Country Report

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Zimbabwe

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Highlights

Editor: **Jane Morley**

Forecast Closing Date: **September 7, 2012**

Outlook for 2012-16

- The fundamental split between the Zimbabwe African National Union-Patriotic Front (ZANU-PF) and the two wings of the Movement for Democratic Change (MDC) over the new constitution is unlikely to be resolved.
- The president, Robert Mugabe, can use his powers to call elections in the event of deadlock. Mr Mugabe may seek to hold a series of by-elections, which could serve to change the balance of power in parliament.
- The EU has pledged a broader relaxation of sanctions after Zimbabwe holds a constitutional referendum.
- The MDC will continue to turn to regional powers to put pressure on Mr Mugabe, but this is unlikely to prove successful.
- Despite a planned reduction in public spending the government is likely to continue to run up domestic arrears and seek loans from non-traditional sources as revenue streams disappoint.
- Growth in 2013 will largely be determined by the conduct and outcome of elections, but is highly unlikely to reach the official forecast of 5%-plus.
- Official inflation data will continue to be highly unreliable, substantially understating the true rate of price rises.
- The current-account deficit as a percentage of GDP is set to rise in 2013-14, reflecting stagnant exports.

Review

- Despite the Southern African Development Community's mediation efforts, ZANU-PF and the MDC remain split on the formulation of the new constitution.
- An IMF team has discussed a staff-monitored programme that could potentially come into force in 2013 and lead to debt restructuring. However, serious obstacles remain, including doubts over the transparency of the diamond sector.
- The indigenisation minister, Saviour Kasukuwere, has given foreign-owned banks one year to surrender majority ownership to black Zimbabweans.
- Zimbabwe has raised minimum capital requirements for banks by up to 900%, a move that is likely to lead to sectoral consolidation.
- The government has cut its official growth forecast amid concerns about a poor harvest, disappointing diamond revenue and a lack of donor funding.
- Consumer inflation slowed slightly to 3.94% in July, according to official data. However, the figures are unreliable.

Outlook for 2012-16

Political stability

Political uncertainty is set to rise substantially in 2012-13 in the run-up to and aftermath of elections. Relations are poor between the two main parties in the power-sharing government—Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) and Morgan Tsvangirai's Movement for Democratic Change (MDC)—and there has been little progress towards implementing the conditions of the Global Political Agreement (GPA) signed in September 2008. In previous polls ZANU-PF has used violent and intimidatory tactics against MDC supporters, often via so-called war veterans (many of whom are too young to have served in the country's liberation war), and the party may well do so again—although opinion polls suggest that the MDC is steadily losing support. Equally, many high-ranking members of the security forces remain determined to prevent an MDC victory, and although they are not expected to intervene overtly (by staging a coup, for example), it is likely that they will contribute to an environment in which the vote is neither free nor fair, and may also collaborate in (or at least fail to prevent) vote-rigging.

There is also a clear risk of instability in the latter part of the forecast period. Although there is a hardline faction within ZANU-PF that is simply unwilling to countenance losing power, a ZANU-PF victory would not be accepted by a proportion of the population, notwithstanding increasing disillusionment with the MDC, raising the likelihood of persistent (if probably low-level) unrest. Whichever side wins, therefore, disorder is a serious possibility. There is also speculation that some high-ranking military personnel are seeking to position themselves to take over the leadership of ZANU-PF when Mr Mugabe leaves power; while the president has given no indication that he intends to stand down, there has been persistent speculation about his health. Given the existing split within ZANU-PF between adherents of the vice-president, Joice Mujuru, and the minister of defence, Emmerson Mnangagwa, a "civilianised" military leader, the latter could feasibly seek to position himself as a compromise candidate. However, compromise is a relative term: any such candidate would still insist on ZANU-PF's "right" to rule.

Election watch

Zimbabwe's electoral schedule remains in a state of flux. Members of the Southern African Development Community (SADC) have reaffirmed that there should be no elections in Zimbabwe before the terms of the GPA—including the installation of a new constitution—are fully implemented. However, there remains a fundamental political split over the draft constitution drawn up by a parliamentary committee (Copac). The two MDC formations, led by Morgan Tsvangirai and the industry minister, Welshman Ncube, which have both approved the Copac draft constitution, insist that no changes can be made before the measure is presented to a stakeholder conference in October and then a national referendum. However, Mr Mugabe does not concur and, since the three principals are supposed to reach decision by consensus, he continues to insist that he cannot be outvoted. It is therefore questionable whether the three party leaders will be able to agree a final draft.

Mr Mugabe has a clear advantage in this area, since, in the event of constitutional deadlock, he could use his powers as executive president and call elections under the existing constitution. It has therefore been suggested that the president might seek to capitalise on the large number of existing vacancies and call by-elections encompassing around one-fifth of the electorate; if the results confirm recent opinion poll findings that the MDC has lost its electoral advantage, he could wait for the life of the current parliament to end in May 2013 and then call presidential and parliamentary elections under the existing constitution. Previous polls in the country have been deeply flawed and there is little guarantee that the next vote will be any more rigorous if ZANU-PF looks to be losing. In the event of a chaotic and disputed poll, it is feasible that the parties will again be drawn into protracted negotiations that will result in another GNU. While this is clearly preferable to outright conflict between the supporters of the two parties, the experience of the current power-sharing administration suggests that it would not augur well for economic policymaking.

International relations

Mr Mugabe and ZANU-PF continue to take an antagonistic approach towards Western states, threatening to nationalise companies based in Western nations that have imposed sanctions against Zimbabwe. They will continue to call for the lifting of the measures while continuing to blame them—rather than ill-advised domestic policymaking—for the country's economic underperformance. The MDC, for its part, will continue to turn to regional powers—notably South Africa—to bolster its weak domestic position, but there are signs that the region is tiring of the protracted dispute. In addition, it is far from clear what practical assistance regional states can offer, given that they are highly unlikely to countenance the use of force in the event of fraudulent elections. Western sanctions may well stay in place if, as seems likely, there are serious concerns about the conduct of the next elections. However, a new ZANU-PF government would increasingly turn its attention to Asia for trade and aid. An MDC victory, by contrast, would open the way for renewed relations with OECD states and a substantial influx of foreign aid.

Policy trends

In the early part of the forecast period economic policy will continue to be driven by political considerations, with the prospect of elections overshadowing policy reform. The government remains split on proposed indigenisation legislation under which firms would have to ensure that at least 51% of their shares were held by indigenous (black) Zimbabweans, and ministers are unlikely to agree a common position—as underscored by the public ministerial disagreements over Saviour Kasukwere's proposal to force foreign-owned banks to divest majority ownership by mid-2013. The government has also announced a long-term "comprehensive" farming strategy that will include the "finalisation" of the land-reform programme and a range of initiatives covering finance and marketing programmes. However, although financing is clearly acting as a major constraint on growth in the agricultural sector, the programme looks unlikely to solve other underlying difficulties (including the underperformance of land that has been redistributed). A staff-monitored programme (SMP) with the IMF has been mooted, and this in turn could be the first step towards a debt-restructuring agreement that would lead to resumed lending by the multilateral agencies. However, the suggested timeframe—with the SMP taking effect from January 2013—looks to be overambitious given ongoing Fund concerns such as the size of the wage bill and the transparency of diamond-sector finances.

After the polls, much will depend on the make-up of the new administration. ZANU-PF is demanding that any new constitution includes clauses affirming that there will be no going back on land resettlement, as well as the acceptance of indigenisation and majority Zimbabwean ownership of all businesses. While there may be an element of electioneering in these demands, they also suggest the policy direction that would be taken by an administration dominated by Mr Mugabe's party. If the MDC secures power, a large increase in donor support can be expected and the IMF will help to shape a prudent economic policy, including progress on reforms such as a land audit, the entrenchment of property rights, improvements in labour-market flexibility and public-sector governance, restructuring of the Reserve Bank of Zimbabwe (RBZ, the central bank), the enforcement of minimum equity capital requirements, and attempts to restrain public-sector pay. However, there are also some doubts as to the policy direction that an MDC administration would take, given Mr Tsvangirai's expressed support for the concept of indigenisation (if not ZANU-PF's mode of enforcing it). A second GNU would—in all probability—proceed along the lines of the existing administration, with bickering between the constituent parties leading to policy gridlock; as a result, many in the business community are particularly nervous of this outturn.

Fiscal policy

Fiscal policy will remain a source of conflict both within the MDC and between the MDC and ZANU-PF prior to (and possibly after) the polls. Short-term spending cuts are crucial to compensate for "wage overruns", according to the IMF, which recommends adherence to cash budgeting and moves to eliminate "ghost workers". In his mid-year fiscal review, announced in July, the finance minister, Tendai Biti, cut public spending from US$4bn to US$3.4bn in the fiscal year ending December 31st. However, the amount of diamond revenue accruing to the state continues to disappoint, and it is questionable whether public spending cuts and a number of tax increases introduced in July will be sufficient to balance the budget. The administration is therefore likely to continue to run up domestic arrears while also relying increasingly on loans from non-traditional sources such as China. Meanwhile, Mr Biti has announced that he intends to allocate more than one-half of the US$212m remaining from the IMF's 2009 special drawing rights allocation to infrastructure investment. This is disappointing, because the IMF wanted the administration to save the funds and because it undermines the finance minister's claim to be operating a cash budget. It is also clearly inadequate: Mr Biti himself has estimated that infrastructural investment of at least US$12bn will be necessary over the medium term.

An MDC victory at the next elections would open the way for increased donor funding in the latter part of the forecast period, while an MDC administration would also be expected to take a somewhat more rigorous approach to public-service wages. However, a ZANU-PF government would be likely to maintain the current—and broadly unsustainable—fiscal stance. Concerns about the transparency of official data on public finances will persist. The extent of off-budget expenditure is difficult to quantify, and the quality of data relating to government spending in particular is in doubt.

Monetary policy

It is possible that a new administration dominated by ZANU-PF would return to use of the Zimbabwe dollar and earlier monetary policies such as printing money to fund deficits, despite their damaging economic impact. An MDC administration would be much more likely to adhere to the current system, seeking to build up a track record of sound economic policymaking before possibly returning to use of the Zimbabwe dollar. Bank lending rates have fallen sharply with the decline in inflation, but the pace of the slowdown is likely to moderate given liquidity issues and continuing problems in the banking sector. Political pressure for statutory control of interest rates is likely to intensify in the run-up to polls, putting pressure on bank earnings and profitability, while the raising of minimum capital requirements is likely to lead to consolidation in the sector.

