Country Report

Zimbabwe

September 2009

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The Economist Intelligence Unit

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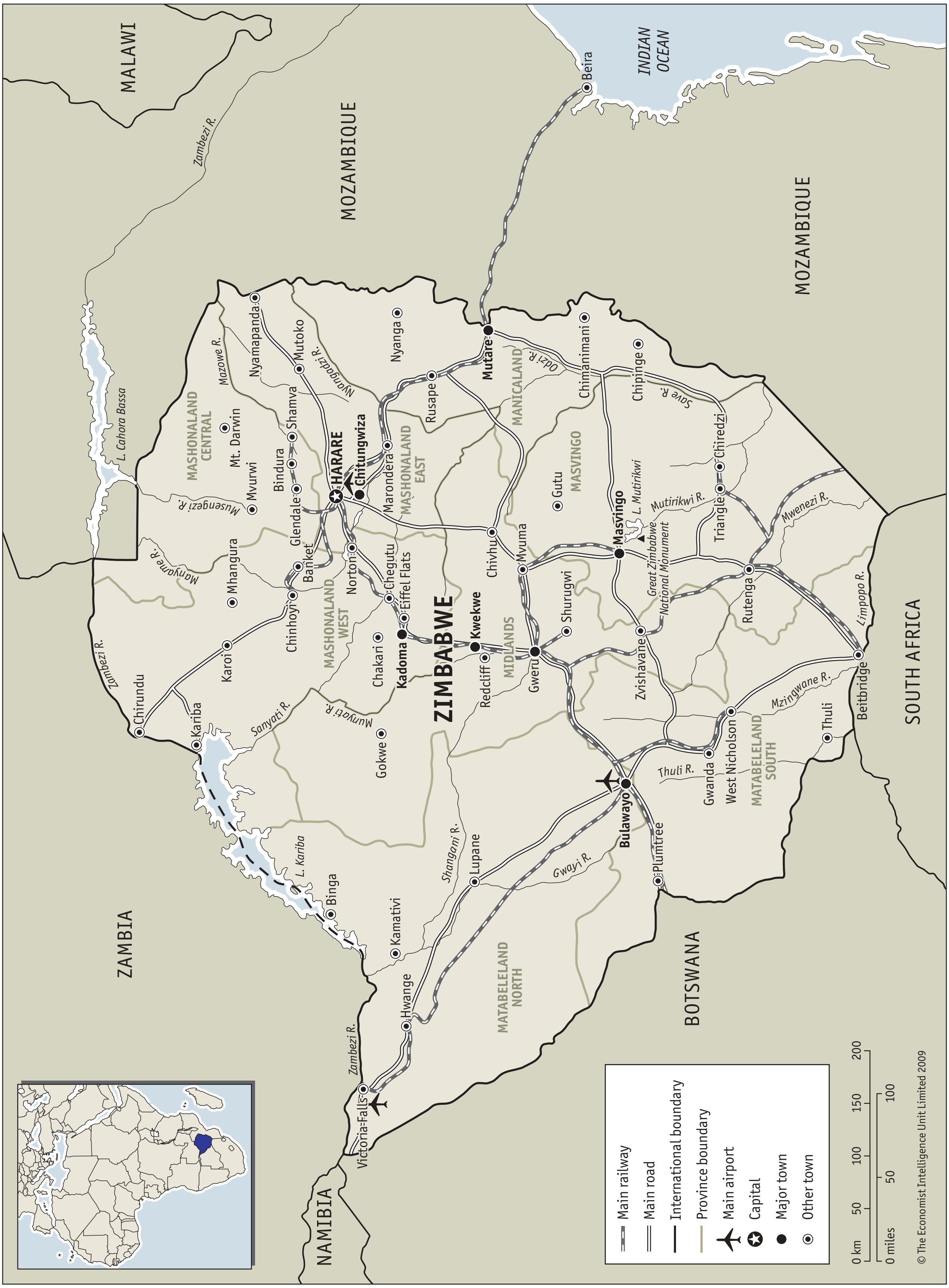
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West Nicholson
Plumtree
Shangani R.
Lupane
Gwayi R.
L. Kariba
Binga
Kamativi
Hwange
Zambezi R.
Victoria Falls
Main railway
Main road
International boundary
Province boundary
Main airport
Capital
Major town
Other town
0 km 50 100 150 200
0 miles 50 100
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Executive summary

Highlights

September 2009

Outlook for 2009-10

- Splits between the members of the power-sharing government—and within the constituent parties—are likely to become more pronounced as the process of formulating a new constitution continues.
- The Southern African Development Community is to hold a special summit on Zimbabwe. The Movement for Democratic Change (MDC) is hoping for a breakthrough, but this appears misplaced.
- Turf wars between the finance minister and the governor of the Reserve Bank of Zimbabwe are set to continue, with the Ministry of Finance pushing for legislation that would give it control of the Reserve Bank.
- Although spending on civil service salaries is set to rise, public servants are likely to become increasingly militant in pursuit of larger awards—prompting fears that private-sector workers will follow suit.
- Inflation is starting to rise again, but the overall rate should decline quickly in 2010.
- The central bank governor is calling for the issue of "new" Zimbabwe dollars backed by gold, platinum and diamonds. This has been rejected, but the influence of the pro-Zimbabwe dollar lobby is set to rise.
- With tourism set to recover only slowly, the services account is likely to remain in deficit.

