Country Report

Zimbabwe

October 2009

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The Economist Intelligence Unit

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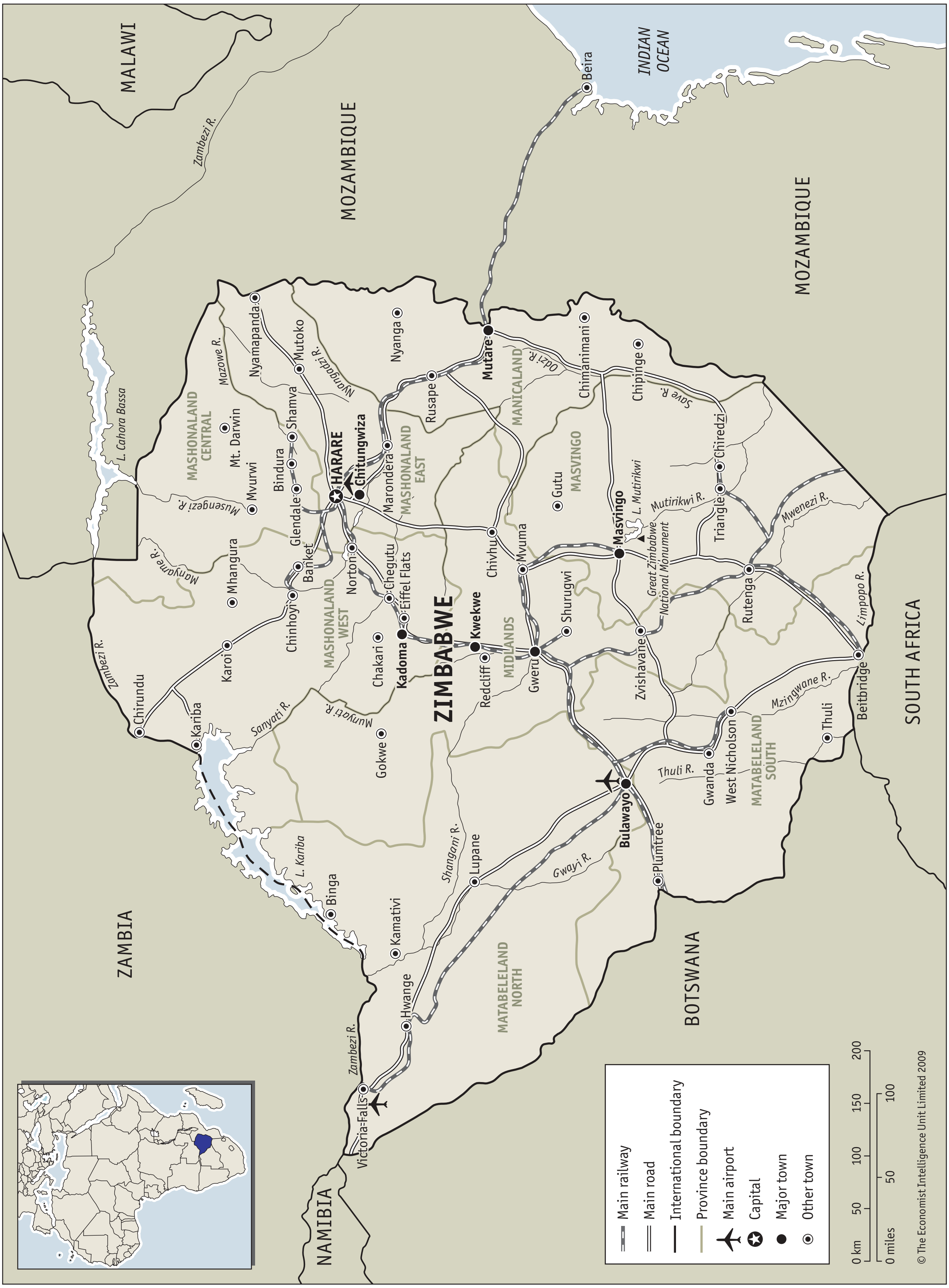
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Main railway
Main road
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Province boundary
Main airport
Capital
Major town
Other town
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Executive summary

Highlights

October 2009

Outlook for 2010-11

- Zimbabwe's power-sharing government will continue to struggle over the forecast period. The timetable for fresh elections—theoretically due to be held by end-2010—looks to be overly ambitious.
- Tensions between the Movement for Democratic Change (MDC) and the Zimbabwe African National Union-Patriotic Front (ZANU-PF) will increase as constitutional negotiations proceed over the forecast period.
- Regional powers have thus far shown little interest in attempting to influence the president, Robert Mugabe, but this could change if the power-sharing government collapses and there is renewed violence against MDC supporters.
- There will be numerous policy disagreements between the MDC finance minister and the ZANU-PF central bank governor.
- Growth is likely to remain constrained in 2010 but should accelerate to 5% in 2011—and rates could be more substantial if there is a peaceful transition to a more representative administration.
- Inflation is set to fall to single digits in 2010—the lowest rate since 1988—owing to the impact of dollarisation and the fact that the highs of 2008 are dropping out of the calculations.
- After increasing to 45% of GDP in 2009, the current-account deficit is forecast to fall to 25% of GDP in 2010 and 16% of GDP in 2011 as export receipts and remittances rise.

