Country Report

Zimbabwe

February 2009

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The Economist Intelligence Unit

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Executive summary

Highlights

February 2009

Outlook for 2009-10

- Zimbabwe's president, Robert Mugabe, is expected to leave power during the forecast period, as the economic and humanitarian catastrophe that he has brought about makes his position untenable.
- Mr Mugabe is, however, unlikely to leave office without a struggle, and the actions of the next president of South Africa will be crucial, as he will be in an influential position to force a change.
- Economic policy will continue to be driven by political considerations, and the economy will continue to contract, at a forecast rate of 4.7% in 2009 and 3.7% in 2010.
- Hyperinflation will continue throughout the forecast period, although it may start to decline once a new government that will halt the printing of money to finance its activities is in place.
- Inflation will continue to undermine the value of the currency, with the dollarisation of the economy set to increase.
- The global economic slump will reduce demand for Zimbabwe's metal exports in 2009-10. However, the chronic shortage of foreign currency and a collapse in demand will lead to a fall in imports, reducing the trade deficit.

Monthly review

- Morgan Tsvangirai has announced that he and his party, the main branch of the Movement for Democratic Change (MDC-T), will enter into a power-sharing government with Mr Mugabe.
- Despite the unity government, Mr Mugabe remains president and retains control of the military, the powerful Central Intelligence Organisation (CIO), the judiciary and other key ministries.
- The US has admitted to being sceptical about the power-sharing deal. The State Department acting spokesman, Robert Wood, has said that much will depend on its implementation.
- The 2009 budget scrapped all foreign currency controls, and Zimbabweans will be allowed to conduct business in foreign currencies, alongside the Zimbabwe dollar, in an attempt to tackle stratospheric inflation.
- The Reserve Bank of Zimbabwe (the central bank) has knocked a further 12 zeros off the local currency—reducing Z$1 trillion to Z$1—and introduced seven new notes with immediate effect.
- Last year was another year of economic contraction. There were large falls in manufacturing and mineral exports, as well as in tourism and tobacco production during 2008.

Outlook for 2009-10

Political outlook

Domestic politics

After years of misrule, which have precipitated an economic and humanitarian catastrophe, the president, Robert Mugabe, is expected to leave office during the forecast period. There is no doubt that Mr Mugabe will attempt to continue to hold on to power, but his position is becoming increasingly untenable. He has enough influence to carry his rule during 2009, possibly into 2010, but events are conspiring against him. Internally, the economic collapse means that around 70% of the population require food aid, increasing the tide of opposition against him. Compounding this is a cholera epidemic that has already killed more than 3,000 and spread to neighbouring states. Although popular resentment against his rule has failed to worry Mr Mugabe in the past, his ability to keep his patronage networks intact is diminishing. Sources of financing for the government are decreasing in line with the economic collapse, and opposition to Mr Mugabe from within his party, the Zimbabwe African National Union-Patriotic Front (ZANU-PF), is understood to be increasing. Pressure may eventually come from the army—traditionally the backbone of Mr Mugabe's rule—as the government cannot print money fast enough to pay soldiers in the prevailing hyperinflationary environment and there is not enough hard currency to pay them in foreign exchange.

In the meantime, the political scene will focus on the new power-sharing agreement between Mr Mugabe, his main rival, Morgan Tsvangirai, the leader of the main faction of the opposition Movement for Democratic Change (MDC), and Arthur Mutambara, the leader of a breakaway faction of the MDC. In late January an agreement was reached under which both factions of the MDC will join ZANU-PF in power. Despite the MDC holding a majority of the parliamentary seats, Mr Tsvangirai has been forced to accept a junior position in the power-sharing government, as ZANU-PF will continue to control the most important ministries. Pressure on Mr Tsvangirai to co-operate from regional leaders has been high; the members of the Southern African Development Community (SADC) seem to think that any agreement is better than nothing, although they have, in effect, handed the initiative to Mr Mugabe. Even with the agreement in place, it is highly unlikely that it will prove to be workable and it is not expected to do much to reverse the country's steep economic decline.