Monthly review

- Splits in the "unity" government over the nature of power-sharing, and even the title of the administration, are becoming more obvious.
- The Zimbabwe African National Union-Patriotic Front and the MDC-M are canvassing for the extension of the administration's life to five years—in part because they would almost certainly fare poorly in a free and fair election.
- Wage demands are escalating but the government cannot afford to meet public-sector demands, as it is tied to cash budgeting.
- The 2009 tobacco crop is expected to be worth just over US$150m, and little significant increase in output is expected in 2010.
- The mines minister has promised to review the government's indigenisation legislation. However, hopes that the regime is planning a more investor-friendly approach may be misplaced.
- Air Zimbabwe has stated that it is technically insolvent. With the government preventing it from cutting jobs, it wants to reduce workers' salaries.

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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. 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. 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, with a number of younger members pressing for a rethink of the party's current non-confrontational stance.

These tensions are likely to become more apparent as the process of drawing up a new constitution continues. 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, and although international pressure would be brought to bear to force him from office, there is no guarantee that this would succeed. Even if Mr Mugabe were amenable to a suitable "exit package" (including an agreement from Western countries not to attempt to prosecute him for human rights abuses), other senior ZANU-PF and army members closely allied to the president would complicate matters, since they would have much to lose were Mr Mugabe to leave office.

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 had hoped that the appointment of Jacob Zuma as president of South Africa would change the dynamic, but a recent visit by Mr Zuma had little public impact. Similarly, MDC suggestions that pressure would be exerted at a "special summit" on Zimbabwe, under the aegis of the Southern African Development Community (SADC), seem to be misplaced. SADC has shown no inclination to intervene against Mr Mugabe thus far, and

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there is little likelihood of a change, not least because the chairmanship is about to rotate to Joseph Kabila, the head of the Democratic Republic of Congo (DRC). Zimbabwean intervention in the Congolese civil war during the 1990s did much to establish Mr Kabila in his current position, and the DRC president is therefore expected to be sympathetic to Mr Mugabe in any future disputes.

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 therefore proposing legislation to force the RBZ to surrender its shareholdings in private companies and four of its six subsidiaries. Although Mr Biti says that the new legislation will ensure the independence of the central bank, the draft bill actually provides for an "oversight committee" in addition to a board of governors. This oversight body will be chaired by the permanent secretary of the Ministry of Finance, thereby ensuring that the finance minister is in control of the RBZ.

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 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 input packs for small-scale farmers and on higher civil service salaries, but the finance minister will continue to face strike threats from civil servants in pursuit of a 200% wage increase. However, Mr Biti is facing a large budget deficit this year, and this 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. Although some assistance is likely to be forthcoming, the government will 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 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.

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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	2.8	-1.4	2.7
OECD	2.7	0.6	-3.7	1.1
EU27	2.8	0.8	-4.3	0.0
Exchange rates				
¥:US$	117.8	103.4	96.1	94.8
US$:€	1.369	1.470	1.363	1.388
SDR:US$	0.651	0.629	0.654	0.647
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.28	1.15
US$ 3-month Libor	5.30	2.91	0.99	1.01
Commodity prices				
Oil (Brent; US$/b)	72.7	97.7	62.0	74.0
Gold (US$/troy oz)	696.7	870.2	922.5	888.8
Platinum (US$/oz)	1,299.0	1,563.2	1,171.5	1,316.3
Food, feedstuffs & beverages (% change in US$ terms)	30.9	29.5	-20.3	3.7
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 1.4% in 2009 as many Western economies enter recession. Growth will be better in 2010, at 2.7%. Nonetheless, the drop in growth will see demand for many commodities slackening in 2009, 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$62/barrel, which will benefit Zimbabwe as an oil importer, before rising to an average of US$74/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

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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. 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 employers are increasing nervous that, should the government be forced to raise public-sector salaries, private-sector workers would quickly seek matching increases. In addition, high utility tariffs are making Zimbabwean businesses increasingly uncompetitive in the Southern African region.

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 1% in July, following a 0.6% rise the previous month, and are likely to increase by at least 1% a month over the rest of the year, 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.

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 the central bank governor has called for the issue of "new" Zimbabwe dollars backed by "gold, platinum and diamonds"—a suggestion that, thus far, has been rejected, not least because the country could not afford to abandon exports of gold and platinum for long periods during which it built up sufficient reserves of the metals to back the currency. However, as wage pressures intensify and farmer demands for a huge increase in bank credit to

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finance the 2009-10 agricultural season increase, the "pro-Zimbabwe dollar" lobby is likely to become increasingly influential.

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. 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 50% of GDP. Exports should rise in 2010, but imports will also increase, meaning that the deficit will moderate to a still unsustainable 31%.

