Country Report

Zimbabwe

December 2009

Economist Intelligence Unit
26 Red Lion Square
London WC1R 4HQ
United Kingdom

The Economist Intelligence Unit

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ISSN 1350-7095

Symbols for tables

"n/a" means not available; "–" means not applicable

Printed and distributed by PurePrint Group, Bellbrook Park, Uckfield, East Sussex TN22 1PL, UK.

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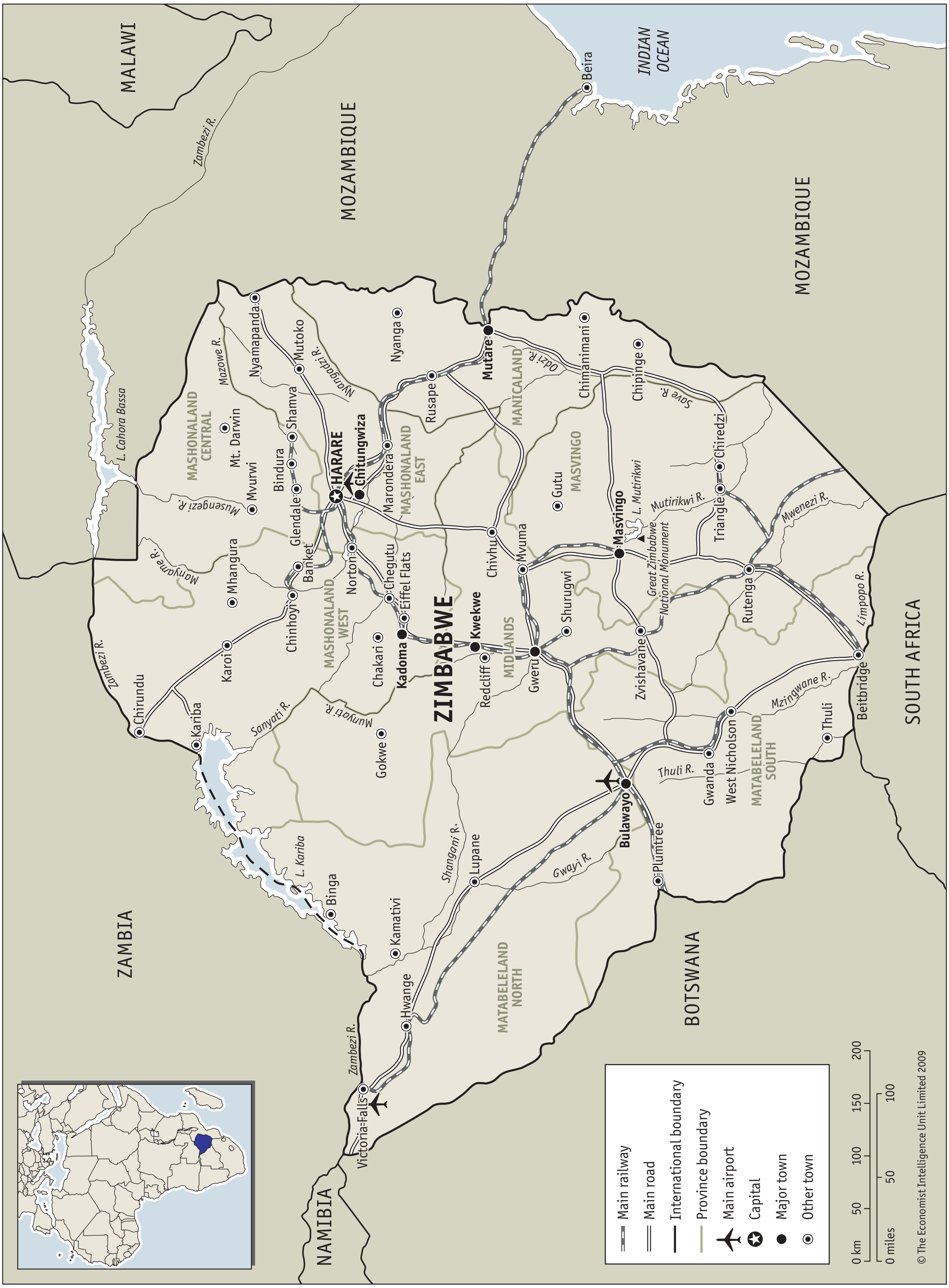
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Main road
International boundary
Province boundary
Main airport
Capital
Major town
Other town
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Executive summary

Highlights

December 2009

Outlook for 2010-11

- The timetable for formulation of a new constitution has slipped again. A truncated—nine-month—schedule is now envisaged, but will almost certainly prove overoptimistic.
- The Movement for Democratic Change (MDC) will continue to seek to persuade regional powers to exert pressure on the president, Robert Mugabe, but it is far from clear what action such states can or will take.
- Mr Mugabe will continue to resist MDC attempts to sideline the governor of the Reserve Bank of Zimbabwe (the central bank), Gideon Gono.
- With spending demands continuing to rise, and little capacity to boost revenue, the government will struggle to keep the fiscal deficit under control.
- Official projections of 12.5% growth in 2010 are patently unrealistic given the level of national savings and constraints on foreign investment and capital flows.
- There will be strong upward pressure on prices in 2010 because of increasing wage demands and the strengthening of international fuel prices.
- The current-account deficit is set to moderate as a percentage of GDP, falling to around 13.5% in 2011 from almost 45% in 2009, owing in part to aid inflows.

Monthly review

- There are renewed efforts to reconcile the two main members of the power-sharing government, but the MDC and the Zimbabwe African National Union-Patriotic Front (ZANU-PF) remain deeply split on core issues.
- The Ministry of Economic Planning and Investment Promotion's draft medium-term economic programme suggests that mining output will double in 2010.
- The IMF has called on Zimbabwe to seek concessional donor financing, which will require a sustained track record of sound economic policies.
- A bill reforming the central bank has secured parliamentary approval after the MDC made a number of concessions.
- Consumer prices rose marginally in October, but are likely to fall by at least 5% during 2009 as a whole.
- Two relatively unknown companies have been awarded 50% shares in the controversial Marange diamond field, notwithstanding the fact that neither has diamond-mining experience.

