Zimbabwe

2011

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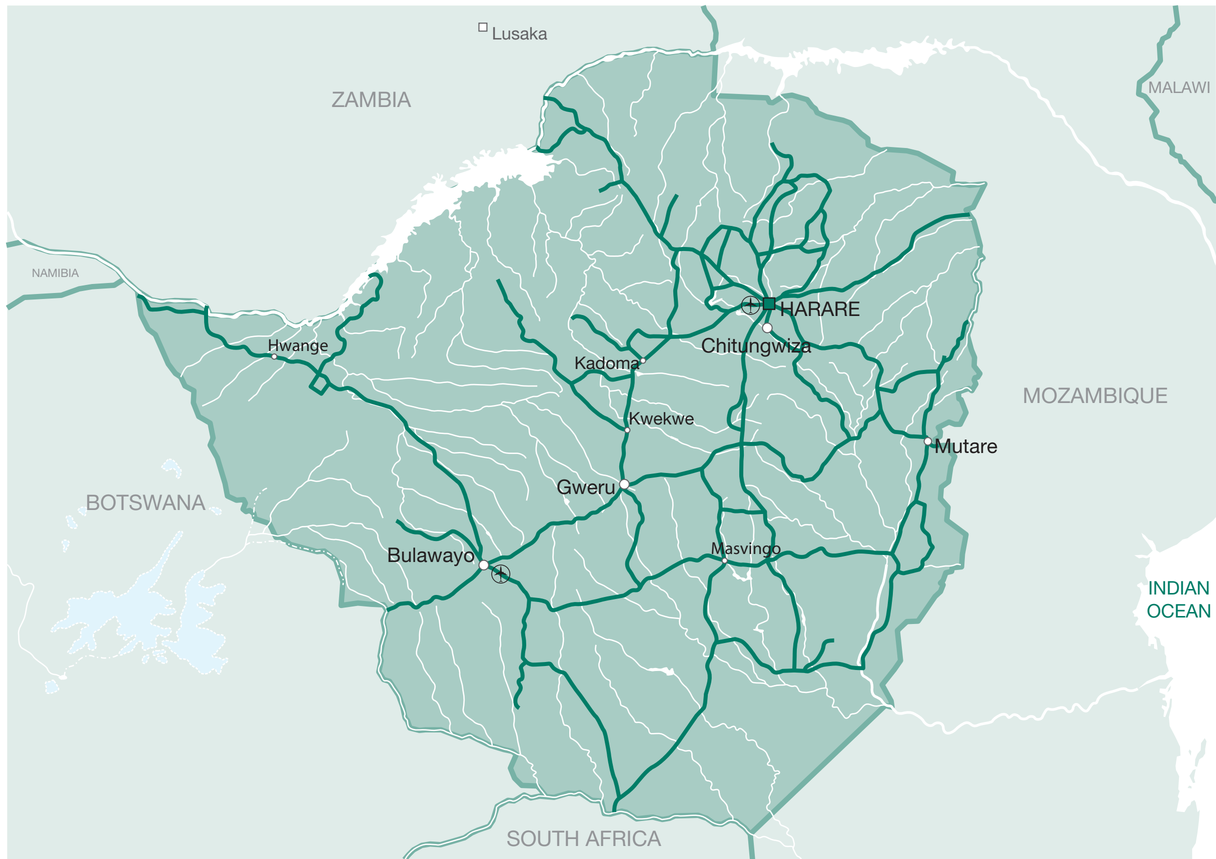


Airport
Main Road

National Capital (11 652 000 In. 2010)
over 100 000
over 40 000
over 20 000

0 km 40 80 120 km

This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Zimbabwe

Overview

The Zimbabwe economy is rebounding after a decade of economic decline during which time real gross domestic product (GDP) fell by more than a third and per capita income fell by 40%, combined with prolonged or chronic inflation and hyperinflation.

The establishment of a Government of National Unity (GNU) in February 2009 and the adoption of macroeconomic stabilisation policies including the multi-currency regime resulted in early signs of economic recovery. GDP growth was estimated at 8.2% in 2010 and 7.8% in 2011, driven by rapid expansion of mining output and exports, and agriculture.

Mining output has risen spectacularly – 8.5% in 2009 and a record level of 47% in 2010 largely due to increased mining investment. Agricultural output rose 15% in 2009 and 34% in 2010, largely from a doubling of tobacco production. Manufacturing growth, however, slowed down to less than 3% in 2010 compared to 10% in 2009.

Following the adoption of the multi-currency regime, consumer prices fell by 7.7% during 2009, before rising by 2.5% in the first ten months of 2010. Inflation is estimated to have averaged 4.9% in 2010 – year-on-year inflation was 4.2% in November 2010 – and is officially forecast to increase marginally to 5.9% in 2011. However, food inflation remains a problem with food prices up 7.3% in the year to December 2010.

Exports are estimated to have increased by 35% in 2010 to 2.1 billion US dollars (USD) while imports increased by 13.5% to USD 3.6 billion leaving a trade deficit of USD 1.5 billion. The overall balance of payments improved from a deficit of USD 1.77 billion in 2009 to USD 460 million in 2010.