Mr Mugabe is likely to have been emboldened by the recent agreement, having manipulated the power-sharing to suit himself. However, regardless of the weaknesses of the agreement, it remains important in that Mr Mugabe has relinquished at least some of his powers for the first time in nearly three decades of rule. It may well represent the beginning of the end for Mr Mugabe, with moves within ZANU-PF to sideline him expected to gain momentum. If the agreement collapses altogether, Mr Mugabe is likely to try to remain in power, but greater international pressure would be brought to bear. His exit from power would therefore be expected in a similar timeframe. Under either scenario his departure might be speeded up by a suitable "exit package", which would include an agreement from Western countries not to attempt to prosecute him for human-rights abuses. However, dealing with those other senior ZANU-PF and army members closely allied with Mr Mugabe would complicate matters. They would have much to lose were Mr Mugabe to leave power, and so may attempt to prolong his rule.

International relations

Although Mr Mugabe will never co-operate with Western powers, portraying Zimbabwe as the victim of colonialist oppression, the inability of regional powers to bring about any significant developments has been disappointing. This is expected to begin to change during 2009, assuming that Jacob Zuma becomes the next South African president. The "quiet diplomacy" of the former South African president, Thabo Mbeki, was largely ineffective, and there is hope that Mr Zuma will take a more proactive stance. Mr Zuma has a strong support base in the South African unions, which are keen to see change in their neighbour. Pressing for a positive political change in Zimbabwe would also provide an early boost to Mr Zuma's domestic, regional and international credibility. Mr Zuma is likely to focus on domestic matters in the months immediately following his ascension to power, but his attention will probably turn to Zimbabwe in the second half of the year, especially if the power-sharing deal breaks down or if Mr Mugabe's violent repression against the opposition continues. Mr Zuma will be backed by a gradually worsening regional sentiment towards Mr Mugabe, with numerous African leaders already calling for change in Zimbabwe.

Economic policy outlook

Policy trends

Economic policy will continue to be driven by political considerations. Although the 2009 budget contained numerous ambitious policy pronouncements, little is likely to come of them. Only once Mr Mugabe has left power is there any hope that economic policy will get back on track. However, even after he has left office, the country will still face the complications brought by the global economic downturn. Assuming that Mr Mugabe were to leave, donors would try to get the government to follow a three- to six-month staff-monitored programme with the IMF, hoping to return Zimbabwe to an orthodox policy path. Other donors, particularly the UK and the EU, would be keen to assist with the financing of an economic reform programme. Yet, until Mr Mugabe does leave power, economic policy will remain chaotic and piecemeal.

Fiscal policy

Unlike in 2008 the government has actually managed to produce a budget for 2009. Budgets that have been approved in recent years have been rendered useless by escalating inflation and ridiculous predictions of impressive economic recoveries with no basis in reality. While the government's ability to stick to the 2009 budget is again highly questionable, it is remarkable in that it tacitly accepts the worthlessness of the Zimbabwe dollar by formally allowing foreign exchange to be allowed for payment in Zimbabwe. However, the moribund Zimbabwean economy does not generate enough hard currency for the government to meet all of its pledges. It certainly has insufficient resources to pay civil servants in foreign currency. The only sector that might generate genuine revenue growth is minerals, although growth there will be constrained by the poor outlook for prices and demand on world markets. The government has also made commitments towards bringing about positive real interest rates, although with inflation too high to count and foreign exchange availability lower than hoped for by the government, this will be easier said than done, with only limited domestic debt available to the government.

Given the difficulty of raising revenue, the Economist Intelligence Unit expects that the government will 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 permitted in the 2009 budget adds a new dimension to this, with monetary policy rendered even more ineffective. Efforts to link the Zimbabwe dollar to the rand may well begin during the forecast period, although no formal link can begin until Zimbabwe's stratospheric inflation is brought down, itself dependent on an unlikely improvement in government economic policy. Such confusion in monetary policy is likely to continue as long as the political turbulence remains.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.3	0.2	2.4
OECD	2.7	1.1	-1.9	0.5
EU27	2.8	1.0	-2.0	0.2
Exchange rates				
¥:US$	117.8	103.4	93.0	92.0
US$:€	1.369	1.470	1.345	1.385
SDR:US$	0.651	0.629	0.655	0.644
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.93	1.90
US$ 3-month Libor	5.30	2.41	0.54	0.94
Commodity prices				
Oil (Brent; US$/b)	72.7	97.0	35.0	50.0
Gold (US$/troy oz)	696.7	872.0	775.0	687.5
Platinum (US$/oz)	1,299.0	1,563.2	892.5	1,000.0
Food, feedstuffs & beverages (% change in US$ terms)	30.9	29.1	-26.6	1.3
Industrial raw materials (% change in US$ terms)	11.2	-5.3	-41.1	11.7

