

## Background

**B**ritain annexed Southern Rhodesia from the South Africa Company in 1923. In 1961 a constitution was formulated to keep whites in power. In 1965 the government unilaterally declared its independence, but Britain did not recognise the act and demanded voting rights for the black African majority in the country (then called Rhodesia). UN sanctions and a guerrilla uprising finally led to free elections in 1979 and independence as Zimbabwe in 1980. Robert Mugabe, the nation's first prime minister, has been the country's only ruler. Mugabe and his party won the elections held in 2000 and 2002 amid accusations of state-sponsored violence and intimidation



## Government

<b>Government type:</b>	Parliamentary democracy
<b>Capital:</b>	Harare.
<b>Independence:</b>	18 April 1980 (from UK).
<b>Chief of state:</b>	Executive President Robert Gabriel Mugabe (since 31 December 1987).
<b>Elections:</b>	<p>Presidential elections: Candidates nominated by at least 10 registered voters (minimum of one from each province) and elected by popular vote. Last held: 9 and 10 March 2002 Next election: 2008.</p>

Source: CIA World Factbook 2003

## People

<b>Population:</b>	12 576 742 (July 2003 est)
<b>Population growth rate:</b>	0.83% (2003 est)
<b>Life expectancy at birth:</b>	<p>Total population: 39.01 years male: 40.09 years female: 37.89 years (2003 est)</p>
<b>Ethnic groups:</b>	African 98% (Shona 82%, Ndebele 14%, other 2%), mixed and Asian 1%, white less than 1%
<b>Religions:</b>	Syncretic (part Christian, part indigenous beliefs) 50%, Christian 25%, indigenous beliefs 24%, Muslim and other 1%.
<b>Languages:</b>	English (official), Shona, Sindebele, many minor dialects.
<b>Adult literacy rate:</b>	<p>Definition: % of population aged 15 and over that can read and write English.</p> <p>2000: 90.7 %.</p>

Source: CIA World Factbook 2003, UNDP Human Development Report 2003

## Geography

<b>Area:</b>	<p>Total: 390 580 sq km Land: 386 670 sq km Water: 3 910 sq km</p>
<b>Land boundaries:</b>	<p>Total: 3 066 km. Border countries: Botswana 813 km, Mozambique 1 231 km, South Africa 225 km, and Zambia 797 km.</p>
<b>Climate:</b>	Tropical; moderated by altitude; rainy season (November to March).
<b>Terrain:</b>	Mostly high plateau with higher central plateau (highveld); mountains in east.
<b>Natural resources:</b>	Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin and platinum group metals.
<b>Land use:</b>	<p>Arable land: 8% Permanent crops: 1% Other: 91% (1998 est).</p>
<b>Irrigated land:</b>	1 170 sq km (1998 est)
<b>Natural hazards:</b>	Recurring droughts, floods and severe storms are rare.
<b>Environment:</b>	Deforestation; soil erosion; land degradation; air and water pollution; the black rhinoceros herd – once the largest concentration of the species in the world – has been significantly reduced by poaching; poor mining practices have led to toxic waste and heavy metal pollution.

Source: CIA World Factbook 2003

**Health**

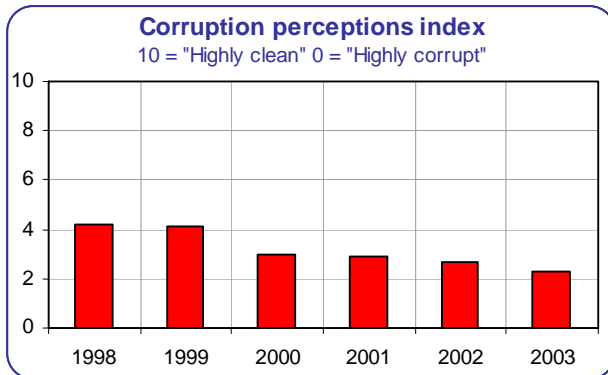
**People living with HIV/Aids:** Adults: (age 15-49) 2001: 33.73%  
 Women: (age 15-49) 2001: 1 200 000  
 Children: (age 0-14) 2001: 240 000

**Tuberculosis cases (per 100 000 people):** 2002: 291

**Undernourished people (1998/00):** 38% of total population

Source: UNDP Human Development Report 2003

**Corruption perceptions index (2003)**



**2003 score: 2.3** (where 10 is "highly clean" and 0 is "highly corrupt").

**2003 rank: 106** (133 countries surveyed, 1 = least corrupt, 133 = most corrupt).

(The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).