International assumptions

	2011	2012	2013	2014	2015	2016
Economic growth (%)						
US GDP	1.7	2.1	1.9	2.2	2.3	2.3
OECD GDP	1.8	1.3	1.6	2.1	2.1	2.2
World GDP	2.6	2.1	2.5	2.9	2.9	3.0
World trade	6.3	3.7	5.1	5.5	5.8	5.9
Inflation indicators (% unless otherwise indicated)						
US CPI	3.1	2.1	2.3	2.2	2.3	2.3
OECD CPI	2.8	2.2	2.1	2.1	2.2	2.2
Manufactures (measured in US$)	6.8	-0.9	0.5	0.6	0.9	1.3
Oil (Brent; US$/b)	110.9	109.5	103.4	104.5	107.3	110.0
Non-oil commodities (measured in US$)	24.3	-8.6	2.5	-1.4	-1.8	1.3
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.2	0.2	0.2	0.3	1.2	2.6
US$:€ (av)	1.39	1.27	1.26	1.25	1.24	1.26
¥:US$	79.80	79.37	82.55	86.79	88.99	92.24

Economic growth

Growth prospects for 2012-13 will be determined largely by the conduct and outcome of any elections. In a best-case scenario, polls would be conducted under international supervision and would reflect the will of the people—which would probably equate to a moderate MDC victory. This would open the way for substantial foreign aid and more business-friendly economic policies, thus fuelling more rapid economic growth. At the other end of the spectrum, elections that are violent, or palpably neither free nor fair, would depress business and investor sentiment still further (outside site-specific sectors such as mining), while macroeconomic policymaking would probably remain inadequate and Zimbabwe could well fall back into recession. In his mid-year fiscal review Mr Biti reduced the official 2012 growth target, from 9.4% to 5.6%. Even this looks optimistic, however, given recent data pointing to a downturn in crop planting and continued uncertainty in the mining sector, as well as the possible adverse effects of elections. The Economist Intelligence Unit predicts growth of 3.1% this year—an improvement on earlier projections, largely reflecting the fact that elections (with all the attendant economic uncertainty) look unlikely to take place this year. Given the various factors at play, this is subject to a significant margin of error on either side.

Growth in 2013 is currently forecast at 2.2%, reflecting the possibility of a decline in international prices for some of Zimbabwe's key commodities, notably platinum, tobacco and gold, as well as the likelihood of controversial and possibly violent elections in that year. Projected declines in the price of tobacco and, in particular, gold in 2014 could affect investment in those sectors and, thus, Zimbabwean growth in the latter part of the forecast period, although the international price of platinum is expected to increase by an annual average of 6.25% in 2015-16. If an MDC-led administration is in place, these trends should be ameliorated somewhat by an upturn in foreign investment. If, however, ZANU-PF is returned to power, or a protracted period of inter-party negotiations leads to another fractious "unity" administration that deters potential investors, growth could well fall sharply again. At the same time, slow progress in addressing structural bottlenecks, including infrastructural deficiencies and a poor business climate, will act as a constraint on growth. We therefore project annual growth to increase from 2.4% in 2014 to 3.3% in 2016, but this is again subject to a significant margin of error.

Economic growth

%	2011[a]	2012[b]	2013[b]	2014[b]	2015[b]	2016[b]
GDP	5.9	3.1	2.2	2.4	2.5	3.3
Private consumption	4.6	3.5	2.9	3.0	3.5	3.7
Government consumption	5.9	5.5	5.8	6.0	4.8	5.9
Gross fixed investment	4.3	2.9	3.7	3.8	4.1	4.4
Exports of goods & services	5.5	4.4	2.9	2.7	2.9	3.7
Imports of goods & services	4.0	5.4	4.9	4.7	4.8	5.0
Domestic demand	4.8	3.9	3.6	8.9	8.4	8.3
Agriculture	9.4	2.3	1.3	1.5	2.0	2.5
Industry	7.4	4.5	3.7	4.3	4.4	5.2
Services	3.7	2.7	1.5	1.7	1.6	2.3

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

Inflation

International food prices will remain high by historical standards, partly because of the still-low level of stocks but also because of population growth, developing-world urbanisation and the impact of biofuels production. This will be compounded by increasing domestic wage demands as workers (in the public sector, in particular) seek to address the long-term erosion of their spending power. Official inflation data show that year-on-year inflation eased fractionally, from 3.97% in June to 3.94% in July, but the figures remain highly unreliable—they are largely failing to reflect rapid wage inflation, for example. In addition, the authorities are expected to boost spending and wage awards in the run-up to polls. Average inflation is likely to accelerate to 8-8.5% in 2012-13, well above the official target of 5%. However, inflation should remain contained by historical standards, at an annual average of around 5.9% in the latter part of the forecast period, provided that the next government does not revert to the disastrous policies used previously, such as printing money to finance deficits.

Exchange rates

Mr Mnangagwa—one of the front-runners to succeed Mr Mugabe—has pledged that ZANU-PF will return to use of the Zimbabwe dollar "once" it wins the next election. Although Mr Mnangagwa does not speak for all in the party, renewed use of the currency—which contributed to the country's earlier catastrophic inflation—certainly cannot be ruled out should ZANU-PF come out on top in elections. An MDC administration would be more likely to take a gradualist approach, but it too might consider a return to use of the Zimbabwe dollar, given business concerns about Zimbabwe's ability to operate effectively with the US dollar as its currency, not least because much of the country's trade is with Southern African states that do not use the US unit.

External sector

Ferro-alloys, platinum, gold and tobacco will continue to dominate export earnings, while diamonds are becoming an increasingly important source, notwithstanding the imposition of US sanctions. Tobacco farmers are expected to seek to boost output over the forecast period, but the sector is increasingly dominated by smallholder producers, whose yields and output quality are far lower. Equally, while average prices look likely to be substantially higher this year, the increase reflects poor harvests in the US and Brazil, and prices are likely to soften once production returns to more normal levels. Expansion in the mining sector will be influenced by international mineral prices, the government's approach to international investment and the success of attempts to boost the power supply. Increased mining-sector activity and humanitarian assistance are helping to boost imports, which are dominated by consumer imports rather than investment goods or inputs for industry; both could be undermined by political developments, particularly if the election process becomes violent.

The services account is likely to remain in deficit in 2012-16, not least because tourism will recover slowly at best; the sector could be further undermined should elections be accompanied by serious unrest. 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, owing to continued remittances by the 3.5m-plus Zimbabweans living abroad. The current-account deficit as a percentage of GDP is set to shrink in 2012, largely as a result of a substantial rise in tobacco prices (reflecting poor harvests in other key producers). It will increase again in 2013-14, before trending down for the rest of the forecast period because of political and business concerns in the run-up to and aftermath of polls. However, there are a number of downside risks to this forecast, including export price declines, the negative impact of over-hasty indigenisation, more persistent political and business uncertainty, and higher than anticipated increases in import food and fuel prices.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2011[a]	2012[b]	2013[b]	2014[b]	2015[b]	2016[b]
Real GDP growth	5.9	3.1	2.2	2.4	2.5	3.3
Gross agricultural production growth	9.4	2.3	1.3	1.5	2.0	2.5
Consumer price inflation (av)	5.4	8.3	8.0	6.6	5.9	5.1
Consumer price inflation (end-period)	8.2	9.4	7.5	6.3	5.7	5.3
Short-term interbank rate	34.0	30.0	28.0	22.0	14.0	15.0
Government balance (% of GDP)	-4.1	-3.9	-4.4	-4.6	-4.3	-3.9
Exports of goods fob (US$ bn)	2.9	3.3	3.1	3.2	3.3	3.4
Imports of goods fob (US$ bn)	-4.4	-4.7	-4.7	-4.8	-4.9	-5.0
Current-account balance (US$ bn)	-0.6	-0.5	-0.7	-0.8	-0.8	-0.8
Current-account balance (% of GDP)	-30.7	-23.2	-27.4	-28.8	-26.7	-25.1
External debt (year-end; US$ bn)	6.4	7.0	7.3	8.5	8.7	9.2

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

Data and charts

Annual data and forecast

GDP	2007[a]	2008[a]	2009[a]	2010[a]	2011[a]	2012[b]	2013[b]
Nominal GDP (US$ bn)	1.7	1.5	1.4	1.6	2.0	2.3	2.5
Nominal GDP (Z$ bn)	1.09E+05	1.39E+13	6.13E+27	6.83E+27	7.64E+27	8.52E+27	9.40E+27
Real GDP growth (%)	-5.5	-14.2	-1.3	6.9	5.9	3.1	2.2
Expenditure on GDP (% real change)							
Private consumption	-5.0	-13.9	-1.0	4.7	4.6	3.5	2.9
Government consumption	-6.0	-10.0	5.0	7.8	5.9	5.5	5.8
Gross fixed investment	-5.0	-8.0	-2.0	6.6	4.3	2.9	3.7
Exports of goods & services	-0.8	-1.2	-0.5	4.6	5.5	4.4	2.9
Imports of goods & services	-1.0	-0.6	1.5	3.0	4.0	5.4	4.9
Origin of GDP (% real change)							
Agriculture	-5.5	-21.3	-2.2	11.0	9.4	2.3	1.3
Industry	-5.0	-14.7	-2.1	8.8	7.4	4.5	3.7
Services	-5.8	-11.0	-0.5	4.5	3.7	2.7	1.5
Population and income							
Population (m)	12.5	12.5	12.5	12.6	12.6	12.6	12.6
GDP per head (US$ at PPP)	183	160	159	172	185	194	202
Fiscal indicators (% of GDP)							
Public-sector revenue	36.6	38.4	39.0	37.4	35.6	34.7	33.4
Public-sector expenditure	45.3	44.6	45.3	42.1	39.7	38.6	37.8
Public-sector balance	-8.6	-6.2	-6.3	-4.7	-4.1	-3.9	-4.4
Net public debt	215.4	242.6	277.0	224.5	219.7	202.7	203.7
Prices and financial indicators							
Exchange rate Z$:US$ (end-period)[c]	3.23E+05	6.75E+16	1.72E+35	5.00E+38	3.00E+27	3.00E+27	3.00E+27
Consumer prices (end-period; %)	6.62E+04	2.16E+23	50.0	5.9	8.2	9.4	7.5
Stock of money M1 (% change)	6.67E+04[d]	3.01E+09	4.47E+16	86	86	86	87
Stock of money M2 (% change)	6.04E+04[d]	3.30E+09	4.47E+16	100	104	106	109
Lending interest rate (av; %)	579	546	472	36	34	30	28
Current account (US$ m)							
Trade balance	-440	-534	-1,506	-1,543	-1,438	-1,361	-1,532
Goods: exports fob	1,535	1,380	1,633	2,130	2,932	3,314	3,144
Goods: imports fob	-1,975	-1,914	-3,139	-3,673	-4,370	-4,675	-4,676
Services balance	-108	-146	-130	-202	-249	-242	-238
Income balance	-144	-189	-198	-180	-156	-143	-137
Current transfers balance	266	270	720	971	1,222	1,224	1,226
Current-account balance	-426	-600	-1,114	-954	-621	-522	-681
External debt (US$ m)							
Debt stock	5,198[d]	5,076[d]	4,801	5,016	6,430	6,975	7,344
Debt service paid	96[d]	82	101	73	87	97	100
Principal repayments	55[d]	57[d]	66	55	70	75	78
Interest	41[d]	26	35	18	17	21	22
Debt service due	504[d]	174	404	97	408	512	596
International reserves (US$ m)							
Total international reserves	117	96	351	376	461	422	437

[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. [d] Actual.