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

We expect world GDP growth (on a purchasing power parity basis) to ease sharply to 0.2% in 2009 as many Western economies enter recession. Growth will rebound slightly to 2.4% in 2010 as global activity recovers. 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, to average US$35/barrel in 2009, to Zimbabwe's advantage as an importer, before edging up again to an average of US$50/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. These have all contributed to a large decline in economic activity in 2008, and real GDP is estimated to have fallen by 12.6%. The contraction of the Zimbabwean economy will continue over the forecast period, even if Mr Mugabe leaves office. Such is the destruction of the economy that any incoming government will face a mammoth task in turning things round, even with donor assistance. For example, any recovery in farming will be constrained by the displacement of many farmers as part of the government crackdown on opposition supporters, the limited availability of inputs, the destruction of the commercial sector and the impact of the HIV/AIDS pandemic. In addition, businesses are likely to remain cautious. Most have already scaled back their 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 and employment and consumption start to pick up.

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

Inflation

Shortages of food and foreign exchange, the galloping devaluation of the currency and the ballooning money supply caused by the government's quasi-fiscal spending have continued to drive inflation to record highs. Average inflation during 2008 is estimated at 15 billion percent, although the government halted official estimates after July, when the rate reached 231 million percent. However, numbers of such magnitude are basically meaningless in a country that is becoming rapidly dollarised. Largely owing to the base effects set in 2008, average inflation in 2009 is likely to be even higher, but should actually come down as the year progresses, provided that the new unity government can at least live up to some of its promises. Inflation should then come down for 2010 as a whole, especially if a post-Mugabe government were able to get donors on board, exert a degree of fiscal discipline and narrow the gap between the official and parallel-market rates of exchange, but it will remain at a level that will continue to cripple the country.

Exchange rates

As expected, the redenomination carried out by the Reserve Bank of Zimbabwe (RBZ, the central bank) in August 2008—under which ten zeros were removed from the currency—has failed. The magnitude of the failure was highlighted in January 2009, when the RBZ redenominated the currency again, this time removing 12 zeros. However, Zimbabwe's hyperinflation and moribund economy will continue to undermine the value of the currency, rendering any redenomination useless. The government at least partially accepts this, sanctioning the use of foreign currency for all payments in the 2009 budget. This may eventually lead to the Zimbabwe dollar being scrapped altogether. Until this happens, or until inflation can be brought under control—unlikely during the forecast period—the value of the Zimbabwe dollar will continue to plummet.

External sector

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

Forecast summary

(% unless otherwise indicated; scientific notation used for Z$ series and inflation)

	2007[a]	2008[a]	2009[b]	2010[b]
Real GDP growth	-5.5	-12.6	-4.7	-3.7
Manufacturing production growth	-5.5	-13.3	-7.7	-6.3
Gross agricultural production growth	-5.0	-17.5	-4.0	-3.6
Consumer price inflation (av)	1.3E+04	1.5E+10	4.6E+18	1.7E+05
Consumer price inflation (year-end)	6.6E+04	2.2E+23	4.1E+05	8.2E+04
Short-term interbank rate	579.0	450.3	461.6	470.7
Government balance (% of GDP)	-8.9	-6.2	-6.5	-6.8
Exports of goods fob (US$ bn)	1.5	1.3	1.2	1.2
Imports of goods fob (US$ bn)	2.0	1.9	1.4	1.5
Current-account balance (US$ bn)	-0.5	-0.7	-0.3	-0.4
Current-account balance (% of GDP)	-29.4	-43.9	-25.9	-30.1
External debt (year-end; US$ bn)	5.1	5.3	5.2	5.5
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: February 2009

The political scene

Mr Tsvangirai agrees to join power-sharing government

Hundreds of Zimbabweans gathered in the capital, Harare, on January 30th to cheer the Zimbabwean opposition leader, Morgan Tsvangirai, as he announced that he and his party, the main branch of the Movement for Democratic Change (MDC-T), would enter into a power-sharing government with the president, Robert Mugabe, and his Zimbabwe African National Union-Patriotic Front (ZANU-PF). Mr Tsvangirai will be sworn in as prime minister on February 11th, after parliament approves a constitutional amendment creating the post. On February 13th Mr Mugabe and Mr Tsvangirai will put forward a new cabinet divided between ZANU-PF, the MDC-T and the smaller splinter of the MDC led by Arthur Mutambara (MDC-M). Mr Mutambara will be sworn in as deputy prime minister on February 11th and his party will control a few minor cabinet posts. Mr Mugabe will remain head of state and will appoint the cabinet in consultation with the prime minister.

