0	-3.7	-6.3	-5.5	-1.0	-8.1	-5.5
Public administration	-3.0	-4.8	-6.2	4.7	2.0	2.1	-4.5
Education	6.8	-8.0	3.7	5.9	1.0	0.7	-4.0
Health	6.6	14.5	-7.6	17.8	-13.0	1.4	-5.5
Domestic services	-1.1	-6.3	-5.0	5.7	2.5	0.4	-2.5
Other services	2.2	7.4	-2.1	-2.7	1.8	1.8	-5.5
Less: imputed bank service charges	37.4	13.9	13.9	0.0	-24.8	-25.6	-15.5
GDP (at factor cost)	-0.8	-2.1	-5.4	-3.4	-4.8	-10.8	-3.4
Net other taxes on production	39.4	-16.2	-17.1	-23.7	-43.6	-71.6	-25.0
GDP at basic prices	-0.7	-2.2	-6.1	-3.5	-4.9	-10.9	-3.5
Net taxes on products	10.8	-14.7	-24.0	6.7	0.6	-5.4	-10.5
GDP at market prices	0.5	-3.6	-7.3	-2.7	-4.4	-10.4	-4.2
Memorandum item:							
Real GDP (in millions of 1990 Zimbabwe dollars)	25,520	24,496	22,720	22,113	21,147	18,955	18,168

Sources: Central Statistical Office, 1998-2003; and IMF staff estimates, 2004.

Table 3. Zimbabwe: Agricultural Crop Production, 1998-2004^{1/}
(In thousands of tons)

	1998	1999	2000	2001	2002	2003	2004 Est.
Commercial farms^{2/}							
Tobacco (flue cured)	223	196	240	204	164	83	55
Maize	568	600	1 209	482	305	341	318
Cotton ^{3/}	156	154	145	48	31	21	3
Sugarcane (Total)	570	585	560	515	554	501	536
Wheat	243	285	250	314	154	11	20
Groundnuts	5	42	79	16	59	141	134
Tea	...	...	21	23	22	6	23
Soybeans	114	95	141	164	77	34	66
Coffee (Total)	11	8	8	7	9	9	10
Sunflower seeds	...	7	9	4	1	8	3
Sorghum	21	41	74	19	18	62	36
Communal lands^{4/}							
Tobacco (flue cured)	3	3	5	4	9	11	13
Maize	623	944	939	994	300	718	832
Cotton ^{3/}	118	149	195	234	159	207	287
Wheat	2	1	1	0	59	38	45
Groundnuts	38	71	112	156	0	0	1
Tea	...	...	1	0	0	16	2
Soybeans	1	3	3	11	7	7	6
Sunflower seeds	...	10	7	28	4	9	17
Sorghum	16	42	29	41	4	9	6
Total production							
Tobacco (flue cured)	226	199	245	208	173	94	68
Maize	1,191	1,544	2,148	1,476	605	1,059	1150
Cotton ^{3/}	274	303	340	282	190	228	290
Sugarcane	570	585	560	515	554	501	536
Wheat	245	286	251	314	213	49	65
Groundnuts	43	113	191	172	59	141	135
Tea	...	...	22	23	22	22	25
Soybeans	115	98	144	175	84	41	72
Coffee	11	8	8	7	9	9	10
Sunflower seeds	8	17	16	32	5	17	20
Sorghum	37	83	103	60	22	71	42

Sources: Central Statistical Office; Ministry of Economic Development; and IMF staff estimates, 2004.

1/ Crop season ending in year indicated.

2/ Large- and small-scale commercial farms.

3/ Includes deltapine and delmac cotton.

4/ Communal lands and resettlement areas.

Table 4. Zimbabwe: Prices of Marketed Agricultural Crops, 1997/98-2003/04^{1/}
(Unit values in thousands of Zimbabwe dollars per metric ton)

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Maize	1.2	2.4	4.2	5.4	15.0	31.9	300.0
Cotton	7.1	8.7	16.6	15.9	31.1	107.4	1900.0
Wheat	3.1	3.7	5.5	7.4	25.0	70.0	776.0
Tobacco; flue cured	26.6	34.8	66.2	83.8	174.7	361.3	8614.0
Tobacco; burley	20.3	24.8	50.7	36.9	92.0	205.8	4336.0
Soybeans	2.9	5.0	6.5	9.4	17.0	70.0	1000.0
Sorghum	2.2	1.0	3.0	3.1	5.5	28.0	300.0
Groundnuts (unshelled)	4.0	4.0	7.0	9.6	22.0	45.0	500.0
Coffee	13.8	60.0	80.0	80.0	80.0	350.0	1200.0
Sunflower seeds	1.5	2.3	6.0	5.6	14.0	40.0	350.0

Source: Central Statistical Office.

1/ Marketing years run from April 1 to March 31.

Table 5. Zimbabwe: Area Under Cultivation for Major Crops, 1998-2004^{1/}
(In hectares)

	1998	1999	2000	2001	2002	2003	2004 Est.
Maize	1,181,207	1,477,990	1,373,117	1,239,988	1,327,854	1,352,368	1,493,810
Cotton	236,287	310,534	282,469	384,574	401,897	195,077	331,716
Tobacco	79,295	78,713	76,200	66,698	71,880	47,213	55,584
Flue cured	73,534	72,654	70,306	61,189	68,230	45,712	...
Burley	5,761	6,059	5,894	5,509	3,650	1,501	...
Soybeans	60,290	52,931	60,650	64,009	51,282	25,390	49,572
Sorghum	126,039	143,912	116,248	110,138	81,513	128,530	227,768
Groundnuts (unshelled)	178,555	132,117	175,773	275,036	258,610	105,052	133,339
Coffee ^{2/}	6,741	5,912	5,215	5,516	3,792	...	...
Sugarcane ^{2/}	37,360	39,459	39,224	39,680	37,414	...	...
Wheat ^{2/}	41,943	52,592	47,796	42,117	32,900	16,400	...

Sources: Central Statistical Office; and Zimbabwe Grain Producers' Association.

1/ Crop season ending in year indicated.

2/ Large-scale commercial farms only.

Table 6. Zimbabwe: Volume and Value of Livestock Slaughtering and Milk Production, 1998-2004^{1/}

	1998	1999	2000	2001	2002	2003	2004
(Volume in thousands)							
Cattle slaughtering	369	347	382	347	329	208	185
Sheep slaughtering	22	24	20	21	32	13	7
Pig slaughtering	224	199	219	201	177	114	109
Goat slaughtering	36	25	21	10	14	10	5
(Whole-milk tons)							
Milk production	165,803	158,170	144,973	136,318	116,589	81,913	89,565
(Value in millions of Zimbabwe dollars)							
Total slaughtering	2,190	4,195	6,533	7,446	13,129	63,302	
Cattle	1,901	3,714	5,835	6,204	10,035	48,419	1,110,000
Sheep	8	11	29	38	102	29	...
Pigs	274	463	653	1,193	2,966	14,839	65,649
Goats	7	7	16	11	26	15	...
Milk production	620	1,248	1,852	2,905	6,902	9,029	160,000

Source: Central Statistical Office.

^{1/} Figures for slaughtering do not include the 3rd & 4th quarter slaughterings for butchers & grading centres.

Table 7. Zimbabwe: Livestock in Communal and Commercial Farming Areas, 1998-2003
(In thousands)

	1998	1999	2000	2001	2002	2003
Cattle	4,953	5,316	5,226	5,541	4,817	5,297
Communal lands	3,588	3,975	3,982	4,398	4,055	4,936
Commercial farms	1,365	1,341	1,244	1,143	762	361
Beef cattle	1,275	1,259	1,169	1,071	710	
Dairy cattle	90	82	75	72	52	
Sheep	343	310	293	546	532	515
Communal lands	274	250	238	493	498	487
Commercial farms	69	60	55	53	34	28
Goats	4,645	4,363	3,848	3,426	3,170	3,276
Communal lands	4,616	4,339	3,828	3,407	3,156	3,248
Commercial farms	29	24	20	19	14	28
Pigs	311	244	250	277	243	419
Communal lands	197	140	160	161	145	157
Commercial farms	114	104	90	116	98	262

Sources: Central Statistical Office; and Veterinary Services.

Table 8. Zimbabwe: Volume of Manufacturing Output, 1998-2004

	1998	1999	2000	2001	2002	2003	2004 Est.
(Volume indices: period averages, 1990 = 100)							
Foodstuffs and stock feeds	83.7	84.2	73.4	72.4	65.2	48.5	48.7
Drinks and tobacco	111.1	96.2	114.0	86.7	61.8	62.0	50.2
Textiles and cotton ginning	79.1	87.3	72.8	68.9	49.4	32.0	39.8
Clothing and footwear	114.6	125.7	120.8	123.0	108.4	104.4	96.2
Wood and furniture	342.8	285.0	231.1	220.0	205.8	162.9	143.5
Paper, printing, and publishing	102.7	94.1	74.7	69.5	69.5	61.2	57.5
Chemical and petroleum products	120.3	107.4	75.9	75.2	79.1	68.0	66.7
Non-metallic mineral products	125.7	115.4	112.1	120.5	85.5	60.0	56.8
Metals and metal products	77.5	82.8	82.9	73.5	65.8	65.4	51.2
Transport equipment	101.1	69.2	52.0	43.7	41.2	38.6	38.9
Other manufacturing	69.2	64.1	48.6	45.0	52.1	33.4	37.8
Overall index	106.6	99.9	93.3	86.9	72.6	64.0	58.0
(Percent change)							
Foodstuffs and stock feeds	-1.3	0.6	-12.8	-1.3	-9.9	-25.6	0.4
Drinks and tobacco	13.0	-13.4	18.5	-24.0	-28.7	0.3	-19.0
Textiles and cotton ginning	7.0	10.4	-16.6	-5.4	-28.3	-35.2	24.4
Clothing and footwear	7.9	9.6	-3.9	1.8	-11.9	-3.7	-7.9
Wood and furniture	-2.0	-16.9	-18.9	-4.8	-6.5	-20.8	-11.9
Paper, printing, and publishing	-4.4	-8.4	-20.7	-6.9	0.0	-11.9	-6.0
Chemical and petroleum products	-5.0	-10.7	-29.3	-1.0	5.2	-14.0	-1.9
Non-metallic mineral products	10.1	-8.2	-2.8	7.4	-29.0	-29.8	-5.3
Metals and metal products	-16.4	6.9	0.1	-11.3	-10.5	-0.6	-21.7
Transport equipment	-27.6	-31.5	-24.9	-15.9	-5.7	-6.3	0.8
Other manufacturing	-14.4	-7.3	-24.2	-7.4	15.8	-35.9	13.2
Overall index	-1.3	-6.3	-6.6	-6.8	-16.5	-11.8	-9.4

Source : Central Statistical Office.

Table 9. Zimbabwe: Mineral Production, 1998-2004

	1998	1999	2000	2001	2002	2003	2004 Est.
(In thousands of metric tonnes, unless otherwise indicated)							
Volume of production							
Gold (thousands of fine ounces)	809	872	708	560	431	400	686
Platinum (kilograms)	2,685	390	504	435	2,011	4,270	4,438
Nickel	10,173	9,593	5,967	3,908	6,313	9,517	9,776
Coal	5,467	4,977	3,986	4,511	3,938	2,872	2,476
Asbestos	123	88	152	119	168	147	104
Chrome ore	605	653	668	723	672	637	668
Iron ore	372	599	438	362	272	367	229
Silver (thousands of fine ounces)	531	173	122	108	92	50	19
Cobalt (metric tons)	94	131	79	68	105	79	59
Black granite	226	124	510	379	197	190	137
Other (index, 1980=100) 1/							
(Index, 1990=100)							
Unit value index ^{2/}							
Gold	742	1,139	1,295	1,541	1,759	60,960	104,546
Platinum	1,114	706	2,787	18,094	22,723	41,518	43,151
Nickel	501	1,007	1,769	2,841	10,043	45,445	46,682
Coal	667	1,105	2,072	3,121	6,131	12,856	11,083
Asbestos	1,169	1,849	2,024	2,253	2,257	30658	21,690
Copper	668	954	711	1,196	6,241	16,254	14,448
Chrome ore	421	707	1,101	2,001	5,789	23,433	24,574
Iron ore	446	693	1,018	2,818	4,425	6,005	3,747
Silver	452	1,667	1,825	1,970	2,073	23,201	8,753
Cobalt	1,725	1,791	1,587	5,794	25,767	6,204	4,660
Memorandum item:							
U.S. dollar; period average)							

Sources: Ministry of Finance; Central Statistical Office; and IMF, *International Financial Statistics*.

