Country Report

Zimbabwe

Important changes to Country Reports

You may have noticed that since the second quarter of this year, some additional content has started to appear in your monthly and quarterly CRs. We are now including a country map, and a range of basic data (selected to be useful for business travellers in particular), in every country report. For most countries, except a few where data is in very short supply, we are also including comparative economic indicators that show each country's position relative to regional peers, in easy-to-read graphical format.

In addition, for 176 countries, the Country Reports will now include an annual analysis of each country's position in the Economist Intelligence Unit's Democracy Index, which ranks countries in terms of their level of democracy, based on five key categories. These analyses were published in the second quarter of this year (in the April country reports for countries covered on a monthly basis, and in the second-quarter reports for those covered on a quarterly basis). Furthermore, as a new feature for more than 150 countries, an analysis of each country's ranking in our unique Quality of Life index will be published on an annual basis starting in the fourth quarter of 2009.

Some of this content has been migrated over to the Country Reports from another product, the Country Profile, which has now been discontinued. The difficult decision to close the Country Profile reflected limited client demand for this service as well as our view that much of the content included in this report is now available for free elsewhere. We would appreciate any feedback that you have on the migration of content from the Country Profiles to the Country Reports.

August 2009

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The Economist Intelligence Unit

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Zimbabwe

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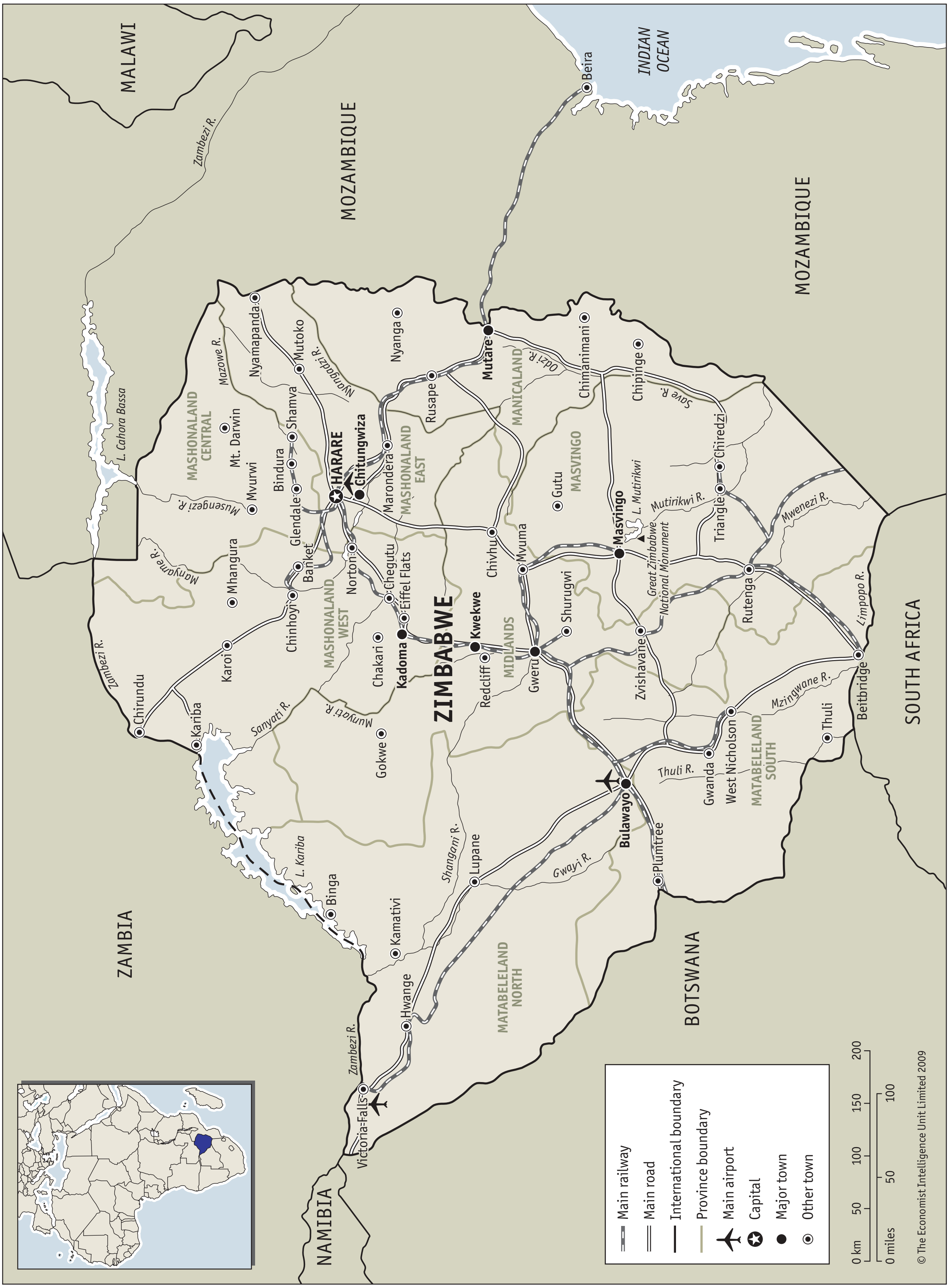
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West Nicholson
Gwanda
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Mzingwane R.
Thuli R.
Main railway
Main road
International boundary
Province boundary
Main airport
Capital
Major town
Other town
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Executive summary

Highlights

August 2009

Outlook for 2009-10

- There could be a dozen by-elections in mostly rural constituencies from the fourth quarter of 2009, suggesting that political tensions are likely to rise again.
- Constitutional talks have started, but rapid progress is unlikely given that the Zimbabwe African National Union-Patriotic Front (ZANU-PF) wants to delay the polls as long as possible.
- Government spending is set to rise by 39% in the second half of the year, largely funded by donor contributions. As a result, some civil service salaries will double.
- The government has revised up its 2009 growth forecast, but its projections are based on unrealistic expectations as regards agricultural output.
- Prices are likely to rise strongly over the rest of 2009, driven by higher fuel and food prices, the stronger rand and wage price inflation.
- Falling commodity prices will continue to hit export earnings in 2009. Gold prices will remain high but export prices for platinum will decline. Tourism is set to grow by 2% this year but the services account will remain in deficit.

