Zimbabwe

After a decade of economic decline, the introduction of a multi-currency regime and other policies halted hyper-inflation and put the economy on the route to recovery, though the government must act to sustain recent expansion.

The national unity government has to organise elections and businessmen are wary about conserving the economic momentum – driven by higher mining and agriculture – that produced estimated growth of 8.2% in 2010.

South Africa is Zimbabwe's main emerging power trade partner followed by China and India. The parterships have provided foreign direct investment (FDI) in mining and deepened co-operation beyond trade and aid.

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".

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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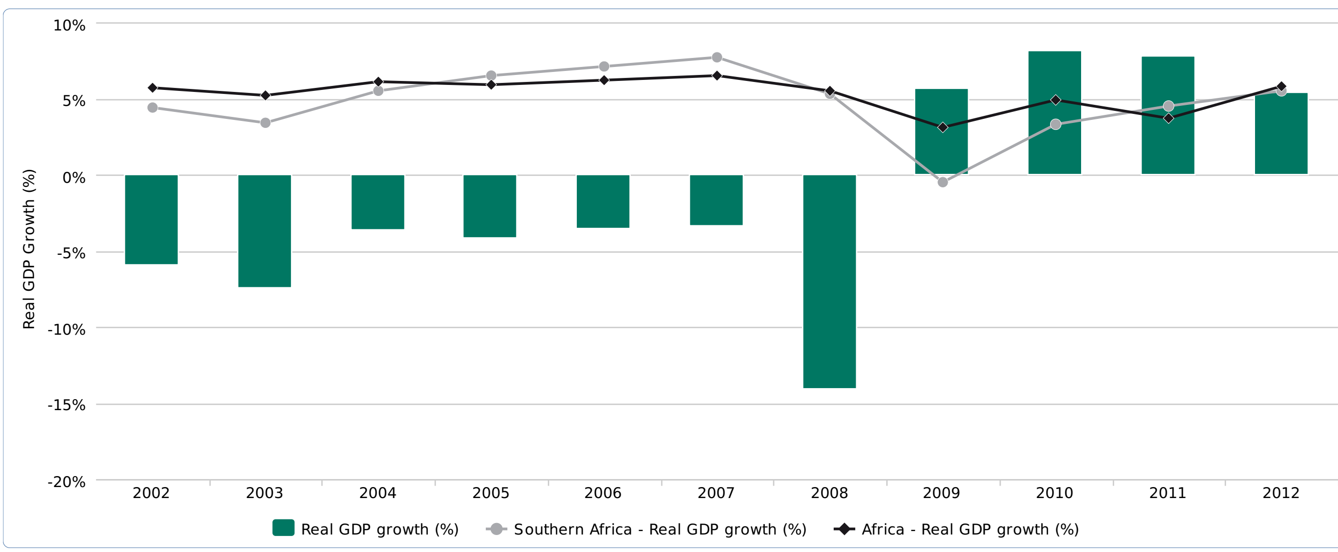
Figure 1: Real GDP growth (S)



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

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

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