Mr Tsvangirai made the announcement after the national executive of his party met in their headquarters in central Harare and agreed to accept the deal offered a few days earlier at the summit of the Southern African Development Community (SADC) in Pretoria, South Africa. It was the seventh regional summit on Zimbabwe since the flawed elections in March 2008. The 15-nation bloc maintains that the accord signed more than four months ago on September 15th remains the best chance of pulling Zimbabwe out of a political and economic crisis since the disputed polls, but it has been held up by disputes over key posts (November 2008, The political scene). The South African interim president, Kgalema Motlanthe, brokered the latest deal, which hammered out details missing from the initial September agreement. Several earlier meetings had failed to get Mr Tsvangirai to agree to enter the government, but intense pressure from the leaders of the SADC nations and the growing severity of Zimbabwe's humanitarian crisis convinced the opposition to agree.

MDC is to be junior partner in new joint government

Despite having won more votes than Mr Mugabe in the March 2008 presidential election, and although the MDC holds a majority of the parliamentary seats, Mr Tsvangirai is accepting a junior position in the power-sharing government. Mr Mugabe remains president and retains control of the military, the powerful Central Intelligence Organisation (CIO), the judiciary and other key ministries. Mr Tsvangirai had insisted on controlling the Ministry of Home Affairs, which oversees the police, to offset Mr Mugabe's domination of the military and the CIO. However, the new deal divides responsibility for the home affairs portfolio, putting it in the hands first of Mr Tsvangirai for six months and then of Mr Mugabe for six months. The new agreement also states that Mr Mugabe and Mr Tsvangirai will share the appointments of provincial governors, the attorney-general and the governor of the central bank, the Reserve Bank of Zimbabwe. Mr Tsvangirai had called for more than 30 MDC supporters who have been held without trial, as well as other civic leaders, to be released immediately, but this was not addressed in the agreement. Several leading MDC officials stated their displeasure with the agreement because it leaves Mr Mugabe in the government driving seat. However, Mr Tsvangirai and a majority of the party's national council were convinced that this was the best deal that they could obtain and that it might stop the violence and the abductions of MDC supporters. The agreement also brings closer the prospect of fresh elections, which Mr Tsvangirai will expect to do well in again—under the deal the government has an 18-month time limit to draw up and approve a new constitution, after which new elections are to be held.

A new monitoring committee is set up

A new body, the Joint Monitoring and Implementation Committee (Jomic), has been created to monitor the power-sharing agreement. It will have three chairmen, one from each of the country's main parties. They are Elton Mangoma (MDC-T); Nicholas Goche (ZANU-PF); and Welshman Ncube (MDC-M). The committee of 12—four from each party—is intended to ensure the speedy and full implementation of the power-sharing agreement. The panel will attempt to resolve disputes among the parties or government agencies through dialogue, but if it fails the disputes will be referred to SADC and the African Union.

The US is sceptical about the power-sharing deal

The new administration of the US president, Barack Obama, reacted quickly to Mr Tsvangirai's announcement, admitting to being sceptical about the power-sharing deal. The State Department acting spokesman, Robert Wood, said that much would depend on the implementation of the deal. Furthermore, he said that the various sanctions imposed by the US on members of the Zimbabwean government would not be lifted immediately but that the US would continue to help to stem the worsening humanitarian situation. In addition, the Obama government would want to see the new Zimbabwean government reflect the will of the people before giving any significant financial assistance.

Cholera epidemic spreads

The growing severity of Zimbabwe's humanitarian crisis was highlighted by the increasing momentum of the spread of the country's deadly cholera outbreak, which has now infected more than 62,000 people and killed more than 3,200, according to figures released on February 2nd by the World Health Organisation (WHO). The disease has already outstripped the worst-case scenario envisioned earlier by the WHO. It is the deadliest cholera outbreak in Africa in 15 years and is gaining momentum, with 1,493 new cases—including 69 deaths—reported on January 30th alone. Heavy rains and the year-end holidays, when many urban Zimbabweans travelled to visit relatives in villages, have fuelled the spread of the waterborne disease.