Monthly review

- Morgan Tsvangirai is under mounting pressure from his own party to adopt a tougher stance against Mr Mugabe—or to pull out of the government of national unity.
- Ongoing violence on the small number of properties where white commercial farmers are still operating is an obvious sign of the MDC's weakness.
- The takeover of the assets of the Meikles group is adding to concerns that political decisions overrule business ones.
- Civil society groups are increasingly critical of politicians' attempts to "sideline" both parliament and the public in the formulation of a new constitution.
- The 2009 tobacco crop sold for 22% more than the 2008 total, but at least 5m kg was held over from last year's sales.

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. 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. However, progress is far from universal and there are growing signs that ZANU-PF—and the MDC-M, the breakaway MDC movement led by Arthur Mutambara—will 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. However, renewed low-level political violence in some rural areas suggests that any such polls would actually be characterised by violence and vote-rigging, and concern about the implications for political stability is one of the factors preventing the MDC from seeking to force an early poll. This reluctance is causing tensions within the party, and Mr Tsvangirai will come under increased domestic and international pressure to withdraw from the power-sharing administration.

These tensions are likely to increase as the process of drawing up a new constitution continues. In theory, a new constitution should be formalised by mid-2010, leading to elections by the end of that year. This timetable looks to be overly ambitious, however, in part because the power-sharing government did not take office until six months after the so-called General Political Agreement (GPA) was signed—as a result of which MDC ministers themselves believe that no poll is possible before 2011—but chiefly because there are fundamental disagreements between ZANU-PF and the MDC over the extent of presidential powers. Mr Mugabe has already stated that he will instruct ZANU-PF members of parliament to vote against any new constitutional agreement unless it is based on the so-called Kariba draft, drawn up in secret by the three political parties in 2007-08, although acceding to this would probably provoke a final split within the MDC (indeed, this may be Mr Mugabe's intention). It seems possible, therefore, that deadlock over the constitution will lead to the collapse of the government of national unity (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, and it is clear that he will never co-operate with "colonialist" countries. The president insists that there can be no return to normality until Western sanctions against individuals and ZANU-PF-controlled companies are lifted, and is seeking to link the lifting of sanctions to implementation of the GPA. The EU and other Western powers will continue to resist this interpretation, but could find it harder to maintain this stance if the power-sharing administration struggles on, making some economic (if not necessarily political) progress.

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, and the Southern African Development Community (SADC) continues to show no inclination to intervene against Mr Mugabe. However, this could change if the GNU collapses altogether and the state mounts a serious campaign of violence against MDC supporters.

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 or sidelining of Gideon Gono, the governor of the Reserve Bank of Zimbabwe (RBZ, the central bank), for example. Mr Biti is already involved in a dispute with the RBZ governor over the utilisation of US$510m of IMF funds extended in September, and there are likely to be numerous similar examples in the coming months. However, 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.

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 the Economist Intelligence Unit expects the administration to continue to rein in spending in an attempt 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 public service 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	-1.4	2.9	3.3
OECD	0.6	-3.6	1.2	1.4
EU27	0.8	-4.2	0.4	1.1
Exchange rates				
¥:US$	103.4	96.1	94.8	92.8
US$:€	1.470	1.363	1.388	1.415
SDR:US$	0.629	0.654	0.647	0.640
Financial indicators				
€ 3-month interbank rate	4.65	1.25	1.08	2.50
US$ 3-month Libor	2.91	0.98	1.01	2.11
Commodity prices				
Oil (Brent; US$/b)	97.7	62.0	74.0	67.0
Gold (US$/troy oz)	870.2	922.5	888.8	898.8
Platinum (US$/oz)	1,563.2	1,171.5	1,316.3	1,355.0
Food, feedstuffs & beverages (% change in US$ terms)	29.5	-20.3	4.4	1.9
Industrial raw materials (% change in US$ terms)	-5.1	-29.8	7.8	0.0

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

We expect world GDP (measured on a purchasing power parity basis) to expand by 2.9% in 2010 as many Western economies start to recover from recession. Growth will accelerate further in 2010, to 3.3%. The prices of some commodities, such as platinum, should also begin to recover in 2010 in line with the global recovery, although the gold price will moderate. We expect Brent Blend to average US$74/barrel in 2010—up by almost 20% on the 2009 average, which will increase Zimbabwe's oil import bill. Prices will fall again in 2011, however, to an average of US$67/b.