During the years of economic decline the budget deficit was financed by credit creation by the Reserve Bank of Zimbabwe, setting off the hyperinflation of 2007/08, which exacerbated the situation. The multi-currency regime contained inflation, revived financial intermediation and imposed fiscal discipline through implementation of cash budgeting.[1]

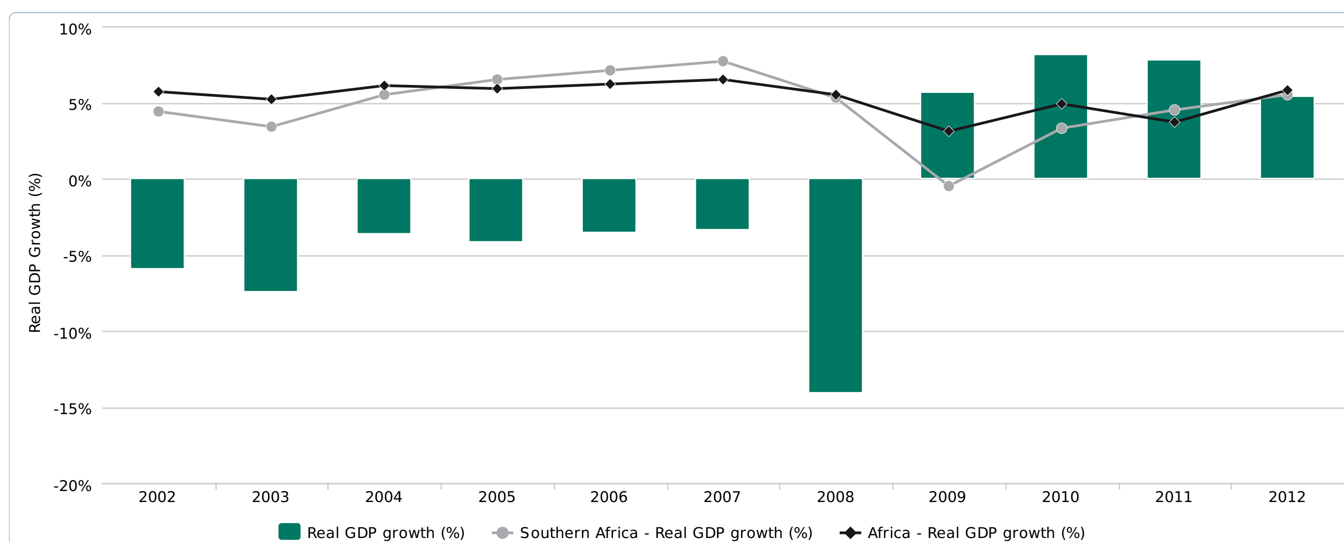
The improved political climate and the fiscal and monetary reforms by the GNU brightened economic prospects. The Reserve Bank of Zimbabwe asserts that the banking sector has stabilised and is now "sound," with low inflation, foreign direct investment (FDI) and portfolio investment inflows have shown signs of recovery. Emerging partners are exploring new trading opportunities and untapped potential in mining, tobacco and other agricultural sub-sectors. South Africa remains a dominant trading and investment partner while China is becoming more important.

Social conditions remain tough. The poverty rate has increased from 42% in 1995 to 63% in 2003 and is currently estimated to be over 70%. Zimbabwe has a Gini inequality coefficient estimated at 50.1% in 2003, one of the highest in the world. There is also high unemployment which is estimated at 80%.

Despite the deteriorating poverty indicators, significant progress has been made towards meeting the Millennium Development Goals (MDGs) in recent years, with net primary school enrolment ratio of 91% in 2009. The adult HIV prevalence rate has fallen from 23.7% in 2001 to 13.7% in 2009. Food security improved with production of the maize staple increasing from 600 000 tonnes in 2008 to 1.1 million tonnes in 2009 and an estimated 1.3 million in 2010. Donors have provided significant off-budget humanitarian and social services funding estimated at 12% of GDP in 2009.

The government's main challenge will be to sustain economic growth and deepen structural transformation and diversification of the economy to ensure realisation of its policy on "shared economy, shared development and shared transformation".

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404712

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	5.7	8.2	7.8	5.4
CPI inflation	6.5	4.9	5.9	4.7
Budget balance % GDP	-0.1	-1.7	-2.2	-3.4
Current account % GDP	-16.5	-19.9	-17.7	-16.8

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	21	18
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	5.8	5.7
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	18.7	17
of which hydrocarbon	-	-
Electricity, gas and water	5.7	5.7
Electricity, water and sewerage	-	-
Construction	0.7	0.7
Wholesale and retail trade, hotels and restaurants	10	12.7
of which hotels and restaurants	-	-
Transport, storage and communication	14.2	17.5
Transport and storage, information and communication	-	-
Finance, real estate and business services	8.4	6.4
Financial intermediation, real estate services, business and other service activities	-	-
General government services	4.3	4.6
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	11.3	11.9
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department based on data from Statistics Zimbabwe.

Figures for 2010 are estimates; for 2011 and later are projections.

http://dx.doi.org/10.1787/888932408037

Zimbabwe’s economy grew by 5.7% in 2009, by an estimated 8.2% in 2010 and growth of 7.8% is predicted for

2011. These impressive figures are put into perspective however by the steep decline that the country went through in the decade before 2008.

