Country Report

Zimbabwe

May 2009

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The Economist Intelligence Unit

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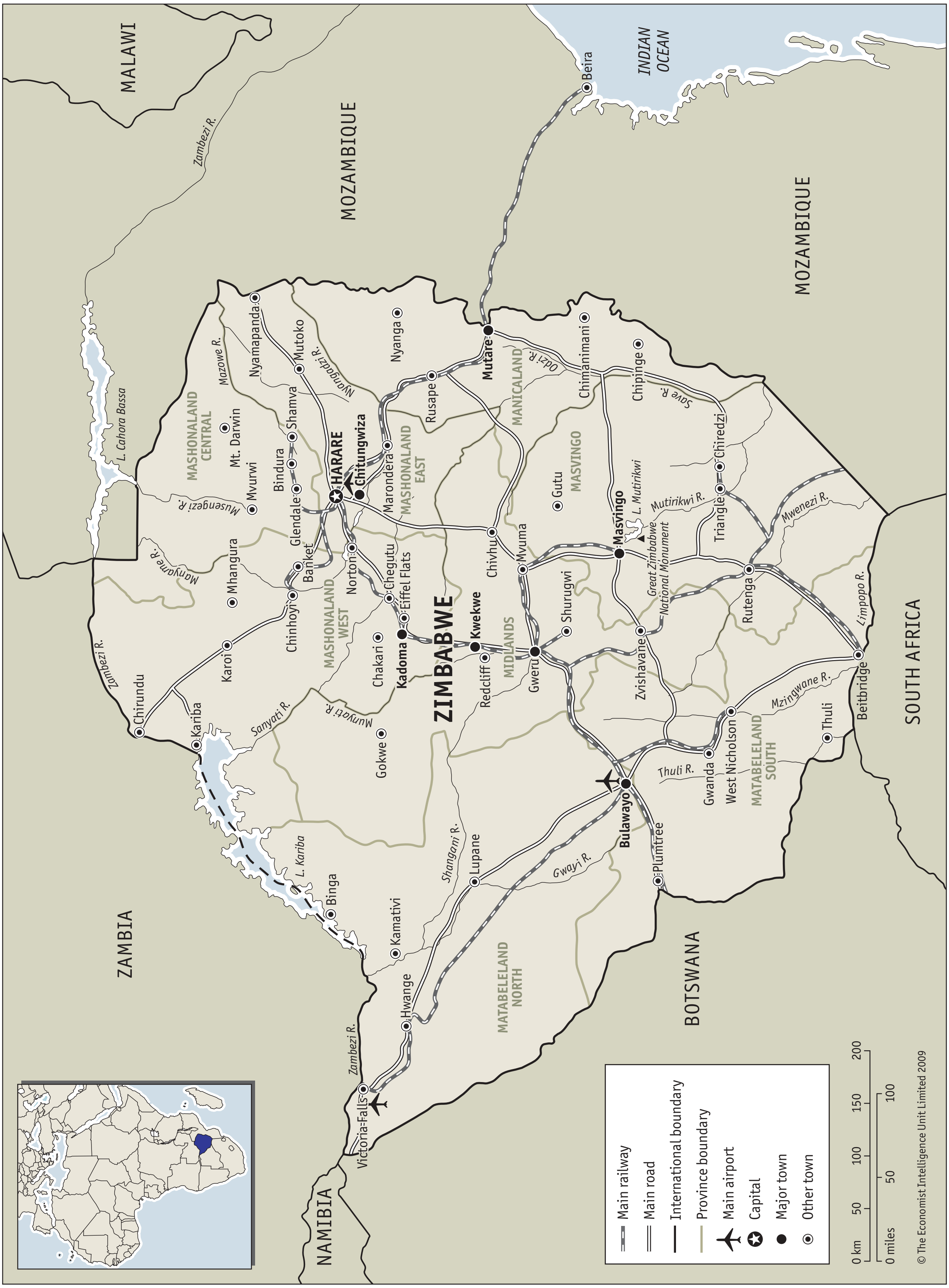

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Executive summary

Highlights

May 2009

Outlook for 2009-10

- The president, Robert Mugabe, looks increasingly likely to hang on to power over the forecast period as he continues to outmanoeuvre the opposition.
- The new South African president may take a more proactive stance on Zimbabwe, but rapid progress is unlikely and he believes that the power-sharing agreement must be given a chance to succeed.
- The IMF is set to offer technical assistance, but more substantial lending programmes are unlikely while Mr Mugabe remains in the ascendant.
- There should be some recovery in the gold-mining sector following the abolition of foreign-currency surrender requirements.
- The economic decline is set to continue, albeit at a slower pace.
- Falling commodity prices will hit Zimbabwe's exports in 2009, while imports will fall because of foreign-exchange shortages.

Monthly review

- Mr Mugabe appears to be winning the struggle for control of the power-sharing government, restructuring a ministry to ensure that ZANU-PF retains control of important parastatals, for example.
- Although the MDC continues to command widespread national support, faith in its ability to transform the socio-economic situation is waning.
- A parliamentary committee to drive the process of formulating a new constitution has been established. Delays in the electoral timetable are likely, however.
- Although a threatened teachers' strike has been called off, wage restraint is becoming an increasingly difficult issue for the government.
- The IMF believes that GDP could grow by 2.8% this year but concedes that there are a substantial number of downside risks to this forecast.
- Prices fell by a further 3% in March, meaning that they have declined by 8.3% (cumulative) so far in 2009. Price declines are set to continue—albeit at a slower pace—this year.
- A number of local gold-mining groups are planning to reopen or expand operations, buoyed by high international prices and the abolition of foreign-currency surrender requirements.

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Outlook for 2009-10

Political outlook

Domestic politics

After years of misrule, which have precipitated an economic and humanitarian catastrophe, pressure is expected to mount on the president, Robert Mugabe. Internally, the economic collapse means that around 70% of the population require food aid, increasing the tide of opposition against him. Popular resentment against his rule has failed to worry Mr Mugabe in the past, but much will depend on his ability to keep his patronage networks intact. Domestic sources of financing for the government are decreasing in line with the economic collapse, and opposition to Mr Mugabe from within his party, the Zimbabwe African National Union-Patriotic Front (ZANU-PF), is understood to be increasing. Pressure may eventually come from the army—traditionally the backbone of Mr Mugabe's rule. Zimbabwe-dollar salaries are effectively worthless, as the country has moved to a "multicurrency" system, and there are insufficient funds to pay the army in foreign currency for any sustained length of time.

Nevertheless, Mr Mugabe appears to be winning the struggle for control of the new power-sharing government that was sworn in to office in February: he is refusing to allow the Movement for Democratic Change (MDC) to change key political appointments, such as that of the governor of the central bank, and has even restructured crucial ministries to ensure that they remain under ZANU-PF control. The power-sharing agreement gives the government 18 months to establish a new constitution and hold fresh elections. Therefore, Mr Mugabe may well now stay in power for the next 18 months, barring the agreement breaking down or any health problems for the leader, who recently turned 85. In fact, it is possible that Mr Mugabe will remain in power for longer than that: although a parliamentary select committee has been appointed to "drive the process" of writing a new constitution, delays are likely, and in any event the president is a formidable political operator who remains adept at outmanoeuvring the political players both at home and internationally.