Forecast summary
(% unless otherwise indicated)

	2007[a]	2008[a]	2009[b]	2010[b]
Real GDP growth	-5.6	-14.4	-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)	-8.7	-6.2	-6.3	-6.2
Exports of goods fob (US$ bn)	1.4	1.2	1.0	1.3
Imports of goods fob (US$ bn)	2.0	1.9	2.0	2.3
Current-account balance (US$ bn)	-0.6	-0.7	-0.7	-0.5
Current-account balance (% of GDP)	-34.8	-50.1	-52.5	-31.0
External debt (year-end; US$ bn)	5.3[c]	5.7	6.2	6.5
Exchange rate Z$:US$ (av)[d]	8.2E+04	5.7E+15	4.7E+34	5.0E+38
Exchange rate Z$:US$ (year-end)[d]	3.2E+05	6.8E+16	1.7E+35	5.0E+38
Exchange rate Z$:€ (av)[d]	1.1E+05	8.4E+15	6.3E+34	6.9E+38
Exchange rate Z$: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] Actual. [d] The currency re-denominations carried out in 2008 and 2009 have not been applied in order to give a consistent data series.

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Monthly review: September 2009

The political scene

Splits widen

After six months in office the fault lines in Zimbabwe's "inclusive government" are growing more obvious—to the extent that the main parties cannot even agree on the administration's title. Ministers from Morgan Tsvangirai's Movement for Democratic Change (MDC) insist that the term "government of national unity" is inappropriate, since Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF), which ruled the country from independence in 1980 until February 2009, is not interested in sharing power and repeatedly flouts the September 2008 Global Political Agreement (GPA). Meanwhile, ZANU-PF—in the form of Didymus Mutasa, a minister in the president's office—has spelled out its understanding of the agreement, telling Zimbabweans that power is not meant to be shared equally between Mr Mugabe and the prime minister, Mr Tsvangirai. Rather, Mr Mugabe "is the one who tells all of us, including the prime minister, what should be done." This hardly augurs well for the process of agreeing a new constitution, much of which will deal with the delineation of presidential powers.

Ironically, given ZANU-PF's apparent contempt for the power-sharing administration, it has joined with the increasingly dysfunctional MDC-M—the MDC breakaway faction headed by Arthur Mutambara—to canvass for the extension of the government's life to a normal parliamentary term of five years. The reason is clear enough: according to an opinion poll carried out in May by the Zimbabwe Mass Communications Institute, ZANU-PF commands less than 10% support among voters, as against 57% for the mainstream MDC. Unsurprisingly, therefore, ZANU-PF and the MDC-M also want the 12-month ban on parliamentary by-elections—due to expire in September—to be extended for at least another year. Some 16 parliamentary and Senate seats are vacant, and if the agreement to allow incumbent parties to nominate replacements is not extended it is highly likely that all 16 currently held by either ZANU-PF or the MDC-M would go to Mr Tsvangirai's party.

MDC frustration mounts

This is not to say that the MDC is itself wholly united. Mr Tsvangirai's insistence on a "non-confrontational stance"—while simultaneously pleading with the 14-member Southern African Development Community (SADC) and the international community at large to press Mr Mugabe and his supporters to honour the GPA—bewilders many party supporters and is eroding the prime minister's credibility. A year ago there was much talk of a split between the pragmatists, spearheaded by Mr Tsvangirai, and the "young Turks", led by the finance minister, Tendai Biti. Since then the gap between the two wings has widened, and while Mr Biti has been careful to avoid any criticism of the prime minister he cannot hide his mounting frustration at the extent to which the policies of MDC ministers are being blocked by the president, the cabinet and often by top Mugabe-appointed civil servants.

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The MDC is not alone in having to cope with mounting dissension in its ranks. Mr Mutambara's minority MDC is imploding, with three different factions laying claim to the leadership. Mr Mutambara has suspended three members of parliament, which means that there ought to be by-elections in their constituencies, but his party is claiming that under the GPA it can nominate replacements. Meanwhile, ZANU-PF is deeply split on a replacement for the former vice-president, Joseph Msika, who died in August.

With all three parties facing internal difficulties and unwilling to call new elections (a policy that would result in widespread bloodshed, according to the MDC), the interim government seems set to stagger on—an outcome that, in many respects, is the worst option for the country. Donors and investors are unwilling to take a position in so uncertain and fragile an environment, and the continued political stalemate is enabling the Mugabe administration to rebuild its intimidation machine in the rural areas (infiltrating the police and army with its trained youth militias, for example) while opening the MDC to charges of collaboration with Mr Mugabe.

The international dimension

South Africa's president, Jacob Zuma, visited Zimbabwe last month—a trip that was widely seen as a final opportunity for the Southern African Development Community (SADC) to influence events in the country. However, although South African officials had promised tough action against a "deviant" Zimbabwe African National Union-Patriotic Front (ZANU-PF), and—according to the Movement for Democratic Change (MDC)—Mr Zuma was highly critical in one-on-one talks with the president, Robert Mugabe, the visit failed to live up to the expectations created by Morgan Tsvangirai. The prime minister had previously stated that Mr Zuma would force his Zimbabwean counterpart to give way on a range of contentious issues such as the appointments of the governor of the Reserve Bank of Zimbabwe (the central bank) and the attorney-general. He did not do so, and as such the visit was seen as a victory for Mr Mugabe.

An MDC spokesman subsequently claimed that the stalemate would be broken at a SADC summit, to be held in the Democratic Republic of Congo (DRC) in September. However, this too seems unlikely. Mr Zuma is about to be replaced as SADC chairman by the DRC head of state, Joseph Kabila, who owes his position indirectly to Mr Mugabe's military intervention in the Congolese civil war in 1998. As such, he is expected to take Mr Mugabe's side in any future disputes.