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, although the decline is expected to be only moderate in 2009 owing to a slow recovery in some mining and manufacturing output and a more substantial rise in agricultural production. As with most post-conflict states, the recovery should be fairly rapid once it does begin, and the IMF expects growth to exceed 5.9% in both 2010 and 2011. This assumes, however, that the political situation does not deteriorate, and in any case is likely to prove over-optimistic: 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 ongoing destruction of the commercial sector and the impact of HIV/AIDS. None of these can 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. 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

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 fell dramatically with rapid dollarisation at the end of 2008, 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, the 2010 rate should be in single digits—at 4.6%—for the first time since 1988. Although price rises will accelerate thereafter, they should remain low by historical standards, at around 7.7%—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 finance minister 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 central bank governor 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$1.37bn—is likely in 2010, owing largely to a marginal improvement in prices of commodities, including platinum. Against that, the price of gold is expected to moderate somewhat, from US$923 to US$889 per troy oz, but this should be partly offset by rising production. In 2011 exports are likely to remain broadly stable, provided that the policy environment is acceptable. Imports should increase 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 some 16% 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	4.6E+00	7.7E+00
Consumer price inflation (year-end)	2.2E+23	5.0E+01	3.5E+00	5.1E+01
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	-0.4	-0.3
Current-account balance (% of GDP)	-39.2	-44.8	-24.6	-15.9
External debt (year-end; US$ bn)	5.7[c]	5.8	6.0	6.2
Exchange rate Z$:US$ (av)[d]	5.7E+15	4.7E+34	5.0E+38	3.0E+27
Exchange rate Z$:US$ (year-end)[d]	6.8E+16	1.7E+35	5.0E+38	3.0E+27
Exchange rate Z$:€ (av)[d]	8.4E+15	6.4E+34	6.9E+38	4.3E+27
Exchange rate Z$:US$ (av; parallel market)	2.0E+25	4.0E+39	1.0E+42	1.0E+30

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

Monthly review: October 2009

The political scene

The MDC is under pressure

Morgan Tsvangirai, the prime minister and head of the Movement for Democratic Change (MDC), is under mounting domestic and international pressure to pull out of Zimbabwe's fragile "inclusive government". In a September meeting in Bulawayo senior MDC members demanded that he toughen his stance towards the president, Robert Mugabe, and the Zimbabwe African National Union-Patriotic Front (ZANU-PF), even if it meant abrogating the unity agreement signed in September 2008. This demand was in part triggered by the failure of regional actors—in the form of South Africa's president, Jacob Zuma, and the 14-nation Southern African Development Community (SADC)—to pressurise Mr Mugabe into adhering to the so-called Global Political Agreement (GPA) that led to the establishment of the unity government.

Few people other than Mr Tsvangirai's closest advisers within the MDC expected Mr Zuma or SADC to take action against the Zimbabwean president. These advisers remain upbeat. One such, Eddie Cross, commented that if the transitional government collapsed, "SADC would have no alternative but to become engaged, and this time there would be no [President] Mbeki to protect ZANU-PF's interests". However, it is clear that rank-and-file party members are losing patience with the leadership, and especially with Mr Tsvangirai's failure to act on his repeated promises to confront Mr Mugabe. Importantly, the business community is also becoming disenchanted, not least because the MDC seems either indecisive or paralysed even in those ministries where it is in control. Three recent events have caused particular disquiet: the public row over the use of the IMF's disbursement of SDR allocations, the government's takeover of the assets of the Meikles group—one of Zimbabwe's oldest firms, with a wide range of business operations including retail, hotels, tea plantations, finance and clothing—and warnings by the Commercial Farmers Union (CFU) over the dire plight of the white farmers still on their land.

Farms are still an issue

All three highlight the MDC's weakness, but arguably the most visible evidence of the failure of the unity accord is the ongoing violence on the approximately 400 farms where white commercial farmers are still producing, almost all of them at very restricted levels. According to a cabinet paper, the government has taken over 70% of the land previously owned by white commercial farmers since 2000. In all, 6,214 farms, covering 10.8m ha, have been expropriated without compensation out of the total of 15.5m ha of commercially owned farmland that existed in 1980. Nonetheless, land ownership remains a contentious issue—for ZANU-PF at least. Speaking to a party youth conference last month, Mr Mugabe hit out at "bloody whites sticking their noses into our affairs", and threatened to order the police to evict any remaining white farmers who did not immediately vacate their land. The CFU, which represents white farmers, said that the president's inflammatory remarks were likely to "fuel further politically motivated violence on commercial farms" at a time when a tranquil environment was required to help to boost production.

Patrick Chinamasa, the ZANU-PF justice minister, supported the president by announcing Zimbabwe's withdrawal from the SADC tribunal. This followed a ruling by the regional court that 78 white commercial farmers had been unlawfully evicted from their properties and that the government should pay full compensation to those forced off their farms. However, Mr Tsvangirai denied that there had been any withdrawal, saying that the matter had never been discussed at cabinet. For its part, the MDC continues to promise a "land audit", followed by action to dispossess owners of multiple farms. However, there are no land surveyors available to carry out the audit, and the government says that it does not have the money to pay for such an exercise. Meanwhile, farmers argue that conditions are worse now than before the unity agreement was a signed a year ago.

