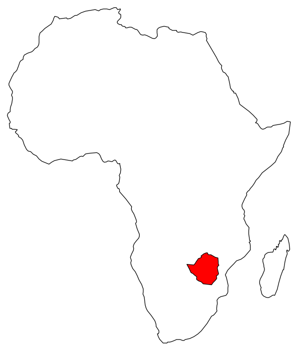
Annual profile: Zimbabwe

January 2003



Background

Britain 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 last elections held in 2000 and 2002 amid accusations of state-sponsored violence and intimidation

Government

Government type: Parliamentary democracy.

Capital: Harare.

Independence: 18 April 1980 (from UK).

Chief of state: Executive President Robert Gabriel Mugabe (since 31 December 1987).

Elections: Presidential elections: Candidates nominated with a nomination paper signed by at least 10 registered voters (at least one from each province) and elected by popular vote.
Election last held: 9 and 10 March 2002
Next election: 2008.
Source: CIA World Factbook 2002

People

Population: 13.4 million

Population growth rate: 0.05% (2002 est)

Life expectancy at birth:
Total population: 36.5 years
male: 35.1 years
female: 37.87 years (2002 est)

Ethnic groups: African 98% (Shona 82%, Ndebele 14%, other 2%), mixed and Asian 1%, white less than 1%

Religions: Syncretic (part Christian, part indigenous beliefs) 50%, Christian 25%, indigenous beliefs 24%, Muslim and other 1%.

Languages: English (official), Shona, Sindebele (the language of the Ndebele, sometimes called Ndebele), many minor tribal dialects.

Adult literacy rate: Definition: % of population aged 15 and over that can read and write English.
2000: 88.7%.
Source: CIA World Factbook 2002, UNDP Human Development Report 2002

Geography

Area:
Total: 390 580 sq km.
Land: 386 670 sq km.
Water: 3 910 sq km.

Land boundaries:
Total: 3 066 km.
Border countries: Botswana 813 km, Mozambique 1 231 km, South Africa 225 km, and Zambia 797 km.

Coastline: Landlocked.

Climate: Tropical; moderated by altitude; rainy season (November to March).

Terrain:
Mostly high plateau with higher central plateau (highveld); mountains in east.

Natural resources:
Coal, chromium ore, asbestos, gold, nickel, copper, iron ore, vanadium, lithium, tin and platinum group metals.

Land use:
Arable land: 8%.
Permanent crops: 1%.
Other: 91% (1998 est.).

Irrigated land: 1 170 sq km (1998 est).

Natural hazards: Recurring droughts; floods and severe storms are rare.

Environment:
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 2002

Standard Bank

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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):
1999: 435

Undernourished people (1997/99):
39% of total population.

Source: UNDP Human Development Report 2002

Corruption perceptions index (2002)

Score: 2.7 (where 10 is "highly clean" and 0 is "highly corrupt").
Place: 71 (102 countries surveyed, 1 = least corrupt, 102 = 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% - 40% (sliding scale)

Source: Zimbabwe Investment Centre

Human development

UNDP HDI Ranking
128 out of 173 countries
(1=most developed, 173= least developed)

Norway	**1**
Seychelles	47
Mauritius	67
South Africa	107
Gabon	117
Namibia	122
Swaziland	125
Botswana	126
Zimbabwe	**128**
Ghana	129
Lesotho	132
Kenya	134
Madagascar	147
Nigeria	148
Uganda	150
Tanzania	151
Zambia	153
DRC	155
Ivory Coast	156
Angola	161
Malawi	163
Mozambique	170
Sierra Leone	**173**

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.

Sovereign credit rating

Standard & Poors

Local currency
Long-term: not rated
Short-term: not rated

Foreign currency
Long-term: not rated
Short-term: not rated

Moody's Investor Service

Foreign currency debt: not rated
Foreign currency bank deposits: not rated

Zimbabwe Government
Issuer rating –Foreign currency: not rated
Issuer rating –Domestic currency: not rated