Source: Transparency International

**Restrictions on capital flows**

- 50% of export earnings are surrendered, with the balance being made available based on a priority import list.
- Dividend remittances in respect of projects approved by the Zimbabwe Investment Centre are allowed at 100% of after tax profits. Capital is blocked and may be remitted through 20-year 4% government bonds, denominated in Z\$.
- Capital is paid in 10 equal annual instalments at the end of years 11 to 20. Interest is 4% per annum, tax free and payable half-yearly.

Source: Zimbabwe Investment Centre

**Taxation**

- Corporate tax rate: 30%.
- Dividends earned by non-residents are subject to a withholding tax of 15% for stock exchange listed companies and 20% in the case of other companies.
- Personal income tax rate: 0% - 45% (sliding scale)

Source: Zimbabwe Investment Centre

**Sovereign Credit Rating**

**Standard & Poors:**

**Local currency:** not rated

**Foreign currency:** not rated

Long-term definition: "A" indicates a strong capacity to meet financial commitments. "+" indicates upper end of category.

Short-term definition: "A-1" indicates strong capacity to meet financial commitments and is the highest short-term rating category offered by S&P.

Outlook definition: "Stable" indicates that the rating is unlikely to change over the next 2 to 3 years.

**Moody's Investor** not rated

**Service:**

**Botswana** not rated

**Government:**

Long-term definition: "A" indicates good credit quality and "1" indicates top-end and "2" mid-range within category.

Short-term definition: "P-1" indicates superior credit quality and a very strong capacity for timely payment.

Outlook definition: "Stable" indicates that the rating is unlikely to change over medium-term.

**Human development**

**HDI Ranking 2001**

**145 out of 175 countries**

(1=most developed, 175= least developed)

<b>Norway</b>	<b>1</b>
Seychelles	36
Mauritius	62
South Africa	111
Gabon	118
Egypt	120
Namibia	124
Botswana	125
Ghana	129
Swaziland	133
Lesotho	137
<b>Zimbabwe</b>	<b>145</b>
Kenya	146
Uganda	147
Madagascar	149
Nigeria	152
Tanzania	160
Ivory Coast	161
Malawi	162
Zambia	163
Angola	164
DRC	167
Mozambique	170
<b>Sierra Leone</b>	<b>175</b>

The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.

Source: UNDP Human Development Report 2003

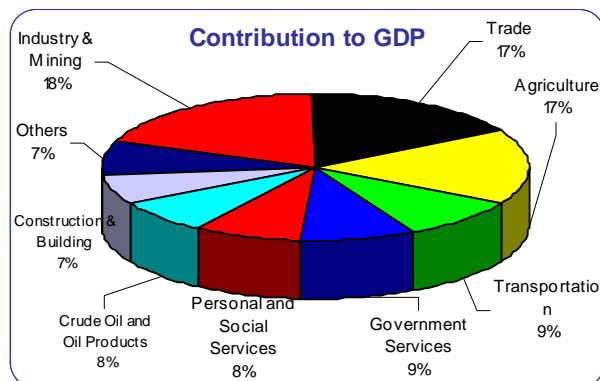
		1997	1998	1999	2000	2001	2002	2003e
<b>Population</b>	(million)	12.3	12.7	13.1	12.6	12.9	13.4	12.6
<b>Nominal GDP<sup>1</sup></b>	(US\$m)	8 417	9 300	9 000	8 600	8 000	7 100	6 800
<b>GDP/head<sup>1</sup></b>	(US\$)	684	732	687	683	620	530	540
<b>Exchange reserves<sup>2</sup> - excluding gold</b>	(US\$m)	160.1	54.5	46.7	22.1	20.0	15.1	10
<b>Import cover</b>	(months)	0.8	0.3	0.2	0.1	0.1	0.1	0.1
<b>External debt<sup>2</sup></b>	(US\$m)	4 966	5 003	5 022	5 100	5 120	5 169	5 440
<b>% of GDP</b>	%	59	53.8	55.8	59.3	64.0	72.8	80

1) Year beginning in July. 2) End of period. 3) Preliminary or estimates.