Although Morgan Tsvangirai, the prime minister and MDC leader, has reaffirmed his commitment to the power-sharing agreement, he concedes that there have been many transgressions of the deal, and there is a strong possibility that the agreement could collapse altogether. Under such a scenario Mr Mugabe would try to remain in power but international pressure would be brought to bear to force him from office. It is also possible that a suitable "exit package", which would include an agreement from Western countries not to attempt to prosecute him for human rights abuses, could persuade Mr Mugabe to relinquish power. However, dealing with those other senior ZANU-PF and army members closely allied to Mr Mugabe would complicate matters. They would have much to lose were Mr Mugabe to leave office, and so may attempt to prolong his rule.

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International relations

Although Mr Mugabe will never co-operate with Western powers, portraying Zimbabwe as the victim of colonialist oppression, the inability of regional powers to exert any significant influence over the Zimbabwean president has been disappointing. The recent power-sharing agreement has been a case in point, with members of the Southern African Development Community (SADC) apparently deciding that any agreement is better than nothing. As a result, they put much pressure on Mr Tsvangirai to co-operate in a flawed scheme, handing the political initiative back to Mr Mugabe.

This approach could begin to change during 2009, following the appointment of Jacob Zuma as South African president. The "quiet diplomacy" of the former president, Thabo Mbeki, was largely ineffective, and there has been speculation that Mr Zuma will take a more proactive stance. The new president has a strong support base in the South African unions, which are keen to see change in their neighbour, while pressing for a positive political change in Zimbabwe would provide an early boost to Mr Zuma's domestic, regional and international credibility. That said, Mr Zuma is likely to focus on domestic matters in the months immediately following his election, and officials of the new administration have already stated that the power-sharing government must be given a chance to succeed. Rapid progress is unlikely, therefore, unless the power-sharing deal breaks down or Mr Mugabe's violent repression against the opposition worsens.

Economic policy outlook

Policy trends

As part of the power-sharing agreement, the Ministry of Finance has been placed under the control of the MDC—which means that the MDC is set to lose support as it makes only limited progress tackling the economy. Economic policy will continue to be driven by political considerations, with the struggle for influence between ZANU-PF and the MDC in the power-sharing government overshadowing policy reform—only once Mr Mugabe has left office is there any hope that economic policy will get back on track. Despite this, the IMF is set to offer technical assistance to the country for the first time since 2003. This will focus on tax policy and administration, payments systems, banking supervision and central bank governance. However, more substantial lending programmes are unlikely until Mr Mugabe does relinquish power, suggesting that economic policy will remain chaotic and piecemeal over the forecast period.

Fiscal policy

Unlike in 2008, the government has actually managed to produce a budget for 2009—in fact, it has produced two. The January measure, announced by a ZANU-PF finance minister, tacitly accepted the worthlessness of the Zimbabwe dollar by formally allowing foreign exchange to be allowed for payment in Zimbabwe. The revised measure, produced in March by the new MDC minister, Tendai Biti, is somewhat more realistic in terms of spending and revenue targets, both of which have been reduced to US$1bn. Nonetheless, the assumption that revenue will rise as economic activity recovers and corporate profits and Pay As You Earn (PAYE) inflows grow looks over-optimistic, and given the difficulty of raising revenue the Economist Intelligence Unit expects

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the government to continue to rein in spending in real terms in an attempt to keep the deficit under control. As a result, government services, particularly healthcare and education, will continue to deteriorate. The situation in 2010 will largely depend on who is in power. If Mr Mugabe has left office by then, a large increase in donor support can be expected, the IMF will help to shape a prudent economic policy and the need to print money to cover the deficit will be removed. However, should Mr Mugabe's reign persist into 2010, little change in fiscal policy is to be expected.

Monetary policy

Severe foreign-exchange shortages have shaped monetary policy in recent years, undermining all economic activity. The effective dollarisation recognised in the 2009 budget adds a new dimension to this, with monetary policy rendered even more ineffective. Efforts to link the Zimbabwe dollar to the rand may well begin during the forecast period, although no formal link can be made until Zimbabwe's stratospheric inflation is brought down, which is likely to take some time. Such confusion in monetary policy is likely to continue as long as the political turbulence remains.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.0	-1.8	1.9
OECD	2.7	0.9	-4.0	0.2
EU27	2.8	0.8	-4.1	-0.5
Exchange rates				
¥:US$	117.8	103.4	96.3	94.8
US$:€	1.369	1.470	1.323	1.385
SDR:US$	0.651	0.629	0.666	0.648
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.48	1.43
US$ 3-month Libor	5.30	2.41	0.56	0.94
Commodity prices				
Oil (Brent; US$/b)	72.7	97.7	40.0	50.0
Gold (US$/troy oz)	696.7	870.2	900.0	887.5
Platinum (US$/oz)	1,299.0	1,563.2	892.5	1,000.0
Food, feedstuffs & beverages (% change in US$ terms)	30.9	28.8	-25.8	3.8
Industrial raw materials (% change in US$ terms)	11.2	-5.1	-42.2	14.9

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

We expect world GDP (measured on a purchasing power parity basis) to decline by 1.8% in 2009 as many Western economies enter recession. Growth will be only marginally better in 2010, at 1.9%. The drop in growth will see demand for many commodities slacken, with prices falling significantly from the recent highs. However, the prices of some commodities, such as platinum, should begin to recover in 2010 in line with the global recovery. We expect international oil prices to slide sharply in 2009, with Brent Blend averaging US$40/barrel, which will benefit Zimbabwe as an oil importer, before edging up to an average of US$50/b in 2010.

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Economic growth

The economic collapse has been compounded by the violent troubles stemming from the March 2008 elections and subsequent political deadlock. This situation contributed to a large decline in economic activity in 2008, and real GDP is estimated to have fallen by 14%. The contraction of the Zimbabwean economy will continue over the forecast period, even if Mr Mugabe leaves office. Such is the destruction of the economy that any incoming government will face a mammoth task in turning things around, even with substantial donor assistance. For example, any recovery in farming will be constrained by the displacement of many farmers as part of the government crackdown on opposition supporters, the limited availability of inputs, the destruction of the commercial sector and the impact of the HIV/AIDS pandemic. Businesses are also likely to remain cautious. Most have already scaled back operations and developed techniques to survive the difficult operating environment; they will start to expand their operations only when they sense that the economy is on the mend. That said, there should be some recovery in the gold-mining sector, following the abolition of foreign-currency surrender requirements.

As with most post-conflict states, once the recovery does begin it should be fairly rapid, although this is likely to take place outside the forecast period. Therefore, for the time being at least, the economic decline is set to continue, with the economy contracting by 4.7% in 2009 and 3.7% in 2010. Although part of the slowdown in the pace of economic decline will reflect a slight improvement in political stability, it will also be accounted for by the fact that the formal economy has declined to the point where there is hardly anything left to shrink.