1/ Includes diamonds, other precious stones, phosphate, tantalite, magnesite, limestone, and lithium.

2/ Unit value indices are estimates.

Table 10. Zimbabwe: Construction and Retail Trade, 1998-2004

	1998	1999	2000	2001	2002	2003	2004 Jan.-Mar.
(In millions of Zimbabwe dollars, unless otherwise indicated)							
Construction indicators							
Total building plans approved ^{1/}	1,910	2,908	3,619	3,636	9,175	1,053	...
Municipal building plans approved	4,208	4,332	4,539	4,408	4,521	3,366	907
Low-cost houses and flats (in units)	2,503	1,899	1,250	520	420	35	26
High-cost houses and flats (in units)	1,705	2,433	3,289	3,888	4,101	3,331	881
Work done by private and public contractors							
Public	752	325	139	298	535	1313	...
Private	1,741	1,755	...	...	...	...	...
<i>Of which:</i> public sector	284	360	...	...	...	...	...
Retail trade value index, monthly average 1980 = 100	1,378	1980	2210	...	...	...	...
(Percent change)	11	44	...	...	...	...	...

Source: Central Statistical Office

^{1/} Includes additions and alterations.

Table 11. Zimbabwe: Electrical Energy Produced and Distributed, 1998-2004
(In millions of kilowatt-hours)

	1998	1999	2000	2001	2002	2003	2004
Total power distributed	11,620	12,408	12,206	12,206	12,583	12,235	12,221
From central grid ^{1/}	11,515	12,290	12,102	12,164	12,583	12,235	12,221
Noninterconnected thermal station	102	114	104	42	0	0	0
Other (net) ^{2/}	3	4	3	0	0	0	0
Power generated domestically	6,677	7,208	7,099	7,926	8,587	8,799	9,719
From South Kariba ^{3/}	1,925	2,950	3,260	2,998	3,824	5,359	5,521
Thermal stations	4,650	4,140	3,735	4,928	4,763	3,439	4,198
Noninterconnected thermal station	102	118	104	42	...	...	...
Net imports	4,936	5,204	5,106	4,185	3,996	3,436	2,502

Source: Central Statistical Office.

1/ Drawings from the grid of the Central African Power Corporation.

2/ Net imports from noninterconnected sources.

3/ Power generated from South Kariba is Zimbabwe's share but it is fed into the Central African Power Corporation Grid.

Table 12. Zimbabwe: Petroleum Products, 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005 April
<hr/>								
Retail price (Zimbabwe cents per liter; end of period) ^{1/}								
Premium petrol	967	1,868	4,380	7,447	7,447	175,000	175,000	175,000
Diesel	810	1,681	3,960	6,639	6,639	165,000	165,000	260,000
Aviation gas	1,214	1,865	2,026	2,026	5,737	247,800	247,800	165,000
Jet fuel (A1)	792	1,669	3,120	5,703	5,703	247,800	247,800	270,000
Liquefied petroleum gas (LPG)	1,400	2,405	2,566	2,556	10,500	10,500	10,500	11,940
<hr/>								
Tax (Zimbabwe cents per liter; end of period)								
Premium petrol	140	346	912	730	730	730	5,850	7,944
Diesel	50	188	385	385	385	385	5,850	8,331
Aviation gas	50	50	50	0	0	0	0	0
Jet fuel (A1)	50	304	0	0	0	0	0	9,106
LPG	100	100	100	100	54	54	5,850	0
<hr/>								
Quantity imported (thousands of liters) ^{1/}								
Premium petrol	530,252	709,469	381,234	473,310	389,494	15,469	6,000	28,429,515
Diesel	956,480	1,215,446	632,828	525,263	681,921	32,412	28,779	57,162,718
Aviation gas	3,433	4,513	0	0	300	90	0	0
Jet fuel (A1)	311,289	305,840	140,917	120,723	79,013	426	6,362	1,506,591
LPG	7,071	7,012	755	1,073	1,317	0	0	...

Sources: National Oil Company of Zimbabwe; and Zimbabwean news sources.

1/ Data for 2003, 2004 and 2005 is for government imports only. Data on retail prices and quantity imported by the private sector not available.

Table 13. Zimbabwe: Consumer Price Index, 1998-2005

	Weight	1998	1999	2000	2001	2002	2003	2004	2005 May
(Index, 1995=100)									
Food	33.6	250	392	559	1,164	3,725	27,399	60,592	87,013
Nonfood index	66.4	376	592	1,118	2,467	6,352	22,858	54,811	83,196
Beverages and tobacco	16.0	236	396	617	1,215	5,551	38,246	84,806	137,481
Clothing and footwear	6.9	164	287	437	1,129	3,652	22,833	53,142	73,258
Rent rates and power	17.3	188	255	410	744	1,253	5,704	18,886	34,819
Furniture and household goods	7.5	218	339	505	1,532	3,779	22,858	37,635	48,799
Medical care	1.7	181	351	539	1,083	2,884	19,298	54,016	72,687
Transport and communication	6.6	255	419	899	1,922	3,460	41,889	127,238	157,574
Recreation and entertainment	1.2	222	386	682	2,178	5,280	29,361	63,439	91,085
Education	4.5	207	284	410	850	1,877	9,870	35,892	77,808
Miscellaneous	4.7	233	328	474	1,247	3,180	17,536	33,201	49,032
Total index	100.0	226	355	550	1,167	3,490	24,384	56,753	84,478
(Year-on-year percent change) ^{1/}									
Food		62.9	56.8	42.9	108.0	220.1	635.6	121.1	118.7
Beverages and tobacco		66.7	65.3	55.5	97.0	357.1	589.0	139.8	160.6
Clothing and footwear		27.9	75.2	52.4	158.5	223.5	525.2	121.7	190.0
Rent rates and power		11.2	35.8	60.4	81.7	68.4	355.1	132.7	130.2
Furniture and household goods		52.1	55.5	48.9	203.6	146.7	504.9	231.1	150.4
Medical care		15.6	94.5	53.2	101.1	166.3	569.1	64.6	74.7
Transport and communication		62.3	64.4	114.8	113.7	80.0	1,110.6	179.9	176.8
Recreation and entertainment		46.4	73.5	76.7	219.6	142.4	456.1	203.8	196.6
Education		22.4	36.7	44.7	107.1	120.9	425.9	116.1	74.8
Miscellaneous		53.1	40.7	44.5	163.1	155.0	451.4	263.6	195.1
Total index		46.7	56.9	55.2	112.1	198.9	598.7	132.7	144.4

Source: Central Statistical Office.

^{1/} December over December.

Table 14. Zimbabwe: Consumer Price Index, December 2003-May 2005

	Weight	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05
(Index, 1995=100)																			
Food	33.6	27,399	31,110	34,509	36,247	37,606	39,792	45,149	47,957	49,426	52,624	55,532	58,500	60,592	65,547	69,607	74,258	79,927	87,013
Nonfood index	66.4	22,858	25,997	26,788	28,500	30,084	31,927	33,993	37,960	40,487	42,721	48,262	52,681	54,811	64,323	65,322	67,209	72,053	83,196
Beverages and tobacco	16.0	38,246	40,847	41,990	42,302	44,630	47,403	50,201	54,370	59,356	64,310	71,887	82,411	84,806	98,190	101,479	104,388	114,918	137,481
Clothing and footwear	6.9	22,833	26,374	27,854	29,072	31,130	31,830	34,648	36,931	37,952	40,128	41,515	50,051	53,142	54,536	57,056	60,767	64,221	73,258
Rent rates and power	17.3	5,704	9,038	9,406	13,132	13,855	13,905	14,564	14,836	16,065	15,379	16,032	16,337	18,886	27,443	23,345	23,390	24,021	34,819
Furniture and household goods	7.5	22,858	24,910	26,056	26,709	27,359	27,930	29,509	30,436	33,614	37,160	48,881	52,899	54,016	56,931	59,379	62,130	66,789	72,687
Medical care	1.7	19,298	23,009	23,575	23,915	24,813	26,261	26,722	27,861	32,178	47,160	48,881	52,899	54,016	56,931	59,379	62,130	66,789	72,687
Transport and communication	6.6	41,889	43,951	42,578	46,896	51,258	53,135	58,389	84,020	87,097	90,582	122,475	126,145	127,238	142,784	144,673	146,778	153,841	157,574
Recreation and entertainment	1.2	29,361	38,927	41,446	41,793	43,255	52,096	51,516	52,041	54,796	56,666	55,153	61,282	63,439	67,847	69,325	71,283	83,795	91,085
Education	4.5	9,870	15,833	16,501	16,800	17,609	26,369	27,419	28,368	30,300	31,483	33,399	34,511	35,892	65,053	70,567	71,640	74,109	77,808
Miscellaneous	4.7	17,536	19,845	21,141	21,678	22,116	22,669	24,124	25,854	26,988	27,570	30,256	31,675	33,201	35,261	36,684	38,992	42,231	49,032
Total index	100.0	24,384	27,715	29,382	31,103	32,611	34,570	37,741	41,319	43,490	46,048	50,705	54,636	56,753	64,734	66,762	69,577	74,699	84,478
(Year-on year-percent change)																			
Food		635.6	665.7	689.4	655.9	563.5	481.8	430.6	378.4	320.4	264.8	210.8	143.1	121.1	110.7	101.7	104.9	112.5	118.7
Nonfood index		578.2	599.1	555.5	544.2	473.1	429.8	373.0	353.5	310.8	243.7	208.0	152.8	139.8	147.4	143.8	135.8	139.5	160.6
Beverages and tobacco		589.0	575.4	531.0	510.8	457.4	395.7	319.5	293.4	251.2	232.4	196.6	128.3	121.7	140.4	141.7	146.8	157.5	190.0
Clothing and footwear		525.2	532.0	525.7	477.7	448.9	403.5	339.1	313.3	265.1	213.0	156.5	153.8	132.7	106.8	104.8	109.0	106.3	130.2
Rent rates and power		355.1	436.5	438.4	634.2	463.2	462.0	451.2	357.2	304.0	253.7	234.5	208.7	231.1	203.6	148.2	78.1	73.4	150.4
Furniture and household goods		504.9	533.8	490.8	466.0	416.5	366.4	307.1	231.1	201.0	117.0	94.1	73.4	64.6	57.5	56.9	59.0	63.5	74.7
Medical care		569.1	668.4	661.9	608.7	522.8	536.8	500.4	407.0	435.2	493.2	440.6	187.1	179.9	147.9	151.9	159.8	169.2	176.8
Transport and communication		1,110.6	1,086.1	904.9	820.4	626.9	497.2	499.4	694.9	695.8	386.7	333.5	225.4	203.8	224.9	239.8	213.0	200.1	196.6
Recreation and entertainment		456.1	588.9	548.1	492.8	395.5	455.1	446.4	442.3	408.5	310.3	231.5	208.6	116.1	74.3	67.3	70.6	98.3	74.8
Education		425.9	709.3	652.8	514.6	514.3	776.0	712.1	675.5	664.5	488.3	422.4	383.4	263.6	310.9	327.6	326.4	320.9	195.1
Miscellaneous		451.4	483.4	468.0	423.9	406.8	367.3	302.4	250.2	213.3	145.8	122.9	103.3	89.3	77.7	73.5	79.9	91.0	116.3
Total index		598.7	622.8	602.5	583.7	505.0	448.8	394.6	362.9	314.4	251.5	209.0	149.3	132.7	133.6	127.2	123.7	129.1	144.4
(Monthly percent change)																			
Food		13.9	13.5	10.9	5.0	3.7	5.8	13.5	6.2	3.1	6.5	5.5	5.3	3.6	8.2	6.2	6.7	7.6	8.9
Nonfood index		9.7	13.7	3.0	6.4	5.6	6.1	6.5	11.7	6.7	5.5	13.0	9.2	4.0	17.4	1.6	2.9	7.2	15.5
Beverages and tobacco		6.0	6.8	2.8	0.7	5.5	6.2	5.9	8.3	9.2	8.3	11.8	14.6	2.9	15.8	3.3	2.9	10.1	19.6
Clothing and footwear		15.8	15.5	5.6	4.4	7.1	2.2	8.9	6.6	2.8	5.7	4.2	20.6	6.2	2.6	4.6	6.5	5.7	14.1
Rent rates and power		7.8	58.4	4.1	39.6	5.5	0.4	4.7	1.9	8.3	-4.3	4.2	1.9	15.6	45.3	-14.9	0.2	2.7	45.0
Furniture and household goods		9.8	9.0	4.6	2.5	2.4	2.1	5.7	3.1	6.6	3.6	4.3	2.9	4.2	4.2	4.2	3.9	5.3	9.1
Medical care		4.7	19.2	2.5	1.4	3.8	5.8	1.8	4.3	15.5	46.6	3.6	8.2	2.1	5.4	4.3	4.6	7.5	8.8
Transport and communication		8.0	4.9	-3.1	10.1	9.3	3.7	9.9	43.9	3.7	4.0	35.2	3.0	0.9	12.2	1.3	1.5	4.8	2.4
Recreation and entertainment		47.9	32.6	6.5	0.8	3.5	20.4	-1.1	1.0	5.3	3.4	-2.7	11.1	3.5	6.9	2.2	2.8	20.4	6.2
Education		38.3	60.4	6.2	1.8	4.8	49.7	4.0	3.5	6.8	3.9	6.1	3.3	4.0	81.2	8.5	1.5	3.4	5.0
Miscellaneous		12.6	13.2	6.5	2.5	2.0	2.5	6.4	7.2	4.4	2.2	9.7	4.7	4.8	6.2	4.0	6.3	8.3	16.1
Total index		11.2	13.7	6.0	5.9	4.8	6.0	9.2	9.5	5.3	5.9	10.1	7.8	3.9	14.1	3.1	4.2	7.4	13.1