e = Standard bank

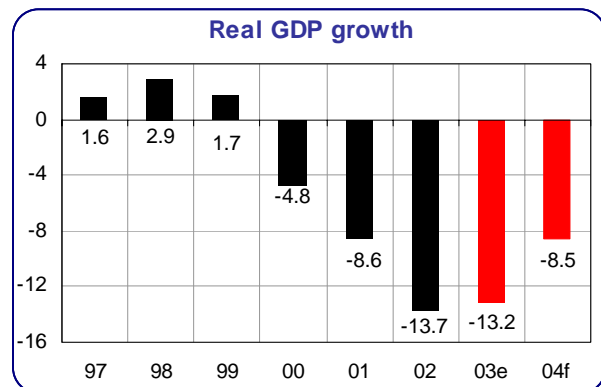
## Economic structure

- Macroeconomic instability is now well entrenched in Zimbabwe, disrupting activities in all sectors of the economy. As a result the quality of data available on the economy is suspect, as it is not adjusted for the distortions.
- Zimbabwe's economic crisis is brought about by inappropriate economic policies resulting in a severe contraction in private sector activity and little investment.
- Agriculture, manufacturing and distribution, hotels and restaurants are important sectors, accounting for 20%, 19% and 18% respectively. Structural damage to the economy might have altered the relative shares.
- Agriculture is the cornerstone of the economy, employing 26% of the workforce (before land invasions) as well as the largest foreign exchange earner. The main agricultural crops are maize, sugarcane, cotton, tobacco, wheat, coffee, groundnuts, soybeans and sorghum. Farming of livestock, such as cattle, sheep and pigs, and milk production, are further contributors to agricultural production. However, farm occupations, lack of credit and agricultural inputs have reduced output.
- The manufacturing sector's products include timber, cement, chemicals, clothing and footwear, foodstuffs and beverages.
- Mining industries are gold, coal, copper, asbestos, cobalt, chrome ore, iron ore and nickel.
- Zimbabwe has one of the better-diversified economies in sub-Saharan Africa with a high export component. However, the deteriorating economic situation has severely limited overall economic capacity.



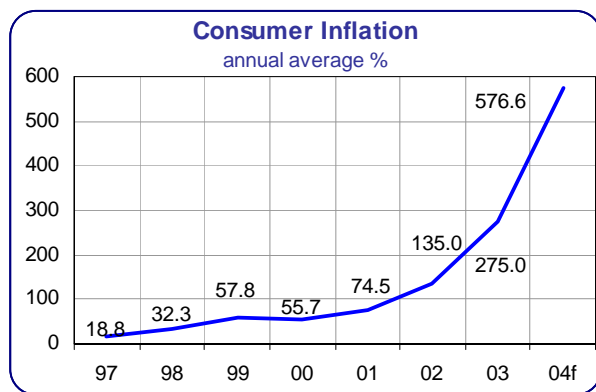
## Real GDP growth

- Prior to 2000 Zimbabwe's economy grew at positive growth rates despite import and foreign exchange controls. Since 1999 the economy has been in recession, declining by a cumulative 40%.
- Decline in agriculture has been particularly pronounced due to the effects of drought, land reform and shortages of inputs. The IMF estimates the overall decline in agricultural output at 70% since 2000.
- The manufacturing sector has similarly declined particularly the agro-industrial sector due to its link with the agricultural sector. Additionally, price and other administrative controls including shortages of foreign exchange have constrained growth in the sector.
- Formal sector employment has suffered as output declined in manufacturing, mining and construction. Some estimates place the decline in formal employment at one-third.
- Towards the end of 2003 the government outlined new measures to arrest the situation and return macroeconomic stability to Zimbabwe. The measures included raising interest rates through a dual interest rate regime, freeing the exchange rate to some extent and restraining government spending.
- If fully implemented the policy measure would help reduce the decline in the economic growth rate, which the government estimates will decline to -8.5% in 2004 against an estimate of -13.2% in 2003. However, any move away from the policy will lead to higher than envisaged declines in growth.