Outlook for 2010-11

Political outlook

Domestic politics

The two main parties in Zimbabwe's power-sharing government, Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) and Morgan Tsvangirai's Movement for Democratic Change (MDC), will continue to manoeuvre for power. The MDC has repeatedly threatened to withdraw from the government of national unity (GNU), but as yet there are few signs that the party is prepared to follow through on these threats—in part because senior MDC leaders remain convinced that forcing fresh elections under such circumstances would merely lead to a violent campaign against party supporters and the broader population. The problem for the MDC is twofold: first, reneging on threats to withdraw will irreparably damage the MDC's credibility both with its own supporters (in the diaspora particularly) and with regional governments; and second, Mr Mugabe and ZANU-PF are quite satisfied with the status quo, meaning that there is little impetus for real change. Indeed, elements of ZANU-PF—and the MDC-M, the breakaway MDC movement led by Arthur Mutambara—will continue to seek to extend the life of the power-sharing government to a full five years, meaning that it would potentially stay in power until 2013. Their motivation for so doing is clear enough: in a free and fair election they would see their parliamentary representation slashed.

Tensions between the various parties are likely to increase as the process of drawing up a new constitution continues. The original timetable has already slipped more than once; now, public consultations, which were scheduled to start in August, will begin in January 2010 and be completed within two months, leading to a "stakeholders' conference" in May 2010, a September referendum and fresh elections under the new constitution in 2011. In effect, this halves the 18-month timetable set out in the Global Political Agreement, and given the political and logistical hurdles (there are fundamental disagreements between ZANU-PF and the MDC over the extent of presidential powers, and the power-sharing government's administrative record is poor), it is more likely that any referendum will be held in 2011, potentially leading to elections in the latter half of that year. However, even this timetable could slip, given that ZANU-PF and the MDC-M remain determined to extend the process for as long as possible.

It seems possible, therefore, that deadlock over the constitution will lead to the collapse of the GNU as currently constituted. Under such a scenario Mr Mugabe would try to remain in power, possibly seeking to co-opt those MDC politicians who believe that forcing an election would lead to an unacceptable wave of violence against party supporters. The president has proved highly adept at such manoeuvres in the past, and there is no guarantee that international pressure to force him from office would succeed. Nonetheless, the collapse of the GNU could still lead to Mr Mugabe's ejection, if—for example—it forced the MDC to take a more confrontational stance, prompting a wave of government violence that proved impossible for regional powers to ignore. Indeed, the balance of probabilities is that Mr Mugabe will not still be in office by end-2011, when he will be 87 years old.

International relations

Although Mr Tsvangirai is seeking to improve relations with donor nations and persuade them that the transition process is working, Mr Mugabe continues to take an antagonistic approach to Western states, while Western governments have tied the removal of sanctions to political and economic progress in Zimbabwe, meaning that they will remain in place while Mr Mugabe and ZANU-PF have the power to block reforms and Gideon Gono remains governor of the Reserve Bank of Zimbabwe (the central bank).

The MDC will continue to turn to regional powers to influence the Zimbabwean president—despite the fact that it has been sorely disappointed thus far. Hopes that the appointment of Jacob Zuma as president of South Africa would change the dynamic seem to be fading, not least because it is far from clear how much influence Mr Zuma wields within the Southern African Development Community (SADC). Joseph Kabila—the SADC leader and Congolese president—is a staunch Mugabe ally, as are the leaders of Angola, Swaziland, Malawi and Mozambique. Thus, even if South Africa does decide to break with the Zimbabwean president, it is not obvious that Mr Zuma will be able to convince his SADC counterparts. Above all, it is not clear what SADC can do. Sanctions (let alone armed intervention) are not on the agenda while Mr Mugabe still commands a good deal of support among other members of the African Union, including the organisation's chairman, Muammar Qadhafi. This suggests that unless the president himself decides that it is time to sue for peace the stalemate will continue.

Economic policy outlook

Policy trends

As part of the power-sharing agreement, the Ministry of Finance has been placed under the control of Tendai Biti 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. The most obvious manifestation of this will be the ongoing turf-war between Mr Biti and Mr Gono. Mr Mugabe will resist attempts to sideline Mr Gono. Indeed, only once Mr Mugabe has left office is there any hope that economic policy will get back on track or that there will be more substantial lending programmes. This suggests that economic policy will remain chaotic and piecemeal for much of the forecast period—and that there will be little sign of a sustained improvement in the operating or investment environments.

Fiscal policy

Fiscal policy in 2010-11 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, little change in fiscal policy is to be expected. In this eventuality, the government will have to rely on aid grants to fund much of its expenditure, since the budget deficit can be funded only from increased revenue or foreign aid and foreign borrowing—there is no local money market from which the state can borrow money, nor can it print money. There is little capacity to boost revenue—what increases there are are likely to come via value-added tax and customs duties—and although spending demands will continue to rise, the administration will have to try to rein in expenditure if it is to keep the deficit under control. As a result, government services, particularly healthcare and education, will continue to deteriorate, while the government will face periodic confrontations with workers seeking higher pay.

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. The government is studying the possibility of joining the Rand Monetary Area, but any formal link to the rand is unlikely before late 2010 given the previous disparity between Zimbabwean and other Southern African inflation rates.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2008	2009	2010	2011
Real GDP growth				
World	2.8	-1.2	3.2	3.4
OECD	0.6	-3.5	1.7	1.5
EU27	0.7	-4.2	0.8	1.1
Exchange rates				
¥:US$	103.4	93.8	90.0	89.0
US$:€	1.470	1.396	1.423	1.398
SDR:US$	0.629	0.646	0.637	0.640
Financial indicators				
€ 3-month interbank rate	4.65	1.22	1.08	2.50
US$ 3-month Libor	2.91	0.99	1.29	2.24
Commodity prices				
Oil (Brent; US$/b)	97.7	61.9	75.0	70.0
Gold (US$/troy oz)	870.2	960.2	1,043.8	976.3
Platinum (US$/oz)	1,563.2	1,191.8	1,350.0	1,355.0
Food, feedstuffs & beverages (% change in US$ terms)	29.5	-20.9	2.7	-0.8
Industrial raw materials (% change in US$ terms)	-5.1	-26.6	18.8	3.1

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

The Economist Intelligence Unit expects world GDP (measured on a purchasing power parity basis) to expand by 3.2% in 2010 as many Western economies start to recover from recession. Growth will accelerate slightly in 2011, to 3.4%. The prices of some commodities, such as platinum, should also begin to recover in 2010 in line with the global recovery; the gold price should also rise. We expect Brent Blend to average US$75/barrel in 2010—up by more than 20% on the 2009 average, which will increase Zimbabwe's oil import bill. Prices will moderate in 2011, however, to an average of US$70/b.