Source: Central Statistical Office.

Table 15. Zimbabwe: Employment and Employment Earnings, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
Employment	(Thousands of employees; period average)						
Agriculture, forestry and fishing	345	338	325	290	221	158	154.4
Mining and quarrying	61	60	45	43	43	42.1	50.1
Manufacturing	208	201	181	179	171	140.8	135.9
Electricity and water	16	17	11	9	10	10.7	10.9
Construction	79	69	54	41	42	26.2	24.5
Finance, insurance and real estate	28	31	35	28	28	38.8	37.7
Distribution, restaurants and hotels	113	115	103	100	105	116	113.5
Transport and communication	51	45	44	42	41	40	37.9
Public administration	66	63	59	61	65	65.7	67.8
Education	146	135	140	148	149	150.6	150.6
Health	28	28	28	32	32	26.6	26
Domestic	102	102	102	102	102	102.1	102.1
Other	105	113	107	108	105	95.4	87.5
Total	1,348	1,317	1,234	1,183	1,114	1012.9	998.9
Government ^{1/}	240	226	227	241	246	210	210
Non-government	1,108	1,091	1,007	942	868	802.9	789
Earnings	(In millions of Zimbabwe dollars)						
Agriculture, forestry and fishing	2,977	4,163	5,725	10,727	11,956	...	...
Mining and quarrying ^{2/}	2,957	4,122	4,331	7,059	16,732	45,084	...
Manufacturing ^{2/}	9,216	12,782	18,078	30,054	58,070	119,870	...
Electricity and water ^{2/}	2,586	3,440	4,299	6,810	10,251	20,197	...
Construction ^{2/}	2,282	2,549	4,173	4,744	7,881	14,559	...
Finance, insurance and real estate ^{2/}	3,619	5,305	10,241	13,234	23,040	42,277	...
Distribution, restaurants and hotels ^{2/}	4,775	7,022	9,833	15,645	29,577	55,209	...
Transport and communication ^{2/}	3,156	4,395	7,463	10,439	17,379	30,770	...
Public administration ^{2/}	3,924	5,728	12,682	12,954	29,070	68,498	...
Education ^{2/}	10,360	14,914	30,116	39,222	74,768	151,608	...
Health ^{2/}	2,089	2,906	7,031	8,502	18,958	34,276	...
Domestic ^{2/}	191	191	191	191	191	143	...
Other ^{2/}	4,043	5,921	10,205	14,044	28,132	53,172	...
Total	52,175	73,438	124,368	173,625	326,005	...	...

Source: Central Statistical Office (CSO).

1/ Public administration, health and education.

2/ Earning figures are up to September 2003

Table 16. Zimbabwe: Central Government Operations, 1999-2004

	1999	2000	2001	2002	2003	2004
(In billions of Zimbabwe dollars)						
Total revenue	58.6	87.8	136.0	304.2	1,374.7	8,071.7
Tax revenue	55.6	82.3	128.5	284.6	1,325.8	7,763.0
Income and profits	29.7	52.2	73.8	158.3	734.7	4,076.9
Customs duties	8.5	8.5	17.4	27.2	92.9	930.0
Excise duties	2.9	4.1	5.3	18.8	94.6	278.8
Sales tax/VAT	12.3	15.7	29.3	76.2	382.3	2,377.0
Other taxes	2.1	1.7	2.7	4.0	21.3	100.4
Nontax revenue	3.0	5.6	7.4	19.6	49.0	308.7
Total expenditure and net lending	80.2	158.7	188.9	351.3	1,394.6	9,770.7
Current expenditure	71.3	153.2	176.8	320.7	1,233.2	8,410.7
Goods and services	40.6	79.8	99.9	216.0	924.3	5,016.3
Salaries and wages	28.2	59.5	64.5	123.9	528.0	3,657.6
Other	12.5	20.3	35.4	92.1	396.4	1,358.7
Interest on debt	21.6	53.0	52.8	49.5	69.2	1,302.1
Foreign	3.6	1.6	11.7	9.2	3.3	568.0
Domestic	18.1	51.5	41.1	40.3	65.9	734.0
Transfers	9.0	20.4	24.1	55.2	239.7	2,092.4
Capital expenditure	6.3	2.4	11.6	25.2	107.7	1,220.2
Net lending	2.6	3.1	0.6	5.4	53.7	139.8
Balance, excluding grants and foreign interest arrears ^{1/}	-21.6	-70.9	-53.0	-47.2	-19.8	-1,699.0
Grants	2.1	3.5	3.0	0.7	6.1	23.0
Foreign interest arrears	0.2	2.8	11.5	8.8	3.3	568.0
Balance, including grants and foreign interest arrears ^{1/}	-19.3	-64.6	-38.5	-37.7	-10.5	-1,114.6
Financing	19.3	64.6	38.5	37.7	10.5	1,114.6
Foreign financing	-2.3	2.7	0.7	-1.5	0.9	-2.2
Borrowing	6.2	7.2	1.4	0.2	0.9	0.0
Repayments	-8.5	-4.5	-0.7	-1.7	0.0	0.0
Domestic financing	21.6	61.9	37.8	39.2	9.6	1,116.8
Of which: proceeds of asset sales	0.3	0.0	6.7	0.5	0.0	0.0
(In percent of GDP, unless otherwise indicated)						
Total revenue	26.4	24.3	19.2	17.9	24.9	33.9
Tax revenue	25.1	22.8	18.1	16.8	24.0	32.6
Income and profits	13.4	14.4	10.4	9.3	13.3	17.1
Customs duties	3.8	2.4	2.5	1.6	1.7	3.9
Other domestic	7.8	6.0	5.3	5.8	9.0	11.6
Nontax Revenue	1.4	1.5	1.0	1.2	0.9	1.3
Total expenditure	36.2	43.9	26.6	20.7	25.3	41.0
Current expenditure	32.2	42.4	24.9	18.9	22.3	35.3
Goods and services	18.3	22.1	14.1	12.7	16.7	21.1
Salaries and wages	12.7	16.5	9.1	7.3	9.6	15.4
Other	5.6	5.6	5.0	5.4	7.2	5.7
Interest on debt	9.8	14.7	7.4	2.9	1.3	5.5
Foreign	1.6	0.4	1.6	0.5	0.1	2.4
Domestic	8.2	14.2	5.8	2.4	1.2	3.1
Subsidies	0.0	0.0	0.0	0.0	0.0	33.9
Transfers	4.1	5.6	3.4	3.3	4.3	8.8
Capital expenditure	2.9	0.7	1.6	1.5	2.0	5.1
Net lending	1.2	0.9	0.1	0.3	1.0	0.6
Balance, excluding grants ^{1/}	-9.8	-19.6	-7.5	-2.8	-0.4	-7.1
Memorandum item:						
GDP at market prices (Z\$ billions)	222	361	709	1,698	5,519	23,802

Sources: Zimbabwean authorities; and IMF staff estimates.

^{1/} On a commitment basis.

Table 17. Zimbabwe: Detailed Central Government Revenue, 1999-2004
(In billions of Zimbabwe dollars)

	1999	2000	2001	2002	2003	2004
Total revenue	58.6	87.8	136.0	304.2	1,374.7	8,071.7
Tax revenue	55.6	82.3	128.5	284.6	1,325.8	7,763.0
Income and profits	29.7	52.2	73.8	158.3	734.7	4,076.9
Individuals	19.6	35.9	53.1	116.4	588.8	3,184.8
Companies	6.8	9.6	14.9	30.0	80.6	604.9
Domestic dividends and interest	1.4	3.3	2.6	4.5	22.2	206.3
Other income taxes	1.9	3.5	3.2	7.5	43.2	80.9
Customs duties	8.5	8.5	17.4	27.2	92.9	930.0
Oil products	0.8	0.1	3.3	5.5	0.7	6.8
Other	7.7	8.5	14.1	21.7	92.1	923.2
Excise duties	2.9	4.1	5.3	18.8	94.6	278.8
Beer	1.7	2.3	2.7	12.4	65.0	169.9
Tobacco	0.5	0.8	1.2	0.4	0.9	76.6
Wine and spirits	0.1	0.2	0.2	3.4	20.7	13.4
Other beverages	0.5	0.8	1.2	2.6	8.0	18.8
Sales tax/VAT	12.3	15.7	29.3	76.2	382.3	2,377.0
Other taxes	2.1	1.7	2.7	4.0	21.3	100.4
Tobacco levy	1.2	1.0	1.1	0.9	3.5	19.2
Other	1.0	0.7	1.6	3.1	17.8	81.2
Nontax revenue	3.0	5.6	7.4	19.6	49.0	308.7
Investments and property	0.5	1.3	1.7	1.2	1.8	3.0
Reserve Bank remittances	0.1	0.1	0.2	0.4	0.0	0.0
Local government interest	0.0	0.0	0.2	0.1	0.0	0.0
Parastatal interest, dividends, and oth	0.4	1.1	1.4	0.7	1.8	3.0
Fees	0.3	0.5	0.7	1.1	2.5	16.4
Other	2.2	3.8	5.0	17.3	44.7	289.3

Sources: Zimbabwean authorities; and IMF staff estimates.