Inflation

Shortages of food and foreign exchange, the galloping devaluation of the currency and the ballooning money supply caused by the government's quasi-fiscal spending drove inflation to record highs in 2008. When the government halted official estimates, in August 2008, the monthly rate was estimated at 231 million percent. However, inflation has fallen dramatically with rapid dollarisation at the end of 2008: consumer prices fell by 8.3% (cumulative) in the first three months of 2009. Retail-level prices are expected to fall further until mid-year and possibly longer, although administered prices (such as electricity and rates) will rise. Although the high base set at the end of 2008 will mean that overall inflation will remain high in 2009, prices on the ground are expected to come down throughout the year, and once the highs of 2008 drop out of the calculations in 2010 overall inflation will fall quickly. Indeed, a period of deflation is a distinct possibility, especially if external financial assistance does not materialise, prompting a squeeze on liquidity.

Exchange rates

As expected, the redenomination carried out by the Reserve Bank of Zimbabwe (RBZ, the central bank) in August 2008—under which ten zeros were removed from the currency—has failed. The magnitude of the failure was highlighted in January 2009, when the RBZ redenominated the currency again, this time removing 12 zeros. However, Zimbabwe's inflation and moribund economy continued to undermine the value of the currency, rendering any redenomination useless. The government at least partly accepts this,

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sanctioning the use of foreign currency for all payments in the 2009 budget. This has effectively led to the scrapping of the Zimbabwe dollar: most transactions are conducted in US dollars, although the government says that it will retain a multicurrency system with the rand as its "reference currency".

External sector

Falling commodity prices will adversely affect Zimbabwe's exports in 2009, as will continuing declines in production as the economic collapse worsens. However, one positive aspect is that gold prices will remain high. In 2010 a small recovery in exports is expected as other commodity prices, such as that of platinum, show signs of recovery. The mining industry will also be among the first sectors to benefit from any political change. We have made a significant downward revision to the forecast for imports, as the financing crisis in Zimbabwe means that there will simply not be enough foreign exchange available to keep imports at their current levels. This, coupled with falling world oil and food prices, will bring imports down by around 25% in 2009, with only a slight increase in 2010. Since there is little prospect of a recovery in tourism, we expect the services account to remain in deficit. The income account is also set to remain in deficit, even though the repatriation of profits and debt-service payments will be limited. Only the current transfers account will be in surplus: private transfers are expected to hold up as the 4m Zimbabweans living abroad continue to send money home to support their families. However, even this source of financing will suffer as the global slowdown causes Zimbabweans living abroad to lose their jobs. Even with the large fall now forecast in imports, the current-account deficit will remain heavily in deficit, by the equivalent of over 25% in 2009-10.

Forecast summary

(% unless otherwise indicated)

	2007[a]	2008[a]	2009[b]	2010[b]
Real GDP growth	-5.5	-12.6	-4.7	-3.7
Manufacturing production growth	-5.5	-13.3	-7.7	-6.3
Gross agricultural production growth	-5.0	-17.5	-4.0	-3.6
Consumer price inflation (av)	1.3E+04	1.5E+10	4.2E+16	-7.2
Consumer price inflation (year-end)	6.6E+04	2.2E+23	5.0E+01	3.5
Short-term interbank rate	579.0	450.3	461.6	470.7
Government balance (% of GDP)	-8.9	-6.2	-6.5	-6.8
Exports of goods fob (US$ bn)	1.5	1.3	1.2	1.2
Imports of goods fob (US$ bn)	2.0	1.9	1.4	1.5
Current-account balance (US$ bn)	-0.5	-0.7	-0.3	-0.3
Current-account balance (% of GDP)	-29.4	-43.9	-23.1	-25.9
External debt (year-end; US$ bn)	5.1	5.3	5.3	5.4
Exchange rate Z$:US$ (av)[c]	8.2E+04	5.7E+15	4.7E+34	5.0E+38
Exchange rate Z$:US$ (year-end)[c]	3.2E+05	6.8E+16	1.7E+35	5.0E+38
Exchange rate Z$:€ (av)[c]	1.1E+05	8.4E+15	6.3E+34	6.9E+38
Exchange rate Z$:US$ (av; parallel market)	9.9E+05	2.0E+25	4.0E+39	1.0E+42

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] The currency re-denominations carried out in 2008 and 2009 have not been applied in order to give a consistent data series.

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Monthly review: May 2009

The political scene

Mr Mugabe consolidates control

There is growing evidence that the president, Robert Mugabe, is winning the struggle for control of the government of national unity (GNU) even as he continues to lose ground in public relations terms. Although the global political agreement (GPA) signed in September 2008 mandated power-sharing between Mr Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) and two branches of the Movement for Democratic Change (MDC), the 85-year-old president is refusing to allow the MDC to change key political appointments, such as the attorney-general, Johannes Tomana, and the governor of the Reserve Bank of Zimbabwe (RBZ, the central bank), Gideon Gono. Equally, Mr Mugabe is refusing to order the release of political detainees or swear in Roy Bennett, the MDC's nominee for deputy agriculture minister, until he is cleared in the courts. This could be months away, as Mr Bennett's trial is being repeatedly postponed.

In a blatant breach of the GPA, Mr Mugabe ordered the restructuring of the Ministry of Transport and Infrastructural Development, which is run by a Mugabe loyalist, so that control over important parastatals such as the telecoms groups, NetOne and TelOne, the national postal service and their governing body, the Postal and Telecommunications Regulatory Authority of Zimbabwe, could be shifted to it from the Ministry of Information Communication Technology, which is held by an MDC appointee. Morgan Tsvangirai, the prime minister and leader of the majority branch of the MDC, declared the switch illegal and said that it would not be implemented. However, three weeks later no action had been taken to reverse the decision, and Tsvangirai supporters fear that their party has been outwitted once again.

Faith in the MDC is waning

There no reliable opinion polls to provide evidence of any shift in the public mood, but analysts believe that, although Mr Tsvangirai's party continues to command widespread support across the country, faith in its ability to transform the socio-economic situation is waning. There is growing discontent in the labour movement, which normally backs Mr Tsvangirai, over pay, and the donor community, with some exceptions, is also unhappy. One UN agency source comments, "It is not a matter of the left hand not knowing what the right hand is doing. The truth is that the left hand does not know what the left hand is doing." The situation was bluntly summarised in an editorial in South Africa's influential *Business Day* newspaper on May 2nd, which warned that the MDC's credibility would be destroyed unless it produced results soon.

Mr Tsvangirai's own statements heighten the impression that he is out of his depth. In late April he told supporters at a party rally that "President Mugabe and I respect each other, although we may disagree. There is nothing Mugabe does without me approving and there is nothing I do without him approving." Yet, in subsequent speeches the prime minister took a very different stance, admitting that there had been many transgressions of the power-sharing

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agreement and that five meetings between the principal signatories—the president, the prime minister and Arthur Mutambara, who leads a minority wing of the MDC—had failed to break the deadlock. Despite this, Mr Tsvangirai insisted that now was not the time for "megaphone diplomacy" or breaking the agreement.