Economic policy

Wage pressures increase

Escalating wage demands, mostly in the public sector, are an increasingly pressing policy issue for the government as inflation rates start to rise again. Although state-employed medics ended their industrial action after the authorities summarily dismissed some striking junior doctors, the increasingly militant schoolteachers' union is threatening stoppages when schools return from the spring break in September. The teachers are demanding a minimum wage of US$300 a month plus allowances of a further US$100, as against their current salaries of some US$155 a month.

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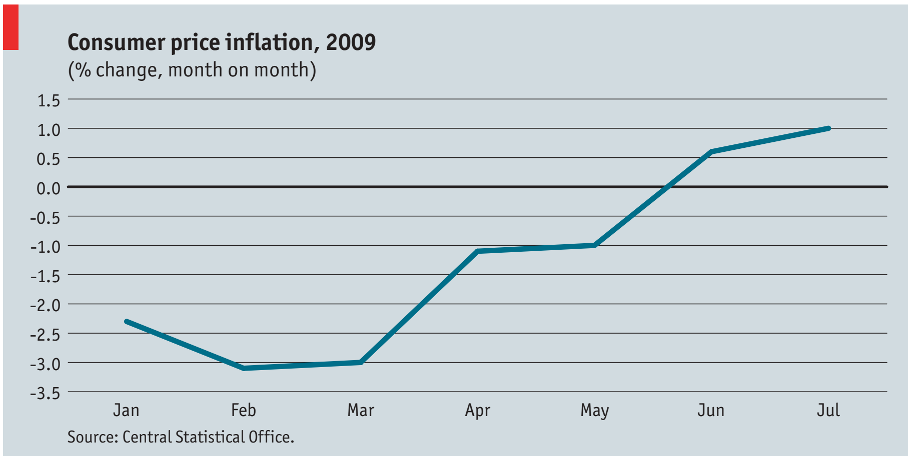

Public servants are also threatening strike action in pursuit of a 200% wage increase. However, although the interim government would like to increase salaries across the board, it simply cannot do so because it is tied to cash budgeting. Indeed, on August 31st the Ministry of Finance stated that a minimum wage of US$400 a month for civil servants would cost US$94m a month—more than the total (US$90m) revenue collected during July. Following dollarisation at the start of 2009 the government can no longer use deficit financing to pay its way, unless the deficits are funded by donors. There is no local money market from which the state can borrow, nor can it print money. Ministers are trying to secure increased foreign aid so that salaries can be raised, but donors are reluctant to support an administration led by Mr Mugabe.

The IMF is to give some funds

In early September the IMF announced that it would provide funds to Zimbabwe for the first time in ten years. This is not a straightforward loan, however: some US$400m has been deposited in the country's IMF account as part of moves to help all member states to address the impact of the global financial crisis. A further US$103m has been pledged but will not be accessible until the country has cleared arrears to the IMF. The money is designed to help Zimbabwe to improve its foreign-currency reserves rather than as budgetary support, and so is not supposed to facilitate wage increases. Even if it was redirected to placate the labour movements, the sums involved are small when compared to the scale of the country's needs. In addition, there is little to suggest that the IMF move means that it is intending to re-engage with Zimbabwe: arrears clearly remain a sticking point, and although the international financial institutions have expressed cautious approval of some aspects of economic policy, the government will need to build up a more substantial track record before more substantial loans can be considered.

A funding shortfall exists

According to the UN Office for the Co-ordination of Humanitarian Affairs (OCHA), donors have pledged only 47% of the US$718m of humanitarian assistance needed to provide clean water for up to 6m people and help to finance education for 1.5m children this year. Despite this gloomy assessment, donors are confident that they will be able to supply the bulk of the inputs needed by smallholder farmers. To date Zimbabwe has received pledges worth US$60m; this, the OCHA says, will provide seed and fertiliser inputs for about

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600,000 households. The government has since said that it is providing more than US$100m to ensure that inputs are available for at least 1m rural households. There are estimated to be between 1m and 1.2m smallholder farming families in Zimbabwe.

Economic performance

Tobacco crop is worth some US$150m

Hopes that commercial farmers will boost production in the forthcoming season are waning. The Zimbabwe Tobacco Association, which represents the country's remaining large-scale tobacco growers, says that it does not expect a significant increase in tobacco production this year. The 2009 tobacco auction sales will end this month with 50.2m kg of leaf having been sold at an average price of 302 US cents/kg, giving an overall crop value of US$152m. The bulk of this is contract tobacco (34.4m kg), and of the balance of 15.7m kg sold by small-scale producers roughly half is estimated to be new tobacco, while the remainder is recycled leaf being re-sold on the floors by growers seeking improved prices for their crop. The 2010 crop is forecast to be broadly similar in size, with some increase in contract leaf and (possibly) a reduction in small-scale production because of the difficulty that growers are experiencing in raising crop finance.