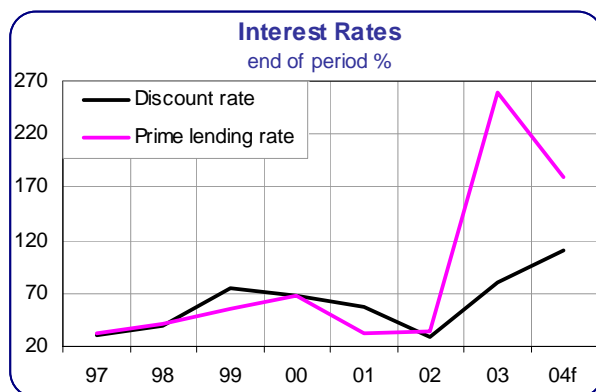
## Consumer inflation

- Loose fiscal and monetary policies coupled with supply shortages occasioned by bottlenecks in the economy, such as foreign currency shortages, price controls and administrative controls, have caused inflation to soar to hyper-inflationary levels.
- Average annual inflation in 2003 was 385% and we estimate it will rise above 550% in 2004. Inflation is fuelled by government's recourse to central bank financing of domestic debt and a low interest lending facility to productive sectors leading to excessive growth in money supply.
- Policy measures announced in December 2003 by the reserve bank to control inflation are likely to have limited effect on overall inflation as they are unaccompanied by appropriate fiscal policy, particularly in the area of price controls.

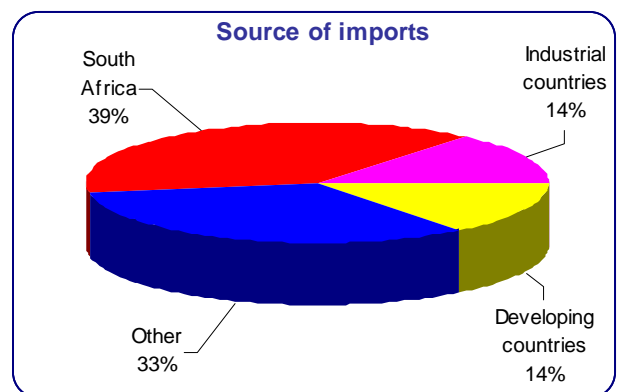
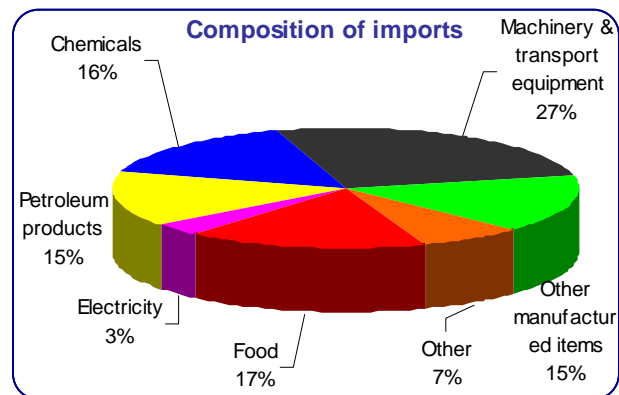
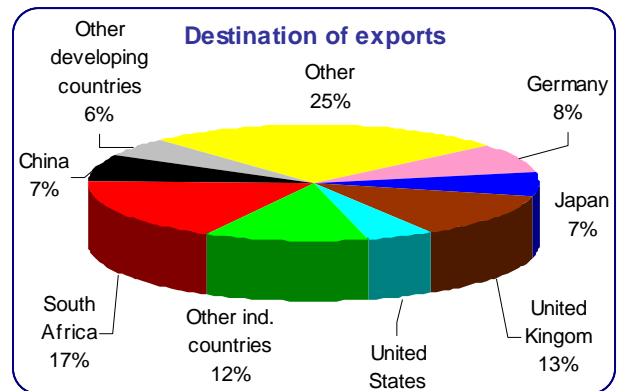
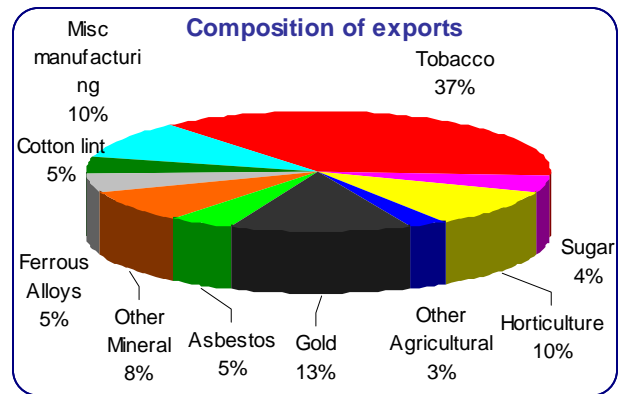


## Interest rates

- The monetary authorities have actively driven money market interest rates down to artificially low levels in an attempt to stimulate the economy. This resulted in highly negative real interest rates distorting local credit and savings markets.
- Monetary policy has moved towards the adoption of a dual interest rate regime, whereby lending to selected productive economic sectors is at concessional rates of 30%, while interest rates applicable to all other borrowing is market determined.
- At the end of December 2003 prime rates averaged 260% and the discount rate was 81%.