Source: IMF, International Financial Statistics.

Quarterly data

	2006 2 Qtr	3 Qtr	4 Qtr	2007 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2008 1 Qtr
Central government finance (Z$ m)								
Revenue & grants	162,579	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Expenditure & net lending	188,148	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Balance	-25,569	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total domestic debt (end-period)	46,213	119,401	175,666	1,283,404	n/a	n/a	n/a	n/a
Output								
Manufacturing index (1990=100)	58	69	73	n/a	n/a	n/a	n/a	n/a
Manufacturing index (% change, year on year)	-5	12	30	n/a	n/a	n/a	n/a	n/a
Prices								
Consumer prices (2000=100)	133,258	249,903	509,953	1,437,264	7,321,732	n/a	n/a	n/a
Consumer prices (% change, year on year)	1,147	1,071	1,164	1,883	5,394	n/a	n/a	n/a
Financial indicators								
Exchange rate Z$:US$ (av)	100.7	200.0	259.2	259.2	257.3	8,186.7	n/a	n/a
Exchange rate Z$:US$ (end-period)	104.8	259.6	258.9	259.1	255.6	30,000.0	n/a	n/a
Parallel exchange rate Z$:US$ (av)	320.0	1,068.0	2,567	10,333	79,333	293,333	n/a	n/a
Bank rate (end-period; %)	850.0	300.0	500.0	500.0	600.0	600.0	975.0	n/a
Lending rate (av; %)	665.8	431.7	400.0	529.2	537.5	590.8	658.3	n/a
Treasury bill rate (av;%)	509.4	258.8	66.3	66.3	248.8	340.0	340.0	n/a
M1 (end-period; Z$ bn)	1.E+05	3.E+05	6.E+05	2.E+06	2.E+07	7.E+07	4.E+08	8.E+08
M1 (% change, year on year)	771.3	1,509.9	1,323.1	3,584.0	16,323.8	21,255.8	66,709.9	36,096.3
M2 (end-period; Z$ bn)	2.E+05	4.E+05	9.E+05	3.E+06	2.E+07	9.E+07	5.E+08	2.E+09
M2 (% change, year on year)	781	1,520	1,453	3,372	14,840	20,807.8	60,376.2	60,197.1
ZSE Industrial index (end-period)	61,764	184,839	310,459	548,730	3,696,286	5,460,688	n/a	n/a
Sectoral trends								
Tobacco auctions (annual totals; '000 tonnes)[a]	53	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gold production (kg)	2,556	2,990	2,904	2,334	n/a	n/a	n/a	n/a
Gold production (Z$ bn)	6,286	13,035	29,569	27,735	n/a	n/a	n/a	n/a
Chrome ore production ('000 tonnes)	173	177	176	176	n/a	n/a	n/a	n/a
Chrome ore production (Z$ bn)	1,662	4,019	8,541	19,643	n/a	n/a	n/a	n/a
Platinum production (kg)	1,183	1,434	1,210	1,367	n/a	n/a	n/a	n/a
Platinum production (Z$ bn)	4,016	10,400	10,377	11,761	n/a	n/a	n/a	n/a
Foreign trade (Z$ m)[b]								
Exports fob	235.2	241.7	255.3	620.6	711.4	551.4	621.5	588.3
Imports cif	709.3	784.7	729.5	627.0	592.9	656.3	803.6	640.9
Trade balance	-474.1	-543.0	-474.2	-6.4	118.5	-104.9	-182.2	-52.7

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

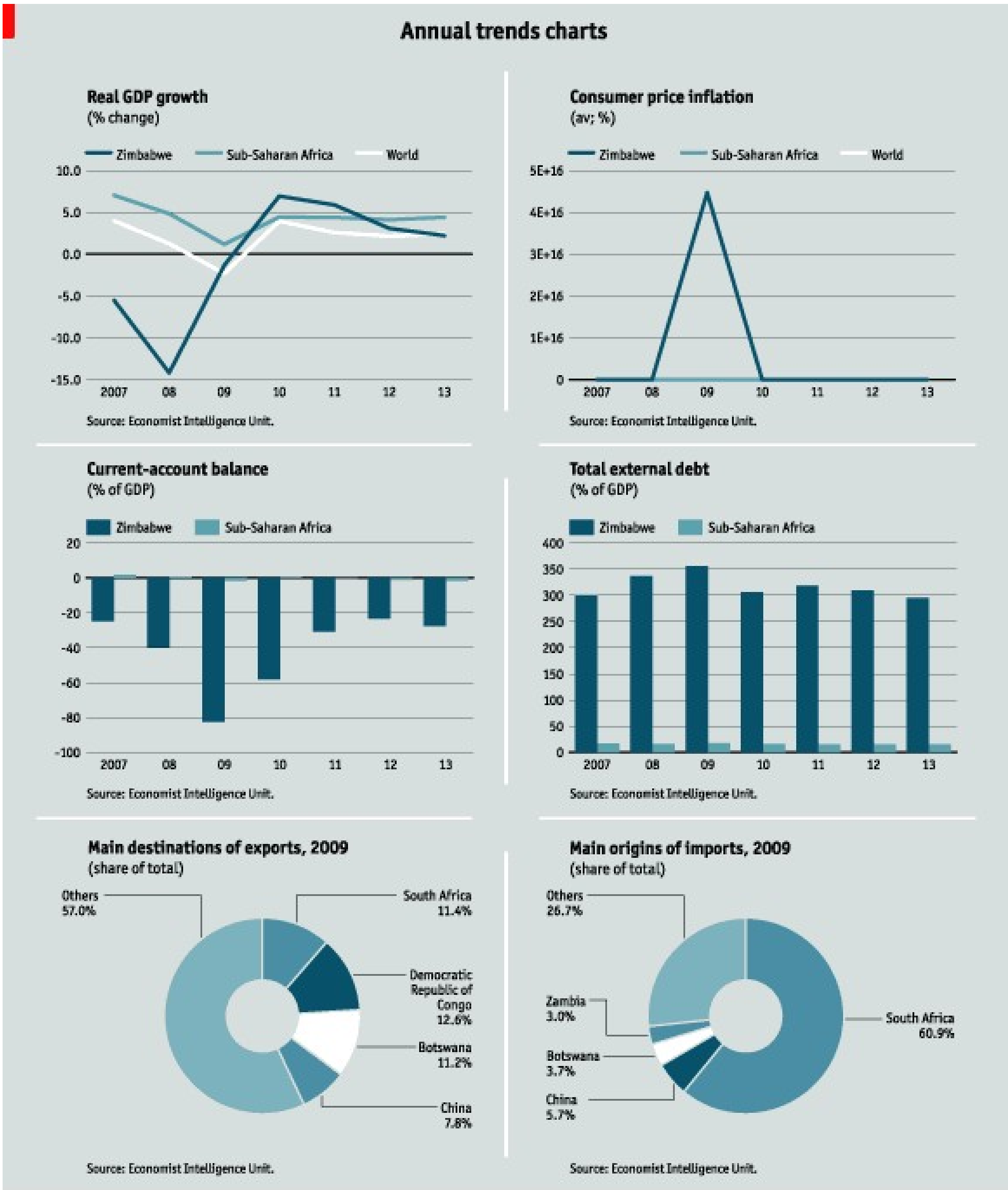
Sources: IMF, International Financial Statistics; Direction of Trade Statistics; Reserve Bank of Zimbabwe; Central Statistical Office.