A "new type of land-grab" is under way

The issue is being complicated by the use of so-called land conservancies. A detailed report of a meeting reportedly funded by the UN Development Programme to outline a new strategy for wildlife conservancies reveals how owners of such conservancies are being forced to work with new "partners" appointed by the government. The meeting was launched by the higher education minister, Stan Mudenge, a Mugabe appointee, who said that the new partnership scheme was part of the land-reform process. It has been described by one of the conservancy owners as a "new type of 'friendly land-grab' or 'Mark 2 version of land reform'". One of the latest beneficiaries is Major-General Engelbert Rugeje, the army chief of staff, who has taken over the Wanezi Ranch in the Mwenezi area of south-west Zimbabwe. According to Titus Maluleke, the Masvingo provincial governor, other senior army and policy personnel have been issued offer letters entitling them to take over land in the area so that they can set up wildlife safari businesses.

Meikles row unnerves investors

In early September the government froze the assets of the Meikles group, one of the country's oldest firms. The Meikles "specification" under the Prevention of Corruption Act gives government-appointed administrators the right to operate the business and make major policy decisions. The original specification of the Meikles family goes back a year and was the result of a board-level dispute within Kingdom-Meikles Africa Ltd (KMAL)—a merger between the industrial and commercial conglomerate, Meikles, and Kingdom Bank. The 2007 merger was undertaken because the company was white-owned and -managed, and the main Meikles shareholders feared "indigenisation". Accordingly, they arranged a merger with Kingdom Bank, in which Meikles already owned a 34% stake. The arrangement was not a success, however, and soon degenerated into a major row between the former chairman and largest shareholder, John Moxon, and the new chief executive officer (CEO), Nigel Chanakira. Mr Moxon believes that he and his family were specified because of Mr Chanakira's political contacts, while the former chief executive of Kingdom Bank insists that Mr Moxon illegally "externalised" some US$21m of Meikles' money.

In June a de-merger compromise was agreed whereby Kingdom would go its own way and Mr Chanakira would step down as CEO of Meikles and resign from the board. In September, however, the Zimbabwe African National Union-Patriotic Front and Movement for Democratic Change (MDC) home affairs ministers—allegedly acting at Mr Chanakira's request—broadened the specification order to take control of the entire company just weeks ahead of a September 24th Annual General Meeting (AGM) at which Mr Chanakira and his allies were to be voted off the board. The AGM was subsequently postponed for two weeks after police were deployed at the venue to ensure that the meeting did not take place.

Meikles, which has a secondary London listing as well as being quoted on the Zimbabwe Stock Exchange, now has a market value of some US$90m, compared with US$500m two years ago. Only 3% of the shares are now held on the London register. The government move, since condemned by the MDC wing of the unity administration—whose home affairs minister, Giles Mutsekwa, says that he was misled into signing the order—is very bad news from an investment viewpoint, since it exacerbates concerns that business imperatives can be overridden by political ones.

Politicians are "trying to take over" constitutional talks

The proposed new constitution is also mired in rows about money and procedure. Under the GPA, signed in September 2008, a new constitution should be drawn up by mid-2010 to provide for fresh elections by the end of the year. The six-month delay in setting up the inclusive government, which took office only in February 2009, meant that that target date was in any case unlikely to be met. Since then, however, progress has been minimal and MDC ministers concede that 2011 is the earliest realistic date for new polls.

All three parties have managed to anger many elements of civil society, who want the process to be broadened to include non-politicians. Initially it was agreed that a 25-member Select Committee of Parliament would oversee the drafting of the new constitution, but last month Messrs Mugabe and Tsvangirai, and the deputy premier, Arthur Mutambara, agreed to appoint the three main drafters of the GPA to the parliamentary sub-committee. This was rejected by Lovemore Madhuku, the chairman of the National Constitutional Assembly (NCA) pressure group, who said, "It is clear that the leaders of political parties are positioning themselves to take over the process. Parliament has been relegated to a secondary role."

To make matters worse, Mr Mugabe has said that he will instruct ZANU-PF members of parliament to vote against any new constitutional agreement unless it is based on the so-called Kariba draft, drawn up in secret by the three political parties in 2007-08. The appointment of the three drafters of that constitution—the MDC's Tendai Biti, ZANU-PF's Patrick Chinamasa and the Mutambara group's Welshman Ncube—has convinced non-governmental organisations that public opinion is being sidelined.