Economic growth

The economic collapse has been compounded by the country's political deadlock. This situation contributed to a large decline in economic activity in 2008, with real GDP shrinking at double-digit levels. The economy started to recover in late 2009, albeit from a low base, and this recovery is expected to accelerate in 2010. However, official projections of 12.5% growth in 2010—and an annual average of 15% over 2010-15—are patently unrealistic. National savings are insufficient to fund the necessary investment, while flows of foreign capital/investment are unlikely until the political environment improves substantially. Even assuming that the political situation remains stable or improves somewhat, 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 ongoing destruction of the commercial sector and the impact of HIV/AIDS, and such issues cannot be rectified in the short term. 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. Foreign investors, meanwhile, are likely to be deterred if indigenisation legislation requiring 51% local ownership of all enterprises proceeds. All of this suggests that growth is likely to remain constrained to around 2% in 2010, before accelerating somewhat, to 5%, in 2011. Growth rates could be more substantial if there is a peaceful transition to a more representative administration that follows more orthodox economic policies.

Inflation

After reaching record highs in 2008 inflation fell dramatically, with rapid dollarisation at the end of the year, but the high base set earlier in that year meant that overall inflation remained high in 2009. With the highs of 2008 now dropping out of the calculations the inflation rate is set to fall rapidly: indeed, according to the US-dollar index that uses December 2008 as a base, prices were actually set to decline by 5% during 2009. However, there will be strong upward pressure on prices in 2010, because of increasing wage demands, the strengthening of international fuel prices, and rising import prices (caused by the strength of the rand). The 2010 rate should be in single digits—at 6.7%—for the first time since 1988, and although price rises will accelerate thereafter, they should remain low by historical standards, at around 8.4%—assuming that the government does not revert to its disastrous previous policies, such as printing money to finance deficits.

Exchange rates

The exchange-rate regime is likely to remain a politically contentious issue. Although the minister of finance has ruled out any return to the Zimbabwe dollar—effectively abandoned in 2009 after repeated re-denominations failed to bolster the currency—in the foreseeable future, some ZANU-PF politicians continue to regard restoration of the local currency as a matter of "national pride". For example, the Mr Gono has called for the issue of "new" Zimbabwe dollars backed by "gold, platinum and diamonds", and as wage pressures intensify the "pro-Zimbabwe dollar" lobby is likely to become increasingly influential.

External sector

Falling commodity prices (and declining production) hit exports in 2009, but a slight recovery—to US$1.4bn—is likely in 2010, owing largely to a marginal improvement in prices of commodities, including platinum. The price of gold is also expected to rise, from US$960/troy oz to US$1,043/troy oz, and earnings will be boosted further by an increase in production. In 2011 exports are likely to remain broadly stable, provided that the policy environment is acceptable, although gold earnings will fall by some 6% as the international price moderates. Imports should rise overall in 2010, reflecting continued increases in foreign aid for humanitarian purposes, the likely aid-financed importation of staple foodstuffs, and the use of foreign credit lines reportedly negotiated by the government.

Since tourism will recover only slowly, we expect the services account to remain in deficit in 2010-11. 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: remittances by the 3.5m-plus Zimbabweans living abroad are likely to improve as the global economy starts to recover, while substantial aid inflows via non-governmental organisations will be reflected as private transfers. The current-account deficit is set to moderate as a percentage of GDP, falling to around 13.5% in 2011 from almost 45% in 2009.

Forecast summary

(% unless otherwise indicated)

	2008[a]	2009[a]	2010[b]	2011[b]
Real GDP growth	-14.4	-1.3	1.9	5.0
Manufacturing production growth	-13.3	-3.8	6.0	5.7
Gross agricultural production growth	-24.0	-4.0	-2.0	0.0
Consumer price inflation (av)	1.5E+10	4.5E+16	6.7	8.4
Consumer price inflation (year-end)	2.2E+23	5.0E+01	6.2	5.0
Short-term interbank rate	450.3	461.6	470.7	481.9
Government balance (% of GDP)	-6.2	-6.3	-5.0	-4.5
Exports of goods fob (US$ bn)	1.4	1.1	1.4	1.4
Imports of goods fob (US$ bn)	1.9	2.0	2.3	2.5
Current-account balance (US$ bn)	-0.6	-0.6	-0.3	-0.3
Current-account balance (% of GDP)	-39.2	-44.3	-21.0	-13.5
External debt (year-end; US$ bn)	5.7[c]	5.8	6.2	6.9

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Monthly review: December 2009

The political scene

SADC tries to bring the parties together

There have been renewed efforts to reconcile the squabbling members of the "inclusive" government. At an October 29th meeting of the Southern African Development Community (SADC), the negotiators from the three coalition partners—Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF), Morgan Tsvangirai's Movement for Democratic Change (MDC) and Arthur Mutambara's breakaway wing of the MDC, the MDC-M—were instructed to reconcile their differences within 15 days and to implement their agreement within a further 15 days. However, the first deadline passed without the negotiators even meeting, and when a second deadline was missed the various parties blamed each other for the delays. This would suggest that the SADC deadline of December 6th for the three to reconcile their differences will also be missed—and it is unclear what action the organisation can take if the parties do fail to reach an agreement.

The main items on the talks agenda are Mr Mugabe's continued refusal to reverse what the mainstream MDC sees as the unilateral appointment of party loyalists Gideon Gono and Johannes Tomana to the positions of governor of the Reserve Bank of Zimbabwe (RBZ) and attorney-general respectively, and disagreement over other key government posts, specifically provincial governors, ambassadors and permanent secretaries. The MDC also wants Mr Mugabe to swear in Roy Bennett to the vacant post of deputy minister of agriculture.