Monthly data

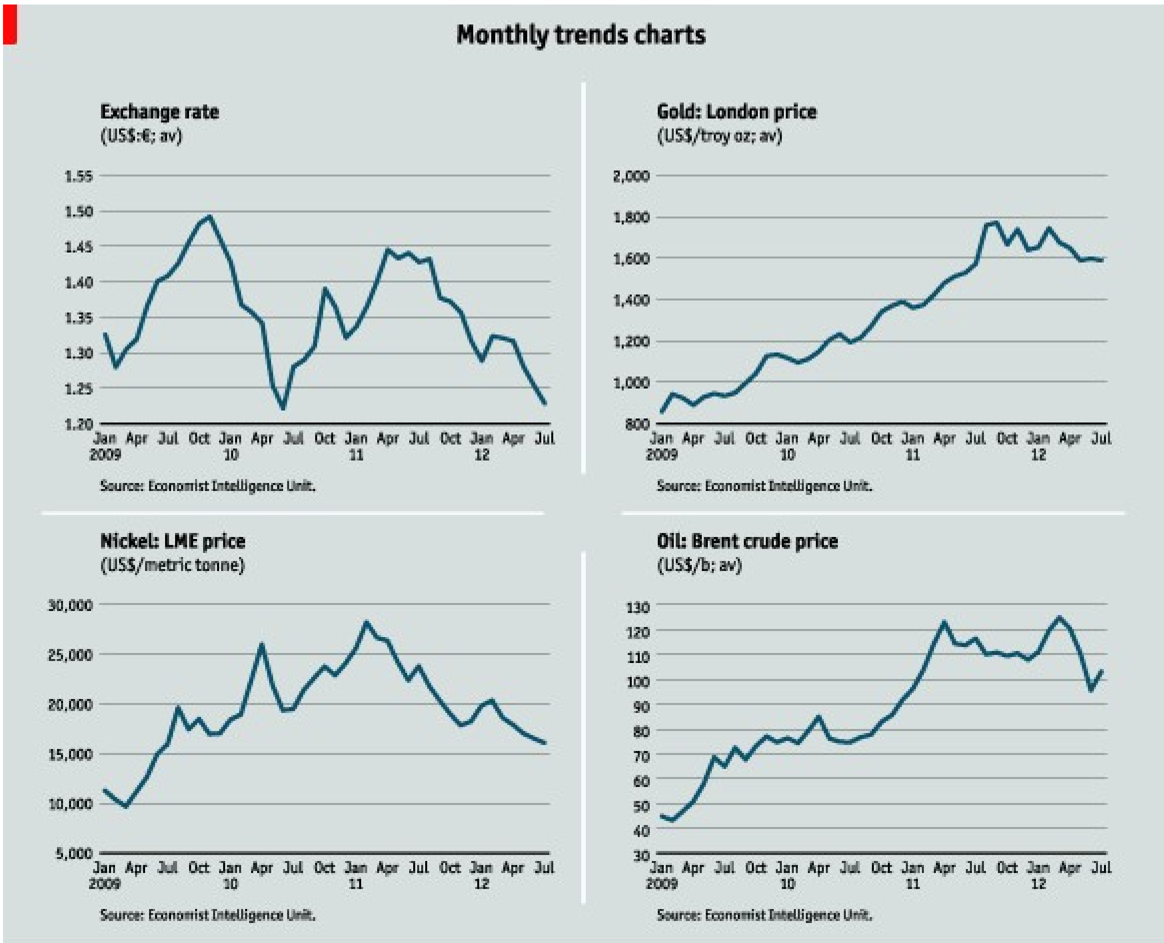
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Z$:US$ (av)												
2005	5.8	6.0	6.1	6.1	7.1	9.8	12.5	21.2	25.5	61.5	64.2	78.0
2006	93.7	99.2	99.2	99.2	101.2	101.2	101.2	250.0	250.0	250.0	250.0	250.0
2007	250.0	250.0	250.0	15,000	15,000	15,000	15,000	15,000	30,000	n/a	n/a	n/a
M1 (% 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	23,081	50,699	60,376
Deposit rate (%)												
2005	56.5	46.5	44.4	44.0	54.0	81.5	79.0	126.0	126.0	130.5	130.5	174.0
2006	169.0	164.0	229.0	254.0	254.0	229.0	284.0	179.0	179.0	166.5	166.5	166.5
2007	129.0	124.0	154.0	154.0	154.0	129.0	129.0	129.0	94.0	104.0	79.0	79.0
Lending rate (%)												
2005	168.0	155.0	155.6	150.0	165.0	200.0	207.5	262.0	275.0	360.0	315.0	415.0
2006	415.0	455.0	595.0	682.5	682.5	632.5	632.5	312.5	350.0	350.0	350.0	500.0
2007	512.5	537.5	537.5	537.5	537.5	537.5	572.5	600.0	600.0	600.0	600.0	775.0
Industrial share prices (% change, year on year)												
2005	–	–	–	–	–	–	–	–	–	–	–	–
2006	–	–	–	–	–	–	–	–	–	–	–	–
2007	1,400	2,200	6,100	8,700	18,200	66,200	27,600	20,133	22,050	97,460	211,588	326,311

Sources: IMF, International Financial Statistics; Haver Analytics.

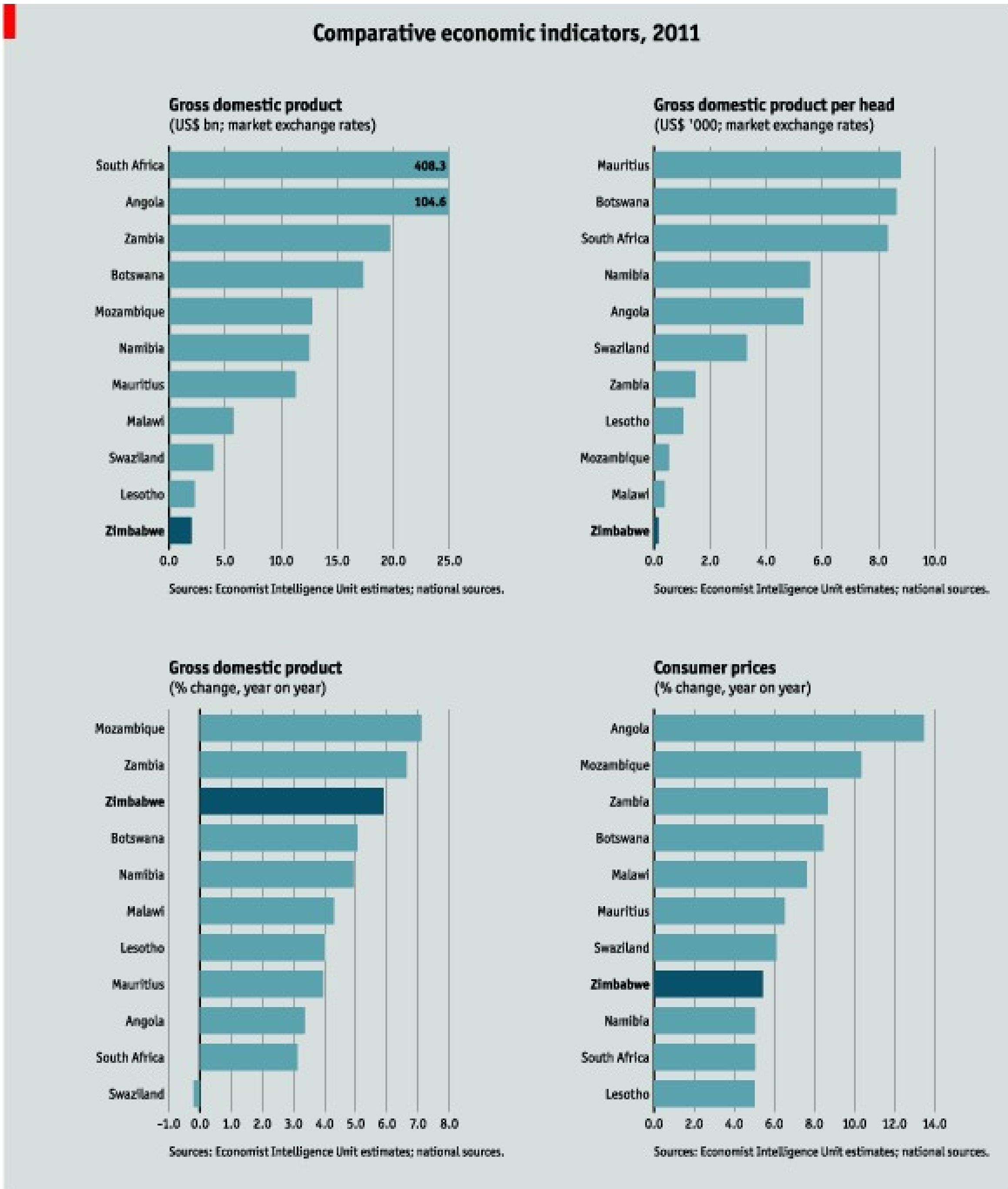
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

390,580 sq km

Population

12.8m (a) (2012, World Gazetteer estimate)

Main towns

Population in '000, 2012 (World Gazetteer estimates):

Harare (capital): 1,792

Bulawayo: 767

Chitungwiza (b): 365

Gweru: 142

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; however, because of rampant inflation the government has moved to a multi-currency system, using the US dollar and South African rand in preference to the Zimbabwe dollar

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 last census was in 2002, which showed 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); the timing of the next elections is politically controversial, and polls are likely to be held in mid-2013

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 breakaway MDC movement, the MDC-N, is in the government of national unity, while 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: Tapiwa Mashakada

Education, sport, art & culture: David Coltart

Energy & power development: Elton Mangoma

Finance: Tendai Biti

Health & child welfare: Henry Madzorera

Home affairs: Theresa Makone

Housing & social amenities: Giles Mutsekwa

Industry & commerce: Welshman Ncube

Labour & social security: Paurina Gwanyanya

Public works: Joel Gabuza

Reserve Bank governor

Gideon Gono

Recent analysis

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

June 15, 2012: International relations

South Africa calls for lifting of sanctions on Zimbabwe

Event

South Africa has called for the lifting of economic sanctions on Zimbabwe—a call that the ruling party will exploit to maximum effect.

Analysis

On June 14th Lindiwe Zulu called for the lifting of economic sanctions imposed by Western nations on Zimbabwe, claiming that the measures were not working. Ms Zulu is a key foreign policy advisor to the South African president, Jacob Zuma, who is acting as the key regional mediator between Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) and Morgan Tsvangirai's Movement for Democratic Change (MDC). As such, her comments carry some weight. Nor is she the first non-Zimbabwean official to make such as call. In late May, Navi Pillay, the UN High Commissioner for Human Rights, also called for the suspension of targeted economic sanctions imposed by the EU, US, Australia and Canada a decade ago.

The sanctions cover more than 100 individuals (restricting their travel and banking transactions), as well as companies owned by the government and Zanu-PF, and in fact, the EU has already watered down some of the measures, chiefly by reducing the number of names on the sanctions list. The international community is unlikely to remove sanctions entirely in the run-up to polls, but President Mugabe will clearly seek to exploit any sign of Western "divisions" as part of ZANU-PF's election campaign (just as he has exploited the sanctions themselves for political purposes).

Impact on the forecast

Despite South African calls for their lifting, we believe that sanctions will remain in place in the run-up to the next elections (due to be held in 2012 or 2013), and may well stay in place after the polls if, as seems likely, there are serious concerns about the conduct of the vote. However, a new ZANU-PF government would increasingly turn its attention to Asia for trade and aid.

July 24, 2012: International relations

EU lifts curbs and promises broader easing of sanctions

Event

The EU has lifted curbs on aid to Zimbabwe, and promised a broader relaxation of sanctions—provided that the country holds a "credible" referendum on constitutional changes.

Analysis

In theory, the lifting of curbs is part of the EU's strategy of rewarding the power-sharing administration for progress made since the controversial 2008 election while keeping up the pressure on Robert Mugabe to carry out more reforms. There is also a suspicion among Western governments that Mr Mugabe has benefited politically from the sanctions because he is able to blame them for the country's economic problems. However, in Zimbabwe itself there is little doubt that the EU decision will be seen as a victory for Mr Mugabe and his ZANU-PF party, and a defeat for his putative opponent in next year's elections, Morgan Tsvangirai.

Further easing of sanctions looks to be a foregone conclusion, although the EU may have some problems in proving that the constitutional referendum is credible, since turnout is unlikely to be high. This is because the draft constitution is little different from the one that it will replace. There will still be an immensely powerful executive president. Admittedly, he will only be allowed two five-year terms in office and will have to seek parliamentary approval before declaring war or a state of emergency, but to all intents and purposes the executive presidency has been left intact. A number of the other proposals opposed by ZANU-PF—including dual citizenship—have been dropped. Capital punishment will remain and there will be a substantial (20%) increase in the number of parliamentarians, notwithstanding the country's inability to pay for this—or indeed for the referendum itself.