While mining has seen a dramatic improvement since the national unity government took power in early 2009, there has been a considerable loss of industrial output and commercial farming has been decimated with more focus now on smallholder farming.

Large-scale farm operations will contribute to agriculture's recovery, especially for sugar, tea and coffee, but smallholder agriculture will play a greater role with important implications for farm financing and marketing.

Tobacco production figures for 2010 show that smallholders produced upwards of 75% of the crop compared to less than 10% two years previously. Much of the 2010 expansion of the tobacco crop can be attributed to the extension of contract farming schemes financed indirectly by commercial banks lending to tobacco merchants and processors.

Contract growers produced two-thirds of the tobacco crop in 2009 and 2010 and the same contract model is widely used in cotton, a predominantly smallholder crop where expansion prospects are promising as world cotton prices rise.

A second far-reaching structural change has been the improved performance of the mining industry which had performed poorly for most of the period after independence in 1980. Mining has become the fastest growing sector since 2009, helped by strong international commodity prices. Platinum accounts for 45% of mineral export revenue while gold contributes 22%. With the relative decline of agricultural and manufactured exports, mining now accounts for 64.7% of merchandise exports. The importance of platinum and gold and the emerging importance of diamonds suggest that Zimbabwe is now treading a resource-driven development path.

In the 1990s, the focus was on manufacturing. However the contribution of manufacturing to GDP shrunk from 28% in 2000 to 10% in 2008, before recovering to 17% in 2009. Manufacturing suffers from low capacity utilisation, estimated at 43% in 2009, still an improvement on 2008, when it was below 20%.

The multi-currency system has had an adverse impact on industry competitiveness as manufacturing is heavily import-dependent and 50% of Zimbabwe’s imports come from South Africa. The strengthening of the South African rand against the dollar has increased input costs significantly. While firms continued to shed jobs in 2010, businesses faced strong wage inflation pressures attributable to high living costs. The poverty line for a family of five is estimated at USD 500 a month by Zimbabwe Statistics, which trade unions have set as their target minimum wage.

A related indirect consequence of the multicurrency system is tight liquidity in the banking sector. According to a Business Tendency Survey carried out by Zimbabwe Statistics, mining companies (35% of respondents) and industrial firms (28%) said “cash flow difficulties” were the main constraint on production and profitability.

Industry competitiveness is further undermined by reliance on ageing and often obsolete equipment with frequent interruptions to production and high maintenance costs.

All sectors of the economy continue to be constrained by Zimbabwe’s infrastructure deficit. Power generating capacity is lower than it was in 1980. Power outages are frequent and widespread, exacerbating cost pressures and threatening product quality and delivery schedules. Water supply and fixed line telecommunications are also problems. However, cell phone penetration rates are very high and rising rapidly. The country’s largest mobile phone operator, Econet, boasts more than 5 million subscribers in a population of about 12.5 million.

Overall, Zimbabwe's economy should grow by more than 5% a year in coming years, but there are risks.

There is uncertainty over the global recovery in 2011-12 which could hit the higher commodity prices for gold, platinum and ferrochrome at the heart of Zimbabwe’s growth prospects.

There is also confusion and uncertainty over laws which state that all companies with more than USD 500 000 in assets must submit proposals to ensure that indigenous Zimbabweans own 51% of the business within five years. By the end of 2010, some 620 companies had submitted proposals. Business leaders have opposed the programmes and the government softened its stance by appointing 13 committees to make recommendations on local ownership procedures for different industries.

In March 2011, the government published “Regulations in the Mining Sector”. The Regulations specify that indigenisation policy will have to apply to every business in the sector where the value of assets is equal to USD 1 or above (even though the initial threshold was USD 500 000). The value of the shares to be disposed of will be calculated on the basis of valuation to be agreed between the government and the business concerned and will take into account the ownership of minerals to be exploited or proposed to be exploited

(even if in the ground). The Regulations specify that the entities concerned must submit an indigenisation implementation plan within 45 days (initially this was five years) and that Mining Entities are compelled to dispose of their shares to five designated entities.

But the indigenisation policy and constraints faced by domestic industry make the business environment less conducive for accelerated and sustained growth.

The future direction of the US dollar is also a concern. A strong dollar would further undermine competitiveness, while a weak dollar would boost exports and enhance competitiveness. A weak dollar could stoke inflation however, especially for food and imported fuel.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	7.5	16.5	20.9	28.4	24.5	3.7	5.7	5.8
Public	0.7	4.5	45	50	40	2.2	3.2	3.6
Private	6.7	12	12	18	15	1.6	2.4	2.2
Consumption	96.4	112.9	5.2	2.6	0	5.4	2.6	0
Public	4.6	14.3	15.3	7.4	5.8	2.1	1.1	0.9
Private	91.8	98.6	3.7	1.7	-1.1	3.3	1.5	-0.9
External sector	-3.8	-29.4	-	-	-	-1	-0.5	-0.5
Exports	31.9	35.7	11.2	11.2	7.2	3	3.1	2
Imports	-35.8	-65.1	8.2	7.4	5.2	-4	-3.6	-2.5
Real GDP growth rate	-	-	-	-	-	8.2	7.8	5.4

Source: Data from national sources; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

Higher agricultural output and mineral export revenues have brought much needed steady growth while government stabilisation policies have also played a key role. The macroeconomic outlook could improve if those policies are strengthened and consolidated by focusing on infrastructure and social needs. The government will have to tackle a rigid labour market, land tenure frictions and work to improve the business climate.