Economic policy

A squabble arises over IMF funds

Relations between Mr Biti, the MDC minister of finance, and Gideon Gono, the ZANU-PF governor of the Reserve Bank of Zimbabwe (RBZ, the central bank), are a microcosm of the tensions in the power-sharing government. The latest sign of their power struggle is an angry spat over utilisation of the US$510m in SDRs extended to Zimbabwe under the IMF's global assistance agreement for its 186 member states. Mr Gono says that the funds have already been credited to the RBZ's account and that he is awaiting instructions from his "principals" on the use of the money. However, Mr Biti, after initially stating that Zimbabwe could not afford to draw down the loan because it is already heavily indebted internationally, now says that the funds will be used to finance infrastructural investment. He denied ZANU-PF claims (reported in the state-owned media) that he had "blocked" the SDR allocation, saying that he had actually blocked "efforts to unprocedurally convert and liquidate the SDRs into cash". This has been criticised, though—and not just by Gideon Gono. For example, in a circular to clients, Kingdom Financial Holdings commented that Mr Biti's decision would delay the disbursement of funds until the new budget takes effect next January. "This may mean that the liquidity crunch will continue and it would take longer for companies to increase capacity utilisation to acceptable levels," it added.

Indigenisation "does not mean nationalisation"

Uncertainty over the future of Zimbabwe's indigenisation laws continues to muddy the investment outlook. Saviour Kasukuwere, the ZANU-PF youth and indigenisation minister, said that although the government had proposed 51% local ownership it was open to discussions on the issue. He said that "Indigenisation does not mean nationalisation", adding that the government would insist on payment upfront from local investors wishing to participate in indigenisation deals. "Nothing will be for free." However, those being granted conservancy partnerships have been promised free financial assistance from the state.

Economic performance

Business rankings are poor

New rankings from the World Economic Forum's *Global Competitiveness Report* (2009-10) and the World Bank's *Doing Business* indicators (2010) show how poorly Zimbabwe ranks alongside its main regional competitors. On the Global Competitiveness index the country ranks second from bottom—only Burundi fares worse—while on the Doing Business index Zimbabwe, at 159th, is far behind those countries in East and Southern Africa against which it is competing for foreign investment. The impact of these rankings is clear: over 2006-08 Zimbabwe attracted only US$160m of new foreign direct investment, well behind all other regional states except Malawi.

2010 rankings

Country	Country competitiveness[a]	Ease of doing business[b]	FDI inflows[c]
South Africa	45	34	14,169
Mauritius	57	17	827
Botswana	66	45	977
Namibia	74	66	n/a
Kenya	98	95	875
Tanzania	100	131	1,988
Lesotho	107	130	390
Uganda	108	112	2,165
Zambia	112	90	2,880
Malawi	119	132	122
Mozambique	129	135	1,168
Zimbabwe	132	159	161

[a] Out of 133 countries. [b] Out of 183 countries. [c] 2006-08, US$ m.

Sources: World Economic Forum, *Global Competitiveness Report*, 2009-10; World Bank, *Doing Business 2009*.

Mixed signals are given on mining

The Mining Investors Conference held in the capital, Harare, in mid-September underscored some of the problems. Niels Kristensen, the chief executive of Murowa Diamonds (owned by a subsidiary of Rio Tinto), warned that there would be little new investment in the mining sector until uncertainty over mining legislation and the taxation regime was resolved, while Victor Gapare, the president of the Zimbabwe Chamber of Mines, stated that mineral production was being hamstrung by inadequate and unreliable power supplies, and urged the government to privatise the state-owned Zimbabwe Electricity Supply Authority. Against that, the economic development minister, Elton Mangoma, told the conference that 15 new mining projects, valued at US$400m, had been approved by the Zimbabwe Investment Centre so far this year, and Ian Saunders, the chief executive of Canadian-owned New Dawn Mining, painted a more positive picture of the outlook for the industry, announcing that his company was to increase production at its Turk and Angelus gold mines to 50,000 troy oz/year by 2014. New Dawn was also seeking to acquire new gold properties that would double projected output to around 100,000 troy oz/year, he said. In other signs of interest in the mining sector:

- Metmar, a commodities trading company listed on the Johannesburg Securities Exchange, has bought 40% of a ferrochrome exporter, Zimbabwe Alloys, and its subsidiary, Chrome Corporation, for US$60.3m—Zimbabwe Alloys, which has produced very little ferrochrome in recent years, says that the funds will be used to revive mining, production and processing capacity; and
- A US technology firm, Haber, has announced the formation of a new joint-venture company with GeoBase Metals Corporation, a privately owned Zimbabwean mining firm with deposits of gold, platinum group metals, nickel-copper, beryllium and lithium-tantalite concessions in Zimbabwe, Zambia and Botswana—Haber will supply the joint venture with its Strategic Abatement of Mercury and Poverty "green" technology to develop mining properties in the three countries.

Costs in the sector are set to rise after an arbitration court awarded mineworkers a minimum wage of US$140 a month—well below the Associated Mineworkers Union of Zimbabwe's demand for a monthly wage of US$200 but above the previous figure of US$100. Employers had argued that they could not afford the existing minimum wage of US$100 and offered US$80 a month. The new wage applies retrospectively from July 1st and the union will submit a new demand for the wage to be revised upwards retroactively from October 1st.