There is confusion over indigenisation legislation

Victor Gapare, the president of the Zimbabwe Chamber of Mines, is predicting that gold production will rise 15-fold over the next five years, to reach 50 tonnes in 2015, as against 3.5 tonnes last year. At its peak in the late 1990s the industry produced 28 tonnes. The Chamber admitted, however, that only one tonne of gold was produced in the first half of 2009, although it expects production to increase substantially in the latter half of the year as more mines reopen. Meanwhile, the mines minister, Obert Mpofu, has promised to review the country's proposed mining legislation, which would force all mines to be at least 51%-owned by "indigenous" Zimbabweans. Indigenous Zimbabweans are defined in existing legislation as anyone who was disadvantaged under white rule that ended in 1980; this is interpreted by the courts to include the relatives or descendants of those deemed to have been disadvantaged. Mr Mpofu originally stated that the government now wants to introduce investor-friendly laws that will encourage foreign investors, but in a late August statement backed away from this assurance, telling a parliamentary subcommittee that the state would insist on at least 50% share ownership of all precious-metal projects—diamonds, gold and platinum. The 50% ownership of diamond properties was "not negotiable", he added, revealing that the government was near to finalising a deal with a foreign investor to take a stake in the controversial Marange diamond fields project.

Affirmative action group takes harder line

Official comments about a more investor-friendly business environment are in any case undermined by events on the ground. For example, the German Embassy in Harare has recently protested about the "harassment and intimidation" of the Bonn-based international courier service, DHL. The note accused Zimbabwe's Affirmative Action Group (AAG), which campaigns for black economic empowerment, of threatening executives at DHL's Harare

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offices and demanding that a black Zimbabwean take over as chief executive of the local operation. It added, "As an embassy we cannot credibly lobby for German investment to come back to Zimbabwe as long as such harassment takes place."

The AAG, which is closely linked with ZANU-PF, is becoming increasingly militant, announcing last month that it had asked the Ministry of Immigration to deny work permits to foreign workers employed by foreign-owned businesses. The organisation's secretary-general, Tafadzwa Musarara, commented that foreigners should train local people and prepare them to take over: "We are convinced that we have enough of our own people to run these foreign companies."

Air Zimbabwe is "technically insolvent"

The state-owned Air Zimbabwe has admitted that it is technically insolvent because the state is no longer able to cover its losses, estimated at some US$3m a month. The airline wants to cut 500 of its 1,420 jobs but has been prevented from doing so by the government—its sole shareholder. It wants the state to agree to the sale of 60% of its shares to private investors, and has asked the labour ministry to allow it to halve the salaries of remaining workers. In April the airline employed 178 engineers (earning US$1,300 a month), 60 pilots (US$4,600 a month), 136 flight attendants (US$327 a month) and 600 general staff, whose wage bill totalled US$245,000 a month. A UK-based investment company, LonZim, plans to step into some of the space vacated by Air Zimbabwe by launching a privately owned airline next month.

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Data and charts

Annual data and forecast

	2004[a]	2005[a]	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	7.64E+01	9.01E+02	1.08E+05	1.38E+13	6.05E+27	6.44E+27
Real GDP growth (%)	-3.8	-5.4	-4.6	-5.6	-14.4	-1.3	1.9
Expenditure on GDP (% real change)							
Private consumption	-18.5	9.0	-4.5	-5.0	-13.9	-1.0	2.0
Government consumption	31.7	7.7	-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	1.8	-3.4	-1.0	-0.8	-1.2	-0.5	2.0
Imports of goods & services	1.7	-2.6	-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[b]	-5.0	-5.8	-11.0	-0.3	2.5
Population and income							
Population (m)	12.5[b]	12.5[b]	12.5	12.5	12.5	12.5	12.6
GDP per head (US$ at PPP)	190[b]	185[b]	183	177	154	152	155
Fiscal indicators (% of GDP)							
Public-sector revenue	32.5	43.3	38.8	37.1	38.9	39.5	38.8
Public-sector expenditure	38.7	45.0	50.2	45.8	45.1	45.8	45.0
Public-sector balance	-6.1	-1.7	-11.4	-8.7	-6.2	-6.3	-6.2
Net public debt	191.6	191.2[b]	205.9	219.1	265.6	304.3	276.7
Prices and financial indicators							
Exchange rate Z$:US$ (end-period)[d]	5.73E+00	7.80E+01	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	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	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	1.45E+03	6.45E+04	2.97E+09	4.47E+16	9.62E+01
Lending interest rate (av; %)	278.9	235.7	496.5[a]	579.0	450.3	461.6	470.7
Current account (US$ m)							
Trade balance	-309[b]	-659[b]	-606	-609	-681	-1,044	-1,079
Goods: exports fob	1,680[b]	1,446[b]	1,434	1,366	1,233	986	1,255
Goods: imports fob	-1,989[b]	-2,104[b]	-2,040	-1,975	-1,915	-2,030	-2,334
Services balance	-107[b]	-97[b]	-88	-108	-146	-180	-191
Income balance	-208[b]	-268[b]	-151	-144	-189	-198	-180
Current transfers balance	228[b]	263[b]	264	266	270	720	971
Current-account balance	-396[b]	-761[b]	-581	-595	-747	-701	-480
External debt (US$ m)							
Debt stock	4,788	4,255	4,652[a]	5,293[a]	5,669	6,226	6,454
Debt service paid	130	236	85[a]	80[a]	96	78	68
Principal repayments	107	210	33[a]	39[a]	38	36	26
Interest	23	27	53[a]	41[a]	58	43	42
Debt service due	479	288	441[a]	447[a]	896	351	343
International reserves (US$ m)							
Total international reserves	255	160[b]	139	117	96	111	132

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

Source: IMF, *International Financial Statistics*.