Soon after taking office in February 2009 the national unity government published a Short Term Emergency Recovery Programme (STERP) which included measures to “democratise” administrative and government processes, social protection focusing on food security, health and education, and major reform of the agriculture sector. The programme promised to eliminate multiple farm ownership, eradicate inefficiencies, improve gender equality and free up to 2 million hectares of unused or under-used land.

A follow-up programme, STERP II, published in December 2009 set out a three-year macroeconomic and budget framework for 2010-12. This was revised in the 2011 budget when growth forecasts were upgraded and the finance minister set out his “Fair Economy” vision based on the need for shared development and shared transformation.

Under the multi-currency regime the central bank cannot monetise fiscal deficits, compelling the authorities to adopt cash budgeting. The government relies entirely on tax revenues, aid inflows, foreign borrowing and any asset sales for revenues. Monetary policy is largely inert because money supply is determined through the balance-of-payments, while interest rates are set by supply and demand. These constraints place the burden of government action on fiscal and structural policies.

External indebtedness limits access to offshore funding, especially from multilateral agencies. At the end of 2010 the external debt was estimated at 103% of GDP of which the greater part – 78% of GDP – represented accumulated arrears of USD 4.8 billion. The government has an arrears clearance and debt strategy which will be the basis for re-engaging the international donor community.

Fiscal Policy

Following years of fiscal expansion Zimbabwe's budgeting system now requires the authorities, in the words of the finance minister, to “Eat what we kill”. In the two years after the national unity government was set up, the finance ministry struggled to meet government financing requirements. In the 2011 budget, ministries' bids totalled USD 11.3 billion but budget spending, excluding USD 500 million from expected aid grants, is only USD 2.7 billion – a 76% shortfall.

The government needs to restrain expenditure, particularly wages, to maintain a fiscal balance. It will be necessary to maintain the cash budgeting system to underpin stability. Additional donor financing will also be required given the low revenue and grant forecast (Table 4).

Zimbabwe has not been fully paying off external debt. In 2010 only USD 31 million was allocated to debt service out of total obligations of USD 688 million. In addition, domestic arrears to service providers at the end of 2010 amounted to USD 105 million which meant that, on an accruals basis, there was a budget deficit – excluding grants – of some USD 700 million, or 10.4% of GDP.

The International Monetary Fund (IMF), World Bank and African Development Bank (AfDB) have advised Zimbabwe to start to tackle the debt, which is unsustainable. Zimbabwe's external debt is expected to increase to USD 8 billion by 2012. The government has been advised to make a restructuring accord with creditors, starting by negotiating a programme with the IMF. At present there is no international political consensus in support of Zimbabwe seeking Highly Indebted Poor Country (HIPC) status.

Fiscal space could be enlarged through public sector restructuring, including privatisations. Financial reports for six major state-run firms or agencies in the first half of 2010 showed that operating costs totalled 123% of revenues and staff costs 22.4%. In three of the concerns – Agribank, the Grain Marketing Board and the National Railways of Zimbabwe – staff costs are unsustainably high, absorbing 83% of revenue at Agribank in the first half of 2010 and 62% for the Grain Marketing Board. The figures suggest substantial staff retrenchment will be required. In January 2011, the Reserve Bank of Zimbabwe shed three-quarters of the institution's staff, about 1 600 people. The government is making long-term loans to state-owned enterprises whose losses are also being funded by bank loans and through the accumulation of arrears.

Table 4: Public finances (percentage of GDP)							
	2002	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total revenue and grants	18	3.6	2.5	17.3	18.1	18.8	18.2
Tax revenue	16.8	3.4	2.5	15.7	17.2	17.8	17.2
Oil revenue	-	-	-	-	-	-	-
Grants	0	0	0	0.7	0	0.1	0.1
Other revenues	1.2	0.2	0.1	0.9	0.9	0.9	0.9
Total expenditure and net lending (a)	20.7	6.8	4.3	17.4	19.9	21	21.6
Current expenditure	18.9	5.4	4	16.6	18.8	19.5	19.6
Excluding interest	16	3.2	1.3	13.9	16.5	17.3	17.3
Wages and salaries	7.3	1.6	0.8	7.3	8.6	9.2	9.2
Goods and services	5.4	0.5	0.1	3.5	4.2	4.4	4.4
Interest	2.9	2.2	2.6	2.7	2.3	2.1	2.3
Capital expenditure	1.5	1.2	0.3	0.8	1.1	1.5	2
Primary balance	0.2	-1	0.9	2.5	0.6	-0.1	-1.1
Overall balance	-2.7	-3.2	-1.8	-0.1	-1.7	-2.2	-3.4

a. Only major items are reported.