Monthly review

- The arrests of a number of Movement for Democratic Change (MDC) members of parliament is raising suspicions that ZANU-PF wants to remove the party's parliamentary majority by non-parliamentary means.
- The environment for the media appears to be becoming more liberal, although the market will struggle to sustain the planned number of newspapers.
- The Kimberley Process has recommended Zimbabwe's suspension over trade in "blood diamonds". If implemented this could affect the country's legal producer.
- The Zimbabwe dollar has been formally demonetised. The central bank will purchase all local dollar balances held by banks and in currency, although the exchange rate applied for the conversion has yet to be announced.
- Manufacturing capacity utilisation is officially estimated to be running at around 25-50%. However, the data need to be treated with extreme caution.
- Zimbabwe's largest mobile-phone service provider plans to quadruple its subscriber base over the next 15 months, and is due to launch its third-generation (3G) service at the end of August.

Outlook for 2009-10

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), continue to manoeuvre for power. This struggle is being played out on several levels, and the MDC appears to be making progress in some areas, notably the liberalisation of the media. Mr Tsvangirai's party believes that this is crucial, since ZANU-PF's domination of the media is one of the factors in the party's overwhelming political control.

However, progress is far from universal, and there are growing suspicions that ZANU-PF is seeking to overturn the MDC's current very narrow parliamentary majority by extra-parliamentary means, including the arrest of MDC members of parliament (MPs) on spurious grounds. Under the September 2008 agreement that created the power-sharing government, no by-elections are allowed for a minimum of 12 months; from October, however, there could be a dozen vacancies, either because MPs have been convicted of crimes or because they have been expelled from their party (as has happened to several members of Arthur Mutambara's faction of the MDC). With opinion polls suggesting that support for ZANU-PF is running below 10% the MDC would win free-and-fair by-elections, but renewed low-level political violence in some rural areas suggests that any such polls would actually be characterised by violence and vote-rigging.

Despite numerous signs of the strength of the anti-reform lobby, the MDC is optimistic that a new constitution will be in place in time for fresh elections in the final months of 2010. The process of drawing up a new constitution is at last under way, but there are fundamental disagreements between ZANU-PF and the MDC over the extent of presidential powers—an issue that goes to the heart of difficulties in the government of national unity (GNU). These disagreements are unlikely to be resolved quickly or easily.

Indeed, it is possible that deadlock over the constitution will lead to the collapse of the GNU. 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.

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, and it is clear that he will never co-operate with "colonialist" countries. In this context the MDC has turned to regional powers to influence the Zimbabwean president—and has thus far been sorely disappointed. The MDC hopes that this could begin to change during 2009, following the appointment of Jacob Zuma as South African president. At a recent meeting Mr Tsvangirai urged the South African leader to increase the pressure on Mr Mugabe at a forthcoming meeting of the Southern African Development Community (SADC). However, neither South Africa nor SADC has shown any inclination to intervene against Mr Mugabe, and there is little likelihood of a change 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 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 MDC will continue to seek the removal of Gideon Gono, the governor of the Reserve Bank of Zimbabwe (RBZ, the central bank), while Mr Gono will continue to dispense "advice" to ministers on topics such as combating inflation. However, 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

According to the mini-budget announced in July, government spending will rise by 39% in the second half of the year, to be funded via aid grants. Most of this additional expenditure will be on higher civil service salaries—currently set at US$100/month—and input-packs for small-scale farmers. Mr Biti is facing an estimated budget deficit of 11.5% of GDP this year, and this can be funded only from increased revenue or foreign aid and foreign borrowing. Although some assistance is likely to be forthcoming, the government is likely to struggle to raise revenue (chiefly via value-added tax—VAT—and customs duties), and the Economist Intelligence Unit expects the administration 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. 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 huge disparity between Zimbabwean and other Southern African inflation rates.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.0	-1.7	2.3
OECD	2.7	0.9	-4.0	0.6
EU27	2.9	0.8	-4.4	-0.5
Exchange rates				
¥:US$	117.8	103.4	96.1	94.8
US$:€	1.369	1.470	1.358	1.385
SDR:US$	0.651	0.629	0.655	0.648
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.38	1.28
US$ 3-month Libor	5.30	2.91	0.99	1.01
Commodity prices				
Oil (Brent; US$/b)	72.7	97.7	59.0	70.0
Gold (US$/troy oz)	696.7	870.2	900.0	827.5
Platinum (US$/oz)	1,299.0	1,563.2	1,061.1	1,231.3
Food, feedstuffs & beverages (% change in US$ terms)	30.9	29.5	-21.9	3.5
Industrial raw materials (% change in US$ terms)	11.2	-5.1	-33.9	10.2

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 1.7% in 2009 as many Western economies enter recession. Growth will be marginally better in 2010, at 2.3%. 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$59/barrel, which will benefit Zimbabwe as an oil importer, before rising to an average of US$70/b in 2010.