Although cholera is normally both preventable and treatable, the economic and political crisis in Zimbabwe has caused the near-collapse of the health services. Some 5.2% of patients catching cholera in the country are now dying, a very high fatality rate for such a treatable disease. Two out of every three deaths are recorded outside the country's 270 cholera treatment centres, meaning that most victims die at home. The death toll will continue to climb, according to experts at the WHO.

Numbers of hungry increase, but food aid decreases

The number of Zimbabweans needing food aid increased from 5.5m to 7m, about 70% of the country's population, according to the UN World Food Programme (WFP) at the end of January. The WFP says that it has dwindling food supplies for Zimbabwe and that it has reduced the rations of maize meal (Zimbabwe's staple food) given per person per month from 10 kg to 5 kg. The recommended ration is 12 kg per person per month but the WFP says that the donations that it has received fall well short of the needs. Because of the cuts, many Zimbabweans will be fortunate to have food for one meal a day. The WFP requires another US$65m to keep feeding Zimbabweans until the end of March. However, donors are reluctant to give more resources while Mr Mugabe remains in power, and what aid comes in has been partly diverted to help to cope with the cholera epidemic.

Economic policy

The 2009 budget sanctions dollarisation of economy

The acting finance minister, Patrick Chinamasa, announced that foreign currencies would now be accepted for payment, as well as several other major policy liberalisations, when he delivered the 2009 budget to parliament on January 29th. In a budget speech lasting nearly three hours, Mr Chinamasa confirmed growing speculation that the government would scrap all foreign currency controls. Mr Chinamasa said that Zimbabweans would be allowed to conduct business in US dollars, South African rand and other foreign currencies, alongside the Zimbabwe dollar, in an attempt to tackle stratospheric inflation. Previously only licensed businesses could trade in foreign exchange, but almost all businesses were ignoring this and trading in foreign currencies.

For the first time, the budget was projected in Zimbabwe dollars, US dollars and South African rand. No budget had been delivered to parliament in 2008, so detailed government expenditure for last year was presented in Zimbabwe dollars. Mr Chinamasa presented a total proposed budget of Z$66.5 quintillion or US$1.98bn.

GDP growth of 2% is forecast

Zimbabwe's nominal gross domestic product for 2009 was projected at US$5.5bn, and Mr Chinamasa forecast real GDP growth of 2%. Tariffs paid by residents in urban areas will be increased and charged in US dollars. Value-added tax will be charged in foreign exchange on goods imported from outside the country and customs duties (carbon tax, fuel tax, etc) will also be charged in foreign exchange, as will duty on beer, cigarettes and second-hand cars.

Fees at state institutions such as hospitals and tertiary education facilities were listed in US dollars, and the country's power, water and state-run fuel utilities will also charge money in foreign exchange. A hospital visit for an adult will cost US$8, a term at the state medical school will cost US$1,800 and 1 kw of power will now be charged at 98 US cents. Mr Chinamasa said that to stabilise the value of the Zimbabwe dollar it would be necessary to implement strict and painful fiscal and monetary measures, including a halt to the current practice of printing money beyond the economy's production of goods and services. However, rhetoric has always come easily to Zimbabwe's politicians, and it remains to be seen whether the government has the discipline necessary to control expenditure better. Nevertheless, the decisions taken in the 2009 budget are the most radical yet and could represent a much-needed realisation by the country's leadership that economic policy needs to improve drastically. Notably, Mr Chinamasa said that the Reserve Bank of Zimbabwe (RBZ, the central bank) would "concentrate on its mandated policy by ensuring the stability of the financial sector", a statement widely viewed as curtailing the powers of the RBZ's governor, Gideon Gono, to print unlimited amounts of money.

Economic performance

Yet more zeros are knocked off the currency

It will take a considerable amount of time for any stability to return to the Zimbabwean currency, even if the government manages to stick with the commitments set out in the 2009 budget, such as reducing the level of hyperinflation. The central bank knocked a further 12 zeros off the local currency on February 2nd—reducing Z$1 trn dollars to Z$1—and introduced seven new notes with immediate effect. The new denominations are Z$1, Z$5, Z$10, Z$20, Z$50, Z$100 and Z$500. The highest note previously in circulation was Z$10 trn, with the central bank indicating in January that it would introduce a Z$100 trn note. On February 1st the black-market exchange rate was Z$3 trn or Z$4 trn:US$1. Mr Gono also cancelled all special dispensations and guarantees signed by the government with platinum producers, allowing them to keep their earnings offshore, according to reports from Voice of America, an international broadcasting service funded by the US government. If this is followed through it will create considerable problems for South Africa's Impala Platinum (Implats), which is the principal owner of Zimplats, the country's largest platinum miner.