Once the draft constitution has been approved there will be re-registration of voters and fresh elections, probably towards the end of 2013. Mr Mugabe, who will then be approaching 90, plans to contest the poll, but the signs are that Mr Tsvangirai is only too happy to see the continuation of a powerful executive presidency, because he expects to be the beneficiary at some stage.

Impact on the forecast

Despite the EU's actions, we continue to forecast that Mr Mugabe and ZANU-PF will take an antagonistic approach towards Western states, and investors based in Western nations.

August 17, 2012: Election watch

SADC due to hear report on constitutional talks

Event

The South African president, Jacob Zuma, is due report to SADC on the progress of constitutional negotiations in Zimbabwe.

Analysis

Few politicians expect the Southern African Development Community (SADC) summit, being held in Maputo, Mozambique, from August 17th, to resolve the impasse over Zimbabwe's new constitution, which is already almost 18 months overdue. A draft was completed by the Copac parliamentary committee in May, since when the two wings of the MDC have approved it. However, Robert Mugabe's ZANU-PF has not; the party continues to draft amendments which it says reflect public opinion but which are largely designed to maintain the president's executive powers against the—modest—curtailment proposed in the draft.

Mr Zuma visited Harare on August 15th to prepare for the SADC summit and afterwards claimed that there had been good progress towards finalising the constitution and moving Zimbabwe towards elections. However, Mr Zuma's optimism is not shared by local political parties. Morgan Tsvangirai, the prime minister and MDC leader, insists that no party has a veto over the draft and that it should go directly to a stakeholder conference and then to a national referendum before year-end. Mr Mugabe and ZANU-PF insist that the draft must first be approved "by consensus" between Mr Mugabe, Mr Tsvangirai and the former leader of the minority wing of the MDC, Arthur Mutambara.

MDC leaders are hoping that SADC will confirm its interpretation of the agreement so that ZANU-PF is not permitted to make any amendments to the draft, but the reality is that the regional leaders have no power on the ground in Zimbabwe to force Mr Mugabe to agree. The probability therefore is that there will be further horse-trading between the three principals, and that Mr Tsvangirai will be forced to agree to some of ZANU-PF's demands. As it is, there are tensions within the MDC between the members who are unhappy that the draft maintains a strong executive presidency and those—who expect Mr Tsvangirai to become president next year—who are delighted. Overall, however, the party is supremely confident of winning an easy victory at the polls next year, and MDC pragmatists are therefore in a hurry to get the constitution approved, saying that once installed in power they will be able to change it. Accordingly, they are likely to be prepared to make concessions to Mr Mugabe.

Impact on the forecast

The continued disagreements over the formulation of a new constitution reinforce our forecast that polls will not be held until mid-2013 at the earliest.

Analysis

June 15, 2012

Indigenisation battle continues

As elections approach the rhetoric on indigenisation—majority local ownership of all businesses—is set to harden. The indigenisation minister, Saviour Kasukuwere, continues to target mining companies and banks, but it is hard to see how some of the mooted deals can be finalised.

At one point it seemed that the government had clinched a deal with Zimbabwe's largest foreign investor, South Africa's Impala Platinum (Implats). However, this was put on hold when the indigenisation minister insisted that no payment would be made for a 31% share of Impala's 87% stake in Zimbabwe's largest exporter, Zimbabwe Platinum. Implats played its card cleverly, announcing publicly that it would observe the indigenisation law to the letter, by divesting 10% of its shares to employees, a further 10% to a community trust (both to be paid for from future dividends so that there is no "free carry") and the balance of 31% to the state. However, the South African group insisted that the government pay the market price for this 31% stake, as well as reimbursing Implats another US$150m for property claims surrendered as part of an abortive agreement in 2006. Market analysts believe that this would put the total cost to the Zimbabwean government of 51% control in the region of US$750m. In effect, Implats has backed Mr Kasukuwere into a corner. The government cannot pay for the shares, while the indigenisation minister won't want to back down. His response was to publish a large advertisement in the print media announcing that the government was now deemed to own 51% of all companies that had not complied with his indigenisation directive—a statement that was largely ignored.

Mr Kasukuwere sprang back into action in June, when he summoned the chief executives of four foreign-owned banks—Barclays, Standard Chartered, Stanbic and Merchant Bank of Central Africa, which is owned by Nedbank—to demand that they divest 51% of their shares. After a meeting with George Guvamatanga, the chief executive of the local Barclays operation, Mr Kasukuwere claimed that the bank was working on a proposal that would effectively transfer majority ownership to local investors. Barclays, which is listed on the Zimbabwe Stock Exchange (ZSE) with a market capitalisation of US$65m, declined to comment other than to state that there had been a "cordial" meeting to discuss implementation of the Indigenisation law. UK-based Barclays has an 86.7% stake in Barclays Zimbabwe, while Old Mutual—also effectively foreign-owned—has a 10.8% shareholding. The balance is held by ZSE investors. The indigenisation minister's stance on bank ownership has been criticised by both the finance minister, Tendai Biti, and the governor of the Reserve Bank of Zimbabwe (RBZ), Gideon Gono. However, since ZANU-PF regards indigenisation as an obvious vote-winner, Mr Kasukuwere is expected to continue his campaign of intimidation of foreign investors, with the backing of the president, Robert Mugabe.

Huge new investment needed

For the mining industry to exploit its full potential, industry experts say fresh investment of US$10bn is needed; add in a similar amount for infrastructure, especially electricity, and the full extent of Zimbabwe's dependence on foreign capital becomes clear. While there is no scarcity of financial engineering schemes for "monetising" diamond and platinum deposits by issuing securitised loans against them, given Zimbabwe's track record—it has not serviced its foreign debt since 1999—the suggestion that foreigners will lend money against the highly uncertain value of mineral deposits, including alluvial diamonds, seems highly debatable at best. Accordingly, it is difficult to see how the deal involving Zimplats (or indeed Barclays) can be finalised.

Some business leaders appear to believe that the problem will go away once elections are held. But while this might possibly be the case for the banks and industrial firms, the march of resource nationalism globally suggests that the mining industry is likely to remain in the frame. Moreover the prime minister is a robust supporter of indigenisation, insisting that Zimbabweans should have majority ownership of all businesses, although he adds that this should not be achieved "grabbing" assets or by nationalisation. If this is an attempt to keep businesses on side while appealing to the voters, it does not appear to be succeeding, since Morgan Tsvangirai continues to lose support in the business community.

June 18, 2012

Africa's vulnerability to street revolutions

Speculation that the Arab Spring would see related uprisings in Sub-Saharan Africa has proved unfounded. Any efforts to organise protests along similar lines were speedily quashed and, in any event, were severely hampered by

limited Internet access in the countries in question. African unrest has its own special flavour and is dominated by protests over price increases—typically food, but also fuel and power—although there are, of course, outliers, such as the emergence of Islamist group Boko Haram in Nigeria; the threat of renewed violence in Kenya as the next election approaches; and Africa's fourth coup d'état of the decade, a dubious distinction earned by Mali in March 2012. Popular revolt seems unlikely to topple African administrations, which more typically fall victim to coups, but social unrest will become a more common feature.

Fear of hunger has been a catalyst for revolution throughout the ages; Africa is no different. Much analysis in the past year has focused on the prerequisites for uprisings of the type seen in North Africa and the Middle East. These include the existence of an authoritarian state, together with the absence of accountability generally associated with a lack of democracy; a youthful population; and the possibility—made simple thanks to social networking—of mobilising protesters quickly and efficiently. Another key factor is that, even when these prerequisites are present, the existence of serious grievances is not sufficient for protest to escalate to revolt. The tipping point has proved to be an income distribution that encompasses an aspirant but frustrated group of people who are less than affluent but not absolutely poor.

Although there are signs that a bolder version of democracy is breaking out across the continent, Africa has no shortage of authoritarian states. In fact, a number of the countries most likely to experience street revolutions or popular unrest are those undergoing a process of change, as was the case in Kenya in early 2008 and more recently in Côte d'Ivoire.

What can prevent political revolts?

The entrenchment of the democratic process is the most powerful mechanism available for preventing popular unrest. Free-and-fair elections, accountability and evidence that life is improving all go a long way towards staunching the potential for street violence. Unfortunately, Africa continues to be plagued by corruption, while stewardship is hardly the hallmark of public service in the region. Repression is an obvious way to suppress dissent but requires a strong state for implementation to be effective for any length of time—and, as the world has learned from the Arab Spring, previously successful repression can fail.

Ironically, the legacy of a brutal civil war can help to mitigate the risk of popular unrest, at least for a generation or two. This has certainly served the government of Angola, for example, where the population simply does not want a return to the violence, chaos and destruction that lasted for nearly 30 years. It ought to be easy to organise revolutions in Africa. The region is urbanising at an unprecedented rate; more than 40% of the population is under the age of 16; unemployment, particularly among the youth, is rife; and food insecurity is a terrifying reality. However, if the number of Facebook subscriptions is used as a proxy for the capacity for organisation, few regimes in Sub-Saharan Africa have had much to worry about previously. At the end of 2011, although only 2% of people living in Sub-Saharan Africa were Facebook subscribers, the number had increased by 6.6% in just six months. For the moment, the region is a late adopter of digital media. This is a mitigating factor that is unlikely to last for long. Cultural identity provides another route for preventing social unrest. Where the cult of the individual prevails, social solidarity is more or less absent. In this sense, the rise of consumerism in Africa bodes well for the maintenance of law and order, as does the spread of mass media and advertising.

Who is vulnerable?

Popular unrest may have been associated with the independence movement in the 1950s and 1960s, but violent changes of government have typically been the result of coups d'état or the intervention of rebel forces from across national borders. In recent times, the most widespread cause of street unrest in the region is price increases that disproportionately affect the poor: those of staple foods, fuel and electricity. Nevertheless, classical measures of vulnerability to street revolution indicate that in recent years it has been unrest in a number of key countries—South Africa, Uganda, Côte d'Ivoire and Nigeria—that has made world headlines. For instance, it was not until April 2011 that peace returned to Côte d'Ivoire in the wake of the violence that erupted following the presidential elections of October 2010. Businesses have returned, millions of dollars-worth of humanitarian aid has flooded in to avoid humanitarian crisis, and the president, Alassane Ouattara, has set up a truth and reconciliation commission to investigate atrocities perpetuated during the four months of unrest. Although the most likely scenario is that stability will gradually return to the country, the peace is fragile: a withdrawal of aid—a serious possibility in the light of tightening European budgets—could expose fresh rifts.