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, with real GDP shrinking at double-digit levels. The government believes that growth will reach 3.7% this year, owing in part to a slow recovery in some mining and manufacturing output but chiefly because of a 24% rise in agricultural output. However, such is the destruction of the economy that the GNU faces 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 HIV/AIDS. What is more, much will depend on climatic conditions, and long-range forecasts suggest that the El Niño weather pattern will lead to drought in much of Southern Africa. Farming groups therefore believe that the official projections of output from the maize, cotton and wheat sectors are vastly over-optimistic. 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, while strikes are becoming an increasingly serious problem as workers seek to claw back some of the (substantial) decline in earnings that they have suffered in recent years.

That said, there are definite signs of economic recovery, and—given that the formal economy has declined to the point where there is hardly anything left to shrink—the contraction this year is likely to be minimal, at just 1.3%. As with most post-conflict states, once the recovery does begin it should be fairly rapid, and growth is likely to be positive in 2010, for the first time since 1999.

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. Inflation has fallen dramatically with rapid dollarisation at the end of 2008: consumer prices fell by 10% (cumulative) in the first five months of 2009. However, prices increased by 0.6% in June, and are likely to rise strongly in the remainder of 2009, driven by higher fuel and food prices, the stronger rand and growing wage inflation pressures. Although the high base set at the end of 2008 means that overall inflation will remain high in 2009, the rate will fall quickly in 2010 once the highs of 2008 drop out of the calculations. Indeed, a period of deflation is a distinct possibility, especially if external financial assistance does not materialise, prompting a squeeze on liquidity.

Exchange rates

The RBZ re-denominated the currency twice in six months, removing first ten and then 12 zeros. However, Zimbabwe's inflation and moribund economy continued to undermine the value of the currency, rendering any re-denomination useless, and the government sanctioned the use of foreign currency for all payments in the 2009 budget. The finance minister has subsequently announced the formal demonetisation of the Zimbabwe dollar, saying that all local dollar balances held by banks and in currency will be purchased by the central bank—although the exchange rate applied for the conversion has yet to be announced.

There is still some confusion over the future exchange-rate regime. The finance minister has ruled out any return to the Zimbabwe dollar in the foreseeable future, but Mr Mugabe has stated that reintroduction of the local currency is necessary because rand and US dollars are not widely available outside cities. However, continuation of the existing multicurrency system seems the most workable option, for the next six to 12 months at least.

External sector

Exports slumped by 38% to US$476m in the first half of 2009, according to official figures, and falling commodity prices (and declining production) will continue to affect exports adversely over the year as a whole. One positive aspect is that gold prices will remain high, but export prices for platinum are likely to decline, meaning that the value of output will fall despite a rise in production. 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. Tobacco earnings are expected to be some 20% down on their 2008 levels this year because of lower international prices, and there is little scope for an increase in 2010 output, as the large-scale commercial growers are already operating close to their maximum capacity. Imports also declined in the first half of the year, by 21%, but should increase overall slightly in 2009, reflecting the aid-financed importation of at least 500,000 tonnes of maize, an increase in foreign aid for humanitarian purposes and up to US$2bn in foreign credit lines reportedly negotiated by the government.

Since tourism will recover only slowly—official figures suggest that it will grow by 2% this year, as against a 9% decline in 2008—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: remittances by the 3.5m-plus Zimbabweans living abroad are likely to be affected by the global recession, but substantial aid inflows via non-governmental organisations will be reflected as private transfers. Exports will fall slightly in 2009, while imports will rise, and the current-account deficit will remain unsustainably high, at more than 45% of GDP. Exports should rise in 2010, but imports will also increase, meaning that the deficit will moderate to a still unsustainable 28%.

Forecast summary
(% unless otherwise indicated)

	2007[a]	2008[a]	2009[b]	2010[b]
Real GDP growth	-5.5	-14.1	-1.3	1.9
Manufacturing production growth	-5.5	-13.3	-3.8	6.0
Gross agricultural production growth	-5.0	-24.0	-4.0	-2.0
Consumer price inflation (av)	1.3E+04	1.5E+10	4.5E+16	4.6E+00
Consumer price inflation (year-end)	6.6E+04	2.2E+23	5.0E+01	3.5E+00
Short-term interbank rate	579.0	450.3	461.6	470.7
Government balance (% of GDP)	-8.9	-6.3	-6.3	-6.2
Exports of goods fob (US$ bn)	1.5	1.3	1.1	1.3
Imports of goods fob (US$ bn)	2.0	1.9	2.0	2.3
Current-account balance (US$ bn)	-0.5	-0.7	-0.6	-0.4
Current-account balance (% of GDP)	-29.5	-45.3	-45.5	-28.1
External debt (year-end; US$ bn)	5.1	5.3	5.4	5.6
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.