Table 18. Zimbabwe: Detailed Central Government Expenditure and Net Lending, 1999-2004
(In billions of Zimbabwe dollars)

	1999	2000	2001	2002	2003	2004
Total expenditure and net lending	80.2	158.7	188.9	351.3	1,394.6	9,770.7
Current expenditure	71.3	153.2	176.8	320.7	1,233.2	8,410.7
Current expenditure on goods and services	40.6	79.8	99.9	216.0	924.3	5,016.3
Wages and salaries	28.2	59.5	64.5	123.9	528.0	3,657.6
Other goods and services	12.5	20.3	35.4	92.1	396.4	1,358.7
Subsistence and transport	1.3	1.9	2.6	6.4	34.1	181.9
Incidental expenses	2.3	4.6	7.2	20.8	43.7	860.6
Maintenance of capital works	0.9	2.2	2.2	3.9	18.3	269.8
Other	8.1	11.6	23.5	61.1	300.3	46.7
Interest payments	21.6	53.0	52.8	49.5	69.2	1,302.1
Foreign (commitment)	3.6	1.6	11.7	9.2	3.3	568.0
Domestic	18.1	51.5	41.1	40.3	65.9	734.0
Subsidies and transfers	9.0	20.4	24.1	55.2	239.7	2,092.4
<i>Of which:</i> pensions	4.0	8.0	11.1	22.6	77.2	772.1
Capital expenditure and net lending	8.9	5.5	12.2	30.6	161.4	1,360.0
Capital expenditure	6.3	2.4	11.6	25.2	107.7	1,220.2
Net lending	2.6	3.1	0.6	5.4	53.7	139.8
Long-term loans (net)	2.3	2.8	0.6	5.1	2.3	139.8
Gross lending	2.5	2.9	0.9	5.2	2.3	2.3
Recoveries	-0.2	-0.1	-0.4	-0.1	0.0	0.0
Investments	0.0	0.5	0.0	0.3	0.0	0.0
Short-term loans (net)	0.2	-0.1	0.0	-0.1	51.4	0.0

Sources: Zimbabwean authorities; and IMF staff estimates.

Table 19. Zimbabwe: Expenditure and Repayments by Ministries, 1999-2003
(In billions of Zimbabwe dollars)

	1999	2000	2001	2002	2003
Total	79.8	175.1	169.9	343.7	1,284.4
Constitutional and statutory appropriations	26.1	74.2	52.1	66.3	146.0
President and Cabinet	0.0	0.0	0.0	0.0	0.0
Parliament of Zimbabwe	0.0	0.0	0.0	0.0	0.0
Public Service, Labour and Social Welfare	4.0	8.0	11.1	22.6	77.2
Finance and Economic Development	22.1	66.2	40.9	43.6	68.3
<i>Of which</i> : repayments of loans	-7.5	-10.0	-34.2	-2.6	-2.4
Audit	0.0	0.0	0.0	0.0	0.0
Local Government, Public Works and National Housing	0.0	0.0	0.0	0.0	0.0
Justice, Legal and Parliamentary Affairs	0.0	0.0	0.0	0.1	0.5
Transport and Communications	0.0	0.0	0.0	0.0	0.0
Vote appropriations	53.7	100.8	117.8	277.4	1,138.4
President and Cabinet	1.7	2.6	3.0	6.9	36.3
Parliament of Zimbabwe	0.1	0.2	0.3	0.5	4.7
Public Service, Labour and Social Welfare	1.0	2.4	5.5	15.4	67.9
Defense	10.1	15.4	15.8	37.3	148.8
Finance and Economic Development	0.9	3.6	4.4	15.3	11.0
Audit	0.0	0.1	0.1	0.3	1.1
Industry and International Trade	0.3	0.3	0.4	5.1	13.3
Lands, Agriculture and Rural Resettlement	1.6	2.8	5.1	29.0	125.8
Mines and Energy	0.3	0.4	0.6	0.7	3.4
Foreign Affairs	1.4	2.6	1.4	2.1	9.2
Local Government, Public Works and National Housing	1.2	2.0	2.6	10.1	26.8
Health and Child Welfare	4.6	9.3	13.6	34.4	130.4
Education, Sport and Culture	13.5	25.6	36.0	58.0	270.1
Higher Education and Technology	3.4	6.7	7.2	14.2	65.4
Home Affairs	3.5	7.1	8.9	21.9	98.3
Justice, Legal and Parliamentary Affairs	1.0	2.0	3.2	8.7	36.5
Transport and Communications	2.0	1.8	2.3	5.8	34.5
Vote of Credit	5.4	13.7	4.0	2.9	5.0
Rural Resources and Water Development	1.3	1.8	2.1	5.5	22.9
Environment and Tourism	0.0	0.0	0.4	1.0	3.4
Youth Development, Gender, and Employment Creation	0.0	0.5	0.7	2.2	8.6
Other	0.3	0.1	0.0	0.0	15.0

Sources: Zimbabwean authorities; and IMF staff estimates.

Table 20. Zimbabwe: Civil Service Employment Budgeted Posts, 1999-2003

	1999	2000	2001	2002	2003
Total ^{1/}	163,772	161,932	160,956	167,779	173,708
Education, Sport and Culture	101,894	103,881	103,806	103,806	108,478
Higher Education and Technology	3,681	2,901	3,112	3,112	3,112
Health and Child Welfare	25,171	25,171	25,430	25,430	25,430
Lands, Agriculture and Rural Resettlement	9,865	8,767	8,965	8,970	15,530
Transport and Communications	2,321	803	905	892	905
Other	20,840	20,409	18,738	25,569	20,253
Memorandum items:					
GDP (in millions of Zimbabwe dollars)	228,434	328,658	564,640	1,205,120	5,810,253
Wage bill (millions of Zimbabwe dollars) ^{2/}	28,175	59,468	64,480	123,930	527,978
Wage bill (in percent of GDP) ^{2/}	12.3	18.1	11.4	10.3	9.1

Sources: Zimbabwean authorities; and IMF staff estimates.

1/ The number of authorized posts at the beginning of each time period indicated, excluding uniformed services.

2/ Including wages for Defense, Zimbabwe Republic Police, and Prison Service.

Table 21. Zimbabwe: Central Government Debt and Debt-Service Payments, 1999-2004^{1/}

	1999	2000	2001	2002	2003	2004 Est.
(In billions of Zimbabwe dollars)						
Total government debt	197.4	294.9	359.0	545.1	2,678.1	20,028.9
Domestic debt ^{2/}	78.0	162.1	194.1	345.8	590.7	1,707.6
Stocks	8.3	9.3	15.2	13.7	13.5	421.6
Bonds	0.1	0.4	0.1	0.1	0.1	0.1
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprise debt assumed	0.4	0.0	0.0	0.0	0.0	0.0
Floating debt	69.1	152.4	178.7	332.0	577.1	1,285.9
Treasury bills	69.1	152.3	178.7	332.0	565.7	1,600.3
Overdrafts and other	0.0	0.1	0.0	0.0	11.4	-314.4
External debt ^{3/}	119.4	132.8	164.9	199.3	2,087.3	18,321.3
Stocks	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.2	0.1	0.1	0.1	0.1	0.0
Loans	119.3	132.7	164.8	199.1	2,087.2	18,321.3
Debt service						
Debt service due (commitments)	30.1	57.5	83.4	51.2	69.2	1,970.1
Interest	21.6	53.0	52.8	49.5	69.2	1,302.1
Domestic	18.1	51.5	41.1	40.3	65.9	734.0
Foreign	3.6	1.6	11.7	9.2	3.3	568.0
Repayments of principal ^{4/}	8.5	4.5	30.6	1.7	0.0	668.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	8.5	4.5	30.6	1.7	0.0	668.0
Debt-service arrears	0.2	3.6	30.6	39.3	42.7	1,357.6
Interest	0.2	2.8	11.5	8.8	3.3	568.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.2	2.8	11.5	8.8	3.3	568.0
Repayments of principal ^{4/}	0.0	0.8	19.1	30.5	39.4	789.6
Domestic	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.8	19.1	30.5	39.4	789.6
(In percent of GDP, unless otherwise indicated)						
Total government debt	86.5	81.6	50.6	32.1	48.5	84.1
Domestic debt ^{2/}	34.2	44.9	27.4	20.4	10.7	7.2
External debt ^{3/}	52.3	36.8	23.2	11.7	37.8	77.0
Debt-service due (commitments)	13.2	15.9	11.8	3.0	1.3	8.3
Interest	9.5	14.7	7.4	2.9	1.3	5.5
Repayments of principal ^{4/}	3.7	1.2	4.3	0.1	0.0	2.8
Debt-service arrears	0.1	1.0	4.3	2.3	0.8	5.7
Interest	0.1	0.8	1.6	0.5	0.1	2.4
Repayments of principal ^{4/}	0.0	0.2	2.7	1.8	0.7	3.3
Memorandum item:						
GDP at market prices (in billions of Zimbabwe dollars)	228	361	709	1,698	5,519	23,802

Sources: Zimbabwean authorities; and IMF staff estimates.

1/ Numbers for 2004 are preliminary estimates.

2/ At cost value.

3/ Estimated at average annual official exchange rates.

4/ Medium- and long-term debt.

Table 22. Zimbabwe: Money Supply, 1998-2004
(In billions of Zimbabwe dollars)

	1998	1999	2000	2001	2002	2003	2004
Notes and coins in circulation	4.3	6.9	9.5	24.7	77.9	433.2	1,591.2
Demand deposits with the banking system	20.4	27.4	43.1	103.8	270.6	1,626.1	5,275.8
Narrow money (M1)	24.7	34.3	52.6	128.5	348.5	2,059.3	6,867.0
Savings deposits with the banking system	12.9	17.1	23.9	45.7	104.0	356.6	1,356.1
Fixed deposits of 30 days or less with the banking system	5.6	7.0	23.2	22.7	96.6	569.4	995.9
Broad money (M2)	43.1	58.4	99.7	196.9	549.0	2,985.3	9,219.1
Fixed deposits of at least 30 days with the banking system	13.5	15.1	17.9	41.4	81.9	255.0	1,235.3
Broad money (M3)	56.6	73.5	117.6	238.3	631.0	3,240.3	10,454.4

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

Table 23. Zimbabwe: Monetary Survey, 1998-2004^{1/}
(In billions of Zimbabwe dollars, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
Net foreign assets ^{2/}	-27.4	-15.3	-12.0	-12.3	-12.4	-142.8	-1,650.0
RBZ	-18.9	-11.9	-11.5	-13.0	-14.7	-242.5	-1,949.0
Deposit money banks and OBIs ^{3/}	-8.5	-3.4	-0.5	0.7	2.3	99.7	299
Net domestic assets	84.0	88.8	129.6	250.6	643.3	3,383.1	12,104.0
Domestic credit	76.3	89.4	144.4	258.6	594.8	3,174.9	8,857.3
Claims on government	16.2	22.2	48.3	93.5	139.8	420.0	2,210.2
RBZ	7.2	3.9	4.6	25.8	43.1	292.0	581.5
Deposit money banks and OBIs ^{3/}	9.0	18.2	43.6	67.8	96.7	128.0	1,628.7
Claims on public enterprises	3.4	4.6	9.2	19.7	46.5	214.0	690.9
RBZ	0.7	0.7	0.7	2.0	0.6	0.1	254.3
Deposit money banks and OBIs ^{3/}	2.8	4.0	8.5	17.7	45.9	213.9	436.6
Claims on nonbank private sector	56.7	62.6	87.0	145.3	408.4	2,540.9	5,956.1
RBZ	0.8	1.1	2.0	2.3	2.7	7.2	35.4
Deposit money banks and OBIs ^{3/}	55.9	61.5	84.9	143.1	405.8	2,533.7	5,920.8
Other items (net)	7.7	-0.6	-14.8	-8.0	48.5	208.2	3,246.7
Broad money (M3)	56.6	73.5	117.6	238.3	631.0	3,240.3	10,454.4
Memorandum items:							
Reserve money	11.0	17.8	20.6	54.7	148.2	733.5	2,329.5
Money multiplier ^{4/}	5.1	4.1	5.7	4.4	4.3	4.4	4.5
Currency/deposit ratio ^{5/}	8.1	10.3	8.7	11.5	14.1	15.4	18.0
Reserves/deposit ratio ^{6/}	22.7	16.1	10.3	14.0	12.6	10.5	7.7

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

1/ The coverage of all monetary aggregates (M1, M2, and M3) includes "Other banking institutions" (OBIs).