In Nigeria the security situation has deteriorated to the point where the north of the country will remain off limits for foreigners for some time. Trends over the past 18 months confirm an escalation of terrorist acts in Nigeria, with 100 out of 120 incidents linked to Boko Haram, including a deadly suicide bombing at the UN in Abuja, the federal capital. Boko Haram emerged as a political force in 2009 but until recently has mainly been active in the north of Nigeria. The split between the Muslim north and the Christian south has long been a cause for concern; post-election violence in the north, along with regular attacks from the new organisation, has raised concerns about national security. It is, however, extremely unlikely that the situation will escalate to civil war. More disturbing was the extent of unrest that exploded at the beginning of 2012 in response to the removal by the president, Goodluck Jonathan, of the fuel subsidy that had been in place since 1973. The response to the removal of the subsidy was widespread strikes and protests—many violent—grinding the economy to a halt at an estimated cost of US$600m per day. The unrest was caused not simply by the impact on people's pockets, although that should not be underestimated as a cause: it was an outcry against the type of corruption that has become synonymous with Nigeria, and which Mr Jonathan's administration has pledged to fight. In Lagos, the commercial capital, the return to business as usual was swift, but the message delivered by the protesters was clear: corruption—as usual—will not be tolerated for much longer.

In Uganda April saw riots sweep across the capital, Kampala, in what was deemed the biggest anti-government protest in Sub-Saharan Africa. The president, Yoweri Museveni, has been in power since the 1980s. Although in theory Uganda has become a democratic state, in practice opposition is not tolerated. The unrest gained momentum after the arrest of the opposition leader, Kizza Besigye, not two months after presidential elections that were clearly not regarded as free and fair by many. In South Africa the 52nd anniversary of the Sharpeville massacre was marred by police firing rubber bullets on Sharpeville residents protesting against a government decision to mark the day with celebrations in Soweto. Elsewhere in the country unrest focused on electricity price rises and failure to deliver government services. The last couple of years have seen a marked escalation in protests—partly fuelled by the African National Congress Youth League—as well as industrial unrest based on never-abating demands for higher wages. The honeymoon in South Africa is not quite over, but there are plenty of signs of disharmony. High unemployment, particularly among the youth, rising inequality and frequent, well publicised instances of corruption are all disturbing indicators that Africa's largest market is getting riskier.

It is extremely unlikely that popular revolt will topple governments in Africa; however, social unrest will become a more common feature as urbanisation gains pace and the Internet revolution finally stakes its claim. Political risk in Africa has never been low, and many wars of independence certainly create a precedent for violent uprising. At the same time, the determination of the African consumer to build a better life, coupled with the reality that life has improved for many Africans in the past decade, are powerful factors that will limit the extent and duration of street revolutions in Sub-Saharan Africa.

August 28, 2012

The future of the constitution remains murky

It looks like the latest efforts of the South African president, Jacob Zuma, to solve Zimbabwe's long-running political crisis have come to nothing. After visiting Harare, Mr Zuma took the issue to a Southern African Development Community (SADC) summit in Maputo on 17th-18th August, before his attendance was cut short by the crisis over the Marikana mine shootings. However, SADC leaders made no progress beyond merely reiterating in the post-summit communiqué the need for the three major political parties to implement the terms of the September 2008 Global Political Agreement. The summit failed to take a stand on what has become a crucial issue—whether the draft constitution drawn up by a parliamentary committee (Copac) can be amended by the three party leaders (referred to as the "principals") or whether it must go to a stakeholder conference in October in its unamended form and then to a national referendum. Zimbabwe's political crisis is therefore set to continue, with most, if not all, of the likely potential outcomes being far from ideal.

The two MDC formations, led by the prime minister, Morgan Tsvangirai, and the industry minister, Welshman Ncube, which have both approved the Copac draft constitution, insist that no changes can be made at this juncture. However, the principals are supposed to reach decisions by consensus, which is why the president, Robert Mugabe, says that he cannot be out-voted by the other two.

Indeed, Mr Mugabe's party, ZANU-PF, has already made a number of changes to the draft and submitted them to the principals. The changes largely attempt to reverse the dilution of presidential power that the Copac draft proposes. Eric Matinenga, minister for parliamentary affairs, says that ZANU-PF's draft is "outrageous". Whether the three party leaders can agree a final draft is therefore questionable.

Mr Zuma complicates matters

For his part, Mr Zuma has muddied the waters with the suggestion that two drafts—the Copac version and a ZANU-PF version—be put to a national referendum as a way of resolving the dispute. This suggestion was supported by Tendai Biti, the secretary-general of the Tsvangirai-majority wing of the MDC.

However, the problem with this proposal is that far from being a referendum on the constitution, such an exercise would degenerate into a straight ZANU-PF-versus-MDC plebiscite. The minority wing of the MDC would not support that, nor would the other minority parties. Moreover, it would run counter to the terms of the Johannesburg agreement of 2008, suggesting that Mr Zuma's suggestion is more a measure of desperation than a carefully considered strategy.

The *Zimbabwe Independent* newspaper, which opposes Mr Mugabe, claimed on August 24th that the president was "panicking" over what course of action to take next. This seems unlikely, especially given the previous week's publication of an opinion poll sponsored by a US think-tank, Freedom House, which showed his party in the lead with 31% support—up from 17% 18 months ago—against Mr Tsvangirai's MDC with 20%, down from 38%. In Harare, which has been an MDC stronghold, the party's support has slumped to 17% from 50%, while ZANU's has risen to 22% from 8%.

Mr Mugabe is operating from a position of strength

Rather than panicking, a more likely interpretation is that ZANU-PF is considering its options, not from a position of weakness, as the Independent believes, but from a position of growing confidence. This confidence is based not just on a single opinion poll, but more on the growing disillusionment with Mr Tsvangirai and his MDC ministers, many of whom have failed to make any sort of political impact in their three and a half years in office.

A good compromise leaves no-one satisfied

Mr Zuma and the other SADC leaders would be unhappy with most, if not all, of these options. However, they desperately want to draw a line under the Zimbabwe problem and move on.

Some political analysts in Harare expect Mr Mugabe to call by-elections that would encompass around one-fifth of the electorate and, if the results confirm recent opinion poll findings, wait for the life of the current parliament to end in May 2013 and then call presidential and parliamentary elections under the existing constitution.

This might be the quickest—though not necessarily the best—way out for Zimbabwe. While very far from ideal, it may also be the best hope for an economy weighed down by seemingly endless political uncertainty, mixed economic policy messages and weak and indecisive leadership.

Economy

Forecast updates

June 15, 2012: External sector

Debt-rescheduling remains a distant prospect

Event

An IMF team is due to visit Zimbabwe in mid-June for Article IV discussions that will also cover a possible Staff-Monitored Programme (SMP).

Analysis

Agreement of an SMP would constitute the first step towards a debt-restructuring agreement that would lead to resumed lending by the multilateral agencies However, any such agreement looks to be some way away. The coalition government is split over the issue of debt relief, with many in the Zimbabwe African National Union-Patriotic Front (ZANU-PF) opposed to any deal under the highly indebted poor countries (HIPC) facility because they believe it will lead to intolerable Western interference in the country's economic policies. This anti-debt-relief lobby, which includes the central bank governor, Gideon Gono, insists that Zimbabwe's mineral wealth, when taken over by the state under the indigenisation programme, is more than adequate to repay the country's US$7bn in debt arrears.

There are also serious reservations on the Fund's side, centring on:

- Action (or rather, lack thereof) on cutting the public service wage bill by laying off the reported 70,000 ghost workers, many of whom are believed to be part of the ZANU-PF youth militia. ZANU-PF denies that there are any ghost workers and will oppose any attempt to reduce the size of the public service.
- The finances of the diamond industry, especially following a complaint by the finance minister, Tendai Biti, that his ministry has received less than one-quarter of budgeted diamond industry revenue in the first three months of 2012.
- Repeated warnings by Mr Biti and Gideon Gono of their plans to impose a ceiling on bank lending rates. The plan to make cotton a controlled commodity will also be challenged by the Fund.

Impact on the forecast

While the authorities believe that they will be able to make headway in debt-rescheduling discussions in the latter half of 2012, the deep political divide between the two main parties over the issue of seeking HIPC, and the Fund's own reservations, suggests that any such progress will be slow at best. We therefore continue to forecast a steady increase in Zimbabwe's external debt from an estimated US$6.4bn at end-2011 to more than US$7bn by end-2013.

June 15, 2012: Economic growth

ZSE reflects broader economic worries

Event

The industrial share price index on the Zimbabwe Stock Exchange (ZSE) closed at 133.26 on June 13th, down by around 9% so far during 2012 and almost one-quarter off its post-dollarisation peak of 173 recorded in October 2009.

Analysis

Total market capitalisation of the ZSE declined by some US$300m to around US$4bn over the course of 2011, and while the industrial index dropped by 3.6% to 145.86, the mining index was much harder hit, dropped 49.8% to 100.7. This underscores the extent to which investors are being affected by ongoing doubts about the government's indigenisation legislation, under which all firms are supposed to divest 51% of their shares to black Zimbabweans, with mining companies coming under particular pressure. However, the ongoing decline is also driven by political uncertainty—notably over the timetable for elections—tight domestic market liquidity and lacklustre corporate earnings. In addition, foreign buyers, who have sustained the market for much of the past three years, have become much more wary in recent months, largely reflecting nervousness about the global economic situation.

Impact on the forecast

Continuing difficulties at the ZSE reinforce our forecast that political uncertainty and policy unpredictability will continue to depress business and investor sentiment, with serious knock-on effects on economic growth. Thus while the finance minister is predicting growth of 9.4% in 2012, and the IMF is suggesting growth of 4.7%, we remain much more pessimistic, given these factors as well as uncertainties regarding the global economy (especially metal demand and prices) and farm season parameters such as the size of the winter wheat crop and the final size of the summer harvest. Overall, therefore, we continue to predict expansion of 3% this year.

June 26, 2012: Policy trends

IMF team discusses Article IV and potential SMP

Event

An IMF team has visited Zimbabwe to hold Article IV talks and discuss a potential one-year staff-monitored programme (SMP).

Analysis

Provided the Article IV report is reasonably positive, the IMF team is expected to return to Zimbabwe towards the end of the year to negotiate the SMP, which would take effect from January 2013. This in turn could be the first step towards a debt-restructuring agreement that would lead to resumed lending by the multilateral agencies. However, there are a number of potential obstacles. For example, in mid-June the finance minister, Tendai Biti, revealed that 10,000 new public servants, 4,600 of them soldiers, were employed during the first quarter of 2012 without the finance ministry's agreement. Mr Biti told parliament that this had increased the public-service salary bill by US$35m a month, or around 18%.