A new constitution is to be formulated

On a more positive note, the parliamentary speaker, Lovemore Moyo, has announced the appointment of a 25-member parliamentary select committee to drive the process of writing a new constitution within 18 months, as agreed in the GPA. According to Mr Moyo, the constitution should be completed by February 2010 and put to a national referendum five months later. The GPA stipulates that fresh elections be held under the new constitution before the end of 2010, although that deadline may be missed: the slippage in implementing the original agreement and establishing the GNU, which took five months, suggests that protracted delays are likely.

The political reality is that neither Mr Mugabe's ZANU-PF nor Mr Mutambara's wing of the MDC are in any hurry to face the electorate again, since both fear that they will lose heavily to Mr Tsvangirai's MDC. Indeed, Mr Mutambara insisted last month that there was nothing in the GPA to prevent the GNU from extending its tenure to a full five-year parliamentary term.

The constitution-drafting process has already run into problems, with civil society groups and the powerful Zimbabwe Congress of Trade Unions (ZCTU), which normally supports the MDC, warning against restricting the process to politicians. Welshman Ncube, the industry minister and secretary-general of the MDC's Mutambara faction, did not help the situation when he commented that the so-called Kariba constitution—negotiated in secret by two ZANU-PF ministers, Mr Ncube himself and the finance minister, Tendai Biti—would form the basis of the new constitution. This heightened fears that consultation with the public and civil society would be minimised, although the MDC constitutional affairs minister, Eric Magtinenga, has since tried to assuage public disquiet by insisting that the Kariba draft will serve only as "a point of reference".

Further South African migration is likely

South Africa's Ministry of Home Affairs has introduced a new permit system for migrant workers that will make it easier for Zimbabweans to work or study in South Africa. Sebelo Sibanda of Lawyers for Human Rights, a South African non-governmental organisation, says that the permit system will "inevitably" attract more migrants from Zimbabwe, suggesting that there are still many Zimbabweans who believe that the quality of life is superior in South Africa. This is understandable, according to Mr Sibanda: shops may be full, but there is "no work, no money to buy goods and the schooling remains compromised." The exact number of Zimbabwean migrants in South Africa is unknown, but the South African authorities put the figure as high as 2m-3m people.

Economic policy

Wage restraint is "crucial"

Salaries are becoming an increasingly contentious issue for the GNU, which is caught between public demands for improved pay (after years in which salaries

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failed to keep up with price rises) and calls for wage restraint by international institutions such as the IMF. Addressing supporters at a May Day rally, Mr Tsvangirai stated that the government was "broke" and "only able to pay the US$100 [monthly] allowance." The prime minister added that this would graduate into "a proper salary" when conditions improved, but "for now, everyone, including President Mugabe, is getting US$100." Mr Tsvangirai's audience was unimpressed, however, and the head of the ZCTU—a long-standing Tsvangirai supporter—threatened a national strike unless salaries were increased to at least US$400 a month.

Although donors may be prepared to provide supplementary funding, this is unlikely to bridge the gap between the government's offer and workers' demands. As a result, the administration is resorting to some creative solutions. For example, schoolteachers had threatened to take strike action in May unless their salaries were increased to US$600 a month. With the IMF warning that Zimbabwe needs to adopt a strict policy of wage restraint, the government instead offered to reduce school fees across the board—and to give free schooling to the children of teachers. This appears to have appeased teachers, for the time being at least, and the threatened strike action has been called off.

However, this is not a long-term political solution. Even the IMF concedes that there can be no economic turnaround without substantial foreign assistance and private capital inflows, even assuming sound policy implementation. For real GDP growth, negative since 1998, to turn positive in 2009 Zimbabwe will need official budget support of at least US$200m as well as sound economic policies. An additional US$200m-300m will be needed for food supplies, education and health spending. The government is targeting US$1bn in credit lines from African states, but direct support from bilateral donors and international institutions will be crucial if the power-sharing government is to have any hope of meeting wage demands—and such assistance is highly unlikely while the MDC is perceived to be the junior partner in the GNU.

Economic performance

There may be some signs of recovery

Following its recent visit to Zimbabwe for routine Article IV discussions, the IMF believes that the country is at a critical juncture. After years of high inflation, economic decline and rising poverty, the GNU has "a historic opportunity" to improve prospects for economic growth and poverty reduction. However, "strong policies, better governance and donor support are critical for a successful reconstruction of the Zimbabwe economy." With some—small—signs of recovery in the gold-mining sector and a slight improvement in political stability, the Fund believes that real GDP could actually grow this year, for the first time in 12 years.

This is almost certainly over-optimistic. Indeed, the Fund itself concedes that there are a number of downside risks to its forecast of real GDP growth of 2.8% in 2009. For example:

- political disagreements among coalition partners may emerge, potentially resulting in policy reversals;

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- budget revenue and foreign financing shortfalls could lead to a large compression in expenditure, which, in turn, may trigger social unrest;
- if wages exceed levels justified by the economy's productivity, competitiveness could suffer, resulting in output contraction and higher unemployment;
- the banking system, which has become more fragile because of hyper-inflation, is subject to new risks under the multi-currency system—if these are not addressed in a timely manner, the intermediation capacity of the banking system will not improve and growth will suffer;
- if projected external private and official inflows do not materialise, the resulting liquidity squeeze could lead to deflation; and
- significant capacity constraints pose a high risk to the implementation of the authorities' emergency recovery programme.

The Fund's medium-term projections suggest that GDP could expand by 6% annually from 2010, with inflation staying in single digits. Exports are projected to recover to US$2.5bn by 2013 (down from a peak of more than US$3bn in 1996) but the current-account deficit—projected at more than 20% of GDP—is unsustainable without massive net capital inflows.

Medium-term projections

(% change, year on year, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013
Real GDP	-14.1	2.8	6.0	6.0	6.0	6.0
Inflation	5.56E+10	6.9	9.9	9.2	8.2	6.2
Exports (US$ m)	1,651	1,518	1,631	1,935	2,219	2,473
Imports (US$ m)	2,630	2,641	2,957	3,150	3,258	3,405
Current-account deficit (% of GDP)	28.5	19.1	30.4	26.4	22.3	19.6
External debt (US$ m)	6,027	6,719	7,781	8,764	9,650	10,460
% of GDP	189	192	191	187	178	172
Arrears	3,771	4,608	5,149	5,630	6,104	6,582
% of GDP	119	132	126	119	113	108

Source: IMF, 2009 *Article IV Consultation – Staff Report*, May 2009.

Debt forgiveness is crucial

The Fund also describes Zimbabwe as a country in "debt distress", with the value of its external debt-to-exports ratio expected to persist above 250% for almost a decade, "reflecting the initial external debt overhang and sizeable gross financing requirements." The IMF estimates external debt at US$6.1bn at the end of 2008, of which US$3.8bn (119% of GDP) represents arrears—a reflection of Zimbabwe's poor payment record to both official bilateral and multilateral lenders. Improved relations with the IMF and the World Bank are a prerequisite if Zimbabwe is to qualify for external debt write-offs under the multilateral debt relief initiative (MDRI) and the heavily indebted poor countries (HIPC) initiative. In the absence of such debt forgiveness, arrears are forecast to increase to US$6.6bn by 2013, at which time external debt will amount to US$10.5bn, or 178% of GDP.