2/ Reserve Bank of Zimbabwe's net foreign assets and net domestic assets have been adjusted for memorandum of deposits.

3/ Includes commercial banks, discount houses, finance houses, and building societies.

4/ Defined as money supply (M3) divided by reserve money.

5/ Defined as notes and coins in circulation divided by total deposits.

6/ Defined as reserves held by deposit money banks at the RBZ divided by their total deposit liabilities.

Table 24. Zimbabwe: Assets and Liabilities of Monetary Authorities, 1998-2004^{1/}
(In billions of Zimbabwe dollars)

	1998	1999	2000	2001	2002	2003	2004
Net foreign assets ^{1/ 2/}	-18.9	-11.9	-11.5	-13.0	-14.7	-242.5	-1,948.6
Foreign assets	11.0	18.2	15.6	6.7	7.1	108.7	1,585.6
<i>Of which</i> : Gold	6.1	8.0	5.0	3.0	2.5	38.4	119.1
Foreign exchange	4.8	10.2	10.6	3.6	4.6	70.0	1,457.0
SDR holdings	0.0	0.0	0.0	0.1	0.0	0.2	9.5
Foreign liabilities	-29.9	-30.1	-27.1	-19.8	-21.8	-351.2	-3,501.6
<i>Of which</i> : Fund credit	-15.1	-14.1	-15.4	-14.4	-15.3	-250.1	1,825.0
Net claims on government	7.2	3.9	4.6	25.8	43.1	292.0	581.5
Claims on government	36.8	51.2	4.6	25.8	52.7	292.0	975.4
Loans and advances ^{3/}	35.7	51.2	0.5	0.5	-9.2	2.3	81.8
Treasury bills	1.1	0.0	4.2	25.3	61.9	289.7	893.6
Government deposits ^{3/}	29.6	47.3	0.0	0.0	9.6	0.0	393.9
Claims on nonfinancial public enterprises	0.7	0.7	0.7	2.0	0.6	0.1	254.3
Net claims on private sector	7.5	11.6	16.3	31.0	67.4	433.4	2,855.8
Claims on deposit money banks	6.7	10.5	14.3	28.7	64.7	426.2	2,820.4
Claims on nonbank private sector	0.8	1.1	2.0	2.3	2.7	7.2	35.4
RBZ bills							-5,139.5
Other items (net; asset +)	14.5	13.5	10.6	8.9	51.8	250.6	5,726.2
Reserve money	11.0	17.8	20.6	54.7	148.2	733.5	2,329.5
Reserves of deposit money banks	6.1	10.1	10.4	28.6	67.0	283.3	626.2
Reserves of other banking institutions ^{4/}	0.5	0.6	0.7	1.3	2.7	9.9	59.6
Currency in circulation	4.3	6.9	9.5	24.7	77.9	433.2	1,591.2
Nonbank deposits	0.2	0.2	0.1	0.2	0.7	7.2	52.5

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

1/ Net foreign assets are valued at current exchange rates and reflect the Fund's records for transactions with the Fund.

2/ Reserve Bank of Zimbabwe's net foreign assets and net domestic assets have been adjusted for memorandum of deposits.

3/ The RBZ reconfigured the loans and advances and government deposits series; this has been reflected in the 2000-01 figures.

4/ Includes finance houses, and building societies.

Table 25. Zimbabwe: Consolidated Accounts of Deposit Money Banks and Other Banking Institutions, 1998-2004 ^{1/}
(In billions of Zimbabwe dollars)

	1998	1999	2000	2001	2002	2003	2004
Net foreign assets	-8.5	-3.4	-0.5	0.7	2.3	99.7	299.0
Foreign assets	6.7	6.0	9.0	8.0	12.7	180.4	898.5
Foreign liabilities	-15.1	-9.3	-9.3	-7.2	-10.3	-80.7	-599.5
Reserves	6.5	10.7	10.4	31.9	91.5	620.3	4,092.4
<i>Of which</i> : currency	0.6	1.3	1.7	4.2	16.2	96.9	298.2
Net credit from Reserve Bank	-6.7	-10.5	-14.7	-19.1	-61.2	-473.9	-2,972.8
Net claims on government	9.0	18.2	43.6	67.8	96.7	128.0	1,628.7
Claims on government	9.9	18.4	45.3	70.9	121.2	184.7	4,073.4
Treasury bills	9.7	18.1	44.5	69.4	114.5	170.8	3,726.0
Government stock	0.2	0.1	0.0	0.8	6.2	6.9	310.5
Loans and advances	0.1	0.2	0.8	0.7	0.5	7.1	36.9
Government deposits	-0.9	-0.2	-1.7	-3.1	-24.5	-56.7	-272.6
Claims on nonfinancial public enterprises	2.8	4.0	8.5	17.7	45.9	213.9	436.6
Claims on private sector	55.9	61.5	84.9	143.1	405.8	2,533.7	5,920.8
Loans and advances	52.7	55.3	69.6	95.5	270.0	1,640.8	4,053.8
<i>Of which</i> : on-lent external borrowing	12.7	7.2	7.3	5.3	5.7	33.4	215.8
Bills discounted	1.4	1.6	6.9	26.9	78.5	575.9	1,148.7
Bankers' acceptances	0.6	2.0	3.6	6.6	37.1	198.5	163.1
Other investments	1.2	2.6	4.8	14.0	20.2	118.4	355.8
Other items (net; asset +)	-6.8	-14.1	-24.3	-28.6	-28.6	-321.9	-594.1
Deposits	52.2	66.4	108.0	213.5	552.4	2,799.9	8,810.7

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

^{1/} Includes commercial banks, merchant banks, discount houses, and acceptance houses.

Table 26. Zimbabwe: Required Reserves and Liquid Asset Ratios, 1998-2004
(In percent of liabilities to the public)

	1998	1999	2000	2001	2002	2003	2004
Required reserve ratios							
Deposit money banks ^{1/}							
Demand deposits	25.0	30.0	30.0	50.0	50.0	50.0	60.0
Savings & time deposits	25.0	30.0	30.0	20.0	20.0	20.0	30.0 & 37.5
Finance houses ^{2/}	5.0	5.0	5.0	5.0	5.0	5.0	15.0
Building Societies	---	---	---	---	---	---	30.0
Discount Houses	---	---	---	---	---	---	30.0
Liquid asset ratios ^{3/}							
Commercial banks							
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Actual	23.2	31.0	34.6	35.8	37.0	32.9	69.8
Accepting houses							
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Actual	86.7	116.0	76.7	44.0	38.0	27.0	32.1
Finance houses							
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Actual	13.0	18.0	29.2	35.0	29.0	90.0	130.8
Building societies							
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Actual	50.6	62.0	86.5	70.2	69.0	74.0	109.4

Source: Reserve Bank of Zimbabwe.

1/ With effect from 1 February 2001, commercial and merchant banks are required to keep 50 percent of their demand deposits and 20 percent of their savings & time deposits as required reserves.

2/ Base for requirements since May 1981 is liabilities to the public.

3/ The liquid asset ratio is defined as the ratio of liquid assets to the liabilities to the public. Liquid assets consist of the following: (i) notes and coins; (ii) balance with the Reserve Bank and discount houses; (iii) short-term debt (treasury, trad

Table 27. Zimbabwe: Selected Interest Rates, 1998-2004^{1/}
(In percent per year; end of period)

	1998	1999	2000	2001	2002	2003	2004
Rediscount rate (maximum) ^{2/}	39.50	74.41	63.30	57.20	57.20	--	120.00
Treasury bills (90 days)	35.19	69.41	61.24	25.94	25.92	79.75	132.72
Call money (maximum)	37.00	87.00	57.00	59.70	50.00	600.00	40.00
Certificates of deposit (maximum)							
3 month	42.00	80.00	65.00	36.00	42.00	600.00	100.00
6 month	47.00	80.00	80.00	65.00	40.00	800.00	110.00
12 month	41.00	75.00	75.00	70.00	40.00	900.00	150.00
24 month	40.00	70.00	60.00	70.00	50.00	900.00	150.00
Savings accounts (maximum)							
Commercial banks	27.50	44.00	41.00	19.00	19.00	45.00	45.00
Building societies	14.00	14.00	14.00	14.00	12.50	41.85	18.00
Post Office Savings Bank	21.00	21.00	21.00	21.00	11.00	11.00	11.00
Fixed deposits							
Commercial banks							
3 month	40.00	50.00	46.25	15.00	19.50	350.00	100.00
12 month	39.00	48.50	41.75	20.50	25.00	375.00	105.00
24 month	32.00	39.75	34.75	20.00	26.50	385.00	90.00
Acceptance houses							
3 month	40.00	70.50	61.00	24.75	37.00	550.00	105.00
12 month	35.25	51.25	40.00	27.50	31.75	450.00	75.00
24 month	34.75	34.88	30.00	26.50	26.00	444.00	75.00
Finance houses							
3 month	40.25	64.00	47.50	18.50	28.00	600.00	100.00
12 month	42.00	57.00	52.00	25.50	35.00	300.00	100.00
24 month	35.00	54.50	51.50	...	...	...	...
Post Office Savings Bank							
12 month	24.00	24.00	24.00	15.00	15.00	15.00	15.00
Average cost of funds							
Commercial banks	15.75	21.84	26.47	11.27	13.44	88.52	22.92
Lending rates							
Commercial banks (minimum)	40.50	56.00	55.00	15.00	35.00	82.00	135.00
Commercial banks (weighted average)	49.25	66.00	68.25	31.25	45.75	346.00	202.50
Building societies (low-cost housing)	24.50	21.50	28.75	25.88	30.75	44.50	85.00

Source: Reserve Bank of Zimbabwe.

1/ Rates are quoted as simple annual rates.

2/ On December 1, 1998, the rediscount rate was replaced by a Reserve Bank rate, which was suspended on November 20, 2002.

Table 28. Zimbabwe: Sectoral Analysis of Commercial Banks' Loans and Advances, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
(In millions of Zimbabwe dollars)							
Total	25,008	36,567	55,089	98,545	258,054	1,467,120	4,788,386
Agriculture	4,052	5,772	7,962	12,643	28,916	192,683	605,569
Construction	575	553	2,347	1,863	5,873	10,704	543,290
Communications	333	588	409	2,983	3,467	23,631	180,564
Distribution	5,668	6,358	9,089	27,371	61,383	395,042	961,254
Financial and investments	1,120	1,121	6,677	10,602	12,920	96,191	199,236
Financial organizations	439	972	4,096	1,552	17,447	109,667	93,337
Manufacturing	4,182	6,447	7,712	20,295	53,864	299,197	718,502
Mining	633	2,641	5,370	4,332	6,403	18,754	150,324
Services	5,041	7,264	6,232	6,597	36,105	144,268	365,356
Transport	787	1,219	1,847	2,275	8,509	62,075	138,568
Individuals	2,169	3,193	3,103	6,408	20,088	110,449	484,794
Other	9	439	245	1,624	3,079	4,459	347,594
(In percent of total)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	16.2	15.8	14.5	12.8	11.2	13.1	12.6
Construction	2.3	1.5	4.3	1.9	2.3	0.7	11.3
Communications	1.3	1.6	0.7	3.0	1.3	1.6	3.8
Distribution	22.7	17.4	16.5	27.8	23.8	26.9	20.1
Financial and investments	4.5	3.1	12.1	10.8	5.0	6.6	4.2
Financial organizations	1.8	2.7	7.4	1.6	6.8	7.5	1.9
Manufacturing	16.7	17.6	14.0	20.6	20.9	20.4	15.0
Mining	2.5	7.2	9.7	4.4	2.5	1.3	3.1
Services	20.2	19.9	11.3	6.7	14.0	9.8	7.6
Transport	3.1	3.3	3.4	2.3	3.3	4.2	2.9
Individuals	8.7	8.7	5.6	6.5	7.8	7.5	10.1
Other	0.0	1.2	0.4	1.6	1.2	0.3	7.3

Source: Reserve Bank of Zimbabwe.