Even before this increased employment, salaries accounted for two-thirds of the government budget, and ever since Zimbabwe re-engaged with the IMF at the start of 2009, the Fund has urged the government to cut the size of the civil service and reduce the salary bill. However, public-service trade unions continue to warn Mr Biti against any attempt to freeze wages and recruitment, while many in the government are unwilling to countenance such a move in the run-up to elections (which are expected to be held some time in the next 18 months).

The second issue centres on the diamond industry. The IMF is demanding transparency in diamond finances, but Mr Biti claims that diamond companies have failed to remit more than US$100m in taxes to the state. Mining companies deny this, saying that they have been forced to stockpile diamonds rather than sell them because of market conditions. However, there is inevitable speculation that diamond revenue is being diverted by the Zimbabwe African National Union-Patriotic Front to fund its election campaign.

Impact on the forecast

The authorities believe that they will be able to agree an SMP and make headway in debt-rescheduling discussions in the latter half of 2012. However, given the Fund's reservations and the lack of clarity over the funding of what could well be a violent election campaign, we maintain our forecast that any such progress will be slow at best.

July 4, 2012: Policy trends

Indigenisation minister targets banks

Event

The indigenisation minister, Saviour Kasukuwere, has given foreign-owned banks one year to surrender majority ownership to black Zimbabweans.

Analysis

Under the country's 2007 indigenisation law, foreign-owned firms must divest 51% of the shares in their Zimbabwe operations within an unclear time frame. No sizeable foreign firm has yet done so, although a number have announced empowerment schemes of varying kinds that could—eventually—lead to majority local ownership, while others have said that they will divest and leave Zimbabwe.

Mr Kasukuwere's latest directive targets the following institutions: Barclays Bank Zimbabwe, which is majority-owned by Barclays UK; Standard Chartered (UK) and Stanbic (South Africa), both of which are wholly foreign-owned; the Merchant Bank of Central Africa, in which South Africa's Nedbank has a majority stake; and CABS, which is controlled by another South African operation, Old Mutual. The initiative has been rejected by the finance minister and the governor of the Reserve Bank of Zimbabwe, who has put forward his own more moderate plan for increased black ownership. Both are concerned about the health of the fragile banking sector: just 15 of 26 banks made a profit in the first quarter of 2012, and in June one bank was closed by the authorities and a second placed under custodianship.

It is unclear how the indigenisation minister intends to implement his proposal. The South African-owned banks would appear to be protected by the bilateral investment treaty between South Africa and Zimbabwe, which means that the government will have to pay market rates for any shareholding. Since the administration is already looking at a hefty budget deficit—and must also pay upwards of US$500m if it wants to take a stake in the mining operation controlled by South Africa's Implats—it does not have the money to pay for bank shares.

Mr Kasukuwere's comments could damage confidence in the sector and drive away investors, deposits and customers. They could also prompt some foreign banks to divest, since their Zimbabwean operations are insufficiently profitable to outweigh the "hassle factor".

Impact on the forecast

The banking directive reinforces our forecast that economic policy will continue to be driven by political considerations, particularly in the run-up to elections (due to be held in mid-2013).

July 19, 2012: Economic growth

Zimbabwe cuts growth forecast as revenues disappoint

Event

Zimbabwe's finance minister, Tendai Biti, presented his mid-year fiscal review to parliament on July 18th.

Analysis

Because diamond revenue accruing to the state underperformed in the first half of 2012, Mr Biti has been forced to cut planned government spending by 15% while increasing fuel and import taxes. According to budget figures, US$229m of the overall revenue shortfall of US$244m is attributable to diamonds, which accounted for US$363m of export revenue in the first half of 2012, according to official figures, against US$373m from platinum group metals. Controversially, the second-largest exporter of diamonds (US$123m in 2012 to date) is Anjin, which is a joint venture between the Zimbabwe defence ministry and a Chinese military company. Mr Biti has previously complained that Anjin is not paying tax on its diamond production, and this has fuelled speculation that the funds are being diverted by the Zimbabwean military.

Public spending has therefore been cut from US$4bn to US$3.4bn in the fiscal year ending December 31st, but even with much-reduced spending tax increases are necessary: for example, fuel duty has been increased by one-quarter (to 20 US cents/litre for diesel and 25 US cents/litre for petrol). Mr Biti has also reduced the 2012 growth target, from 9.4% to 5.6%. He has reiterated that foreign investment is crucial to boosting production and jobs, notably in the manufacturing and mining industries: the government's medium-term plan requires more than US$9bn in fresh investment, while manufacturing and mining both need in excess of US$5bn over the medium term and infrastructure at least US$12bn. He concedes, however, that investors are being deterred by the policy environment (including indigenisation legislation stipulating that black Zimbabweans must own 51% of all businesses) and the country's "high political risk premium".

Impact on the forecast

Despite the reduction in official growth forecasts, we believe that the 5.6% growth projection is overoptimistic, and are unlikely to upgrade our current forecast of 3% substantially. We also expect politicians to be wary of tackling the issue of public-service wages—particularly in the run-up to elections—and the administration will continue to run up domestic arrears and place increasing reliance on loans from non-traditional sources such as China.

August 1, 2012: External sector

Zimbabwe increases capital requirements

Event

Zimbabwe has raised minimum capital requirements for banks by up to 900%.

Analysis

In his Mid-Term Monetary Policy Review Statement, Gideon Gono, the governor of the Reserve Bank of Zimbabwe (RBZ), announced that commercial and merchant banks, whose current minimum capital requirements are US$10m and US$12.5m respectively, will need to have US$25m in capital by December 2012 and US$100m by June 2014. The minimum capital requirement for mortgage lenders will rise from US$10m at present to US$20m by year-end and US$80m by June 2014. The increases are even sharper for building societies (from US$10m to US$80m), finance and discount houses (US$7.5m to US$60m) and micro-finance institutions (US$1m to US$5m).

The RBZ governor concedes that increased capitalisation levels are likely to lead to consolidation of the sector, but argues that Zimbabwe is currently overbanked, with 25 operating banks. Malawi, with a similar population size (and GDP of some US$13bn as against Zimbabwe's US$10bn), has just 12. In fact, Zimbabwe has the same number of banks as Nigeria, with its population of 160m and GDP of nearly US$240bn, and in the past year up to four banks have been forced to closed or have been placed under administration. Nonetheless, many institutions remain exposed to agricultural enterprises and/or the RBZ (which is itself undercapitalised), and could face a substantial increase in non-performing loans if growth rates falter.

A number of banks are likely to struggle to meet the capitalisation requirements, which are higher than those in Kenya, South Africa and Tanzania, suggesting that mergers and acquisitions are likely. The move is also likely to put a brake on indigenisation in the sector—a strategy that Mr Gono opposes. Although the indigenisation minister has given foreign banks until July 2013 to hand over 51% shareholdings to black Zimbabweans, local investors are likely to struggle to raise the capital needed to buy the shares.

Impact on the forecast

While the increase in liquidity ratios is a positive sign, we maintain our forecast that there is an ongoing risk that political dictates will outweigh commercial imperatives in the run-up to the next elections, and that continued disputes between the RBZ governor and the indigenisation minister will reduce policy predictability in the sector.

August 16, 2012: Inflation

Inflation moderates again

Event

Consumer inflation slowed to 3.94% (year on year) in July.

Analysis

According to the latest data from the Zimbabwe National Statistics Agency, year-on-year inflation eased fractionally from 3.97% in June to 3.94% in July. On a month-on-month basis the rate accelerated very slightly, to 0.23% from 0.2% in June. Official statistics show that year-on-year inflation has dropped steadily in 2012, from 4.3% in January, while month-on-month inflation declined from 5% in January to just 0.1% in May, before rising slightly. However, there is substantial scepticism about the official inflation data, not least because they are failing to reflect rapid wage inflation. For example, the tobacco industry estimates that average wages have risen by 50% in the past three years, but there is no sign that rapid wage inflation is being translated into high consumer price inflation, as would be expected.

Officials claim that inflation is likely to remain subdued for the remainder of the year, citing the continuing weakening of the rand and fragile global economic growth, which, they say, will ensure that oil prices will remain depressed in the short to medium term. Overall, therefore, annual average inflation is projected at 5% this year. This seems overoptimistic, however: the agriculture sector looks set to underperform this year, which will exert upward pressure on food prices, while international oil prices are expected to be just 1% below their 2011 level this year. This will be compounded by increasing domestic wage demands as workers (in the public sector, in particular) seek to address the long-term erosion of their spending power and the likely increase in government spending in the run-up to elections, tentatively scheduled for the first half of 2013. Overall, therefore, the official target of 5% is likely to be exceeded, even if the official figures do not reflect this.

Impact on the forecast

We maintain our existing forecast that annual average inflation is likely to be closer to 8% than the official 5% target.

Analysis

June 18, 2012

Africa's banking sector bets on growth and investors

Africa's growth prospects—south of the Sahara and north of the Limpopo—have continued to improve: this is now the fastest-growing region in the world, with growth driven more by domestic demand than by receipts from commodity exports. Aside from Africa's own fundamentals, much of the region offers investors significant diversification potential—a selling-point that is always most attractive when married to high expected returns. As African stockmarkets mature and international money is absorbed, the diversification opportunity is likely to dissipate (as it has elsewhere), but that will take at least a decade, if not considerably longer.

Nearly 40% of direct investment in Africa comes from businesses based in other emerging markets. A recent survey by Ernst & Young, an international consultancy, showed that these investors view Africa as a significant investment destination and have become increasingly positive about the long-term potential. Their exposure to the continent has been growing nearly twice as fast as that of investors based in North America and Europe, who are far more ambivalent about the outlook for Africa. However, there are some early indications that the tide may be changing in developed markets. For example, 2010 saw the launch of the first American mutual fund focusing exclusively on listed African equities—the Nile Pan Africa Fund. Assets under management have more than doubled since the middle of 2011, but at just US$14m are still tiny. More compelling is the news that the FTSE is working with the African Securities Exchanges Association to launch a pan-African index. This is interesting because it implies demand from asset managers for an index that they can use as a benchmark for fund performance. It would also create the platform needed to manufacture synthetic financial products such as options-based exchange-traded funds. Investor appetite for emerging markets has been boosted recently by the extension of very low interest rates in the US and Europe. So far, demand has not been met with supply.