Monthly review: August 2009

The political scene

ZANU-PF is trying to reduce the MDC majority

In the March 2008 legislative elections Morgan Tsvangirai's Movement for Democratic Change (MDC) won 100 seats in the 210-member House of Assembly, while Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) took 99. Of the balance, ten seats went to Arthur Mutambara's MDC-M—a breakaway faction of the MDC—and one to an independent, giving the MDC and its allies a narrow parliamentary majority. The MDC now believes that ZANU-PF is seeking to eliminate this by extra-parliamentary means. In July, for example, Thamsanga Mahlangu, the MDC's deputy youth minister, was arrested and imprisoned on charges of stealing a mobile phone. Although Mr Mahlangu was freed on US$50 bail by a magistrate, the decision was overruled by the state prosecutor, who invoked legislation under the Criminal Procedure Act to have the minister detained pending trial. Mr Mahlangu joins six other MDC parliamentarians arrested (and in some cases convicted) on various charges, including "playing a song that denigrated President Mugabe". Under the September 2008 agreement that created the country's fragile and fractious inclusive government no by-elections are allowed for a minimum of 12 months, but from October there could be a dozen vacancies, either because members of parliament (MPs) have been convicted of crimes or because they have been expelled from their party (as has happened to several members of Mr Mutambara's party).

At the same time there appears to be renewed low-level political violence in some rural areas. It is not clear just how serious and widespread this is, but non-governmental organisations and MDC supporters see it as part of a grand strategy by ZANU-PF to force by-elections in rural constituencies and regain its parliamentary majority. According to Eddie Cross, an MDC MP and adviser to Mr Tsvangirai, ZANU-PF could be planning as many as 17 by-elections from October. Although opinion polls suggest that Mr Mugabe's party would be crushed in any free-and-fair poll, the vote is more likely to run along the lines of the 2008 presidential run-off, when widespread violence and vote-rigging forced the MDC to withdraw, leaving Mr Mugabe unopposed.

There has been some media liberalisation

The political struggle is being played out on a number of levels, and it is not always apparent which party is in the ascendant. During July ZANU-PF agreed to two major concessions on the media front. After being banned from operating in Zimbabwe for years the British Broadcasting Corporation (BBC) and Cable News Network (CNN) have been allowed back to report from the country, while the *Daily News* newspaper, which strongly opposed ZANU-PF in the 2000 elections and was closed down by the president, has been allowed to resume operations. However, it is not clear whether it will do so, partly because it may struggle to raise the necessary financial resources.

The *Daily News* would also face increased competition, since a number of daily newspapers are planning to start operations before the end of the year. *Newsday*, being launched by Trevor Ncube—whose pro-MDC weeklies, *Zimbabwe Independent* and *Sunday Standard*, have built up a strong following and advertising support—is likely to be the first to launch. It could be followed by the *Evening Gazette*, an evening paper that will be an offshoot of the weekly *Financial Gazette*, in which the governor of the Reserve Bank of Zimbabwe (RBZ, the central bank), Gideon Gono, is reported to hold a large stake. At the moment the field is dominated by the *Herald* newspaper, which, owned by the government's Mass Media Trust, makes no secret of its support for Mr Mugabe and ZANU-PF. Given Zimbabwe's straitened economic circumstances, the market is highly unlikely to be able to support four dailies, but the MDC believes that progress in the media is crucial. As one party official comments, "Once we have our own newspaper that will make all the difference."

Constitutional talks proceed

The MDC is also hopeful that there will be constitutional reform within the next 15 months. After weeks of stalling and problems at the start of the process, when the first meeting of the Constitutional Commission was broken up by ZANU-PF supporters, the process of drawing up a new constitution is at last under way. The MDC calculates that the new constitution will be in place in time for fresh elections in the final months of 2010, but this looks to be highly optimistic: both ZANU-PF and the Mutambara wing of the MDC believe that their support will increase the longer Mr Tsvangirai is prime minister, because the MDC leader will be unable to meet the electorate's extremely high expectations. One Mutambara minister recently stated that there was nothing in the September 2008 agreement to say that the transitional administration could not continue for a full five-year parliamentary term.

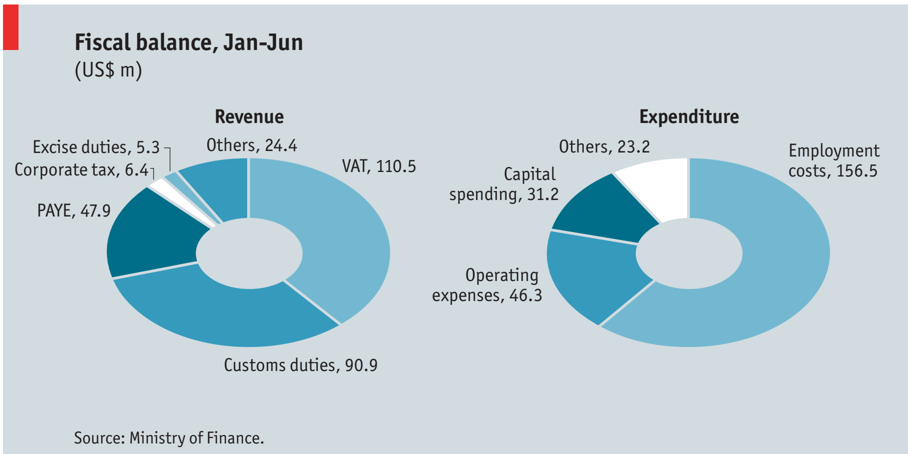
Diamond blacklist is recommended

A team from the Kimberley Process, the international organisation set up to stem the flow in conflict diamonds, has recommended that Zimbabwe be blacklisted for at least six months because production at the state-controlled Marange diamond fields constitutes trade in "blood diamonds". Late last year it was reported that some 200 "illegal" miners had been killed by security forces in the Marange-Chiadzwa area of eastern Zimbabwe. Although the mines there are operated by the state-owned Zimbabwe Mining Development Corporation, there have been numerous—unproven—accusations that senior Zimbabwean military personnel are engaged in the diamond trade and that Mr Mugabe has been using diamonds to buy the support of the military leadership. The Kimberley Process team called for "demilitarisation" of the diamond mines and Zimbabwe's suspension from international diamond-trading until adequate security systems had been installed and minimum diamond-mining standards met. Obert Mpofu, the ZANU-PF minister of mines, stated that Zimbabwe's suspension would "solve nothing", while the (MDC) finance minister, Tendai Biti, commented that the government needed more time to resolve the problem. If the Kimberley Process does impose a ban it will damage the country's "legal" diamond producer and exporter, Murowa Diamonds, which is owned and operated by Rio Tinto Zimbabwe