There may be some minor concessions

It is not easy to see how agreement can be reached on these issues, given that Mr Mugabe continues to insist that he was entitled under the constitution to appoint both the attorney-general and the central bank governor, and—most fundamentally—that the MDC pledged itself to work for the removal of Western sanctions against the country and has failed to do so. The truth is that the president is quite happy with the status quo. It is the MDC that is the target of selective legal actions and the state media, and it is the MDC that is disadvantaged by ZANU-PF's control of the police and the security forces.

For its part, the MDC is powerless to secure the lifting of sanctions such as travel and personal measures against politicians and companies associated with ZANU-PF. Western governments have tied the removal of these measures to political and economic progress in Zimbabwe, and sanctions will remain in place while Mr Mugabe and ZANU-PF have the power to block reforms and Mr Gono holds sway at the RBZ.

All of this suggests that the most to be expected from negotiations is some minor concessions by ZANU-PF and, in all probability, the swearing in of Mr Bennett when—as seems highly likely—the case against him is finally thrown out. However, Mr Mugabe is most unlikely to give way on either Mr Gono or the attorney-general, or the appointment of permanent secretaries.

SADC may be thwarted

Media reports—mostly from MDC sympathisers—suggest that SADC has finally lost patience with Mr Mugabe, and that over the next few weeks the South African president, Jacob Zuma, will force Mr Mugabe and Mr Mutambara to accede to Mr Tsvangirai's demands. However, Joseph Kabila—the SADC and Congolese president—is a staunch Mugabe ally, as are the leaders of Angola, Swaziland, Malawi and Mozambique. Thus, even if South Africa has finally decided to break with the Zimbabwean president—and there is very little concrete evidence that this is the case—it is not obvious that Mr Zuma can convince his SADC counterparts.

Above all, it is not clear what SADC can do. Sanctions (let alone armed intervention) are not on the agenda while Mr Mugabe still commands a good deal of support among other members of the African Union, including the organisation's chairman, Muammar Qadhafi. This suggests that unless the president himself decides that it is time to sue for peace the stalemate will continue. There is little sign of that as yet. Mr Mugabe's position within his party is as powerful as ever. Ahead of a ZANU-PF congress in December, nine of the ten provinces have unanimously nominated the 85-year-old president for another term as party leader, a post that he has held for more than 30 years.

The constitutional timetable is slipping

In the meantime, the government has revised its timetable for drafting a new constitution. It now says that public consultations, which were scheduled to start in August, will begin in January 2010 and be completed within two months. Under the new timetable there will be a "stakeholders' conference" in May 2010, followed by the presentation of the constitution bill to parliament in July and a referendum in September. This would clear the way for fresh elections under the new constitution in 2011. Under the Global Political Agreement the entire process was supposed to take 18 months, and few political analysts believe that it will be possible to meet the new nine-month timetable, suggesting that a referendum is unlikely to be held before 2011, with elections in the latter half of that year. With ZANU-PF and the MDC-M determined to extend the process for as long as possible—both to hold on to power and to maximise the prospect of voters becoming disenchanted with the MDC—the proposed timetable is likely to slip again.

Economic policy

An unrealistic economic programme is released

The Ministry of Economic Planning and Investment Promotion has released a draft medium-term economic programme projecting GDP growth of 12.5% in 2010 and averaging 15% annually over the 2010-15 period. This is patently unrealistic. The only recent example of an African economy achieving such rates over a five-year period is Angola, and that was on the strength of the massive expansion of oil production and exports at a time of record oil prices. The plan—which also suggests that mining output will double in 2010—is riddled with inconsistencies in respect of growth rates, exports, prices, finance and investment.

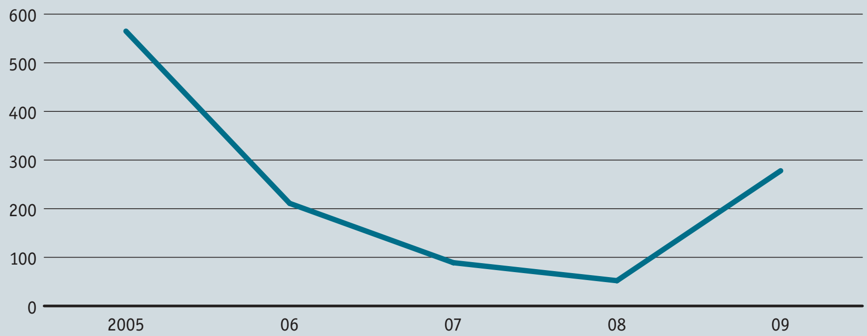
The reality is that for Zimbabwe to grow at 15% annually it would need to invest upwards of 40% of GDP. However, national savings have been negative and will be only marginally positive in 2009. The implication is that there must be massive foreign investment and foreign capital inflows on a scale unprecedented outside oil-exporting countries. Such investment levels are unlikely to be achieved—particularly if a proposed indigenisation act, which requires 51% local ownership of enterprises, goes ahead.

The IMF, which is due to publish a new report on Zimbabwe soon, takes a much more pragmatic stance, warning of serious downside risks in 2010. The Fund also takes issue with both the finance minister and the RBZ governor on the use of Zimbabwe's US$510m SDR allocation (September 2009). It says that although this has provided "an important one-off boost" to the country's depleted international reserves, the funds should be saved and not spent as advocated by the RBZ and the government. It adds that Zimbabwe should seek concessional donor financing, which in turn will require a "sustained track record of sound policies" along with the clearance of arrears. The IMF's comments are important in the light of official reluctance to acknowledge the country's low-income status and seek an IMF agreement that would open the way for a debt-relief deal, thereby enabling the IMF, the World Bank and the African Development Bank to resume lending. Disagreement on this issue within the interim administration is holding back efforts to re-engage the donor community.

The budget is delayed

The 2010 budget will now be presented on December 2nd, a week later than scheduled. The main thrust of reform is likely to be some simplification of the tax system, possibly aligned with a reduction in company tax. However, this may well turn out to be too ambitious given that revenue flows have flattened out (having grown rapidly in the first seven months of the year), while spending demands are escalating strongly. The budget itself will demonstrate just how optimistic officials are about growth prospects. If ministers really believe that GDP is going to increase by 12.5% in 2010, no tax increases will be necessary—indeed, some reduction may be possible. A more realistic assessment, however, is that some tax increases will be needed alongside continuing expenditure and wage restraint.