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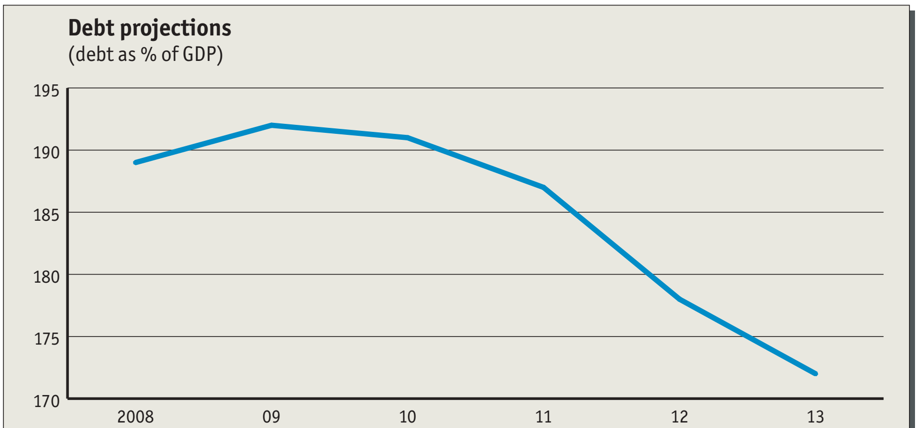

Source: IMF, *2009 Article IV Consultation - Staff Report,* May 2009.

Prices fall again

Zimbabwe continues to experience deflation following the effective scrapping of the Zimbabwe dollar, with prices falling by a further 3% in March. This takes the cumulative decline in consumer prices since December 2008 to 8.3%. The sharpest falls have been in food and beverage prices; housing, water and electricity prices have barely changed, while recreation prices have actually risen. The signs are that retail-level prices for foodstuffs, clothing and household goods will continue to fall over the next two or three months but administered prices—such as electricity, water and rates—will rise. The net effect should be continuing, but slowing, price declines, although it is far from clear how long this will continue.

The Central Statistical Office Total Consumption Poverty Line, which covers spending for a family of five, declined by 6.9% in March, following a 10.3% fall the previous month. This figure is substantially higher than the Consumer Association estimates, which in turn is some four times the cost of purchasing the identical basket of goods in South Africa. However, all these calculations are hotly contested by Zimbabwean supermarket chains, which say that the gap between local and South African prices is now very narrow.

Miners consider restarting production

Four Zimbabwean gold-mining groups have announced plans to reopen or expand operations. Metallon Gold, the country's largest producer until it closed down last November, is seeking a US$10m loan to re-equip and reopen two of its five mines this month. Mwana Africa is restarting its Freda Rebecca mine, Caledonia Mining is re-opening the Blanket mine and New Dawn Mining will start production at Turk Mine.

Gold production became viable again in February, when the government abolished foreign-currency surrender requirements under which exporters were required to sell a proportion of export earnings to the central bank at an unrealistic exchange rate in return for worthless Zimbabwe dollars. As a result of this—as well as economic decline and concern about government plans to take majority stakes in mining operations—gold output fell from a peak of 2.4 tonnes/month in the late 1990s to a mere 100 kg/month at the end of 2008. Now, however, the subsector should start to recover over the next one to two years, buoyed by high international prices.

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Data and charts

Annual data and forecast

	2004[a]	2005[b]	2006[b]	2007[b]	2008[b]	2009[c]	2010[c]
GDP							
Nominal GDP (US$ bn)	2.0	1.9	1.8	1.7	1.5	1.4	1.3
Nominal GDP (Z$ bn)	2.39E+01	7.54E+01	8.84E+02	1.06E+05	1.39E+13	5.51E+27	4.92E+27
Real GDP growth (%)	-3.8	-6.5	-4.6	-5.5	-12.6	-4.7	-3.7
Expenditure on GDP (% real change)							
Private consumption	-18.6	8.4	-4.5	-5.0	-12.0	-12.0	-5.0
Government consumption	31.7	6.4	-6.0	-6.0	-10.0	-7.0	-4.0
Gross fixed investment	54.2	-63.4	-1.0	-5.0	-8.0	-8.0	-3.0
Exports of goods & services	1.7	-4.3	-1.0	-0.8	-1.2	-0.5	-0.5
Imports of goods & services	2.4	-3.1	-1.5	-1.0	-0.6	-10.0	-2.0
Origin of GDP (% real change)							
Agriculture	-2.9	-10.0	-4.5	-5.0	-17.5	-4.0	-3.6
Industry	-3.5	-11.7	-3.5	-5.0	-13.0	-4.0	-2.0
Services	-4.2[b]	-3.4	-5.0	-5.8	-11.0	-5.2	-4.4
Population and income							
Population (m)	13.0[b]	13.1	13.2	13.3	13.3	13.3	13.3
GDP per head (US$ at PPP)	182[b]	174	170	165	147	140	135
Fiscal indicators (% of GDP)							
Public-sector revenue	32.5	43.9	39.5	37.7	38.6	40.8	42.4
Public-sector expenditure	38.7	45.6	51.1	46.5	44.8	47.4	49.2
Public-sector balance	-6.1	-1.7	-11.6	-8.9	-6.2	-6.5	-6.8
Net public debt	193.2	195.9	212.2	216.0	255.6	280.9	307.2
Prices and financial indicators							
Exchange rate Z$:US$ (end-period)[d]	5.73E+00	7.80E+01[a]	2.50E+02[a]	3.23E+05	6.75E+16	1.72E+35	5.00E+38
Consumer prices (end-period; %)	1.33E+02	5.86E+02[a]	1.28E+03[a]	6.62E+04	2.16E+23	5.00E+01	3.45
Stock of money M1 (% change)	2.29E+02	5.53E+02[a]	1.32E+03	6.67E+04	2.87E+09	4.20E+16	6.40E+01
Stock of money M2 (% change)	2.29E+02	5.33E+02[a]	1.45E+03	6.45E+04	2.97E+09	4.20E+16	7.89E+01
Lending interest rate (av; %)	278.9	235.7[a]	496.5[a]	579.0	450.3	461.6	470.7
Current account (US$ m)							
Trade balance	-309[b]	-607	-458	-509	-594	-215	-245
Goods: exports fob	1,680[b]	1,497	1,582	1,467	1,321	1,221	1,234
Goods: imports fob	-1,989[b]	-2,104	-2,040	-1,975	-1,915	-1,436	-1,479
Services balance	-107[b]	-97	-88	-108	-146	-180	-191
Income balance	-208[b]	-268	-151	-144	-189	-198	-180
Current transfers balance	228[b]	263	264	266	270	270	272
Current-account balance	-396[b]	-709	-433	-495	-659	-322	-345
External debt (US$ m)							
Debt stock	4,818	4,296[a]	4,677[a]	5,085	5,316	5,321	5,395
Debt service paid	100	225[a]	83[a]	77	85	75	64
Principal repayments	77	198[a]	31[a]	35	38	36	24
Interest	23	27[a]	53[a]	42	47	39	40
Debt service due	449	276[a]	406[a]	651	671	748	619
International reserves (US$ m)							
Total international reserves	255	160	139	117	96	91	81

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] The currency re-denominations carried out in 2008 and 2009 have not been applied in order to give a consistent data series.