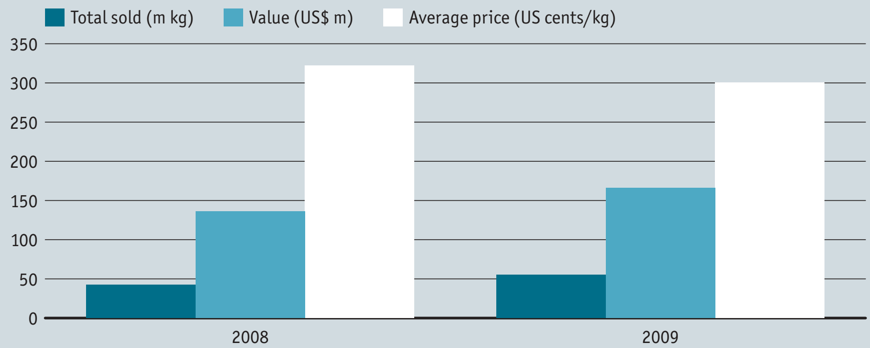
Inflation slows again

Inflation slowed to 0.4% in August, from 1% in July and 0.6% in June, a moderation that the Central Statistical Office attributes to reduced prices of food and non-alcoholic beverages. This means that in the first eight months of 2009 prices have fallen from an index figure of 100 (December 2008) to 91.7—a decline of 8.3%. The revised official forecast for the year is for prices to increase by 5% during 2009, but this now looks to be too high and it is conceivable that over the year as a whole consumer prices may actually decline.

Tobacco sales are up by 22%

The 2009 tobacco marketing season ended in September with some 55m kg sold for US$166m, at an average price of 300 US cents/kg. The total value of the crop was 22% greater than last year, but according to industry sources at least 5m kg (worth some US$15m) represented leaf held over from the 2008 sales, meaning that actual tobacco earnings were closer to US$150m—virtually identical to the (adjusted) value of the 2008 crop. Average prices were 7% lower than in 2008. By the end of August some 61.3m kg had been exported for US$124m, compared with total tobacco exports of US$230m in 2008. Industry sources expect little change in the size of the 2009/10 crop: with deposit-constrained banks unable to finance tobacco plantings on a traditional scale, production is likely to be seriously constrained.

Tobacco sales



Source: Tobacco Industry and Marketing Board.

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	1.5	1.9
Nominal GDP (Z$ bn)	7.64E+01	9.01E+02	1.08E+05	1.38E+13	6.05E+27	6.44E+27	7.28E+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	276.2	235.6
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	3.45E+00	5.10E+01
Stock of money M1 (% change)	5.53E+02	1.32E+03	6.67E+04	2.87E+09	4.47E+16	8.14E+01	8.77E+01
Stock of money M2 (% change)	5.33E+02	1.45E+03	6.45E+04	2.97E+09	4.47E+16	9.62E+01	1.05E+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	-940	-969	-1,123
Goods: exports fob	1,595[b]	1,675[b]	1,555	1,396	1,090	1,365	1,351
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	-597	-380	-306
External debt (US$ m)							
Debt stock	4,255	4,652	5,293[a]	5,669[a]	5,821	6,041	6,163
Debt service paid	236	85	80[a]	96[a]	78	67	94
Principal repayments	210	33	39[a]	38[a]	36	26	36
Interest	27	53	41[a]	58[a]	42	42	59
Debt service due	288	441	447[a]	896[a]	351	342	369
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	5.86E+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	n/a	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	621.0	711.4	551.3	621.5
Imports cif	597.6	709.9	786.1	729.7	626.9	593.1	656.6	804.1
Trade balance	-390.1	-473.9	-542.8	-475.3	-5.9	118.4	-105.3	-182.7

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

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

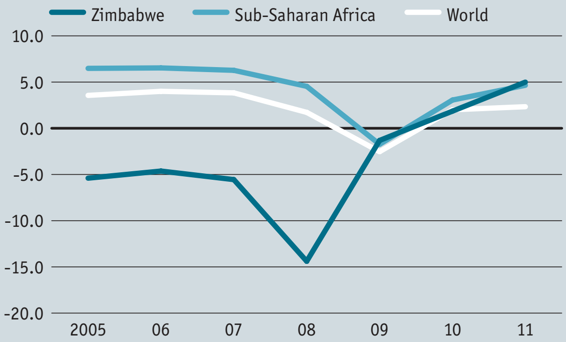
Monthly data

	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.