Source: Data from national sources; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

Monetary Policy

Zimbabwe's monetary policy is severely limited by a lack of market liquidity, low savings, volatile deposits and limited availability of credit, the reduced role of the central bank as a lender of last resort and the introduction of the multi-currency system.

The only meaningful measure of monetary aggregates is the level of bank deposits, estimated at USD 2.3 billion at the end of November 2010. Interest rates are extremely high and few banks are willing to lend for longer than six months. In 2009, when the multi-currency regime was launched, the central bank introduced reserve requirements of 10% of liabilities for banks and set an interest rate cap of the London Interbank Offered Rate (Libor) plus 6%. Interest rate caps were abolished at the end of 2009 and the average lending rate rose to 20%, further increasing to 31.6% by December 2010. The 10% statutory reserve ratio was abolished in 2010.

A small number of blue chip corporations can borrow at nominal interest rates of between 6% and 9% a year while the vast majority of borrowers, if they can access credit at all, are forced to pay a minimum of 12-15% interest, often with high fees that can push rates above 25%. The two main reasons for this situation are the imbalance between supply and demand, and the interest rate mark-up reflecting perceived sovereign risk. However, one of the country’s largest banks is now making two-year loans at interest rates in excess of 20% a year.

The 2010 government budget made available USD 7 million for the Reserve Bank of Zimbabwe to revive its role as a lender of last resort. However, with bank deposits totalling USD 2.3 billion at the end of November 2010, the last resort pool is clearly insufficient. The bank will be restructured in 2011 with fewer employees and the establishment of a special purpose vehicle to take over non-core assets and liabilities. The reformed institution will focus on the core business of bank supervision and regulation, acting as lender of last resort, managing national payments and providing economic research and policy advice.

External Position

Despite Zimbabwe's much-publicised economic troubles, the country's economy is open with merchandise trade (exports and imports) accounting for 86% of GDP in 2010.

Historically Zimbabwe has always been an import-dependent economy with each 1% increase in real GDP giving rise to a 1.5% increase in imports.

As a result of the multi-currency regime and trade and exchange control liberalisation at the beginning of 2009, imports of goods and services grew dramatically from USD 2.4 billion in 2007 to USD 4.2 billion in 2010. The economy absorbs disproportionately large amounts of finished products and food and fuel imports are high, as shown in Table 5. In contrast, exports of goods and services grew only 31% over the same period, and the resource gap widened drastically from USD 440 million (7.7% of GDP) to USD 1.5 billion (23% of GDP).

Mineral exports accounted for an estimated 64.7% of total merchandise exports in 2010. Platinum contributed almost half – USD 596 million out of total mineral exports of USD 1.24 billion. Tobacco is the country’s second largest export with a share of 15.9%, followed by gold (14.5%) and diamonds (6%).

Manufactured goods account for 14.3% of the total, excluding cotton lint and ferro-alloys, which are classified as agricultural and mineral exports.

South Africa is by far Zimbabwe’s largest trading partner accounting for almost two-thirds of total imports in 2009 and three-quarters of exports. In 2008 regional trade within the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) accounted for 82% of exports and 86% of imports. South Africa accounted for 82% of Zimbabwe’s imports from SADC countries and bought 62% of Zimbabwe’s exports to the regional group.

The current account of the balance-of-payments deteriorated in 2009/10 as imports grew more rapidly than exports and private transfers declined in 2010. Imports are forecast to stagnate in 2011/12. Although further small declines in private transfers are anticipated, the current account situation should improve in line with increased exports, falling from a deficit of more than USD 1 billion dollars in 2010 to USD 730 million in 2012 (Table 7). Most estimates of capital inflows appear conservative with foreign direct investment (FDI) averaging less than USD 100 million a year from 2010-12 and net portfolio investment inflows slightly higher.

Short-term capital accounts for 88% of private sector inflows but due to a perception of Zimbabwe as a high-credit-risk country, loans are costly as well as short-term. In the first nine months of 2010, short-term loans totalled USD 403 million while long-term loans were only USD 55 million.

Table 8 shows that the capital account is expected to improve markedly from a net outflow of USD 557 million in 2009 to net inflows averaging USD 510 million annually over 2010-12.

External payments forecasts are problematic, partly reflecting global economic uncertainty. Export projections do not take into account the potentially explosive growth of diamond exports that many analysts believe will be achieved. Capital flow projections do not take into account the steep increase in planned investment primarily in mining and infrastructure, especially electricity, which will have to be funded offshore.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-0.5	-5.2	-18.6	-28.8	-25.9	-23.8	-22.3
Exports of goods (f.o.b.)	28.8	32.1	31.8	28.3	29	30.1	29.6
Imports of goods (f.o.b.)	29.4	37.3	50.4	57.1	54.9	53.9	51.8
Services	-3.3	-2.5	-4	-0.6	-0.9	-0.6	-0.3
Factor income	-4	-4.3	-4.3	-3.6	-3	-2.8	-2.7
Current transfers	3.7	7.8	12	16.5	10	9.4	8.4
Current account balance	-4.1	-4.3	-14.9	-16.5	-19.9	-17.7	-16.8