Wages and salaries
(central government spending; US$ m)



Source: IMF, *Country Report No. 09/139*, May 2009.

Wage restraint is likely to prove elusive, however. Almost all of the 50-plus industrial boards where employers and unions negotiate wage and working conditions are locked in legal disputes. Labour is pushing hard for substantial wage increases, and some industrial tribunals have announced wage awards in excess of 50%. This wage pressure, combined with the strong rand and therefore increased import prices, points to increased inflation during 2010.

Central bank amendments are passed

The Reserve Bank amendment bill has secured parliamentary approval. After ZANU-PF members of parliament had threatened to block the bill, claiming that it gave "excessive powers" to the finance minister and directly targeted the current governor, Mr Gono, the MDC agreed to the inclusion of a clause granting immunity against prosecution for the RBZ governor and his deputies for all acts "done in good faith" in their official capacities. The central bank governor will continue to chair the RBZ board, but the number of deputy governors has been reduced from four to two, while the stipulation that the permanent secretary of finance be a member of the RBZ board was dropped. Management of the central bank is one of the key areas of contention between ZANU-PF and the MDC, but it would appear that the latest MDC attempt to make Mr Gono subject to finance ministry control has failed.

Economic performance

Prices rise slightly

Consumer prices rose by 0.8% during October, taking the index (December 2008=100) to 92.0, an 8% decline over the ten-month period. However, this figure is being questioned by some analysts, given that wages are increasing strongly and import prices are higher because of the strong rand. Fuel prices have also increased in line with the rising international prices. It now looks as though prices will fall by at least 5% during 2009, compared with an official forecast of a 5% rise in prices. However, inflation is likely to accelerate again in 2010—albeit at far lower rates than have been experienced in recent years (we predict an annual average of 6.7% next year).

Bank deposits rise sharply

Total bank deposits rose by 44% between June and October, to top the US$1bn mark, according to official data, but because almost all the funds are in the form of demand and short-term deposits, liquidity levels remain low. Short-term deposits totalled US$914m in October, leaving only US$102m on long-term deposit. Just under half of the total amount has been lent out to borrowers, with bank credit almost doubling from US$263m in June, taking the banking system's overall loan-to-deposit ratio to 49.3%, as against 37% in mid-year. The RBZ has set guidelines for banks, advising them to lend 30% of their available funds to agriculture, 25% to manufacturing and mining, and the balance to other sectors. However, the central bank did not explain how the banks were supposed to reach such targets.

Quality of life index: Zimbabwe

With a score of 4.03 out of 10 for 2009, Zimbabwe is ranked second from bottom of the 160 countries in the Economist Intelligence Unit's quality of life index—above only Chad. While the combination of low incomes, poor life expectancy and unfavourable security conditions means that Sub-Saharan states fill all but three of the bottom 20 places in the index, Zimbabwe is notable for its poor (and deteriorating) performance in almost all areas assessed, from GDP per head and unemployment to political freedoms and incidence of corruption. One exception is community life, where the country's rating has remained static over the past 20 years. This reflects high levels of church attendance, as well as membership of social organisations, which have attempted to fill some of the gaps in services no longer provided by the state.

A sharp deterioration in the quality of life over time

Zimbabwe's quality of life scores have deteriorated notably over the past two decades: its global ranking has slipped from 82nd in the world—and fifth in Sub-Saharan Africa—to second from bottom in both. In purchasing power parity terms Zimbabwe's GDP per head has shrunk by 45%, from US$294.9 in 1989 to US$161.8 in 2009 (in terms of US dollars at 2006 constant purchasing power parity). Over the same period unemployment rates have risen from 7% to 50%, and even this is likely to understate the true level of the problem, since many of those with jobs are underemployed. Unsurprisingly, given the drastic decline in living standards, as well as the impact of HIV/AIDS and the collapse of medical care, average Zimbabwean life expectancy has also deteriorated sharply, from 60-plus to just 43.5 years. This is one of the lowest levels of life expectancy in the world.

Although the president, Robert Mugabe, and the ruling party—in power since independence in 1980—remain genuinely popular with sections of the electorate, because of their putative role in the liberation struggle, the fact that they have hung on to power despite their disastrous economic management also reflects the authoritarian nature of the Zimbabwean state. The government has made a concerted effort to suppress its opponents, frequently resorting to violent crackdowns, and has manipulated election results on a number of occasions. Fear of further such crackdowns—and Mr Mugabe's ability to outmanoeuvre (and some would argue co-opt) his political opponents—is one reason why there has been little concerted pressure for democratisation.

Variation in quality of life among social groups

There has long been a substantial variation in quality of life in Zimbabwe. Prior to independence the split was largely racial, with the white minority enjoying far higher living standards. Now, however, the split is between the politically well-connected minority—many of whom are extremely wealthy, having benefited from the government's land-redistribution policy and/or participation in the Congolese civil war—and the remainder, both black and white, who lead an impoverished existence. Although conditions have improved slightly in 2009, following the abandonment of some of the more disastrous economic policies, this division remains stark.

Quality of life index

	1989	1995	2000	2006	2009
Score	5.52	5.28	5.08	4.03	4.04
Global rank	74	89	101	159	159

Note. Scores are on a scale of 0 to 10, with 10 being the highest score; the ranking is out of 160 countries.

Measuring the quality of life

The Economist Intelligence Unit's quality of life index is based on a unique methodology that relates the results of subjective life satisfaction surveys to the objective determinants of the quality of life across countries in order to calculate an objective quality of life index.