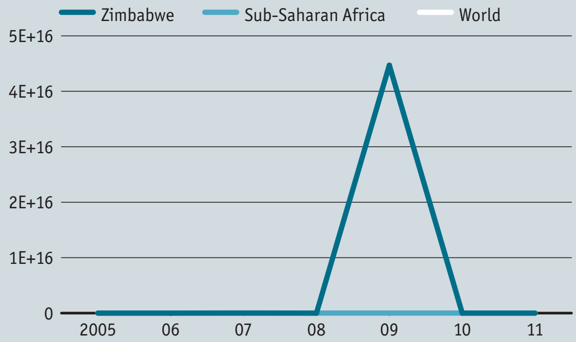
Annual trends charts

Real GDP growth
(% change)



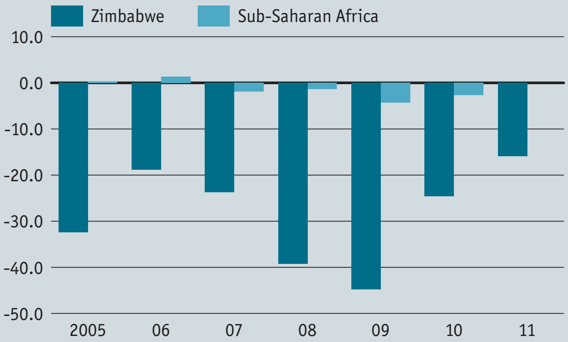
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



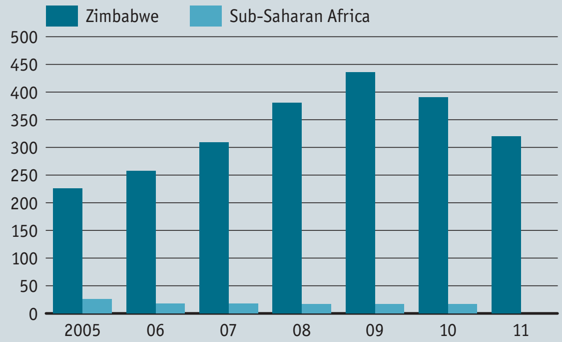
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



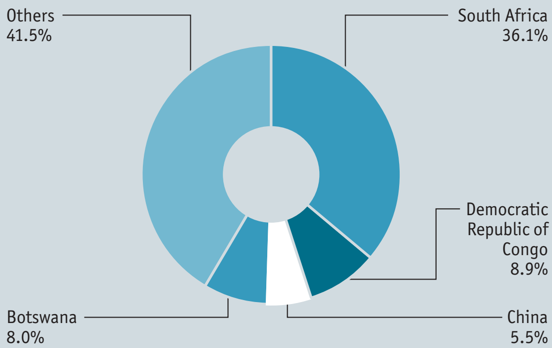
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



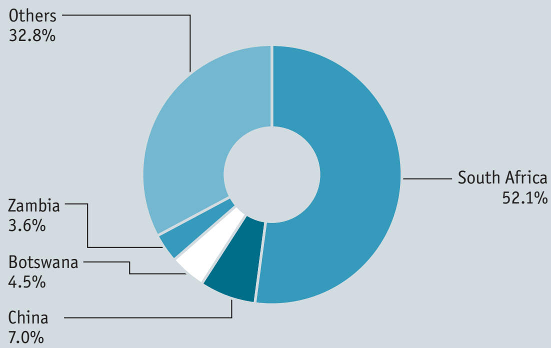
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

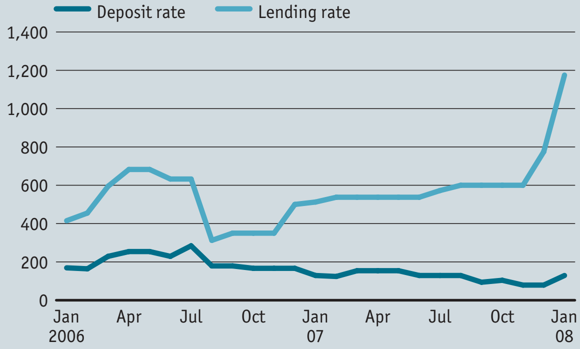
Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

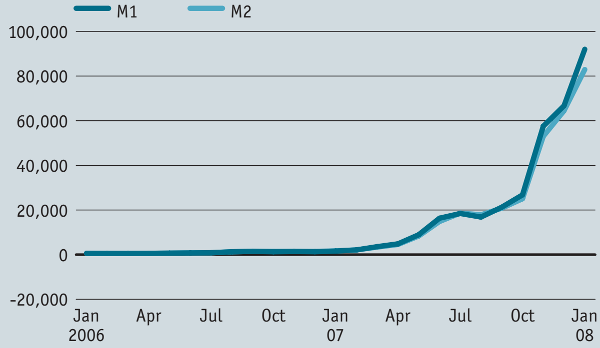
Monthly trends charts

Interest rates
(av; %)



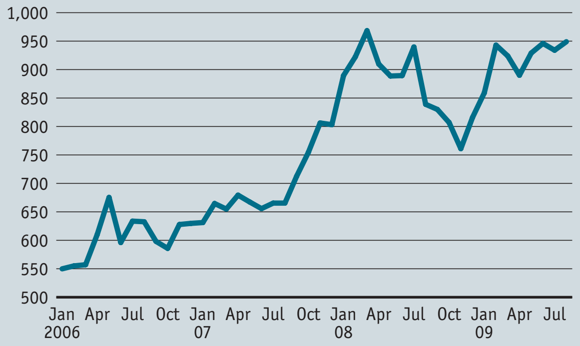
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