Source: IMF, *International Financial Statistics*.

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Quarterly data

	2006				2007			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (Z$ m)								
Revenue & grants	45,594	162,579	n/a	n/a	n/a	n/a	n/a	n/a
Expenditure & net lending	49,850	188,148	n/a	n/a	n/a	n/a	n/a	n/a
Balance	-4,256	-25,569	n/a	n/a	n/a	n/a	n/a	n/a
Total domestic debt (end-period)	15,021	46,213	119,401	175,666	1,283,404	n/a	n/a	n/a
Output								
Manufacturing index (1990=100)	56	58	69	73	n/a	n/a	n/a	n/a
Manufacturing index (% change, year on year)	-9	-5	12	30	n/a	n/a	n/a	n/a
Prices								
Consumer prices (2000=100)	72,480	133,258	249,903	509,953	1,437,264	7,321,732	n/a	n/a
Consumer prices (% change, year on year)	773	1,147	1,071	1,164	1,883	5,394	n/a	n/a
Financial indicators								
Exchange rate Z$:US$ (av)	97.4	100.5	200.4	250.0	259.2	257.3	8,187	30,000
Exchange rate Z$:US$ (end-period)	102.8	104.8	259.6	258.9	259.1	255.6	30,000	30,000
Parallel exchange rate Z$:US$ (av)	156.9	320.0	1,068	2,567	10,333	79,333	293,333	n/a
Bank rate (end-period; %)	750.0	850.0	300.0	500.0	500.0	600.0	600.0	975.0
Lending rate (av; %)	488.3	665.8	431.7	400.0	529.2	537.5	590.8	658.3
Treasury bill rate (av;%)	455.0	509.4	258.8	66.3	66.3	248.8	340.0	340.0
M1 (end-period; Z$ bn)	6.04E+04	1.15E+05	3.32E+05	6.37E+05	2.22E+06	1.89E+07	7.09E+07	4.25E+08
M1 (% change, year on year)	521	771	1,510	1,323	3,584	16,323.8	21,255.8	66,709.9
M2 (end-period; Z$ bn)	8.22E+04	1.58E+05	4.34E+05	9.07E+05	2.85E+06	2.36E+07	9.07E+07	5.86E+08
M2 (% change, year on year)	559	781	1,520	1,453	3,372	14,839.6	20,807.8	64,472.4
ZSE Industrial index (end-period)	28,565	61,764	184,839	310,459	548,730	3,696,286	5,460,688	n/a
Sectoral trends								
Tobacco auctions (annual totals; '000 tonnes)[a]	n/a	53	n/a	n/a	n/a	0	n/a	n/a
Gold production (kg)	2,788	2,556	2,990	2,904	2,334	n/a	n/a	n/a
Gold production (Z$ bn)	4,854	6,286	13,035	29,569	27,735	n/a	n/a	n/a
Chrome ore production ('000 tonnes)	174	173	177	176	176	n/a	n/a	n/a
Chrome ore production (Z$ bn)	1,047	1,662	4,019	8,541	19,643	n/a	n/a	n/a
Platinum production (kg)	1,172	1,183	1,434	1,210	1,367	n/a	n/a	n/a
Platinum production (Z$ bn)	3,519	4,016	10,400	10,377	11,761	n/a	n/a	n/a
Foreign trade (Z$ m)[b]								
Exports fob	207.5	236.0	243.3	254.4	619.7	709.1	549.3	618.9
Imports cif	597.6	709.9	786.1	729.7	605.5	571.7	634.6	781.8
Trade balance	-390.1	-473.9	-542.8	-475.3	14.2	137.5	-85.3	-162.9

[a] Provisional data for 2006. [b] *DOTS* estimates.

Sources: IMF, *International Financial Statistics*; *Direction of Trade Statistics*; Reserve Bank of Zimbabwe; Central Statistical Office.

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Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Z$:US$ (av)												
2005	5.8	6.0	6.1	6.1	7.1	9.8	12.5	21.2	25.5	61.5	64.2	78.0
2006	93.7	99.2	99.2	99.2	101.2	101.2	101.2	250.0	250.0	250.0	250.0	250.0
2007	250.0	250.0	250.0	15,000	15,000	15,000	15,000	15,000	30,000	n/a	n/a	n/a
M1 (% change, year on year)												
2005	156	196	189	187	191	180	237	236	264	423	407	553
2006	598	546	521	579	688	771	867	1,300	1,510	1,302	1,442	1,323
2007	1,607	2,114	3,584	4,844	8,928	16,324	18,441	16,837	21,256	26,779	57,538	66,710
M2 (% change, year on year)												
2005	168	204	192	190	219	202	253	236	256	377	414	533
2006	588	549	559	593	675	781	853	1,266	1,520	1,490	1,462	1,453
2007	1,668	2,142	3,372	4,559	8,344	14,840	18,599	17,845	20,808	25,046	53,013	64,472
Deposit rate (%)												
2005	56.5	46.5	44.4	44.0	54.0	81.5	79.0	126.0	126.0	130.5	130.5	174.0
2006	169.0	164.0	229.0	254.0	254.0	229.0	284.0	179.0	179.0	166.5	166.5	166.5
2007	129.0	124.0	154.0	154.0	154.0	129.0	129.0	129.0	94.0	104.0	79.0	79.0
Lending rate (%)												
2005	168.0	155.0	155.6	150.0	165.0	200.0	207.5	262.0	275.0	360.0	315.0	415.0
2006	415.0	455.0	595.0	682.5	682.5	632.5	632.5	312.5	350.0	350.0	350.0	500.0
2007	512.5	537.5	537.5	537.5	537.5	537.5	572.5	600.0	600.0	600.0	600.0	775.0
Industrial share prices (% change, year on year)												
2005	333	367	700	533	500	350	317	300	550	1,350	1,633	1,571
2006	2,100	1,657	1,125	1,053	1,417	1,828	2,348	4,679	6,195	2,402	2,925	2,977
2007	2,044	3,700	12,878	16,432	27,486	78,427	37,113	21,665	22,157	91,996	221,176	335,336

Sources: IMF, *International Financial Statistics*; Haver Analytics.