Indicators show continued contraction across the board

Zimbabwe's economy continued to plummet downwards, with 2008 proving to be another year of severe contraction for the economy. According to the sparse data that is actually available, manufacturing exports contracted by 21.2%, mineral exports by 18.3%, the tourism sector by 55% and tobacco production by 40%. As a result, there was an overall decline in the formal sector and of the revenue base of the state.

Given the dire state of the economy, it is of little surprise that unemployment is vast. In January UN agencies reported that Zimbabwe's unemployment rate had reached 94%. However, independent economists say that this figure is unlikely because the government alone employs about 10% of adults who are available for work in the formal sector. However, many of those workers, including teachers, doctors and nurses, are not showing up for work because their monthly salary does not cover even one week's transport.

Power production increases owing to Namibian deal

There was some good news, in that owing to an investment by Namibia of nearly US$40m to recondition the Hwange coal-burning power generators, Zimbabwe's power generation increased from 569 mw in 2007 to 922 mw in 2008. However, Namibia is being repaid for its investment by exports from Hwange of 150 mw for the next five years. Zimbabwe's production remains far below its capacity of 1,670 mw, and even further below the national requirement of 2,297 mw.

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	1.3
Nominal GDP (Z$ bn)	2.39E+01	7.54E+01	8.84E+02	1.06E+05	1.39E+13	6.03E+29	9.97E+32
Real GDP growth (%)	-3.8	-6.5	-4.6	-5.5	-12.6	-4.7	-3.7
Expenditure on GDP (% real change)							
Private consumption	-18.6	8.4	-4.5	-5.0	-12.0	-12.0	-5.0
Government consumption	31.7	6.4	-6.0	-6.0	-10.0	-7.0	-4.0
Gross fixed investment	54.2	-63.4	-1.0	-5.0	-8.0	-8.0	-3.0
Exports of goods & services	1.7	-4.3	-1.0	-0.8	-1.2	-0.5	-0.5
Imports of goods & services	2.4	-3.1	-1.5	-1.0	-0.6	-10.0	-2.0
Origin of GDP (% real change)							
Agriculture	-2.9	-10.0	-4.5	-5.0	-17.5	-4.0	-3.6
Industry	-3.5	-11.7	-3.5	-5.0	-13.0	-4.0	-2.0
Services	-4.2[b]	-3.4	-5.0	-5.8	-11.0	-5.2	-4.4
Population and income							
Population (m)	13.0[b]	13.1	13.2	13.3	13.3	13.3	13.3
GDP per head (US$ at PPP)	182[b]	174	170	165	148	143	139
Fiscal indicators (% of GDP)							
Public-sector revenue	32.5	43.9	39.5	37.7	38.6	40.8	42.4
Public-sector expenditure	38.7	45.6	51.1	46.5	44.8	47.4	49.2
Public-sector balance	-6.1	-1.7	-11.6	-8.9	-6.2	-6.5	-6.8
Net public debt	193.2	195.9	212.2	216.0	255.6	288.7	335.0
Prices and financial indicators							
Exchange rate Z$:US$ (end-period)	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	4.10E+05	8.24E+04
Stock of money M1 (% change)	2.29E+02	5.53E+02[a]	1.32E+03	6.67E+04	2.87E+09	4.60E+18	1.72E+05
Stock of money M2 (% change)	2.29E+02	5.33E+02[a]	1.45E+03	6.45E+04	2.97E+09	4.60E+18	1.72E+05
Lending interest rate (av; %)	278.9	235.7[a]	496.5[a]	579.0	450.3	461.6	470.7
Current account (US$ m)							
Trade balance	-309[b]	-607	-458	-509	-594	-238	-279
Goods: exports fob	1,680[b]	1,497	1,582	1,467	1,321	1,199	1,200
Goods: imports fob	-1,989[b]	-2,104	-2,040	-1,975	-1,915	-1,436	-1,479
Services balance	-107[b]	-97	-88	-108	-146	-180	-191
Income balance	-208[b]	-268	-151	-144	-189	-198	-180
Current transfers balance	228[b]	263	264	266	270	270	272
Current-account balance	-396[b]	-709	-433	-495	-659	-345	-379
External debt (US$ m)							
Debt stock	4,818	4,296[a]	4,677[a]	5,085	5,317	5,239	5,522
Debt service paid	100	225[a]	83[a]	77	85	77	66
Principal repayments	77	198[a]	31[a]	35	38	36	24
Interest	23	27[a]	53[a]	42	47	42	42
Debt service due	449	276[a]	406[a]	651	671	750	621
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.