Economic policy

Government spending is to rise by 39%

In his mid-term budget, presented in July, Mr Biti announced a 39% rise in government spending for the second half of the fiscal year (to December 31st), to be funded entirely from aid grants. Donors have promised US$500m in fresh assistance, according to Mr Biti, but promised private-sector credit lines have fallen "far short" of the country's requirements, estimated at US$1bn. Mr Biti has earmarked US$391m for additional expenditure, mostly on higher salaries for civil servants and the provision of input-packs for small-scale farmers. Capital spending is being cut from US$182m (18% of the original budget) to US$66m (6.6%), while recurrent expenditure will increase by 15% to US$931m. Public-service salaries account for almost half of this rise; nonetheless, the civil service wage bill is scheduled to decline to 8% of GDP from 13% at present, a reduction that has alarmed public-sector trade unions.



The finance minister has succeeded in keeping a tight rein on spending, but only at huge cost to the economy—essential demands are not being met. According to Mr Biti, US$880m is needed to finance the 2009/10 agricultural season, but this amount exceeds the deposit base of the banking system. However, of the US$142m needed for crop input-packs for small-scale farmers, more than US$66m has already been pledged by donors.

Budget framework
(US$ m unless otherwise indicated)

	Original budget Mar 2009	Revised budget Jul 2009
GDP growth	2.8	3.7
Inflation (annual av)	6.9	6.4
Revenue	1,000	970
As % of GDP	30	28
Expenditure	1,000	1,390
As % of GDP	30	38.9
Deficit	0	391
As % of GDP	0	11.5

Budget framework
(US$ m unless otherwise indicated)

	Original budget Mar 2009	Revised budget Jul 2009
Aid grants	0	391
As % of GDP	0	11.5

Source: Ministry of Finance.

Zimbabwe dollar is demonetised

Mr Biti also announced the formal demonetisation of the Zimbabwe dollar, saying that all local-dollar balances held by banks and in currency would be purchased by the central bank for US$6m. However, few details are available as yet: even the exchange rate to be applied for the conversion will be "announced in due course". He also ruled out any return to the Zimbabwe dollar in the foreseeable future and assured depositors that foreign currency deposited in banks would not be seized by the state.

Tax changes

A range of minor tax changes were unveiled in the mid-term budget, many of them designed to reduce business costs and increase capacity utilisation. A number of these are proposed alterations that will be included in the 2010 budget. The following are the main changes.

- Customs duties on imported newspapers (currently 40%), mobile-phone handsets (25%), and computers and printers (5%) are abolished from August 1st 2009. Duty on imported fixed-line telephone sets with cordless handsets is cut from 25% to 5%.
- Maximum customs duty on raw materials and intermediate goods is cut from 15% to 10%, while duties on capital goods are abolished.
- Duties on a range of finished goods used as inputs for local production are reduced from August 1st. For example, the 40% duty on powdered milk and butter oil is abolished, while the duty on imported single-cab trucks is cut from 25% to 20%.
- The suspension of duties on basic commodities (mostly foods) announced early in 2009 is extended until end-2009.
- Excise duties on locally produced cigarettes and tobacco are raised from 60% to 80% as of August 1st. Excise on locally produced wines and spirits increases by 5 percentage points to 15% and 20% respectively.
- Fuel duty on diesel was cut from 20 US cents/litre to 16 US cents/litre as of July 17th. Petrol duty remains unchanged at 20 US cents/litre.
- Toll gates operate on intercity trunk roads from August 1st, with fees ranging from US$1 for light motor vehicles to US$2-3 for minibuses and buses, and US$4-5 for heavy vehicles and haulage trucks.
- A 3% royalty on gold production, suspended in 2004, is reimposed as of August 1st.

The finance minister's imposition of fees for toll roads has been criticised, in part because it is linked to the funding of general government spending rather than financing road rehabilitation. Similarly, gold miners have described the reimposition of the 3% royalty as premature, given that only three of the country's 88 mines are working to full capacity.

Monetary policy is also revisited

Meanwhile, in his monetary policy statement on July 30th, Mr Gono abolished the 6-percentage-point cap on bank lending rates announced early in 2009. Banks are now free to lend at market-determined rates rather than the London Interbank Offered Rate (Libor) plus the 6% margin as previously. According to Mr Gono most banks are lending at 6.33%, but businesses challenge this figure, arguing that the effective interest rate is much higher because of front-end and commitment fees. For his part, Mr Biti has described bank lending rates—put at more than 12%—as "usurious and extortionate".