Fitch ratings

Local currency
Short-term: not rated

Foreign currency
Long-term: not rated
Short-term: not rated

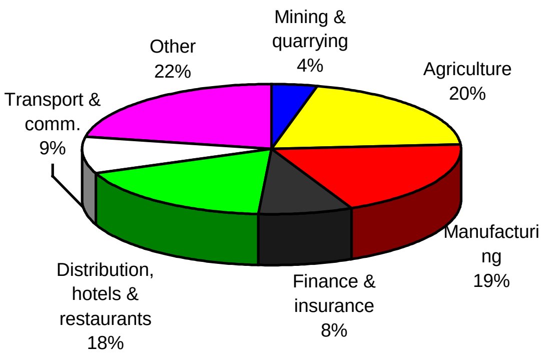
Economy

Selected statistics

	1996	1997	1998	1999	2000	2001	2002e
Population	11.9	12.3	12.7	13.1	12.6	12.9	13.4
Nominal GDP (US$m)[1]	8 364	8 417	5 857	5 530	5 770	9 358	8 300
GDP/head (US$)[1]	702	684	461	422	458	720	619
Exchange reserves – excl. gold (US$m)[2]	599.0	160.1	130.8	268.0	193.1	64.7	82[(Jul)]
Import cover (months)[2]	3.2	0.8	0.8	1.3	0.5	0.4	0.5
External debt (US$bn)[2]	4.694	4.966	4.510	3.816	3.462	3.369	-
External debt (% of GDP)	55	59	77	69	60	36	-

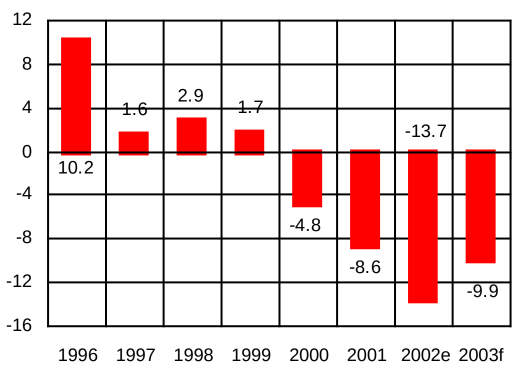
1) Year beginning in January. 2) End of period. e = estimate

Economic structure



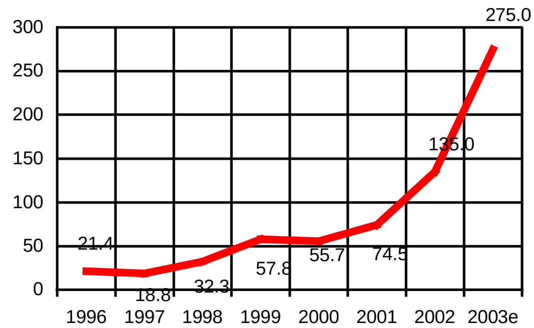
- The economic crisis continues to deepen affecting activities across all sectors. Agriculture, manufacturing and distribution, hotels and restaurants are important sectors, accounting for 20%, 19% and 18% respectively. Structural damage to the economy might alter these relative sectoral shares.
- Agriculture is the cornerstone of the economy, employing 26% of the workforce (before land invasions) as well as being 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 have reduced agricultural output.
- Manufacturing 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.

Real GDP growth (%)



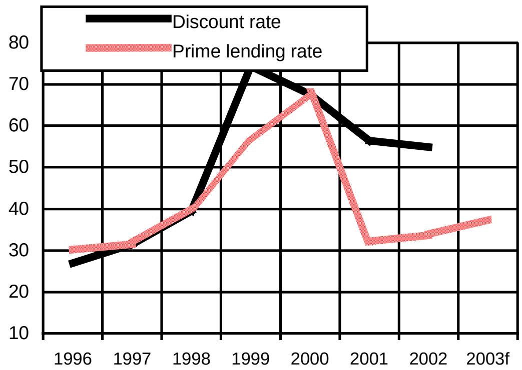
- Despite import and exchange controls, economic growth averaged 4% in the 1980s. A drought in 1995 resulted in a sharp decline in growth, which rebounded in 1996 with an improvement in the weather conditions.
- Growth has been declining since 1997. This is as a result of inappropriate macroeconomic policies and governance including a general breakdown of law and order, which undermined investor confidence
- The deterioration of economic activity accelerated during 2002. The economy is expected to contract by 12% in 2002, the fifth consecutive year of decline. Agriculture, manufacturing and mining output are set to fall by 20.8%, 17% and 7.1% respectively in 2002.
- Activity continues to suffer as the economic crisis deepens and dampens growth in all productive sectors. Disruption of agricultural activities coupled with drought caused a sharp decline in output. This has seriously affected operations in the mostly agri-based manufacturing sector.