The average scores from life satisfaction surveys carried out by Gallup for 130 countries in 2006 are related in a multivariate regression to various factors that have been shown to be associated with life satisfaction in many studies. Ten factors (measured by 11 separate indicators) together explain some 85% of the cross-country variation in life satisfaction scores. These factors are:

1. Material well-being—GDP per head (US$); at 2006 constant PPP. Sources: Economist Intelligence Unit; IMF.
2. Health—life expectancy at birth (years). Sources: UN; World Bank; US Bureau of Census.
3. Family life—ratings on a scale of 1 to 5; based on divorce rates (per 1,000 population), converted into an index of 1 (lowest divorce rates) to 5 (highest divorce rates). Sources: UN; Legatum Institute; Economist Intelligence Unit.
4. Political freedom—average of indexes of political and civil liberties; scale of 1 (completely free) to 7 (unfree). Source: Freedom House.
5. Job security—unemployment rate (%). Sources: Economist Intelligence Unit; International Labour Organisation.
6. Climate, two variables: average deviation of minimum and maximum monthly temperatures from 14° C; number of months in the year with less than 30 mm rainfall. Source: BBC Weather Guides.

7. Personal physical security—ratings on a scale of 1 (low security risk) to 5 (high security risk); based primarily on recorded homicide rates and Economist Intelligence Unit ratings for risk from crime and terrorism. Sources: Wikipedia for homicide rates; Economist Intelligence Unit.
8. Community life—index on a scale of 1 to 5, based on membership in social organisations and church attendance. Sources: World Values Survey; Gallup World Poll; Legatum Institute; Economist Intelligence Unit assessment.
9. Governance—measured by ratings for corruption, on a scale of 0 (highest corruption) to 100 (least corruption). Sources: Index of Economic Freedom; Economist Intelligence Unit; Knack and Keefer database for 1989/90.
10. Gender equality—measured by the share of seats in parliament held by women. Source: UN Development Programme, Human Development Reports.
The values of the life satisfaction scores that are predicted by these indicators represent a country's quality of life index. The estimated regression equation for the 2006 base year is used to calculate the quality of life index for 1989, 1995, 2000, 2006 and 2009.

Marange contracts are awarded

Two relatively unknown companies—neither of which have any experience of diamond mining—have been awarded 50% shares in Zimbabwe's highly controversial Marange diamond field, notwithstanding the fact that UK-based African Consolidated Resources had won a High Court order declaring it the rightful owner of the claim and barring the government-owned Zimbabwe Mining Development Company from carrying out mining operations in the area. One of the companies, Mbada Minerals—yet to be registered in Zimbabwe—is controlled by Reclamation Group, a South African scrap metal and iron dealer that has never operated a mine. The second firm, Canadile Investments, is owned by another South African-based operation, Core Mining. Both would appear to have links to the military. A retired air-vice marshal, Robert Mhlanga, who came to prominence as a key state witness against Mr Tsvangirai during a 2003 treason trial, is reported to be a leading shareholder in Mbada, and another former officer, Lovemore Kurotwi, is co-owner of Canadile. The mines minister, Obert Mpofu, has been criticised for awarding the contracts without setting up a transparent tender process or carrying out due diligence on the two firms.

Data and charts

Annual data and forecast

	2005[a]	2006[a]	2007[b]	2008[b]	2009[b]	2010[c]	2011[c]
GDP							
Nominal GDP (US$ bn)	1.9	1.8	1.7	1.5	1.3	1.6	2.0
Nominal GDP (Z$ bn)	7.64E+01	9.01E+02	1.08E+05	1.38E+13	6.05E+27	6.57E+27	7.47E+27
Real GDP growth (%)	-5.4	-4.6	-5.6	-14.4	-1.3	1.9	5.0
Expenditure on GDP (% real change)							
Private consumption	9.0	-4.5	-5.0	-13.9	-1.0	2.0	5.0
Government consumption	7.7	-6.0	-6.0	-10.0	5.0	5.0	5.0
Gross fixed investment	-63.4	-1.0	-5.0	-8.0	-2.0	1.0	4.0
Exports of goods & services	-3.4	-1.0	-0.8	-1.2	-0.5	2.0	4.5
Imports of goods & services	-2.6	-1.5	-1.0	-0.6	1.5	3.0	4.5
Origin of GDP (% real change)							
Agriculture	-10.0	-4.5	-5.0	-24.0	-4.0	-2.0	0.0
Industry	-11.7	-3.5	-5.0	-14.7	-2.0	3.0	8.0
Services	-3.4[b]	-5.0[b]	-5.8	-11.0	-0.3	2.5	5.3
Population and income							
Population (m)	12.5[b]	12.5[b]	12.5	12.5	12.5	12.6	12.6
GDP per head (US$ at PPP)	185[b]	183[b]	177	155	154	159	169
Fiscal indicators (% of GDP)							
Public-sector revenue	43.3	38.8	37.1	38.9	39.5	40.0	38.4
Public-sector expenditure	45.0	50.2	45.8	45.1	45.8	45.0	42.9
Public-sector balance	-1.7	-11.4	-8.7	-6.2	-6.3	-5.0	-4.5
Net public debt	191.2	205.9[b]	219.1	265.6	304.3	281.9	253.7
Prices and financial indicators							
Exchange rate Z$:US$ (end-period)[d]	7.80E+01	2.50E+02	3.23E+05[a]	6.75E+16	1.72E+35	5.00E+38	3.00E+27
Consumer prices (end-period; %)	5.86E+02	1.28E+03	6.62E+04[a]	2.16E+23	5.00E+01	6.21E+00	5.01E+00
Stock of money M1 (% change)	5.53E+02	1.32E+03	6.67E+04	2.87E+09	4.47E+16	8.36E+01	8.84E+01
Stock of money M2 (% change)	5.33E+02	1.45E+03	6.45E+04	2.97E+09	4.47E+16	9.84E+01	1.06E+02
Lending interest rate (av; %)	235.7	496.5	579.0[a]	450.3	461.6	470.7	481.9
Current account (US$ m)							
Trade balance	-509[b]	-365[b]	-421	-519	-934	-919	-1,083
Goods: exports fob	1,595[b]	1,675[b]	1,555	1,396	1,096	1,415	1,391
Goods: imports fob	-2,104[b]	-2,040[b]	-1,975	-1,915	-2,030	-2,334	-2,474
Services balance	-97[b]	-88[b]	-108	-146	-180	-202	-249
Income balance	-268[b]	-151[b]	-144	-189	-198	-180	-156
Current transfers balance	263[b]	264[b]	266	270	720	971	1,222
Current-account balance	-611[b]	-340[b]	-407	-585	-591	-331	-267
External debt (US$ m)							
Debt stock	4,255	4,652	5,293[a]	5,669[a]	5,826	6,219	6,871
Debt service paid	236	85	80[a]	96[a]	78	69	96
Principal repayments	210	33	39[a]	38[a]	36	26	36
Interest	27	53	41[a]	58[a]	42	44	60
Debt service due	288	441	447[a]	896[a]	351	344	511
International reserves (US$ m)							
Total international reserves	160	139[b]	117	96	111	152	228

[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*.