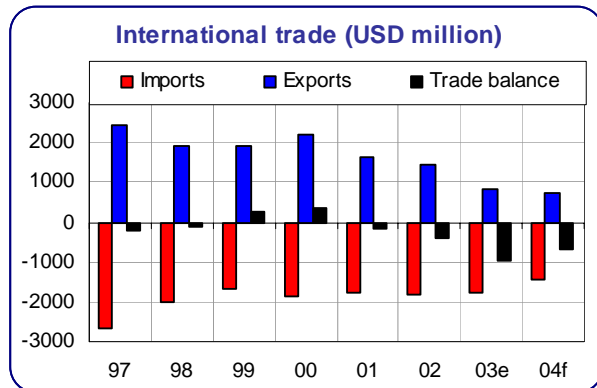


## International trade



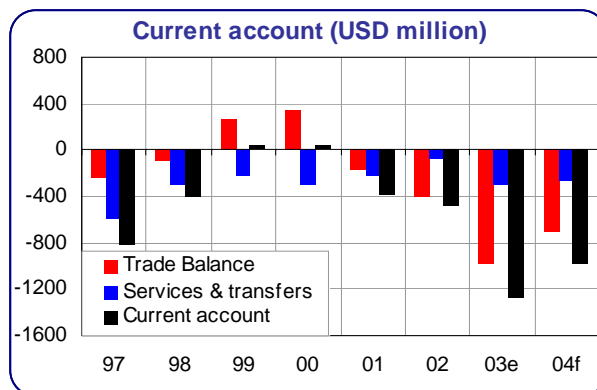
2001 data

- Tobacco is Zimbabwe's main export accounting for 37% of total exports in 2001. Other important exports are horticulture, minerals and manufactured items.
- South Africa is the single largest source of imports accounting for 39% of total imports. The next largest is the United Kingdom at 3%. It would seem the lack of access to foreign exchange has hurt international trade resulting in an explosion of cross border trade with South Africa.
- The trade deficit has been progressively widening as exports fell more sharply compared to imports. The declines in output of the major export earners tobacco and gold will result in further widening of the trade deficit.
- Food's share of imports has increased from 4% to 17% indicating the sharp decline in local food production and agricultural output.



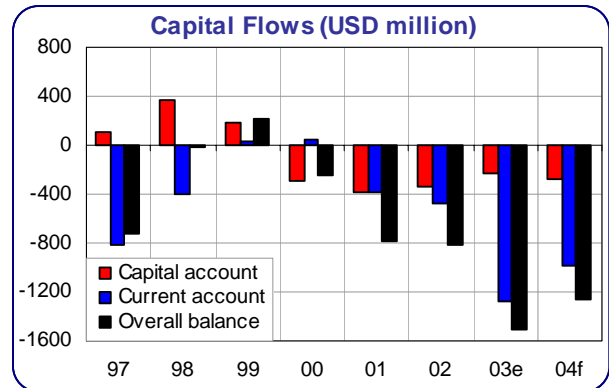
## Current account

- Net outflows on the services and income accounts have dominated private transfers. Zimbabwe receives negligible official transfers in the form of aid to support the current account.
- An increase in net outflows on the services and income accounts eroded the 2000 trade surplus, creating a current account deficit. These deficits have since widened on the back of a deteriorating trade account and negative services and transfer accounts.
- Declines in service receipts since 2000 have been attributed to the contraction in tourism.
- The outlook for the current account in 2004 and beyond is one of widening of deficits.

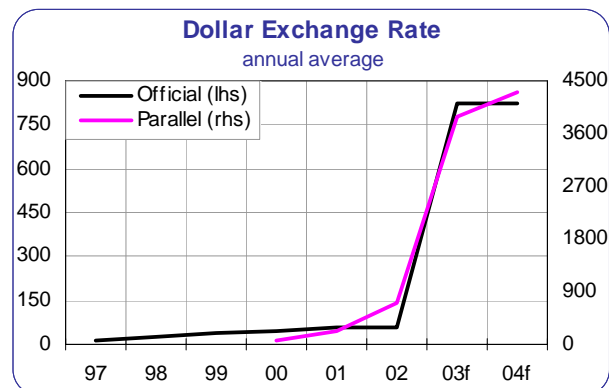


## Capital flows

- Given Zimbabwe's standoff with the IMF and international donors, foreign aid and debt flows have fallen sharply in recent years. In addition, private sector capital inflows for investment have virtually stopped.
- As a result of the wide current account deficit and capital outflows the country's foreign reserves have declined and are estimated to cover less than one month of imports.
- Total external debt was estimated at US\$5.2bn at the end of 2002, which is about 316% of total exports. Zimbabwe is in arrears as it is unable to make repayments.