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	1,074	1,150	1,841	5,166	n/a	n/a
Financial indicators								
Exchange rate Z$:US$ (av)	97.3599	100.534	200.400	250.000	259.153	257.267	8,186.71	30,000.00
Exchange rate Z$:US$ (end-period)	102.7800	104.840	259.580	258.920	259.120	255.550	30,000.00	30,000.00
Parallel exchange rate Z$:US$ (av)	156.9470	320.000	1,068.000	2,567.0	10,333.0	79,333.0	293,333.0	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	786.0	729.7	605.6	571.7	634.5	781.7
Trade balance	-390.1	-473.9	-542.8	-475.3	14.1	137.4	-85.2	-162.8

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

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

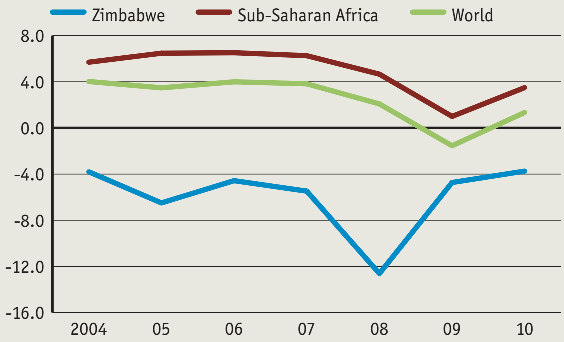
Monthly data

	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.

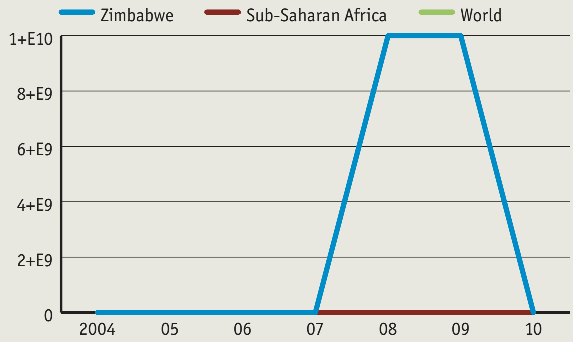
Annual trends charts

Real GDP growth
(% change)



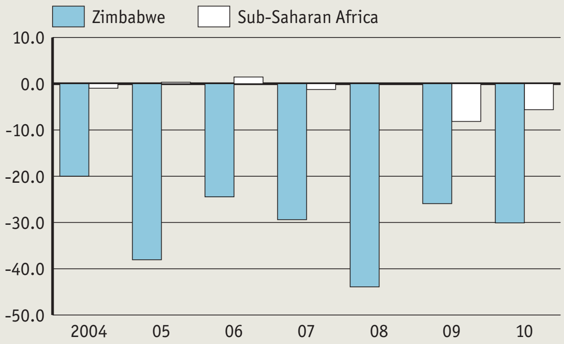
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



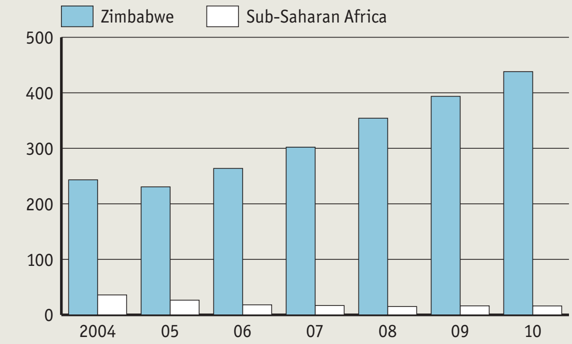
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