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	5.49E+08
M2 (% change, year on year)	559	781	1,520	1,453	3,372	14,839.6	20,807.8	64,472.5
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	621.1	711.6	551.4	621.5
Imports cif	597.6	709.9	786.1	729.7	627.1	593.1	656.6	804.1
Trade balance	-390.1	-473.9	-542.8	-475.3	-6.0	118.5	-105.2	-182.6

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

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

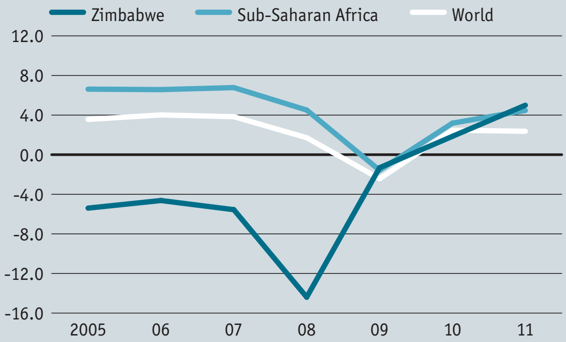
Monthly data

	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	23,081	50,699	60,376
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	–	–	–	–	–	–	–	–	–	–	–	–
2006	–	–	–	–	–	–	–	–	–	–	–	–
2007	1,400	2,200	6,100	8,700	18,200	66,200	27,600	20,133	22,050	97,460	211,588	326,311

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

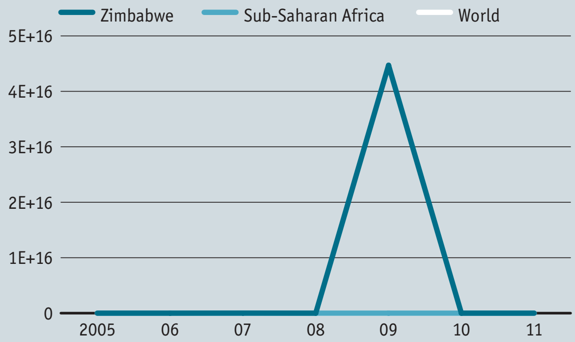
Annual trends charts

Real GDP growth
(% change)



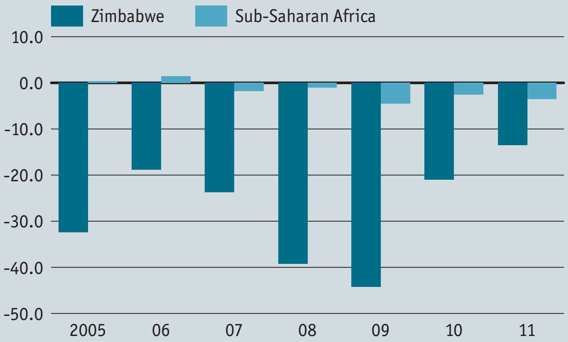
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



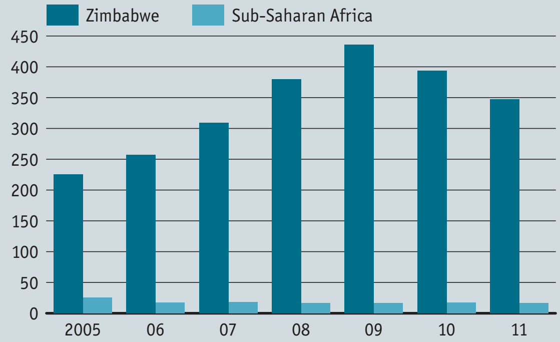
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



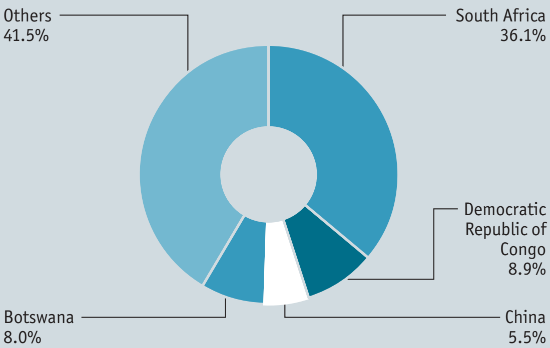
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



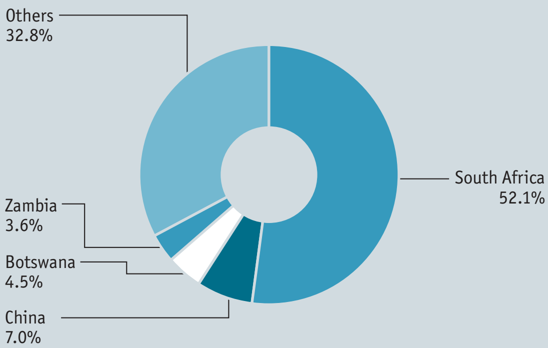
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

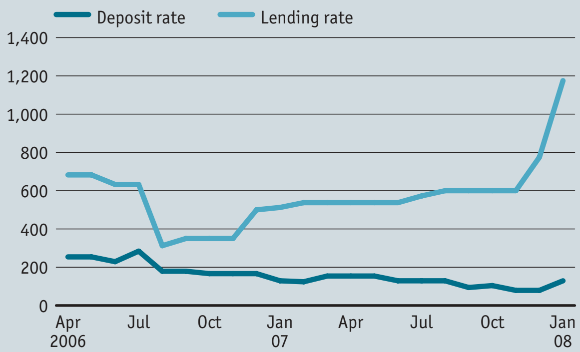
Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