The finance minister has criticised the banks for demanding huge margins on loans but paying depositors no more than 2.6%. Both men also criticised the low loan-to-deposit ratios, which, according to Mr Gono, averaged 36% in the three months to June. However, the RBZ governor also published figures showing that demand and "transitory" savings deposits made up 96% of the total for the entire banking system, which explains banks' reluctance to maintain high loan-to-deposit ratios. With no lender of last resort—the RBZ has very limited reserves—high lending ratios impose great risks on bank depositors, especially given the statement that the balance sheets of Zimbabwe's banks have shrunk by some 75% in the past five years. Moreover, only 15 of 28 banks are in compliance with statutory capital ratios, while ten are undercapitalised and three marginally below the required capital (US$12.5m for commercial banks) that must be in place by March 2010.

Economic performance

Growth forecast is revised

According to official forecasts published in the July mid-term budget, GDP growth will reach 3.7% this year, owing largely to a 24% rise in agricultural production. However, the forecast—revised up from 2.7% previously—looks to be over-optimistic: farming organisations calculate that the maize harvest will be just half the official projection of 1.2m tonnes, while private-sector cotton buyers say that they expect the cotton crop to be closer to 215,000 tonnes than the official figure of 246,000 tonnes. Hopes of a strong rebound in farm production in the 2009/10 growing season depend on climatic conditions, and the South African Weather Service is warning that the El Niño weather pattern currently developing in the Pacific Ocean is likely to mean below-average rainfall in large parts of Southern Africa in the October-March rainy season.

Meanwhile, mining output is forecast to fall by 11%, despite an 18% rise in gold production to 4.5 tonnes from 3.5 tonnes last year. Coal and platinum output will increase by 10-20% but export prices for platinum will be substantially reduced and the value of output will probably fall. Nickel production will decline by two-thirds to just over 2,000 tonnes and ferrochrome output will also fall sharply, which, with lower prices, will mean reduced export earnings. The finance minister projects a fivefold increase in the volume of diamond production over the next three years, although the value of output will not increase by the same magnitude given depressed world prices and lower-quality gems (while suspension from the Kimberley Process could also affect sales).

Manufacturing capacity utilisation, estimated at less than 10% in 2008, is now estimated at around 25-50%. However, there are no accurate data on capacity, let alone capacity utilisation, and the figure is based on a tiny sample of major companies unsupported by evidence of the level of demand and turnover.

3G service is to be launched

Econet Wireless Global, Zimbabwe's largest mobile-phone service provider, has signed an agreement with Sweden's Ericsson to expand the country's mobile-phone network with the aim of boosting Econet's subscriber base from 1.2m at present to 5m by the end of 2010. Given that Zimbabwe's population is estimated at little more than 10m people, more than half of whom are under the age of 16, market analysts regard this growth forecast as highly optimistic. Econet has also said that it will launch its long-awaited third-generation (3G) service at the end of August, and is spending US$94m this year on extending its network.

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	1.3	1.5
Nominal GDP (Z$ bn)	2.39E+01	7.54E+01	8.84E+02	1.06E+05	1.36E+13	6.04E+27	6.44E+27
Real GDP growth (%)	-3.8	-6.5	-4.6	-5.5	-14.1	-1.3	1.9
Expenditure on GDP (% real change)							
Private consumption	-18.6	8.4	-4.5	-5.0	-13.9	-1.0	2.0
Government consumption	31.7	6.4	-6.0	-6.0	-10.0	5.0	5.0
Gross fixed investment	54.2	-63.4	-1.0	-5.0	-8.0	-2.0	1.0
Exports of goods & services	1.7	-4.3	-1.0	-0.8	-1.2	-0.5	2.0
Imports of goods & services	2.4	-3.1	-1.5	-1.0	-0.6	1.5	3.0
Origin of GDP (% real change)							
Agriculture	-2.9	-10.0	-4.5	-5.0	-24.0	-4.0	-2.0
Industry	-3.5	-11.7	-3.5	-5.0	-14.7	-2.0	3.0
Services	-4.2[b]	-3.4	-5.0	-5.8	-11.0	-0.3	2.5
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	144	142	145
Fiscal indicators (% of GDP)							
Public-sector revenue	32.5	43.9	39.5	37.7	39.2	39.6	38.8
Public-sector expenditure	38.7	45.6	51.1	46.5	45.5	45.9	45.0
Public-sector balance	-6.1	-1.7	-11.6	-8.9	-6.3	-6.3	-6.2
Net public debt	193.2	195.9	212.2	216.0	259.4	294.9	266.2
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	3.45E+00
Stock of money M1 (% change)	2.29E+02	5.53E+02[a]	1.32E+03	6.67E+04	2.87E+09	4.47E+16	8.14E+01
Stock of money M2 (% change)	2.29E+02	5.33E+02[a]	1.45E+03	6.45E+04	2.97E+09	4.47E+16	9.63E+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]	-586	-512	-510	-604	-948	-1,035
Goods: exports fob	1,680[b]	1,518	1,528	1,465	1,311	1,082	1,300
Goods: imports fob	-1,989[b]	-2,104	-2,040	-1,975	-1,915	-2,030	-2,334
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	720	971
Current-account balance	-396[b]	-688	-488	-496	-670	-605	-435
External debt (US$ m)							
Debt stock	4,818	4,296[a]	4,677[a]	5,085	5,316	5,443	5,578
Debt service paid	100	225[a]	83[a]	78	85	75	62
Principal repayments	77	198[a]	31[a]	35	38	36	24
Interest	23	27[a]	53[a]	43	47	39	39
Debt service due	449	276[a]	406[a]	652	671	748	617
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*.

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.