Source: Data from national sources; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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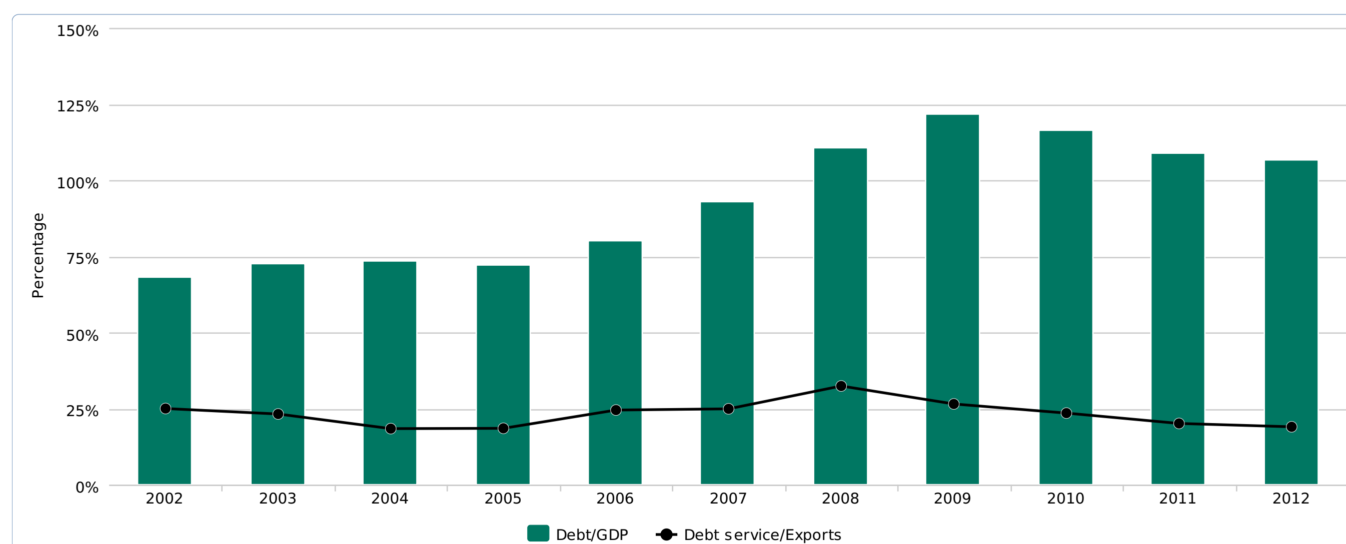
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404712

Structural Issues

Private Sector Development

Ten years of chronic inflation, hyperinflation and underinvestment has left Zimbabwe with an uncompetitive economy. The country was ranked fourth from the bottom out of 139 countries in the World Economic Forum's 2010-11 Global Competitiveness Index. For this reason, a weak US dollar has its allure since the dollar price of Zimbabwe's commodity exports would rise while manufactured products would become more attractive regionally and domestically. The downside would be increased prices for key imports, especially fuel and food, which are mainly paid for in South African rand.

With imported goods readily available, Zimbabwean industrialists cannot pass on cost increases to customers as they could in the past. Similarly, exporters cannot rely on a weak exchange rate to ensure competitiveness abroad. As Zimbabwe is not in a position to adjust its exchange rate, restoring and enhancing competitiveness will depend on price restraint, productivity gains, investment in infrastructure and micro-level business reforms designed to reduce business costs.

Reforms are urgent. In the World Bank's 2011 *Doing Business* report, Zimbabwe was ranked 157th out of 183 countries. Among regional competitors, only Angola (163rd) and Democratic Republic of Congo (175th) fared worse.

In 2010, Zimbabwe implemented two important business reforms. First, to ease the opening of businesses, it reduced registration fees and speeded up the name search process, and company and tax registration. Second, the corporate income tax rate was lowered to 25% from 30%. However, there is scope for more change, especially regulations on cross-border trade, construction permits and starting and closing a business. These are all areas where Zimbabwe had a low ranking in the *Doing Business* report.

The Zimbabwe Investment Authority (ZIA) was relaunched in December 2010 as a One Stop Shop with the aim of streamlining and harmonising the handling of investment proposals. Before, the processing of an investment licence could take up to 49 days.

The ZIA approved 124 projects in the first nine months of 2010, up from 73 in the same period of 2009. Approvals for the nine months of 2010 were valued at USD 387 million, with USD 258 million going to the construction industry, followed by USD 83 million for mining.

A number of major mining development or expansion projects were also announced in 2010:

• Rio Tinto Zimbabwe said it would increase annual gold production nine-fold to 112 000 ounces by opening an open-cast mine at the Cam & Motor Mine in Eiffel Flats in the Mashonaland West province of the country. It has a resource of 10 million tonnes of ore which should yield 320 000 ounces of gold. The company estimates there are at least 16 million tonnes more of gold-bearing ore which would yield 500 000 ounces. The plan is to produce 70 000 ounces of gold annually for 12 years. It also plans to expand production at the Renco gold mine to produce 42 000 ounces a year.

• South African-owned Metallon Gold – Zimbabwe's largest gold producer – plans to expand annual production to around 1 million ounces by 2015.