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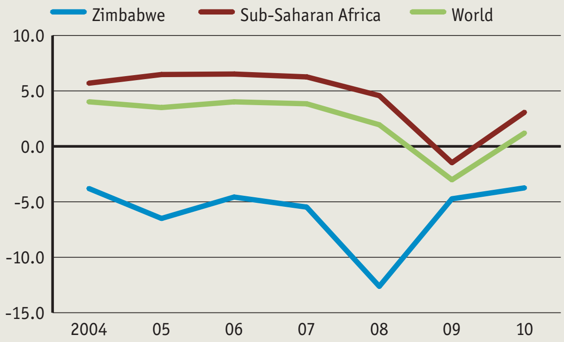
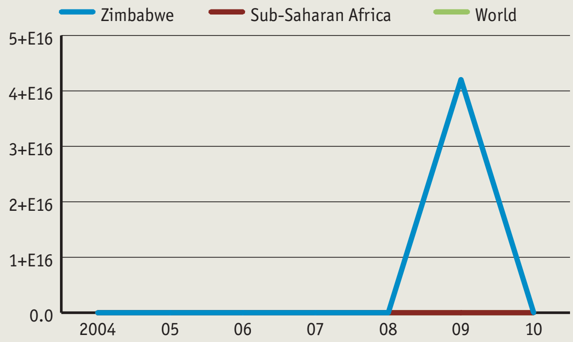
Annual trends charts

Real GDP growth
(% change)



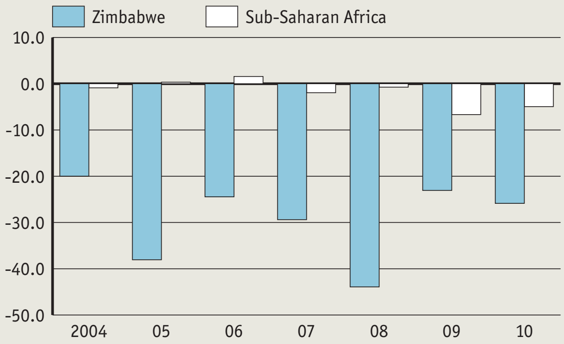
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



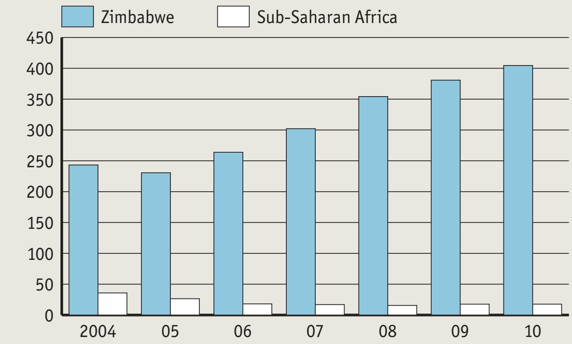
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



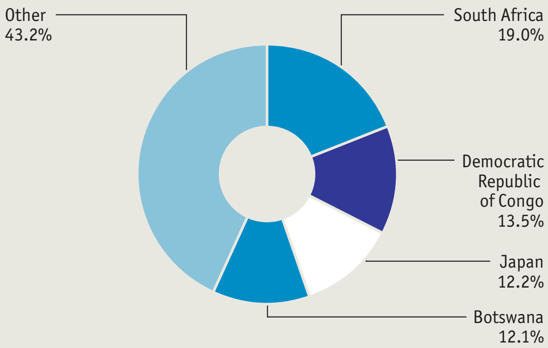
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



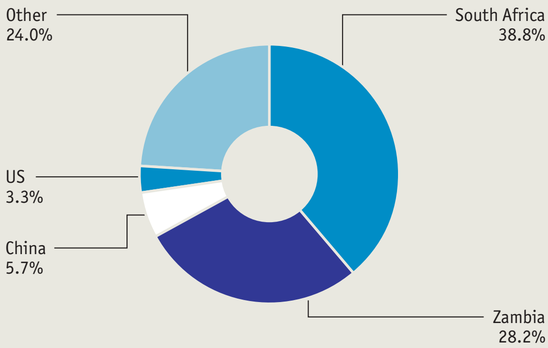
Source: Economist Intelligence Unit.

Main destinations of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

Main origins of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

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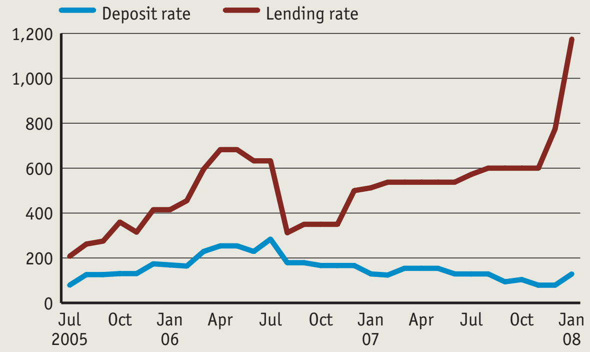
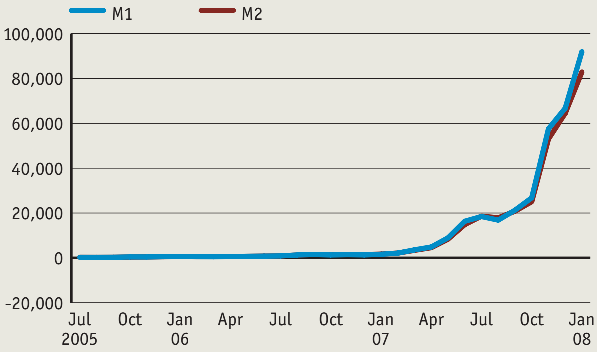
Monthly trends charts

Interest rates
(av; %)



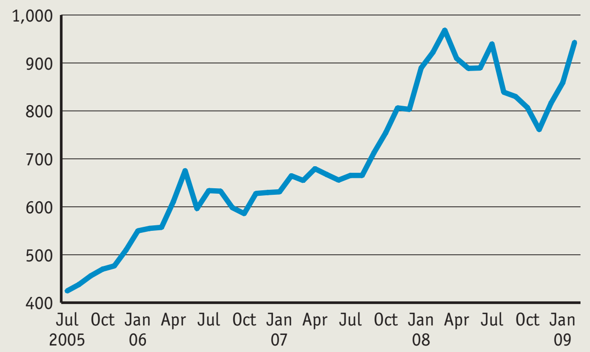
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



Source: Economist Intelligence Unit.

Gold: London price
(US$/troy oz; av)



Source: Economist Intelligence Unit.

Oil: Brent crude price
(US$/b; av)

Source: Economist Intelligence Unit.