Table 29. Zimbabwe: Sectoral Analysis of Merchant Banks' Loans and Advances, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
(In millions of Zimbabwe dollars)							
Total	11,671	7,037	8,449	12,468	56,061	396,879	434,669
Agriculture	926	826	523	604	4,390	14,463	85,574
Distribution	4,392	1,547	2,049	2,381	9,676	187,698	52,199
Financial and investments	164	58	15	0	712	6,530	3,322
Financial organizations	200	143	174	430	445	1,509	13,126
Manufacturing	2,358	2,017	2,471	4,805	22,033	104,197	109,590
Mining	1,732	681	1,207	772	2,983	5,501	59,905
Services	822	570	757	1,170	6,272	45,649	38,249
Transport	186	235	217	415	1,709	2,563	9,683
Individuals	135	167	128	155	824	17,055	16,021
Other	756	793	908	1,736	7,017	11,714	47,001
(In percent of total)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	7.9	11.7	6.2	4.8	7.8	3.6	19.7
Distribution	37.6	22.0	24.3	19.1	17.3	47.3	12.0
Financial and investments	1.4	0.8	0.2	0.0	1.3	1.6	0.8
Financial organizations	1.7	2.0	2.1	3.4	0.8	0.4	3.0
Manufacturing	20.2	28.7	29.2	38.5	39.3	26.3	25.2
Mining	14.8	9.7	14.3	6.2	5.3	1.4	13.8
Services	7.0	8.1	9.0	9.4	11.2	11.5	8.8
Transport	1.6	3.3	2.6	3.3	3.0	0.6	2.2
Individuals	1.2	2.4	1.5	1.2	1.5	4.3	3.7
Other	6.5	11.3	10.7	13.9	12.5	3.0	10.8

Source: Reserve Bank of Zimbabwe.

Table 30. Zimbabwe: Nonbank Financial Institutions' Assets, 1998-2004
(In millions of Zimbabwe dollars, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
Post Office Savings Bank, total assets	6,662	7,325	8,016	14,292	22,189	57,092	187,252
Claims on government	1,542	1,839	2,075	2,791	3,843	4,486	117,700
Claims on public enterprises	859	1,388	1,138	1,764	2,148	1,522	7,509
Claims on the private sector	889	942	942	1,035	1,049	1,064	2,372
Interbank NCDs and call money ^{1/}	2,107	1,888	2,385	7,222	13,640	46,259	29,800
Other assets	0	0	0	0	176	1,347	4,057
Reserves	1,265	1,270	1,478	1,479	1,333	2,414	25,815
Building societies, total assets	18,054	24,324	32,402	52,572	107,556	333,204	948,107
Claims on government	1,955	6,928	11,542	14,556	7,260	7,663	233,365
Claims on public enterprises	220	44	30	106	100	100	100
Claims on the private sector	11,128	10,917	11,271	16,843	35,575	104,142	224,273
Interbank NCDs and call money ^{1/}	2,312	2,890	5,003	10,714	32,617	63,807	76,742
Other assets	1,487	2,940	3,152	5,458	12,723	64,597	207,985
Reserves	953	606	1,404	4,896	19,282	92,895	205,642
Finance houses, total assets	6,983	6,899	7,056	14,657	40,960	104,192	384,097
Claims on government	554	467	456	808	1,646	5,293	121,704
Claims on public enterprises	26	40	0	143	0	0	500
Claims on the private sector	5,888	5,806	5,595	9,269	33,090	67,387	66,714
Interbank NCDs and call money ^{1/}	57	121	158	196	1,593	5,280	121,306
Other assets	172	197	519	815	2,200	14,386	14,036
Reserves	262	213	268	3,385	2,431	11,846	59,837
Foreign assets	24	55	61	41	0	0	0
Consolidated other banking institutions,							
Total assets	31,697	38,548	47,475	65,448	132,562	307,003	1,519,456
Claims on government	4,050	9,233	14,072	18,156	12,749	17,442	472,768
Claims on public enterprises	1,105	1,472	1,168	2,013	2,248	1,622	8,109
Claims on the private sector	17,905	17,665	17,808	27,147	69,714	172,593	293,359
Interbank NCDs and call money ^{1/}	4,475	4,899	7,546	18,132	47,850	115,346	227,848
Other assets	4,162	5,279	6,881	0	0	0	226,078
Insurance and pension funds, total							
Asset base	42,706	51,683	63,044	77,727	123,683	220,709	873,014
Life insurance	27,441	34,679	42,337	50,825	76,745	151,120	418,000
Professional life reinsurance	246	396	316	356	619	5,772	5,800
Nonlife insurance	1,794	1,280	1,646	2,307	4,335	7,881	157,566
Professional nonlife reinsurance	2,144	1,723	1,573	2,577	4,929	9,242	81,167
Self-administered pension funds	11,081	13,605	17,172	21,662	37,055	46,694	210,481
Prescribed securities	9,597	10,635	12,479	15,211	22,856	28,063	338,267
Life insurance	5,210	6,659	7,483	7,864	7,539	12,701	115,837
Professional life reinsurance	118	222	241	288	420	448	448
Nonlife insurance	247	445	714	756	1,460	2,231	100,256
Professional nonlife reinsurance	102	435	664	699	1,133	1,628	28,845
Self-administered pension funds	3,920	2,874	3,377	5,604	12,304	11,056	92,882
Total nonbank financial sector							
Total assets	42,706	51,683	63,044	77,727	123,683	220,709	873,014
<i>Of which:</i> claims on government	9,597	10,635	12,479	15,211	22,856	28,063	338,267
Share in total (in percent)	22.5	20.6	19.8	19.6	18.5	12.7	38.7

Source: Reserve Bank of Zimbabwe.

1/ NCDs are negotiable certificates of deposit.

Table 31. Zimbabwe: Balance of Payments, 1998-2004
(In millions of U.S. dollars, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004 Est.
Current account balance (excluding official transfers)	-372	47	-38	-82	-213	-346	-421
Trade balance	-95	249	293	323	-18	-108	-310
Exports, f.o.b.	1,925	1,924	2,200	2,114	1,802	1,670	1,680
Imports, f.o.b.	-2,020	-1,675	-1,907	-1,791	-1,821	-1,778	-1,989
Of which : emergency food imports	0	0	0	-68	-337	-206	-161
Nonfactor services	-59	-2	-164	-186	-181	-216	-108
Receipts	630	621	331	256	217	185	317
Payments	-689	-623	-495	-441	-398	-401	-424
Investment income	-385	-355	-358	-333	-242	-191	-208
Interest	-184	-140	-141	-149	-123	-114	-99
Receipts	30	37	26	10	10	10	7
Payments	-214	-176	-168	-159	-133	-124	-106
Other (net)	-201	-215	-217	-184	-119	-76	-109
Private transfers (net)	166	155	191	114	228	169	204
Capital account (including official transfers)	560	143	-227	-386	-317	-210	-170
Official transfers (net)	77	101	53	40	38	38	24
Direct investment (net)	436	50	16	0	23	4	9
Portfolio investment (net)	11	21	-1	-68	-2	4	2
Long-term capital (net)	96	-3	-155	-285	-281	-228	-221
Short-term capital (net)	-60	-26	-140	-73	-94	-27	17
Errors and omissions	-229	-227	130	292	74	79	344
Overall balance	-41	-37	-135	-177	-456	-476	-247
Financing	41	37	135	177	456	476	247
Gross official reserves (- increase)	64	8	25	6	1	1	9
Arrears (- decrease)	0	114	281	292	570	443	240
Net use of Fund resources	5	-28	-70	-86	-86	-65	-23
Net other liabilities	90	-107	-130	-41	-30	98	21
Memorandum items:							
Gross official international reserves ^{1/}	55	47	22	16	15	16	25
In months of imports of goods and services	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Current account balance (in percent of GDP) ^{2/}	-4.0	0.5	-0.4	-1.0	-2.6	-4.6	-5.7

Sources: Zimbabwean authorities; and IMF staff estimates.

1/ End of period; usable reserves.

2/ GDP at world prices using real GDP growth and trading partner countries' inflation (base year is 1996).

Table 32. Zimbabwe: External Trade Indicators, 1998-2004
(1990=100, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004 Est.
Exports							
Value (in U.S. dollars terms)	109.8	109.8	125.5	120.6	102.8	95.3	95.8
Percent change	-20.6	0.0	14.3	-3.9	-14.7	-7.3	0.6
Volume	109.6	114.1	122.1	97.3	83.4	86.8	78.6
Percent change	-10.3	4.1	7.0	-20.3	-14.3	4.1	-9.5
Unit value (in U.S. dollars terms)	100.2	96.2	102.8	92.4	95.6	109.7	121.9
Percent change	-11.5	-4.0	6.9	-10.2	3.5	14.8	11.1
Imports							
Value (in U.S. dollars terms)	133.7	110.9	126.2	118.5	120.5	117.7	131.7
Percent change	-23.9	-17.1	13.9	-6.1	1.6	-2.3	11.9
Volume	157.4	123.0	137.0	136.4	135.7	108.8	102.1
Percent change	-14.2	-21.8	11.4	-0.5	-0.5	-19.8	-6.2
Unit value (in U.S. dollars terms)	84.9	90.1	92.1	86.9	88.8	108.2	129.0
Percentage change	-11.3	6.1	2.2	-5.7	2.1	21.9	19.2
Terms of trade							
Percent change	-0.2	-9.5	4.6	-4.8	1.3	-5.8	-6.8

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

Table 33. Zimbabwe: Exports by Commodity, 1998-2004^{1/} (continued)
 (Values in millions of U.S. dollars; volumes in thousands of kilograms, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004 Est.
Agricultural exports	805.5	844.4	855.8	832.8	646.6	516.0	384.2
Tobacco	523.8	612.0	548.7	594.3	434.7	321.3	226.7
Volume	173.3	216.2	180.4	198.2	143.5	103.3	69.9
Unit value	3.0	2.8	3.0	3.0	3.0	3.1	3.2
Sugar	62.9	51.5	96.4	70.0	64.2	54.8	53.9
Volume	200.9	162.6	248.2	179.5	150.0	113.8	139.1
Unit value	0.3	0.3	0.4	0.4	0.4	0.5	0.4
Maize	46.4	9.1	2.5	0.0	0.0	0.0	0.0
Volume	311.7	75.8	20.8	0.0	0.0	0.0	0.0
Unit value	0.1	0.1	0.1	0.1	0.1	0.3	0.3
Cold Storage Company beef	32.1	32.6	39.7	22.7	2.3	0.2	0.0
Volume	8.5	8.7	11.3	7.7	0.5	0.1	0.0
Unit value	3.8	3.8	3.5	2.9	4.6	2.0	4.8
Coffee	51.2	37.2	17.1	15.0	5.4	5.9	4.1
Volume	12.7	10.0	6.5	6.2	4.9	4.8	3.7
Unit value	4.0	3.7	2.6	2.4	1.1	1.3	1.1
Horticulture	67.0	82.6	125.4	118.9	126.6	118.7	84.1
Volume	40.1	48.6	33.8	39.9	40.3	38.4	28.7
Unit value	1.7	1.7	3.7	3.0	3.1	3.1	2.9
Other agricultural	22.2	19.4	26.1	12.0	13.4	15.0	15.4
Mineral exports	395.2	387.0	440.4	390.8	297.8	390.8	604.2
Gold ^{2/}	236.1	229.7	216.4	225.8	159.5	152.3	262.8
Volume	821.5	825.4	778.4	827.2	512.9	417.3	672.0
Unit value	287.4	278.3	278.0	273.0	311.0	365.0	391.0
Asbestos	36.1	35.6	61.1	60.0	39.3	42.4	19.4
Volume	112.9	113.0	134.1	129.0	151.9	170.2	82.0
Unit value	0.3	0.3	0.5	0.5	0.3	0.2	0.2
Nickel	44.2	48.1	77.9	35.2	31.8	68.5	95.7
Volume	10.1	8.1	9.0	6.3	4.9	7.3	7.4
Unit value	4.4	5.9	8.7	5.6	6.5	9.4	12.9
Platinum	3.4	3.5	11.4	17.5	14.5	77.4	174.4
Volume	9.4	9.4	21.1	35.6	11.6	128.4	368.7
Unit value	0.4	0.4	0.5	0.5	1.2	0.6	0.5