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Quarterly data

	2006				2007			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (Z$ m)								
Revenue & grants	45,594	162,579	n/a	n/a	n/a	n/a	n/a	n/a
Expenditure & net lending	49,850	188,148	n/a	n/a	n/a	n/a	n/a	n/a
Balance	-4,256	-25,569	n/a	n/a	n/a	n/a	n/a	n/a
Total domestic debt (end-period)	15,021	46,213	119,401	175,666	1,283,404	n/a	n/a	n/a
Output								
Manufacturing index (1990=100)	56	58	69	73	n/a	n/a	n/a	n/a
Manufacturing index (% change, year on year)	-9	-5	12	30	n/a	n/a	n/a	n/a
Prices								
Consumer prices (2000=100)	72,480	133,258	249,903	509,953	1,437,264	7,321,732	n/a	n/a
Consumer prices (% change, year on year)	773	1,147	1,071	1,164	1,883	5,394	n/a	n/a
Financial indicators								
Exchange rate Z$:US$ (av)	97.4	100.5	200.4	250.0	259.2	257.3	8,187	30,000
Exchange rate Z$:US$ (end-period)	102.8	104.8	259.6	258.9	259.1	255.6	30,000	30,000
Parallel exchange rate Z$:US$ (av)	156.9	320.0	1,068	2,567	10,333	79,333	293,333	n/a
Bank rate (end-period; %)	750.0	850.0	300.0	500.0	500.0	600.0	600.0	975.0
Lending rate (av; %)	488.3	665.8	431.7	400.0	529.2	537.5	590.8	658.3
Treasury bill rate (av; %)	455.0	509.4	258.8	66.3	66.3	248.8	340.0	340.0
M1 (end-period; Z$ bn)	6.04E+04	1.15E+05	3.32E+05	6.37E+05	2.22E+06	1.89E+07	7.09E+07	4.25E+08
M1 (% change, year on year)	521	771	1,510	1,323	3,584	16,323.8	21,255.8	66,709.9
M2 (end-period; Z$ bn)	8.22E+04	1.58E+05	4.34E+05	9.07E+05	2.85E+06	2.36E+07	9.07E+07	5.86E+08
M2 (% change, year on year)	559	781	1,520	1,453	3,372	14,839.6	20,807.8	64,472.4
ZSE Industrial index (end-period)	28,565	61,764	184,839	310,459	548,730	3,696,286	5,460,688	n/a
Sectoral trends								
Tobacco auctions (annual totals; '000 tonnes)[a]	n/a	53	n/a	n/a	n/a	0	n/a	n/a
Gold production (kg)	2,788	2,556	2,990	2,904	2,334	n/a	n/a	n/a
Gold production (Z$ bn)	4,854	6,286	13,035	29,569	27,735	n/a	n/a	n/a
Chrome ore production ('000 tonnes)	174	173	177	176	176	n/a	n/a	n/a
Chrome ore production (Z$ bn)	1,047	1,662	4,019	8,541	19,643	n/a	n/a	n/a
Platinum production (kg)	1,172	1,183	1,434	1,210	1,367	n/a	n/a	n/a
Platinum production (Z$ bn)	3,519	4,016	10,400	10,377	11,761	n/a	n/a	n/a
Foreign trade (Z$ m)[b]								
Exports fob	207.5	236.0	243.3	254.4	615.2	705.2	545.0	614.7
Imports cif	597.6	709.9	786.1	729.7	623.7	589.9	652.9	800.0
Trade balance	-390.1	-473.9	-542.8	-475.3	-8.5	115.2	-107.9	-185.3

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

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

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Monthly data

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

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

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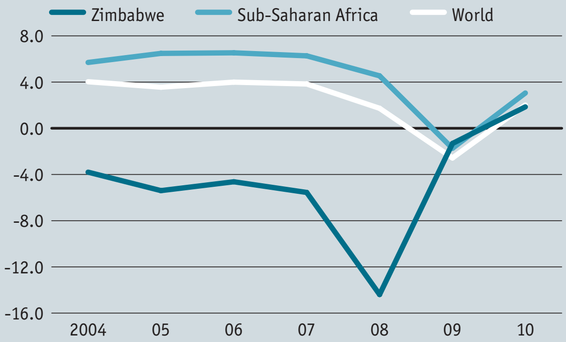
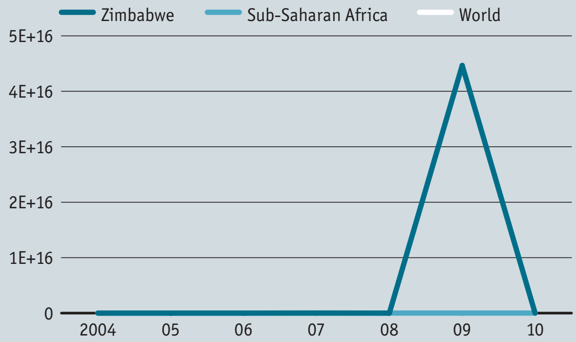
Annual trends charts

Real GDP growth
(% change)