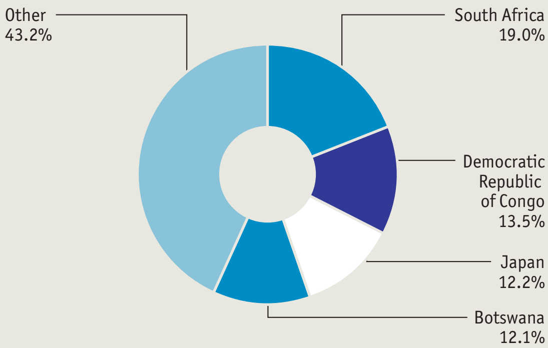
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



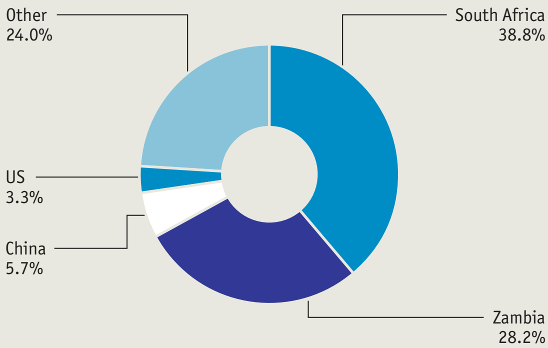
Source: Economist Intelligence Unit.

Main destinations of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

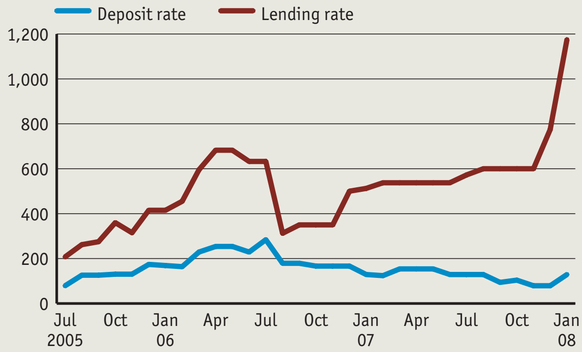
Main origins of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

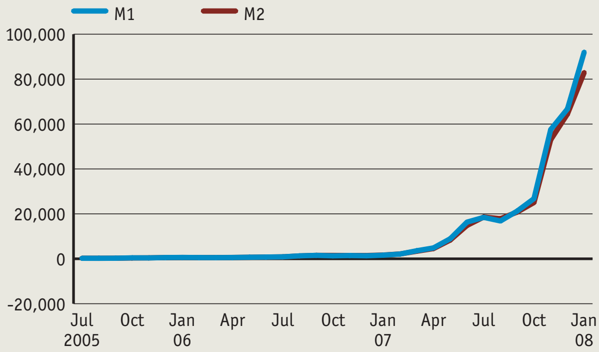
Monthly trends charts

Interest rates
(av; %)



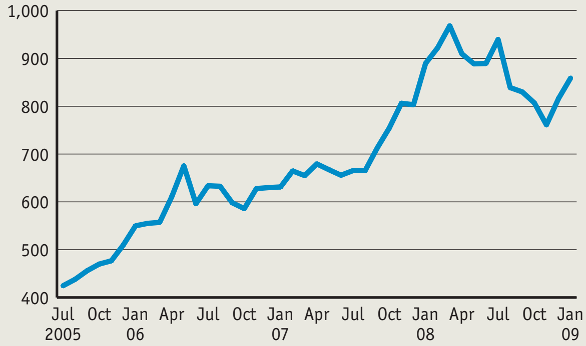
Source: Economist Intelligence Unit.

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.

Country snapshot

Political structure

Official name	Republic of Zimbabwe
Form of state	Unitary republic
Legal system	Based on Roman-Dutch law and the 1979 constitution
National legislature	House of Assembly with 150 members, 120 of whom represent geographical constituencies and are elected by universal adult suffrage every five years; eight are provincial governors, ten are customary chiefs and 12 others are appointed by the president; a Senate of 66 members was established in November 2005
National elections	March 2008 (presidential, legislative and Senate)
Head of state	President, elected by universal suffrage for a six-year term
National government	The president and his appointed cabinet; last major reshuffle February 2004
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; the Zimbabwe African National Union-Ndonga (ZANU-Ndonga) has one seat; a number of smaller parties and independent candidates also contest elections

President	Robert Mugabe
Prime minister	Morgan Tsvangirai

Key ministers	Vacant ahead of the unity government to be announced in February
Reserve Bank governor	Gideon Gono