## Dollar exchange rate



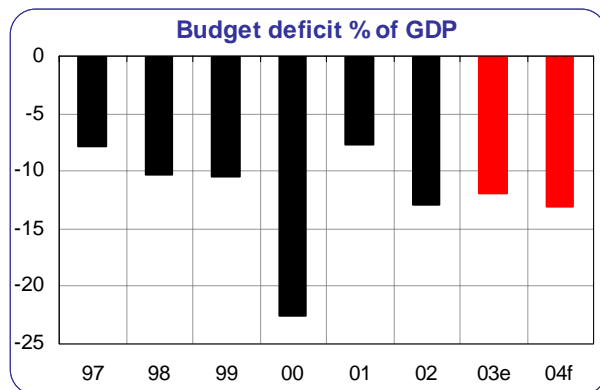
- Following structural reforms in 1994, the Z\$ was allowed to float, with the reserve bank having the power to intervene in the market. Due to the political and economic crisis that started in 1997, the Z\$ depreciated sharply against the US\$. After falling to Z\$44/US\$, the central bank intervened and pegged the Z\$ at Z\$38/US\$ in 1999, effectively reversing the earlier free-floating policy.
- In August 2000, the currency was further devalued to Z\$55/US\$ and again in January 2003 to Z\$824/US\$ as the previous official exchange rate was overvalued. In the hyper-inflationary environment, the official rate for the Zimbabwe dollar remains overvalued.
- A parallel market for the Zimbabwe dollar emerged which depreciated sharply in 2002 and 2003. As part of the policy measures announced by the reserve bank in

December a new officially sanctioned auction market was created which began operations in January 2004. There are now three rates for the Zimbabwe dollar.

- The auction rate allows the dollar to be traded at market-determined rates based on an auction system. The auction is, however, controlled by the reserve bank and initial auction results suggest the reserve bank is intervening by maintaining the exchange rate at about Z\$4 200/US\$. The parallel market, after a brief period of appreciation, has been rejuvenated which suggests the constraints in accessing the auction market are forcing people to the parallel market.
- Further exchange rate depreciation is envisaged on the parallel and auction markets, as traditional export inflows are not expected to recover this year.

## Government finances

- The weak state of the economy has resulted in declining tax revenues in real terms for the government. The economic distortions have probably led to businesses not recording all their activities contributing to even lower tax revenues.
- Traditionally the bulk of government revenue is derived from domestic taxes and customs duties. The high inflation rate helps conceal the full extent of damage on tax revenues.
- The withdrawal of donor assistance and virtually no avenues open to the Zimbabwean Government to access international debt markets, has left it with little option but to borrow from local sources to finance the budget deficit. The result is a spiral effect where government borrowing shrinks the economy but government borrows even more.



- Domestic demands on the fiscus and the shortage of foreign exchange have prevented government from meeting its commitments on debt repayments. The situation has deteriorated to the extent that the IMF initiated compulsory expulsion procedures.
- Government debt levels are at such a high level that if nominal interest rates were allowed to rise to levels where real interest rates are positive, the government would default on its local debt.

## Economic outlook

- The economic crisis continues to deepen with many firms closing down or scaling back operations due to economic and political instability. Unemployment is

estimated at 60% and per capita GDP continues to decline sharply.

- The unstable political environment following the disputed elections and various legal amendments that have been passed by parliament, have undermined private sector confidence. With sentiment being so negative it will require a lot of effort to restore investor confidence.
- Foreign debt repayments have ceased and international organisations, such as the World Bank and IMF, have withdrawn their financial assistance to the country. It is unlikely that foreign donors will return in the foreseeable future.
- The foreign exchange shortages remain critical and have spawned the parallel foreign exchange market, undermining the recently introduced auction system.
- Loose monetary and fiscal policies will contribute to excessive money supply growth leading to inflationary pressures. The hyper-inflationary environment coupled with price and administrative controls led to macro economic instability.
- The many policy changes and reversals contribute to an air of uncertainty making private sector planning almost impossible.

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