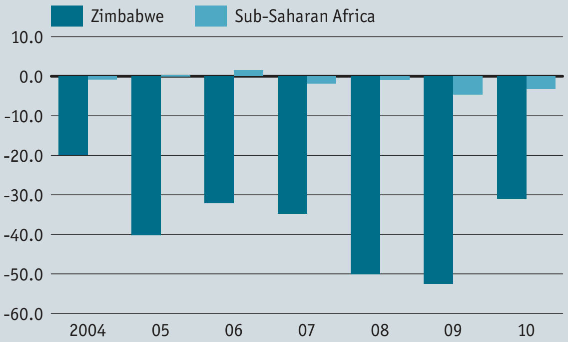
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



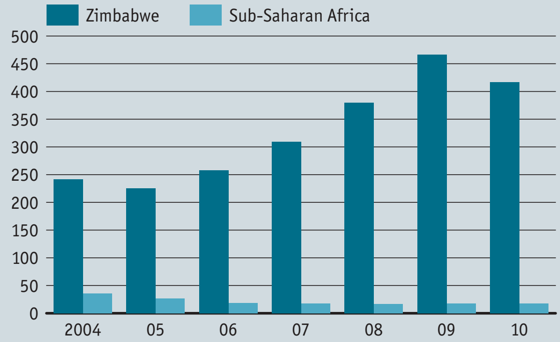
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



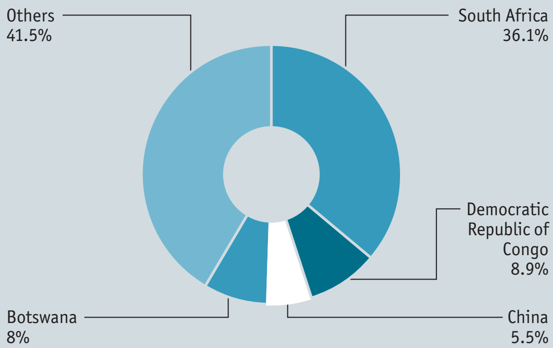
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



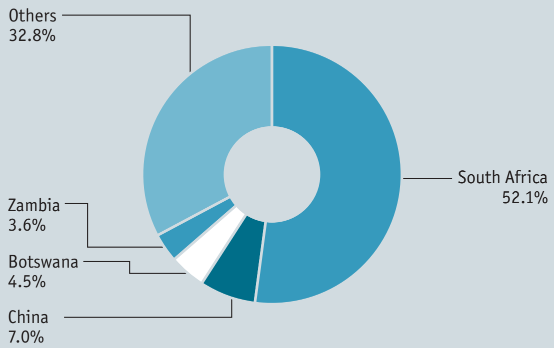
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

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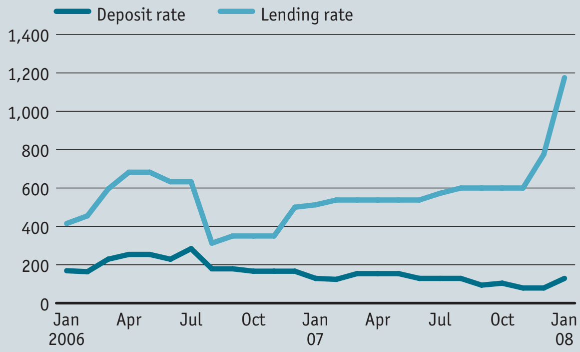
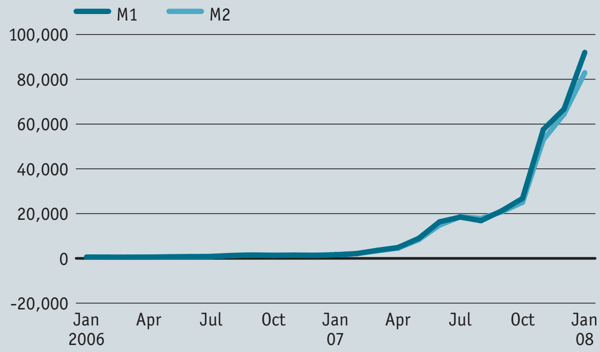
Monthly trends charts

Interest rates
(av; %)



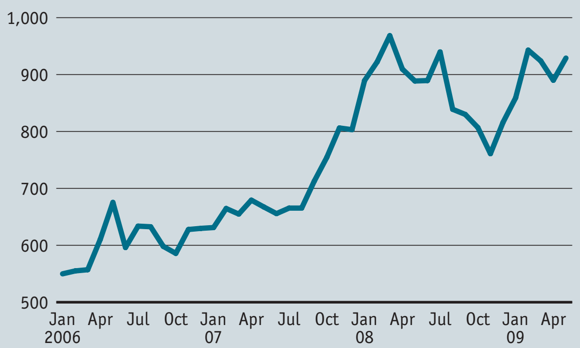
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



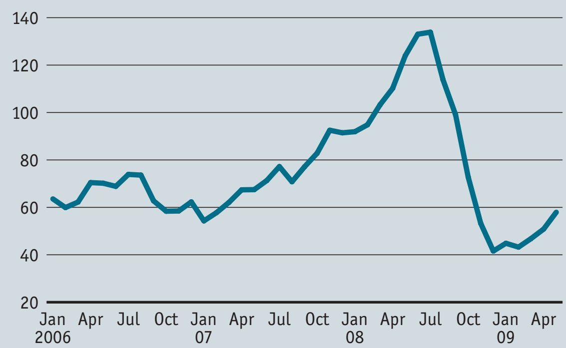
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