• Rio Tinto Zimbabwe is undertaking a feasibility study with South African investors for a USD 3 billion thermal power station in central Zimbabwe that will draw on its 1.3 billion tonnes of coal reserves at Rio Zimbabwe's Gokwe coalfield. The power station would produce 1 400 mega watts (MW) of electricity starting in 2014.

• Murowa Diamonds, owned by Rio Tinto plc, is working on a USD 300 million expansion to increase output six-fold to 1.8 million carats of gem-quality diamonds annually. The company produced 124 000 carats in 2010 down from 263 000 carats in 2008.

• Zimplats Holdings, a subsidiary of South Africa's Impala Platinum, is considering building a metals refinery at a cost of some USD 2 billion. Zimbabwe has the world's second-largest known reserves of platinum after South Africa and Zimplats had previously announced plans for a USD 500 million expansion of its Ngezi mine near Chegutu in central Zimbabwe. This increased annual platinum output to 270 000 ounces from 180 000 ounces, taking its total investment in Zimbabwe to over USD 1 billion.

• In November 2010, Anglo Platinum opened its Unki platinum mine which will have annual output from 2011 of 60 000 ounces.

Other Recent Developments

There are 25 banking institutions, 16 asset management companies and 107 microfinance and moneylending institutions operating under central bank supervision. By September 2010, 15 of the banks were fully compliant with minimum paid-up equity capital requirements (USD 12.5 million for commercial banks) that took effect 31 March 2010. The compliance deadline was subsequently extended to 31 December 2010 and a further extension is likely. The non-compliant institutions are smaller, fringe players and the central bank is confident that the system is "sound" with no systemic threats to financial sector stability. Bank lending is constrained by the absence of a lender of last resort and the lack of an active interbank market where banks can cover liquid shortfalls, because there are no acceptable collateral instruments. There is neither an active money market nor a gilts market (*i.e.* government or public sector bonds) though there has been some revival in new corporate bonds.

During 2010, loans and advances increased 122% to USD 1.53 billion and the advance-deposit ratio increased from 50% at the start of the year to 66%, compared with regional norms of 70%-90%. The ratio of non-performing loans increased in the first half of 2010 from 1.8% to 3.2%.

The financial sector, especially banking, faces two main challenges. First, although most banks have met minimum capital requirements, bank capital in Zimbabwe is largely held in real estate. It is not easily accessible and at risk from property market value fluctuations. In 2010 this forced some banks to write down their capital. The second challenge relates to the absence of a credit bureau. Household debt in the form of credit provided by retailers and distributors to buy consumer durables and motor vehicles has mushroomed. This could pose a threat to market stability unless carefully monitored. Discussions are in progress to establish a credit bureau.

The Zimbabwe Stock Exchange (ZSE), once one of the largest in sub-Saharan Africa after South Africa and Nigeria, closed at the height of the hyperinflation crisis in November 2008. It resumed operations in February 2009 with prices listed in US dollars for the first time and new stock market indices (February 2009 = 100). At present, 78 companies are listed, though three are suspended. Of the actively quoted companies, 72 are industrial shares and three mining counters. The ZSE index of industrial share prices peaked at 155 in October 2009. As a result of low domestic savings, most of which were wiped out by hyperinflation, trading activity is low. However, since the exchange reopened, foreign investors have become active. Initial uncertainty over indigenisation regulations introduced in February 2010 led to a selloff of Zimbabwe equities and a steep fall of the industrials index. It recovered to end 2010 at about 150, virtually unchanged on the year.

Financing problems lie at the heart of Zimbabwe's infrastructure deficit in transport, power, water and telecommunications. More than 80% of the 88 100 kilometers of roads are in need of rehabilitation. The railway network of Zimbabwe has also seen a dramatic decline. The amount of freight carried dropped from more than 14 million tons in 1990 to 9.4 million tons in 2000 and 3.8 million tons in 2008.

Water and sanitation equipment across the country is badly dilapidated.

Infrastructure rehabilitation is therefore a government priority and forms one of the pillars of the 2011 budget. Major renovation of roads, bridges, rail and airports is planned. Donors have pledged additional support for selected rehabilitation projects in the water, sanitation and energy sectors.

During the economic crisis there was minimal investment in utilities and in 2010, Zimbabwe, with a population of 12 million people, had less generating capacity than it did when it became independent in 1980 when there were only 7 million people.

At the end of 2010, domestic power generation was 1 200 MW against demand of 2 200 MW and installed capacity of 1 950 MW. The Kariba South power station on the Zambezi River was generating 650 MW against installed capacity of 750 MW, while the Hwange thermal power station was providing 550 MW, well below its capacity of 920 MW. In 2011, generation is expected to increase to 1 650 MW. This will be achieved through an expansion of power generation at Hwange to 780 MW, restoring electricity production at Kariba to full capacity (750 MW) and another 120 MW from the three small thermal stations.

New power projects include the Lupane gas-fired plant with capacity of 250 MW, expansion of Hwange to generate an additional 600 MW, a 300 MW expansion at Kariba and the Gokwe North thermal station which would produce 1 400 MW. Implementation of these projects would double installed capacity to 3 950 MW at an estimated cost of USD 2.4 billion.