Table 33. Zimbabwe: Exports by Commodity, 1998-2004^{1/} (concluded)
(Values in millions of U.S. dollars; volumes in thousands of kilograms, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004 Est.
Copper	4.1	5.3	8.0	0.6	8.9	4.6	2.6
Volume	2.6	3.4	4.4	0.5	2.6	2.6	1.2
Unit value	1.6	1.6	1.8	1.2	3.4	1.8	2.2
Other mineral	58.1	64.8	65.5	51.7	43.8	45.6	49.3
Manufacturing exports	629.4	609.1	814.9	313.5	287.3	691.2	620.9
Ferrous alloys	143.1	152.1	154.8	81.8	106.8	119.8	185.1
Volume	233.5	236.9	274.0	222.2	306.8	264.5	247.5
Unit value	0.6	0.6	0.6	0.4	0.3	0.5	0.7
Cotton lint	150.1	111.9	156.0	81.9	53.2	67.2	122.1
Volume	79.7	84.2	114.0	80.0	52.2	48.0	114.2
Unit value	1.9	1.3	1.4	1.0	1.0	1.4	1.1
Iron and steel	8.3	12.5	15.0	3.5	22.3	39.9	22.9
Volume	36.8	55.0	65.2	15.3	78.8	138.0	106.3
Unit value	0.2	0.2	0.2	0.2	0.3	0.3	0.2
Textiles and clothing	58.0	59.3	79.3	20.2	17.7	28.2	13.8
Machinery and equipment	12.4	17.0	50.6	8.6	5.2	12.8	1.9
Chemicals	25.8	27.3	64.3	5.8	3.5	5.1	9.6
Other manufacturing	231.6	229.0	294.9	111.7	78.6	418.2	265.5
Total exports ^{3/}	1,924.9	1,924.5	2,200.5	1,575.2	1,397.9	1,670.3	1,679.7

Sources: Reserve Bank of Zimbabwe; Central Statistical Office; and IMF staff estimates.

1/ At the official exchange rate.

2/ Volume in thousands of ounces and unit value in U.S. dollars per ounce.

3/ Excludes estimated unidentified exports and internal freight.

Table 34. Zimbabwe: Direction of Export Trade, 1998-2004
(In percent of total exports)

	1998	1999	2000	2001	2002	2003	2004
Industrial countries	48.3	47.9	46.7	44.0	53.4	25.3	29.7
Australia	0.5	0.5	0.7	0.4	0.3	0.2	0.2
Austria	0.6	0.3	0.3	0.5	0.2	0.1	0.3
Belgium	3.1	1.5	1.3	0.5	0.7	0.3	0.5
Denmark	0.5	0.7	2.6	0.5	0.3	0.3	0.3
France	0.7	1.0	2.3	2.3	2.5	0.5	0.5
Germany	7.7	8.1	5.4	8.3	7.4	5.5	4.0
Italy	3.3	3.7	7.2	1.8	2.3	1.0	3.7
Japan	4.8	7.3	4.8	6.6	9.4	6.4	2.8
Netherlands	3.0	2.4	2.6	1.8	2.7	1.6	1.4
Portugal	1.3	1.1	0.5	1.2	1.0	0.7	0.7
Spain	2.3	2.5	1.8	1.6	5.2	0.8	1.4
Sweden	0.6	0.7	0.5	0.4	0.2	0.0	0.0
Switzerland	2.5	2.5	3.2	0.7	9.5	3.5	6.0
United Kingdom	10.6	9.8	7.4	12.6	7.5	3.8	5.9
United States	6.7	5.9	5.9	4.6	4.4	0.9	1.9
Developing countries	32.9	31.3	31.0	30.3	32.7	29.6	46.0
Botswana	4.4	3.7	3.6	1.6	2.1	1.9	2.5
China, People's Republic of	1.0	5.6	4.1	7.1	1.2	3.2	4.8
Malawi	3.6	3.9	2.0	0.5	3.7	1.0	2.7
Mozambique	3.2	2.0	3.5	2.0	1.8	1.2	1.0
South Africa	13.1	11.9	14.0	17.7	16.8	20.6	30.2
Democratic Republic of Congo	0.5	0.4	0.8	0.6	0.8	0.2	0.7
Zambia	7.2	3.7	3.0	0.8	6.4	1.5	4.0
Other industrial and developing countries	18.8	20.8	22.3	25.7	13.9	45.0	24.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office; and IMF, *Direction of Trade Statistics*.

Table 35. Zimbabwe: Imports by Principal Commodities, 1998-2004^{1/}

	1998	1999	2000	2001	2002	2003	2004 Est.
(In millions of U.S. dollars) ^{2/}							
Food	87	82	62	68	337	206	161
Tobacco and beverages	29	26	61	44	39	36	44
Crude materials	74	58	125	98	87	79	96
Fuel and electricity	277	223	372	335	352	456	462
<i>Of which:</i> petroleum products	225	172	180	172	149	110	342
Oils and fats	41	39	40	30	27	25	30
Chemicals	336	289	311	408	361	328	401
Machinery and transport equipment	801	600	493	424	375	341	417
Other manufactured goods	325	298	324	273	241	220	269
Other	50	61	120	111	98	90	110
Total	2,020	1,675	1,907	1,792	1,821	1,778	1,989
(In percent of total imports, unless otherwise indicated)							
Food	4.3	4.9	3.2	3.8	18.5	11.6	8.1
Petroleum products	11.1	10.3	9.5	9.6	8.2	6.2	17.2
Memorandum item:							
Official exchange rate (Zimbabwe dollars per U.S. dollar; period average)	21.41	38.20	44.42	55.05	55.04	498.08	4,131.16

Sources: Central Statistics Office; and IMF staff estimates.

1/ On f.o.b. basis.

2/ At the official exchange rate.

Table 36. Zimbabwe: Direction of Import Trade, 1998-2004
(In percent of total imports)

	1998	1999	2000	2001	2002	2003	2004
Industrial countries	31.0	28.9	20.3	14.1	14.6	13.1	12.1
Australia	1.1	0.7	0.5	0.4	0.2	0.2	0.3
Austria	0.5	0.3	0.1	0.5	0.1	0.0	0.1
Belgium	1.0	1.4	1.1	0.5	0.4	0.2	0.4
Denmark	0.4	0.4	0.3	0.2	0.2	0.2	0.2
France	3.1	2.9	2.1	1.4	0.7	1.1	1.0
Germany	3.7	5.2	2.4	2.5	3.3	2.0	1.8
Italy	2.0	1.1	1.0	0.4	0.6	3.5	0.4
Japan	4.8	4.0	3.1	1.6	2.3	1.9	1.1
Netherlands	1.3	1.4	0.8	0.7	0.5	0.3	0.6
Sweden	0.5	0.5	0.4	0.3	0.4	0.1	0.2
United Kingdom	6.8	6.4	3.7	3.0	2.9	2.3	4.0
United States	5.8	4.6	4.7	2.5	2.9	1.5	1.9
Developing countries	42.4	43.6	36.4	42.2	46.9	55.6	57.8
Botswana	1.7	1.9	3.4	1.8	2.3	1.8	4.3
India	1.4	1.4	0.8	0.7	0.76	0.72	0.46
South Africa	38.5	39.4	31.4	39.0	43.4	50.7	50.5
Zambia	0.8	0.9	0.8	0.8	0.5	2.3	2.5
Other industrial and developing countries	26.6	27.5	43.3	43.7	38.5	31.3	30.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office; and IMF, *Direction of Trade Statistics*.

Table 37. Zimbabwe: International Reserves, 1998-2004
(In millions of U.S. dollars, unless otherwise indicated; end of period)

	1998	1999	2000	2001	2002	2003	2004
Total gross reserves ^{1/}	296	479	288	121	129	131	255
Gold	83	105	45	55	37	39	1
IMF reserve tranche position	0	0	0	0	0	0	0
SDRs	0	0	0	0	0	0	0
Foreign exchange	130	268	243	66	92	92	254
Total foreign monetary liabilities	744	599	381	321	353	422	451
IMF liabilities	407	369	281	262	276	303	294
Other short-term liabilities ^{2/}	337	230	100	59	77	119	157
Net reserves	-448	-120	-93	-200	-224	-291	-196
Memorandum items:							
Gross official usable international reserves	55	47	22	16	15	16	25
(in months of imports of goods, f.o.b.)	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Gold (in millions of fine troy ounces)	0.62	0.73	0.47	0.19	0.11	0.11	...

Source: Reserve Bank of Zimbabwe.

1/ Official gross reserves include pledged and illiquid assets.

2/ Includes open general import license (OGIL) short-term facility, Reserve Bank stand-by credits, foreign currency deposits held by residents, and foreign bank deposits.

Table 38. Zimbabwe: External Debt Outstanding By Creditors, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
Public and publicly guaranteed debt (excl. arrears)	3,785	3,556	3,112	2,664	2,594	2,545	2,306
Medium- and long-term debt (excl. arrears)	3,553	3,324	2,880	2,432	2,362	2,313	2,074
Bilateral creditors	1,238	1,141	1,031	926	977	1,019	935
Multilateral institutions	1,904	1,829	1,582	1,320	1,229	1,170	1,038
IMF	392	368	284	190	98	41	7
IBRD	498	473	416	392	421	449	417
Others	1,014	989	881	738	710	680	614
Private creditors	410	353	267	186	156	124	102
Short-term debt (excl. arrears)	232	232	232	232	232	232	232
Private debt (excl. arrears)	672	642	498	377	256	157	70
Total debt (excl. arrears)	4,457	4,198	3,610	3,042	2,850	2,702	2,376
Arrears on public and publicly guaranteed debt	9	123	404	803	1,520	2,141	2,584
Medium- and long-term debt	9	7	213	636	1,173	1,703	2,049
Bilateral creditors	1	1	69	166	337	519	642
Multilateral institutions	0	0	78	314	585	839	1,009
IMF	0	0	0	76	169	262	305
IBRD	0	0	0	5	0	62	95
Others	0	0	78	233	416	515	609
Private creditors	8	6	66	157	251	344	398
Short-term external debt	0	7	44	57	65	71	84
Other public and publicly guaranteed arrears ^{1/}	0	109	147	109	282	368	451
Total arrears	9	123	404	803	1,520	2,141	2,584
Total debt	4,466	4,321	4,014	3,845	4,370	4,843	4,960
Public and publicly guaranteed debt	3,794	3,679	3,516	3,468	4,114	4,686	4,890
Private debt	672	642	498	377	256	157	70
(In percent of GDP)							
Medium and long-term debt	40.9	40.6	40.6	39.7	48.2	60.0	63.7
Of which : public and publicly guaranteed	38.3	38.1	37.9	37.4	46.3	58.3	62.2
Short-term debt	7.2	7.2	6.4	5.6	4.9	4.4	3.7
Memorandum item:							
GDP (in millions of U.S. dollars) ^{2/}	9,294	9,037	8,545	8,492	8,243	7,524	7,356

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

1/ Arrears on supplier credits and interest on arrears.

2/ Nominal U.S. dollar GDP adjusted for real growth and international inflation (1996 base year).