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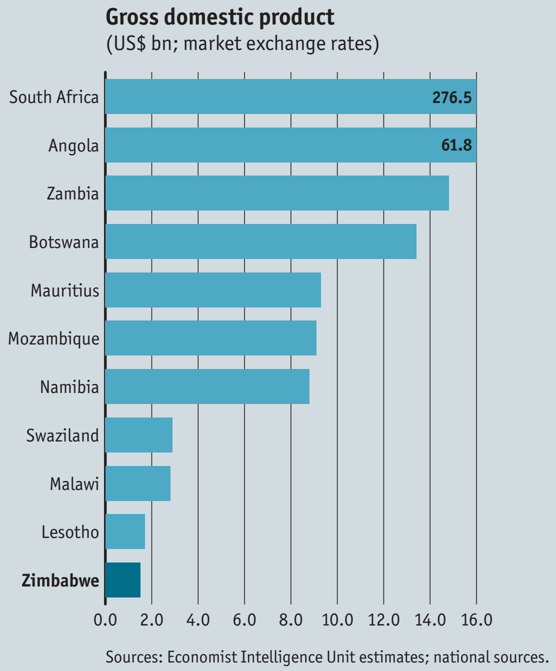
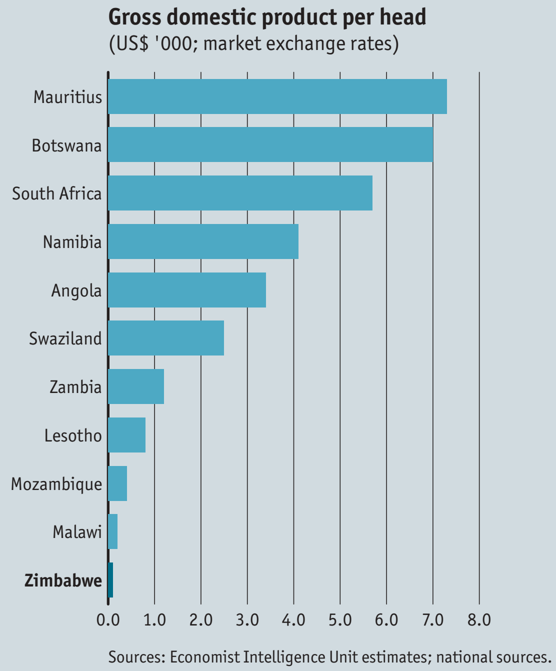
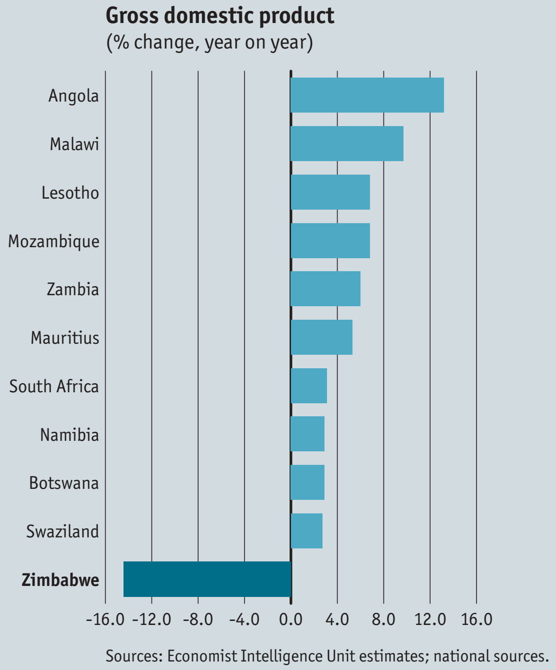
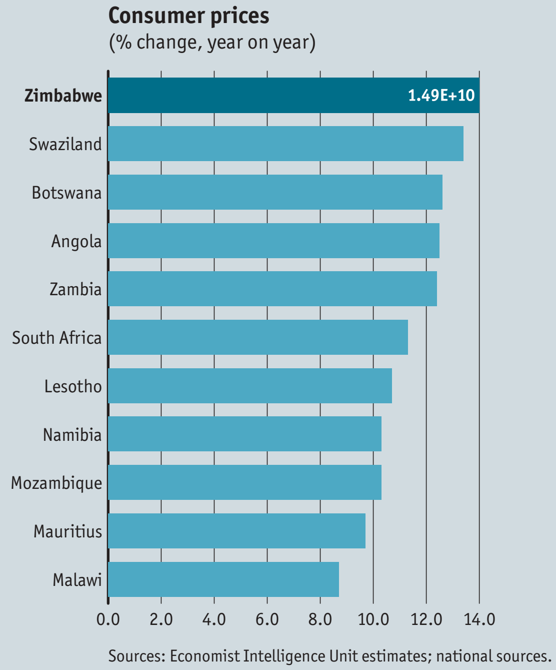
Comparative economic indicators, 2008









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Country snapshot

Basic data

Land area
390,580 sq km

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

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

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

Climate
Subtropical

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

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

Measures
Metric system

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

Time
2 hours ahead of GMT

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

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

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Political structure

Official name	Republic of Zimbabwe
Form of state	Unitary republic
Legal system	Based on Roman-Dutch law and the 1979 constitution
National legislature	House of Assembly with 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	

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