As is the case with equities, South Africa dominates the African bond market. In 2009 the South African Bond Exchange had assets of US$140bn and a turnover of US$1.8trn. Listings are dominated by sovereign bonds. In 2007

Gabon and Ghana issued their first Eurobond, followed by Senegal in 2009. Senegal's second sovereign bond, issued in May 2011, was nearly five times oversubscribed. Nigeria issued a US$500m, ten-year Eurobond in January 2011 with a 7% yield. The paper was 2.5 times oversubscribed. The same was true of short-term Nigerian treasuries auctioned in March 2012.

There is, however, less of an appetite for bonds denominated in local currency. In November 2011 Kenya issued its first 12-year infrastructure bond but failed to raise the KSh20bn (US$235m) hoped for, as investors fought shy of high inflation. The first Kenyan infrastructure bond was issued in February 2009 and was 143% oversubscribed—but the take-up was overwhelmingly dominated by domestic investors. The recent bond issuance targeted Kenyans living abroad, emulating an approach that Ethiopia has already implemented. Nigeria, Rwanda and Zimbabwe are also eyeing the diaspora as a potential source of revenue. The IMF estimates that more than 30m Africans live elsewhere in the world and send more than US$40m back home in the form of remittances each year. However, if the take-up of Ethiopia's infrastructure bonds is anything to go by, governments will have their work cut out convincing non-resident nationals to part with their cash. Foreigners may prove more trusting, although African governments have another hurdle to clear with respect to veteran investors whose recall of the 1980s debt crisis is unimpaired. African balance-sheets look healthy these days. For countries that have seen their debt wiped out through programmes such as the World Bank's heavily indebted poor countries (HIPC) initiative that is hardly surprising, but others have earned their status in the open market. Today external debt represents less than 20% of GDP in 19 Sub-Saharan countries; that was true of only two (Botswana and South Africa) back in 1980. Interest payments on all external debt are less than 1% of GDP in as many as 32 countries. In many of them, though, the positive story is compromised by high political risk, weak legal systems, absence of global banking networks and limited financial expertise.

To some extent, investment and lending risk is mitigated by guarantees offered by the Multilateral Investment Guarantee Agency (MIGA), which is part of the World Bank Group. Development finance institutions actively seek to crowd in private-sector investment but ambitions have become more muted in the past year. For example, in the past the UK-based Commonwealth Development Corporation sought to attract US$2 from private-sector (commercial) investors for each development finance.

Who are the investors?

If the African diaspora has so far proved to be a disappointing source of investment, which investors are likely to be the mainstay? According to the 2011 Merrill Lynch/Capgemini World Wealth Report, the number of high-net-worth individuals (HNWI) in Africa is still small by global standards but is increasing faster than anywhere else in the world; in 2009/10 the number increased by 11.1%. Their assets are growing faster too: in 2009/10 African HNWI assets increased by 13.6%, as against a global average of 9.7%, and HNWI elsewhere are expected to increase their asset allocation to Africa, with European HNWI set to double their exposure in 2012, according to the report.

The assets managed by African institutional investors such as pension funds and insurance companies are also growing as these sectors develop. However, they are starting from scratch. In Nigeria the state pension fund recently announced that its total assets had reached US$11.3bn. In Kenya pension contributions doubled in the first half of 2011. Total pension fund assets are worth US$5.61bn, of which 69% is held by fund managers and 24% by the state-owned National Security Fund. Pension reform in Ghana, enacted in 2008 when the assets held by the government's Social Security and National Insurance Trust were worth about US$2bn, has just reached the final stage of implementation and is expected to generate annual contributions of US$400m destined for investment in the country's capital markets, with a 25/75 equity/bond split. By way of comparison, assets held by all South African pension funds in 2008 were worth US$212bn, roughly similar to those of the US pension giant, CalPERS.

If the pension industry in Africa is tiny, the insurance industry is simply minuscule, with assets estimated at around US$6.75bn (this includes Cameroon, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal and South Africa). However, both segments are growing and the increase in assets bodes well for capital market growth.

It is the commercial banking sector that dominates the financial systems of most African countries. As detailed in a recent report by the Economist Intelligence Unit, Banking in Sub-Saharan Africa to 2020, the sector's financial assets are forecast to expand by 248% by 2020, reaching US$1.37trn. Most markets are unusually open to foreign banks and offer a significant opportunity owing to the huge potential for providing financial access to populations that are still predominantly "unbanked". Africa is a market leader in mobile banking and other innovative approaches, and is expected to use technology to catch up and even overtake banking systems in the rest of the world.

The expansion of the banking industry will not be uniform across the region. Growth will be strongest in poorly served countries that are enjoying new resource booms, including Angola, Uganda, Ghana and Tanzania. Nigeria, with its massive population, oil riches and free-market orientation, has considerable promise, although weak infrastructure, inefficient administration and extensive corruption mean that caution is warranted. In Ghana private-sector credit growth remains low and lending rates are high. The commercial banks cite the high risks associated with lending in Ghana as a prime factor behind continued high rates. Indeed, the reality of the situation is that until the resolution of some of the more fundamental problems facing the banking sector, relating to poor legal infrastructure for banks seizing assets from defaulters and property rights issues, even the large inflow of liquidity following the much-awaited beginning of oil production from offshore fields will have only a limited impact on bringing interest rates down. In addition, state involvement in a number of banks has caused concern that some lending decisions are being made as a result of political interference. However, the government is under pressure from international organisations, including the IMF, to reduce its stakes in the banking system. This could represent an opportunity for other banks to purchase the government's share and increase their market size.

In an economy expected to expand robustly, backed by an enviable level of political stability for this part of the world, there will be a favourable operating environment for banks. Over the past two years there has been an influx of foreign banks: for example, seven Nigerian lenders have moved into Ghana. Incoming banks—which are in a position to support projects in real estate, service industries and other areas—have complied with a base capital requirement of US$60m set by the government. Reaching more of the country's unbanked represents both a challenge and an opportunity. Use of e-Zwich, Ghana's home-grown cashless money-transfer system, was initially slow but is said to have grown by 700% in 2010 and 147% in 2011 with total transfers worth US$16.6m. Plans to extend the facility to cater for international money transfer in the second half of 2012 were announced recently

In East Africa, where economic integration within the East African Community (EAC) is advancing briskly, Kenya will remain the regional financial hub. Ethiopia is one of Africa's fastest-growing economies, although it imposes many restrictions in its state-led development model. Uganda's banking sector reform will contribute to a favourable environment over the next decade. Financial intermediation has expanded quickly, especially in the retail market, and robust economic growth is helping the industry. Private-sector domestic credit is growing quickly, helped by higher activity in manufacturing, building and construction, and the trade and commerce sectors. Financial sector liberalisation and improved supervision by the Bank of Uganda (the central bank) will improve the quality of lending, and banks will become more aggressive about recovering loans, initiating lawsuits and forcing companies into liquidation. Higher capital requirements for banks may lead to a beneficial round of consolidation, and the broadening of permissible bank activities into areas such as insurance, underwriting and brokerage could cushion banks against external shocks.

The advent of oil revenue will transform the Ugandan economy; production is scheduled to reach levels of around 200,000 barrels/day in 2015. The energy sector will attract unprecedented amounts of investment, particularly for a proposed oil refinery and an oil pipeline to the Kenyan coast. To fund these ambitious infrastructure plans the government will seek new forms of finance, including domestic infrastructure bonds, which will help to develop local capital markets and increase market credibility. Despite the positive outlook, new challenges will act as a drag on growth in banking profit margins over the next decade. The introduction of new financial products, such as mobile banking, and the expansion of bank branches in rural areas will increase revenue but may also increase operational risk and result in lower profit margins. Profitability will be limited by the small size of the market and the limited creditworthiness of most potential borrowers. Domestic lending rates will remain high because of slow progress in two areas: improving the land tenure system, which would allow more consumers to use property as collateral, and legal reforms that would enable banks better to pursue debtors through the courts. However, systemic banking difficulties are unlikely and the risk outlook is relatively stable.

In Southern Africa Mozambique and Zambia offer good prospects. Growth will be slowest in South Africa, the well-developed financial powerhouse of the continent, as well as in the small but sophisticated financial systems of Botswana and Namibia. In fact, the boom of the coming decade should significantly erode the dominance of South Africa, which currently accounts for about two-thirds of the continent's banking assets and three-fifths of its deposits. By 2020 South Africa will still have the largest banking sector by far, but it will account for less than half of the region's financial balance sheet.

Angola is one of the brightest hopes for African banking sector growth as a result of its abundant oil income and its recovery from a long civil war. We forecast that its banking sector assets and deposits will grow at least fivefold in the next decade. However, the country scores poorly on most measures of economic governance and has little financial infrastructure, with no established domestic securities market and no global sovereign bond. The Angolan banking market has been created practically from scratch since the end of the civil war, and some of its growth numbers look stunning. For example, according to international consultancy KPMG, Angolans owned fewer than 250,000 debit and credit cards in 2004 but the total had reached over 2.77m by the end of 2009. The number of automated teller machines around the country increased more than tenfold between 2004 and 2009, with cash withdrawals amounting to over US$2bn by 2009. The numbers still look quite low, however, considering that Angola's population surpasses 18m people. The bank penetration ratio was a mere 11% in 2009, according to KPMG. The retail market still has a long way to go, and the segment accounted for a mere 19% of the banking sector's assets by the end of 2009. A large chunk of the business comprises dealing with government bonds and the provision of credit to fund investments by the

Angolan government.

Prospects for the medium term are relatively promising. The case for investing in Sub-Saharan Africa remains very strong. It is predicated on the region's growth prospects, particularly given that the key growth driver in many countries is domestic demand, which is swelling as the spending power of African consumers increases. Direct investment remains the channel through which most investment dollars flow to the region, although the share of portfolio investment is increasing. The fixed income market offers investors another way to get exposure to African growth—and higher yields against the backdrop of very low interest-rate environments in the developed world.

The oversubscription of African bonds issued on the international capital markets strongly suggests that these are undersupplied, providing governments in the region with the incentive to launch more products of this kind. Nevertheless, reception to fixed-income products is mixed and depends very much on the currency in which bonds are denominated as well as the nature of the debt; some infrastructure bonds have proved to be unpopular in instances where the underlying projects are not compelling or where there is an existing track record of underperformance. Evidence is at last emerging that investment products better tailored to international investors—including the retail market—will become a reality in the next couple of years. These include the planned creation of a pan-African index, providing the platform that mutual funds and exchange-traded funds need in order to launch pan-African equity products. There are also numerous opportunities in the banking sector, whose assets are set to triple by 2020. The development of pension funds and insurance companies, with a corresponding increase in assets available for investment in equities, also bodes well for the future of African stock-markets.