Electricity is sold at a loss. Generation/distribution costs are 9.5 US cents per kilowatt hour (kwh) and the national average tariff is 7.53 cents per kwh. The regional average tariff was 8.8 cents a unit in 2009. However, the loss is understated as various maintenance activities are not being undertaken. Zimbabwe Electricity Supply Authority (ZESA) owes some USD 300 million to suppliers at home and in neighbouring countries, but

is owed about USD 360 million by household and industrial/commercial consumers, including mining companies. It believes it can collect the bulk of the arrears.

Total sales in 2009 came to 7 050 gigawatts – about a third below the peak of 2005. Consumption is forecast to grow by an average of more than 8% a year up to 2020. Thereafter growth is expected to decline to just over 3% annually until 2030 when consumption is forecast to have trebled from current levels – though be just over double the 2005 peak.

Bringing down the infrastructure barriers is a priority for sustainable rapid economic recovery and growth.

Emerging Economic Partnerships

South Africa, one of the world's key emerging powers, is by far Zimbabwe's largest trade partner, dominating imports and exports and traditionally being the largest foreign investor. It is particularly visible in gold and platinum mining.

Metallon Gold of South Africa is the country’s largest gold producer and all three platinum producers and exporters are South African-controlled. The neighbouring nation is becoming increasingly prominent in the retail sector, the Pick 'N Pay group having recently increased its stake in TM Supermarkets, one of Zimbabwe's two main supermarket chains, to 49%. Leading South African retailers Edgars, Truworths, Woolworths and Shoprite are also prominent. Some have recently announced expansion plans.

China has become a more important trade partner but its market share is still modest, with 4% of imports and 3.4% of exports. India accounts for 0.85% of imports and 1.4% of exports while the United Arab Emirates provide 0.6% of imports and buy 1.2% of Zimbabwe’s exports.

China has provided substantial financial support including USD 200 million in credit from China Export-Import Bank to finance agro-inputs and USD 60 million for a local company, Farmers World, in 2007. State-owned industries are increasingly reliant on Chinese funding with loans and credits worth more than USD 330 million between 2002 and 2007. China’s largest direct investment was the takeover of the main ferrochrome exporter Zimasco by Sinosteel, while there are a large number of small- and medium-sized Chinese-owned businesses in mining, retail, and cotton and tobacco trading.

India is a relatively minor player but along with Russia has plans to expand in the diamond sector. Essar African Holdings, Indian owned but registered in Mauritius, bought a controlling stake in the state-owned Zimbabwe Iron and Steel Company (Zisco) at the end of 2010.

Political Context

Following contested election results in 2008, the three main political parties signed an agreement in September 2008 and set up a national unity government in February 2009.

The Zimbabwe African Union-Patriotic Front led by President Robert Mugabe, shares power with the two political factions of Movement for Democratic Change (MDC), one led by Prime Minister Morgan Tsvangirai, and the other at the time led by Deputy Prime Minister Arthur Mutambara.

Under the 2008 accord, the national unity government was to organise new elections within two years. A new constitution was supposed to have been drawn up by the end of 2010 and put to a referendum for approval. However this is behind schedule. A recent Summit of the Organ Troika on Politics, Defence and Security of the SADC held at the end of March 2011 in Zambia, noted the insufficient progress and expressed impatience with the implementation of the GPA. The Summit resolved inter alia that the Inclusive Government in Zimbabwe should complete all the steps necessary for holding of elections including the finalisation of the constitutional amendment and the referendum.

There are concerns within the business community that there is a real risk that the economic gains made could be blown off course by political tensions that may arise out of this process.

Social Context and Human Resource Development

The 2010 UN Development Programme (UNDP) Human Development Report ranked Zimbabwe last out of 169 countries, though it did not have accurate data for most social indicators. Zimbabwe, Democratic Republic of Congo and Zambia were the three nations where the Human Development Index is lower now than in 1970. Zimbabwe's score peaked in 1990 but now it is little more than a third of the average for sub-Saharan Africa.

Zimbabwe has a very high Gini inequality coefficient of 50.1 and poverty levels are high. According to the UNDP report, not only is Zimbabwe one of the world's poorest countries, it is 25% poorer than it was in 1970.

According to the Zimbabwe Status Report on the Millennium Development Goals (MDGs) 2010 produced by the UNDP, 72% of the population was living below the poverty line in 2003 and the proportion is estimated to have since increased to above 80%. There are no accurate employment figures but the status report estimates 80% of the population are unemployed.

Not all social indicators deteriorated during the downturn. Primary school attendance was estimated at 91%. And while this is well below the 2002 peak of 98.5%, it is still a very high figure for a low income country. There has been a gradual decline in HIV and AIDS. The estimated prevalence among those aged above 15 fell from 23.7% in 2001 to 13.7% by 2009.

Nonetheless, in addition to economic stabilisation, significant efforts are required to ensure progress towards meeting the MDGs by the target date of 2015.

Notes

1. The multi-currency system, introduced in 2009 recognises five currencies as legal tender – the US dollar, the rand, sterling, the euro and the Botswana pula. Banks estimate that 80% of all transactions are in US dollars. Government accounts, the national budget and public sector wages, salaries and fees are designated in the US currency. The rand is widely used for transactions in the Southern Zimbabwe and in the second city of Bulawayo.