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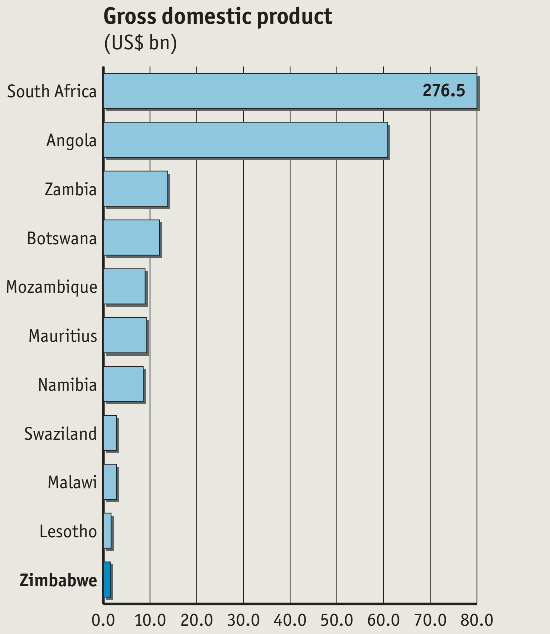
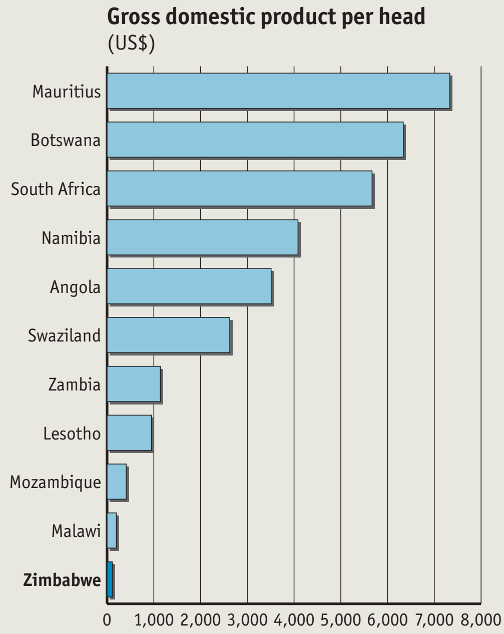
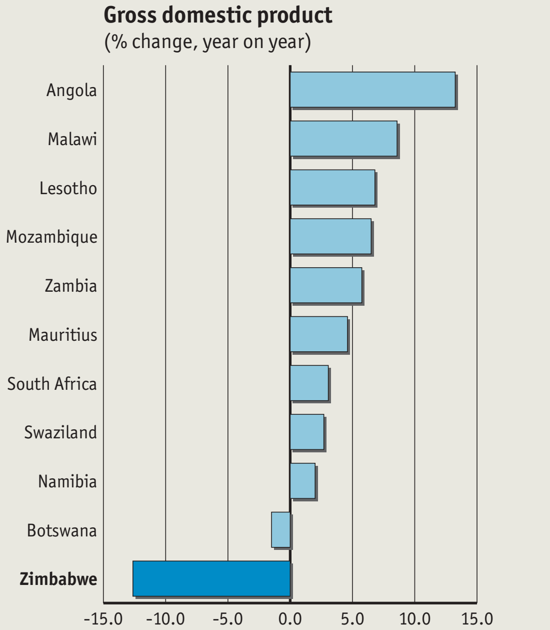
Comparative economic indicators, 2008



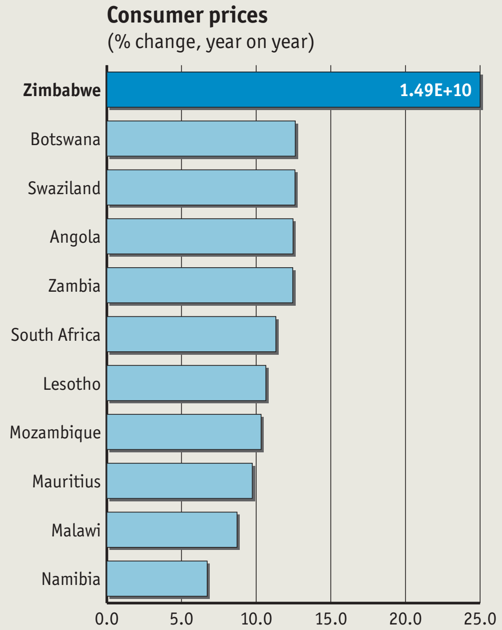
Sources: Economist Intelligence Unit estimates; national sources.



Sources: Economist Intelligence Unit estimates; national sources.



Sources: Economist Intelligence Unit estimates; national sources.



Sources: Economist Intelligence Unit estimates; national sources.

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Country snapshot

Basic data

Land area 390,580 sq km

Population 13.2m[a] (2006, IMF mid-year estimate)

Main towns Population in '000, 2002 (independent estimates)

Harare (capital)	1,444
Bulawayo	676
Chitungwiza[b]	321
Gweru	137

Climate Subtropical

Weather in Harare (altitude 1,472 metres) Hottest months, October and November, 16-27°C; coldest months, June and July, 7-21°C (average daily minimum and maximum); driest month, July, 1 mm average rainfall; wettest month, January, 196 mm average rainfall

Languages English (official), Shona, Ndebele and local dialects

Measures Metric system

Currency Zimbabwe dollar (Z$) = 100 cents; rampant inflation in recent years has meant that the Reserve Bank of Zimbabwe has periodically been forced to re-denominate the dollar, removing zeros

Time 2 hours ahead of GMT

Public holidays January 1st (New Year's Day), Good Friday, Easter Monday, April 18th (Independence Day), May 1st (Workers' Day), May 25th (Africa Day), August 11th (Heroes' Day), August 12th (Defence Forces' National Day), December 22nd (Unity Day), December 25th and 26th (Christmas Day and Boxing Day); many firms close for a summer break of one to two weeks over the Christmas and New Year period

[a] Estimates of Zimbabwe's population vary considerably depending on how they account for the impact of AIDS. The most recent census was in 2002; preliminary results show a population of 11.6m—about 2m below earlier projections. [b] Harare's former township.

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Political structure

Official name	Republic of Zimbabwe	
Form of state	Unitary republic	
Legal system	Based on Roman-Dutch law and the 1979 constitution	
National legislature	House of Assembly with 150 members, 120 of whom represent geographical constituencies and are elected by universal adult suffrage every five years; eight are provincial governors, ten are customary chiefs and 12 others are appointed by the president; a Senate of 66 members was established in November 2005	
National elections	March 2008 (presidential, legislative and Senate)	
Head of state	President, elected by universal suffrage for a six-year term	
National government	The president and his appointed cabinet; a power-sharing government was formed in February 2009 in accordance with an agreement signed after the disputed 2008 elections	
Main political parties	Zimbabwe African National Union-Patriotic Front (ZANU-PF), the ruling party since 1980; the Movement for Democratic Change (MDC), formed by the trade union movement in September 1999; a number of smaller parties and independent candidates also contest elections	
	President	Robert Mugabe
	Prime minister	Morgan Tsvangirai
Key ZANU-PF ministers	**Agriculture, mechanisation & irrigation**	Joseph Made
	Defence	Emmerson Mnangagwa
	Energy & water development	Kenneth Konga
	Environment & natural resources management	Francis Nhema
	Foreign affairs	Simbarashe Mumbengegwi
	Justice & legal affairs	Patrick Chinamasa
	Lands & rural resettlement	Herbert Murerwa
	Media, information & publicity	Webster Shamu
	Mines & minerals development	Obert Mpofu
	Transport & infrastructural development	Nicholas Goche
Key MDC ministers	**Economic planning & investment promotion**	Elton Mangoma
	Education, sport, art & culture	David Coltart
	Energy & power development	Elias Mudzuri
	Finance	Tendai Biti
	Health & child welfare	Henry Madzorera
	Home affairs	Giles Mutsekwa
	Housing & social amenities	Fidelis Mhashu
	Industry & commerce	Welshman Ncube
	Labour & social security	Paurina Gwanyanya
	Public works	Theresa Makone
Reserve Bank governor	Gideon Gono	

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