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on net income and profits			
1.1 Taxes on companies, corporations, and enterprises			
Companies Income Tax, Chapter 23:06; amended by Acts 1/80, 11/80, 10/81, 55/81, 30/82, 32/83, 7/84, 24/84, 19/85, 5/88, 10/88, 22/89, 10/90, 19/90, 21/91, 17/92, 12/93, 19/94, 4/95, 17/95, 23/95, 4/96, 10/96, 13/96, 17/97, 23/97, 29/98, 9/99, 17/99, 21/99, 22/99, 6/00, 18/00, 22/01, 27/01, and 15/02.	Annual income tax is levied on taxable income of companies (including branches of foreign corporations) from all sources within Zimbabwe. Income from other sources is not liable to tax except for interest. Taxable income is defined as gross income (excluding accruals of a capital nature and exempt income) less allowable deductions incurred in the process of production. The assessment year runs from January to December. Tax on the past year's liability (for the tax year ending in December) and payment of corporate tax on current taxable income was introduced on January 1, 2005. This is to be phased in over a three-year period as follows:	Interest on specified government borrowing and postal savings is tax exempt. Deductions allowed include expenditure and losses (other than of a capital nature) to the extent that they are incurred for the purposes of the taxpayer's trade or in the process of his production expenditure. These include repairs and maintenance, as well as depreciation computed on either the straight line or reducing balance basis. A special initial allowance, equal to 50 percent in the year of purchase and 25 percent in the second and third years is available for equipment purchases, farm improvements, industrial buildings, licensed hotels, and railway lines erected and used by the tax payer for the purpose of his trade. Special allowance treatment of commercial buildings is provided for in designated growth point areas. Additional 15 percent investment allowance for new investments in designated growth point areas. Additional 15 percent training investment allowance for training buildings and new training equipment.	<p>Basic tax: 30 percent of taxable income.</p> <p>Growth point areas: Profits from approved new manufacturing operations in designated growth point areas are taxable at 10 percent for the first five years of operation.</p> <p>Export incentives: Companies which export 50 percent more of their manufacturing are taxed at 20 percent.</p> <p>Withholding tax on contracts: Starting in April 1995, firms bidding on government contracts that do not provide evidence of a valid income tax return face 10 percent withholding on the value of the contract. Provision of the withholding tax on contracts has been extended to consultancy and other services offered to government and quasi-government institutions as well as goods and services exchanged between registered and nonregistered businesses. Withholding on real estate and insurance commissions was also introduced at 20 percent.</p>
	<p>2005 100 percent of 2004 profits 35 percent of 2005 forecast profits</p>		
	<p>2006 65 percent of 2005 profits 70 percent of 2006 forecast profits</p>		
	<p>2007 30 percent of 2006 profits 100 percent of 2007 profits</p>		
	Tax is payable thrice yearly in February, June, and November on a 50 percent, 25 percent, 25 percent basis, respectively.		

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemptions and Deductions	Basic tax Taxable income (in Z dollars)	Rates
1.2 Individual income tax (income tax Act, Chapter 23: 06)	<p>Annual tax on income of individuals derived from all sources within Zimbabwe. Income from other sources is not liable to tax except for interest and dividends. Taxable income is defined as gross income (excluding accruals of capital nature and exempt income) less allowable deductions. The tax payable is determined by calculating the gross tax chargeable by applying the appropriate rate to the taxable income, and deducting from the result the credit that the individual is entitled to. The tax of employed individuals is collected in advance from their weekly or monthly wages based on PAYE (pay-as-you-earn) tax tables. Advances are credited against the tax eventually assessed and also through a Final Deduction System. Benefits in the form of soft loans (other than for educational or medical reasons) and private use of company cars are taxable. The assessment year runs from January to December. The personal income tax is not fully global, with scheduler taxes for capital gains, domestic dividends, and t-bill interest.</p>	<p>Most of the deductions allowed to companies are also allowable to individuals (see 1.1); interest on government borrowing is exempt. Spouses are taxed separately. Special credits of Z\$500,000 for handicapped persons are allowable. Tax credits include an elderly persons credit of Z\$500,000 and 50 percent of medical expenses. The first Z\$5 million of bonuses is tax exempt.</p> <p>Exemptions from income tax for fringe benefits of persons employed in Export Processing Zones (EPZs), and no income taxation of dividends, interest, royalties, and fees earned from activities in the EPZs. The first Z\$1,440,000 of employer contributions to pension funds are deductible from taxable income tax.</p>	<p>Up to 12,000,000 12,000,001-18,000,000 18,000,001-36,000,000 36,000,001-60,000,000 60,000,001-84,000,000 84,000,001-108,000,000 108,000,001 and over</p>	<p>Rate (in percent)</p> <p>0- 10 20 25 30 35 40</p>

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	Nonresident shareholders' tax: 15 percent on dividends paid by listed domestic companies to nonresident shareholders. 20 percent applies in the case of unlisted companies.		
	Nonresident tax on interest: 10 percent withholding tax on interest paid to nonresidents. Creditable.		
	Nonresident tax on fees: 20 percent withheld from fees payable to nonresident persons in respect of any service of a technical, managerial, administrative, and consultative nature. Creditable where fees are subject to both income tax and nonresidents' tax.		
	Nonresident tax on remittances: 20 percent, withheld at source.		
	Resident tax on interest: 20 percent is deducted at source from interest payable by building societies, banks, discount house, or other financial institutions to a person (including trusts) ordinarily resident in Zimbabwe.		
	Automated Financial Transaction Tax: A Z\$500 tax is levied on every Automated Teller Transaction, i.e., on withdrawal of cash or debit to account through Automated Teller Machines.		
	Informal Traders—Tax: Rentals payable by the post office savings bank and some building society investments, as well as interest on Tax Reserve Certificates are exempt from tax.		
	Intermediated Money Transfer tax: The intermediated money transfer tax at a rate of Z\$50 per transaction.		

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemption and Deductions	Rates
1.3 Capital gains tax	A tax on the surplus of revenue over cost from the disposal of marketable securities and fixed property (applicable to both individual and companies).	If the gains in any year do not exceed Z\$100,000, no tax is payable. If losses do not exceed that amount, they cannot be carried forward. Local authorities, pension funds, and certain other organisations and agencies are exempt. Rollover is allowed on the principal private residence and business property. Disposal of principal private residential house by elderly taxpayers is also exempt from withholding tax.	A flat rate of 20 percent. An inflation allowance of 100 percent of the change in the average CPI over the period the asset was held is deducted from the asset price to offset the effects of inflation on asset prices. An ordinary rate of 20 percent is charged on sales of houses. Gains on securities: Gains related to that disposal of marketable securities that are not listed at the Zimbabwe Stock Exchange taxed at 10 percent.
1.4 Betting and gambling taxes (Betting and Totalizator Control Act, (Chapter 10:02) 33/76, 41/778, 32/79, 1/80, 5/83, 18/89, 15/94, 146/92; Pools Control Act, Chapter 87; and Casino Act, Chapter 77).			Replaced by the VAT in January 2004.
2. Social security contributions	Payroll tax instituted in October 1994 for the National Social Security Authority.	Domestic (household) workers.	Employers and employees: 3 percent each of wages and salary (excluding Benefits), with a maximum wage and salary base of Z\$4,000 per month
3. Payroll taxes	None.		
4. Taxes on property			
4.1 Real estates taxes	A local government tax levied annually on the value of real estate.	The scope of real estate covered and the valuation differ widely among local governments.	Rates differ among local governments. Rates vary from Z\$30 to Z\$150 per unit of land (400 hectares) in commercial farming areas.

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemption and Deductions	Rates
4.2 Net wealth tax	None.		
4.3 Estate duty (Estate Duty Act, Chapter 23:20)	Payable on the value of the assessed estate of a deceased person.	An abatement exempts estates valued at less than Z\$400 million where the deceased did not leave a surviving spouse. The family home is not included in the value of the estate.	Rate varies up to 20 percent when the dutiable amount is Z\$400 million or more.
4.4 Property transfer tax	Stamp duties payable on transfers of property.		Z\$5 for every Z\$100, or part thereof, of marketable securities; 10c for every Z\$100, or part thereof, of other moveable property; 35c for every Z\$100, or part thereof, of immovable property; Z\$500 for cheques; and 3c for every Z\$1 of insurance policies.
5. Taxes on goods and services			
5.1 Value added tax. (Value Added Tax Act, Chapter 23:12)	Multi-stage tax levied and collected on each transaction in the production and distribution chain. Businesses registered for VAT can deduct the VAT they pay, as input tax. The person who acquires the goods or services for private use is not allowed a deduction for VAT paid and thus bears the cost of the tax. Exports of goods from Zimbabwe do not attract VAT (they are zero rated). Imports on the other hand are subject to VAT. Effective January 1, 2004, potential registrants for both goods and services should have annual turnover of Z\$250,000,000 or more to register.	Taxable services include professional services (services of lawyers, accountants, engineers and the like), transportation, construction activities, and the letting of non-residential property. Basic commodities such as fresh meat and fish, milk, maize, bread, illuminating paraffin, and vegetables, as well as goods for use by disabled persons are exempt. For firms in Export Processing Zones, a refund is given on value added tax paid on inputs.	Standard rate of 15 percent of retail price of all taxable supplies of goods and services.
5.2 Excise duties (Customs and Excise Act, Chapter 17:7; amended by Acts 23/79, 24/79, 2/80, and Customs and Excise (Suspension) Regulations, 1980, SI 645/80, and SI 55/81).	Dutiable goods include liquor and tobacco products. Tax levied at the manufacturing level.	Exports and imports are exempt. Imports that compete with excisable domestic goods are subject to customs rates that are equal to or greater than the excise tax rate.	Cigarettes: 60 percent and Z\$30,000 per 1,000 cigars. Beer: Clear beer, 45 percent; Opaque beer, 0 percent. Alcoholic spirits: 10 percent. Carbonated beverages: 0 percent. Wines: Wholly produced in Zimbabwe, 10 percent; Other, 5 percent.

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemption and Deductions	Rates
5.3 Selective tax on service	None.		
5.4 Business licenses (Shop License Act of 1976).	An annual levy on selected businesses.		Rates vary between urban and rural areas.
5.5 Motor vehicle tax	Tax on motor vehicles. Heavy vehicles are taxed by the Central Government and all the receipts are granted to local government. In some regions where local governments do not have tax administration, the Central Government (through post offices) collects this tax and grants the proceeds to the regions.		Rates vary between urban and rural areas.
6. Taxes on international trade and transactions.			
6.1 Tax on imports	Customs duty.	Imports by the central government are exempt. Special concessions are applied to some goods produced in specified countries by agreement. Firms in Export Processing Zones are allowed duty-free importation of new materials.	Tariff basically consists of a single schedule. Rates are mostly ad valorem and applied to the c.i.f. value. Classification is based on the Harmonized System.
			(In percent)
			Raw materials 5
			Capital goods 0
			Partly processed inputs 15
			Intermediate goods 20-30
			Finished goods 40-85
			Gasoline 5
			Diesel 5
			Jet Fuel free
			Vehicles:
			1,000cc to 1,500cc 60
			1,500cc to 3,000cc 75
			3,000cc and over 80
			Carbonated beverages 5

Table 39. Zimbabwe: Summary of the Tax System as of June 2005
(All amounts in Zimbabwe dollars)

Tax	Nature of Tax	Exemption and Deductions	Rates
			Alcoholic spirits 10
			Cigarettes 60
			Wines wholly:
			Produced in Zimbabwe 10
			Other wines 5
			Apparel: 65 percent plus Z\$100,000 per kilo.
			Batteries: 25 percent to 60 percent plus Z\$100 each.
			Consumer electronics: 40 percent to 65 percent plus Z\$100 each.
			Road user levy:
			An additional duty of Z\$94, Z\$101, and Z\$134 per litre for diesel, unleaded, and leaded petrol, respectively.
6.2 Surtax	Surtax on imports of final goods.	Imports by the central Government and selected goods for statutory bodies (related to their primary lines of business) are exempt.	10 percent on imported second motor vehicles that are five years old and older. No surtax on all other goods.
6.3 Taxes on exports	None.		
6.4 Exchange taxes			
Tobacco levy	Tax on turnover at tobacco auctions, which are usually held between April and October. Introduced in May 1996.		1 percent payable by both buyer and seller.

Source: Zimbabwe Revenue Authority.