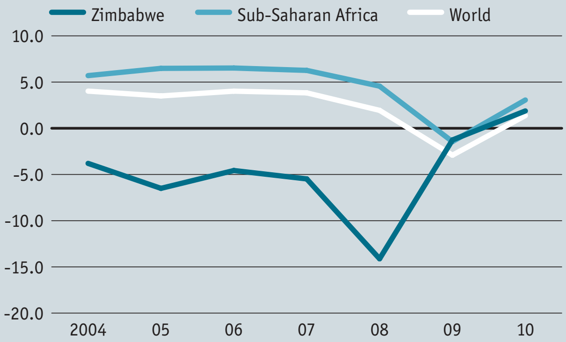
Monthly data

	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.

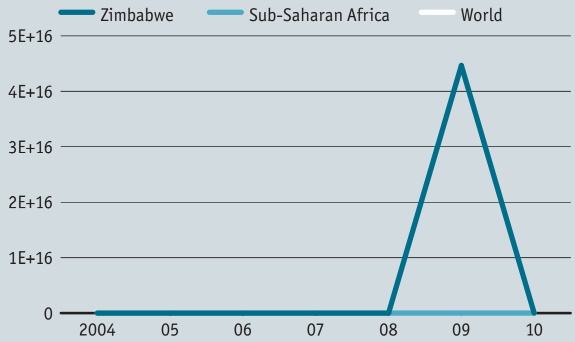
Annual trends charts

Real GDP growth
(% change)



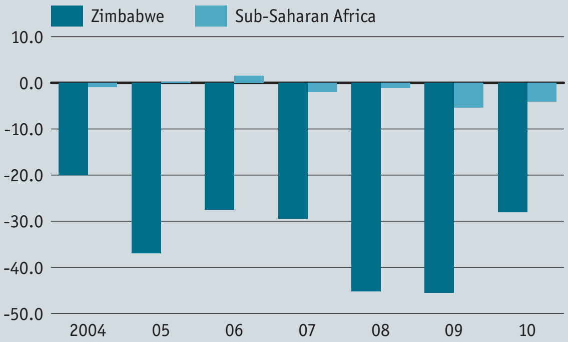
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



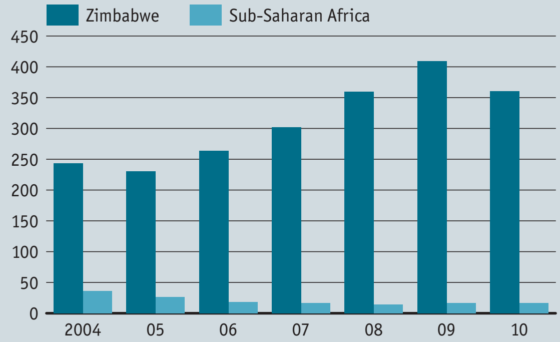
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



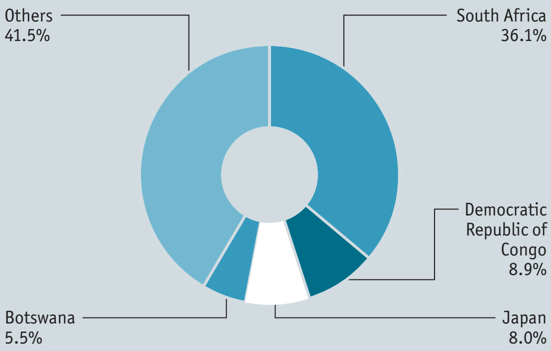
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



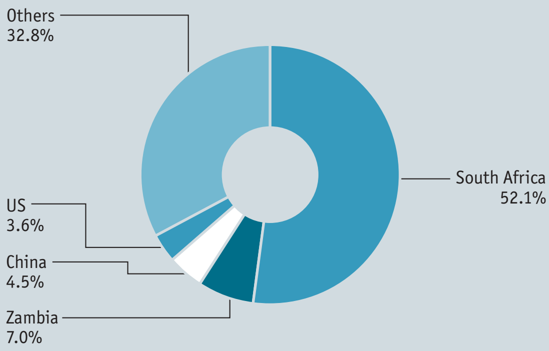
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

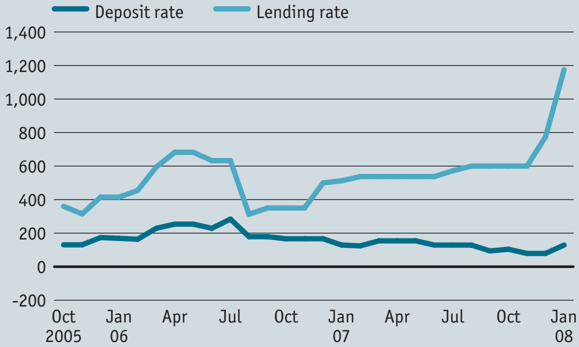
Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

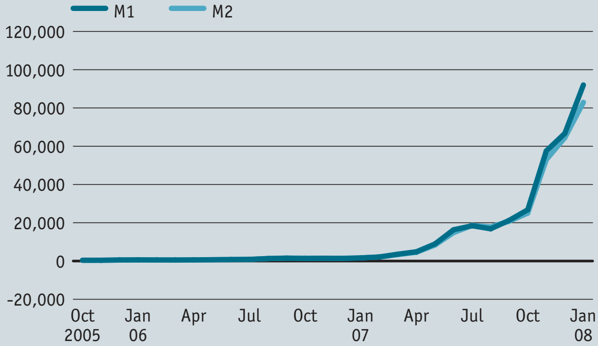
Monthly trends charts

Interest rates
(av; %)