Consumer inflation (%)



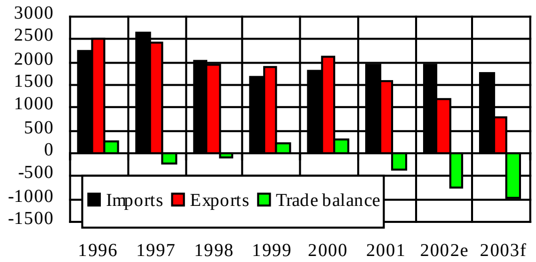
- Inflation continues to soar on the back of loose fiscal and monetary policies, as well as food and foreign currency shortages. The inflation rate for January 2003 reached uncharted territory at 208.1%.
- In spite of government-imposed controls on basic items, prices in many sectors have risen above the average inflation rate. The food index increased by 220% at the end of 2002, beverages and tobacco by 357%, furniture and household stores by 147% and clothing and footwear by 224%.
- Inflation is fuelled by government's recourse to central bank financing of domestic debt of Z$369bn (on 31 January 2003), which has led to excessive growth in money supply. In December 2002 money supply growth reached 156%.
- With a high budget deficit (11.9% of GDP), escalating money supply growth, continued food and foreign exchange shortages, the inflation outlook for the rest of 2003 remains gloomy.

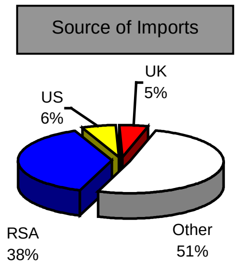
Interest rates (%)

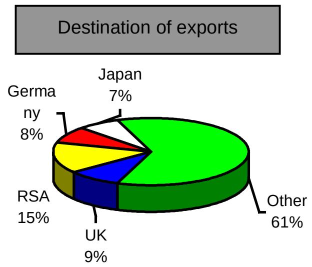


- The monetary authorities have actively driven money market interest rates down to artificially low levels to stimulate the economy and to keep government debt servicing at lower levels. This resulted in high negative real interest rates, which have distorted the structure of interest rates.
- The Reserve Bank rate, which was pegged at 57.2% for over a year, was replaced by a repo rate at the end of 2002. The repo rate is determined in the intra-day trading money market, as banks bid for funds in the market.
- Monetary policy has moved towards the adoption of a dual interest rate regime, whereby lending to selected productive economic sectors is at concessional rates while interest rates applicable to borrowing that is regarded as "non-productive" is market determined.

International trade (US$m)

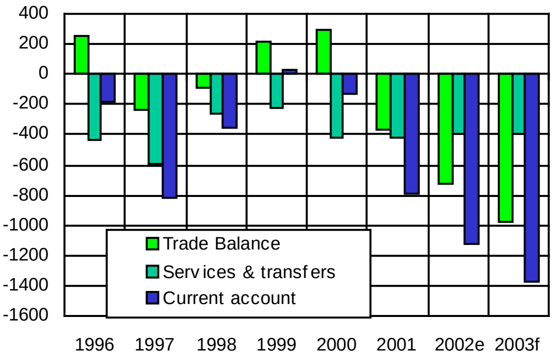






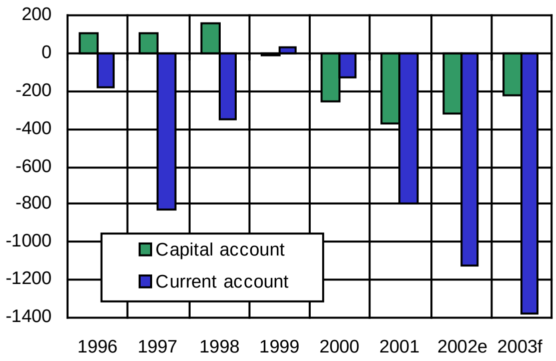
- Important exports are tobacco, sugar, cotton, gold, nickel and manufactured goods. Zimbabwe exports mainly to industrial countries (47%) and developing countries (33%).
- Most imports are from developing countries (57%) with South Africa the country's main trading partner. Key imports are machinery and transport equipment, other manufactured goods, chemicals, fuel, electricity and food (due to the drought).
- The trade deficit has been progressively widening as exports fell more sharply compared to imports. The decline in output of the major export earners tobacco and gold, will keep the situation critical due to the country's dire need to import food.
- The overvalued currency continues to hamper the country's competitiveness, resulting in foreign currency shortages.

Current account (US$m)



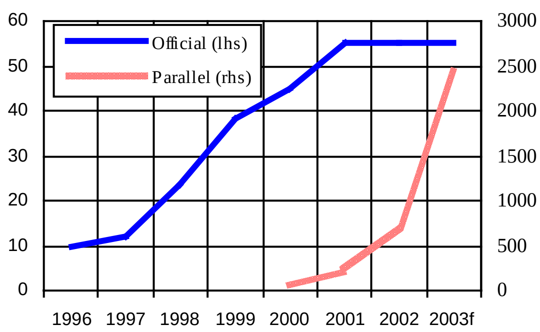
- The late 1990s were characterised by net outflows on the services and income accounts. However, a positive trade balance in 1999 compensated for the negative balance on the services and investment income accounts, resulting in a current account surplus.
- An increase in net outflows on the services 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. Net current private transfers continue to be modest and positive.
- The sharp fall in service receipts since 2000 has been attributed to the decline in tourism as a result of the political violence and land invasions that started before the 2000 elections. The deteriorating outlook for the trade balance in 2003 and beyond is expected to result in widening current account deficits.