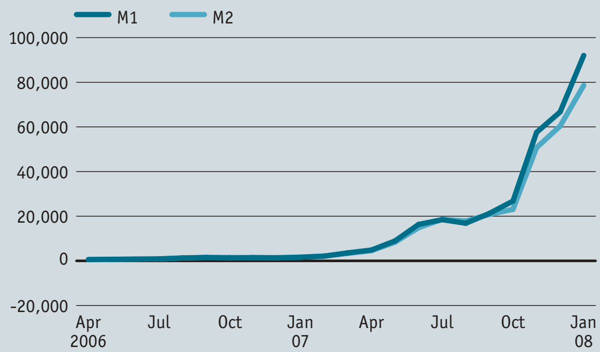
Monthly trends charts

Interest rates
(av; %)



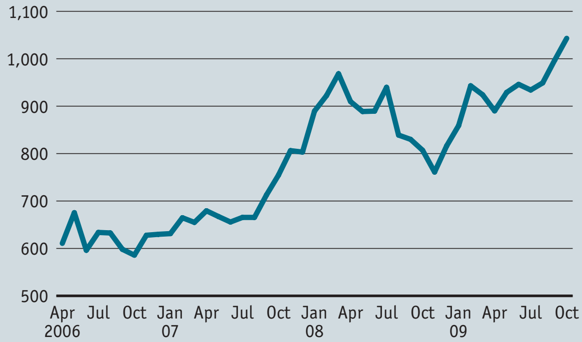
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



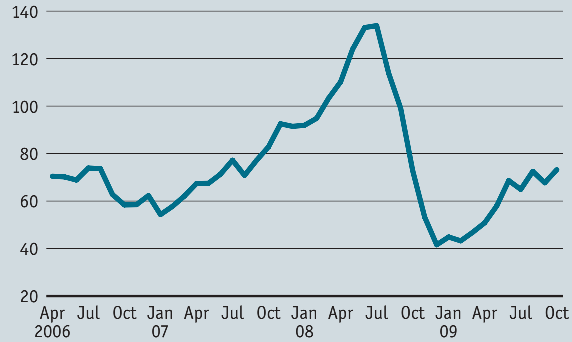
Source: Economist Intelligence Unit.

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



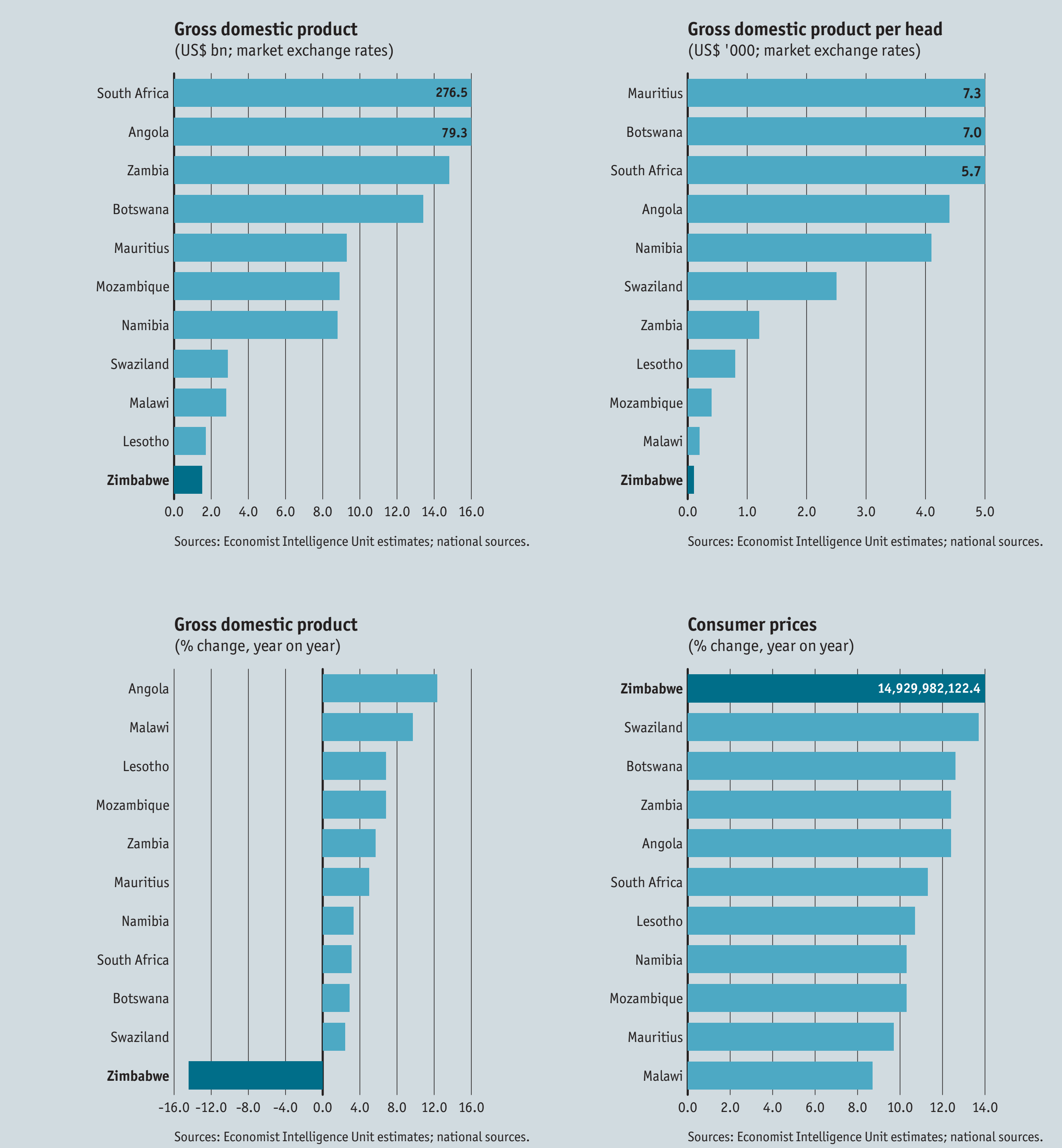
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

Comparative economic indicators, 2008



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.

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 210 members, all of whom are directly elected; a Senate of 66 members (50 of whom are directly elected, six appointed by the president and ten seats held by traditional chiefs) was established in November 2005
National elections	March 2008 (presidential, legislative and Senate); next elections due in 2011
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	