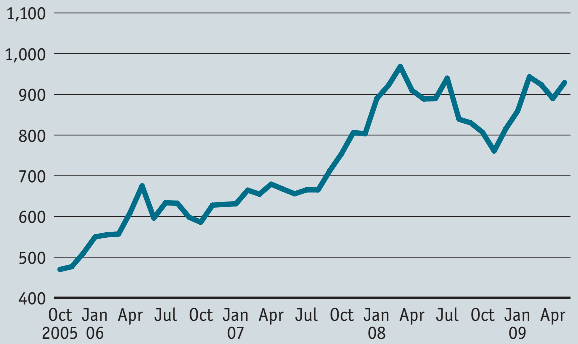
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



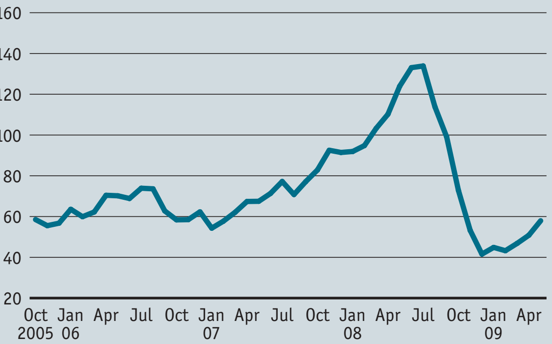
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

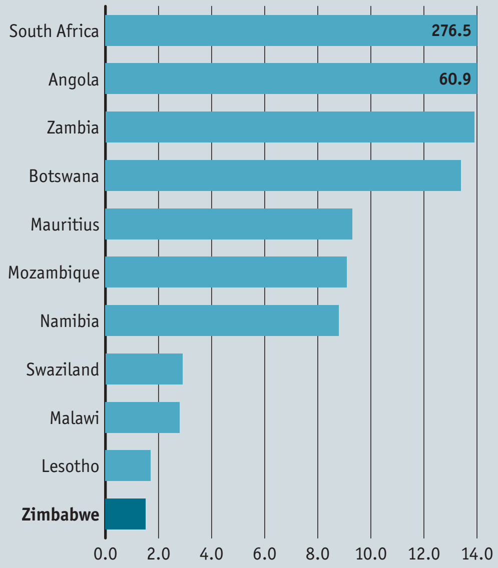
Oil: Brent crude price
(US$/b; av)



Source: Economist Intelligence Unit.

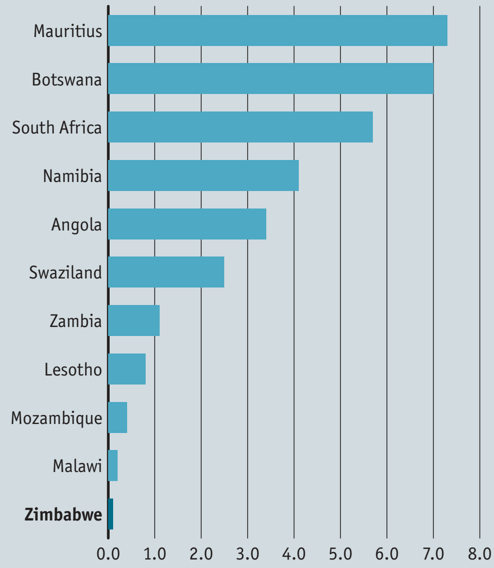
Comparative economic indicators, 2008

Gross domestic product
(US$ bn; market exchange rates)



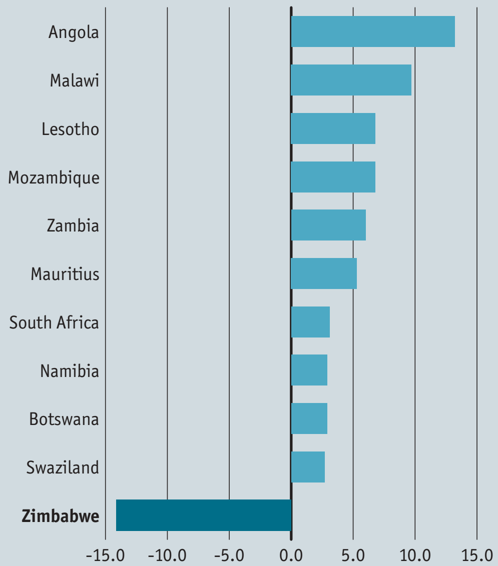
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



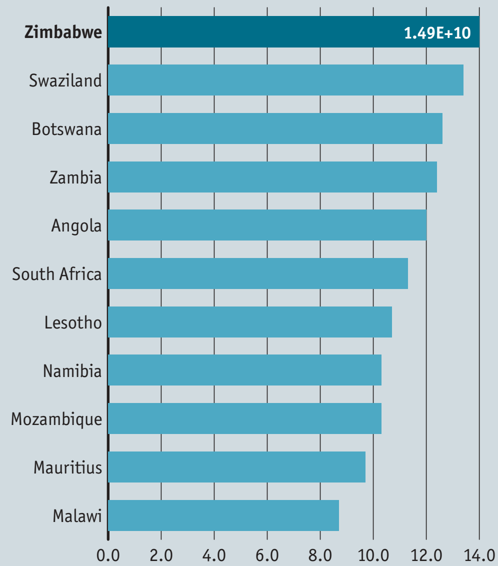
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

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)	
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	