Capital flows (US$m)



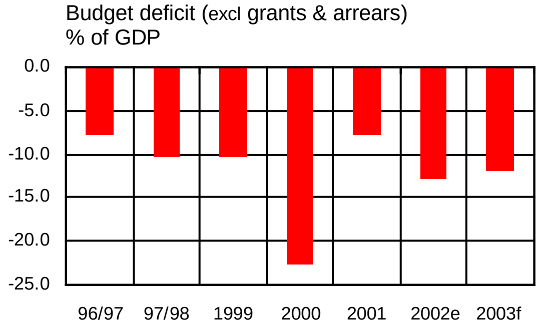
- Given Zimbabwe's standoff with the IMF and international donors, foreign aid and debt flows have fallen sharply in recent years. In 2002, the IMF estimated that the country's foreign debt would grow by more than US$400 million a year for the following five years to US$6.2 billion. Currently, Zimbabwe is estimated to have an external debt of about US$4 billion, with arrears of up to US$1.3 billion.
- Foreign direct investment (FDI) peaked in 1997 after the establishment of the Zimbabwe Investment Centre in 1989. However, due to the economic and political crisis, FDI as well as portfolio inflows have dropped sharply. Declining investment and the negative outlook for the current account are expected to result in a deteriorating overall balance of payments position in the short- to medium-term.

Zimbabwe dollar/US$



- 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.
- In August 2000, the currency was further devalued owing to the spiralling inflation that made the Z$ overvalued. Once again, the currency was pegged and has remained at Z$55/US$ since then. In the highly inflationary environment, the official Z$ remains very overvalued, while the parallel market rate continues to lose ground rapidly.
- The country is facing a chronic foreign exchange shortage and key imports such as fuel are in short supply. The move by the central bank to centralise foreign exchange transactions has impacted negatively with very little trickles of the scarce commodity being repatriated by exporters.
- Further rate depreciation is envisaged on the parallel market, as the seasonal tobacco inflows are not expected to be significant this year due to a heavily reduced crop size.

Government finances



- The outlook for government finance is bleak as tax revenues continue to decline due to the economic recession.
- The bulk of government revenue is derived from domestic taxes and customs duties. While the economic contraction and business closures in recent years reduced tax revenue, large salary increases and an improved revenue collection drive have acted as buffers. Revenue from privatisation has, however, fallen short of targets.
- Despite increased budgeted expenditure in recent years the shortage of foreign exchange has prevented government from meeting some of its commitments such as debt repayments. While below budgeted expenditure is supporting a lower budget deficit the full impact will come through if the balance of payments situation improves.
- Despite expenditure having been restricted in recent years, significant deficits persist. Government's creditworthiness (or the lack thereof) has resulted in domestic deficit financing through credit from the central and commercial banks, which has added to the rising inflation. But, more importantly, it has added to government debt.

Economic outlook

- The economic crisis continues to deepen. Many firms and mines have closed down operations due to the economic and political instability. Unemployment is estimated at 60% and per capita GDP continues to decline sharply. Social services are collapsing in the face of the economic crisis and the Aids epidemic. Zimbabwe has one of the highest HIV/Aids infection rates in the world (33% of the adult population). The situation is made worse by the food shortages, which are predicted to continue in 2003.
- Foreign debt repayments have ceased and international organisations, such as the World Bank and IMF, have withdrawn their financial assistance to the country. The standoff is likely to continue until relations are normalised and the country agrees to follow a structural adjustment programme.
- The foreign exchange shortages remain critical, and drastic action needs to be taken to ease pressure on the currency. There is speculation that the government agreed to allow the Ministry of Finance and Economic Development to review the exchange rate applied to the foreign currency held by the central bank on behalf of Zimbabwean exporters.
- However, such reviews of the exchange rate will not resolve the problem of foreign currency shortages because a comprehensive approach that reviews all aspects of the economy is required. Only when the rule of law has been restored and sound monetary and fiscal policies are reintroduced will there be economic recovery.
- Following the controversial elections of 2000 and 2002, the country's political environment is far from stable. The opposition (and some observers) claim that the elections were marred by state-sponsored violence and intimidation. The violence is reported to be continuing in the post-election period.

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