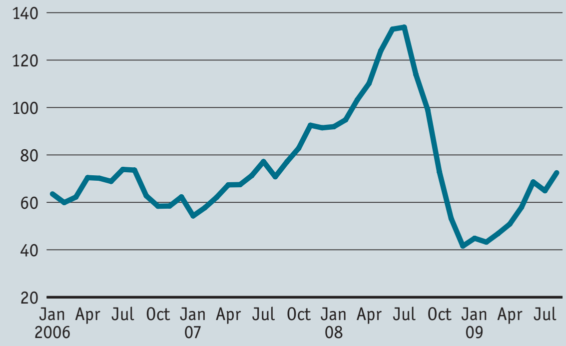
Source: Economist Intelligence Unit.

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



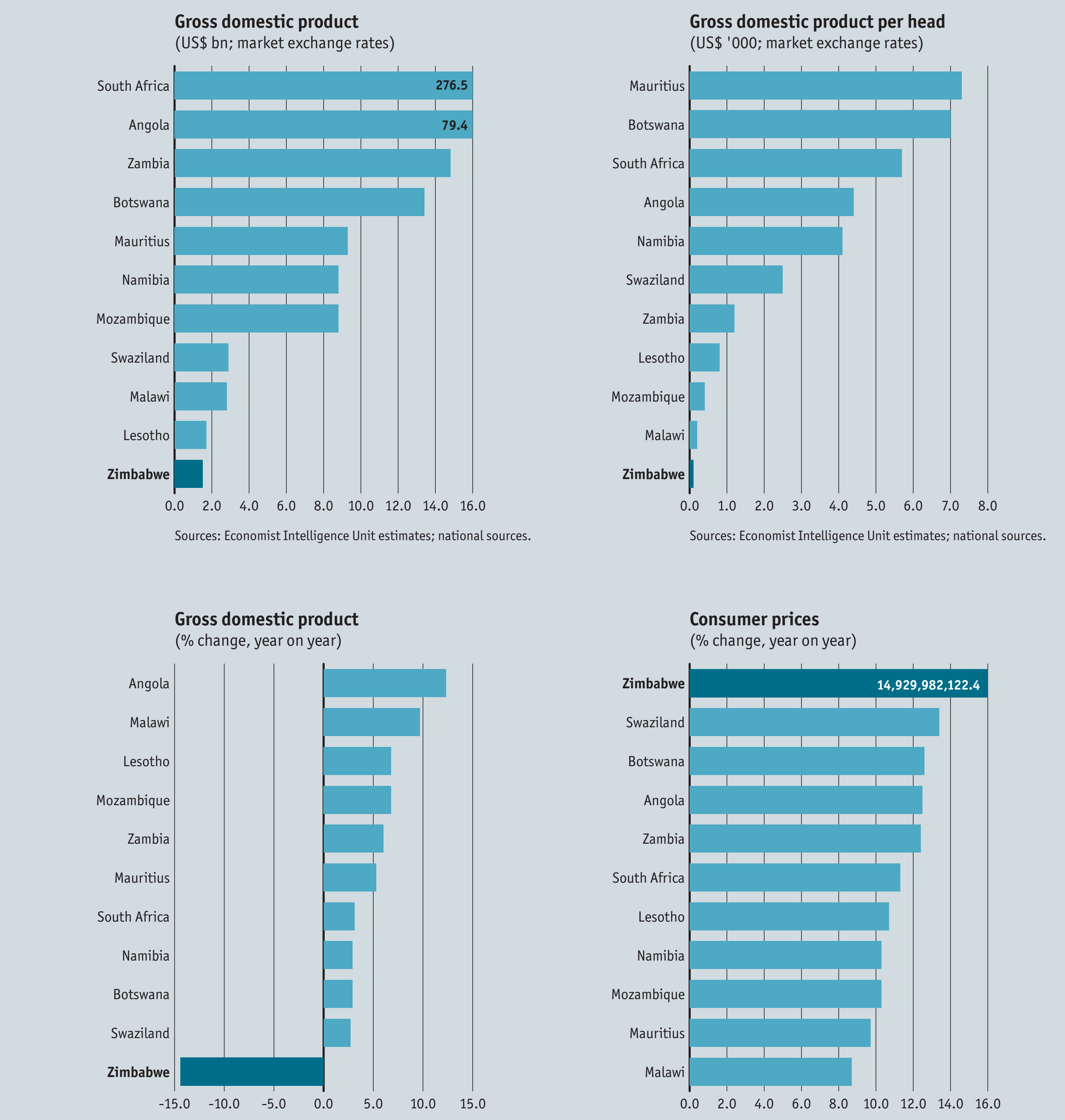
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

Comparative economic indicators, 2008



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	

