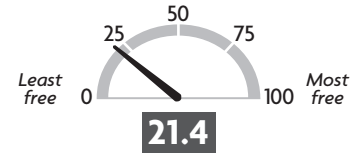


ZIMBABWE

Economic Freedom Score



World Rank: **178** Regional Rank: **46**

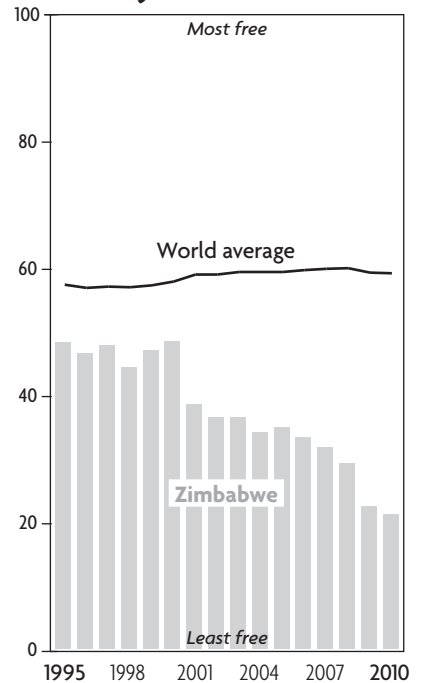
Zimbabwe's economic freedom score is 21.4, making its economy the 178th freest in the 2010 *Index*. Its score has decreased by 1.3 points from last year, reflecting notable declines in trade freedom, freedom from corruption, and investment freedom. Zimbabwe is ranked 46th out of 46 countries in the Sub-Saharan Africa region and is the world's second least economically free country.

The Zimbabwean economy performs poorly and is characterized by instability and volatility, both hallmarks of excessive government involvement. Economic policy is overly influenced by political considerations and state interference. The country's previously established economic infrastructure has crumbled under a tyrannical and oppressive regime. Zimbabwe's economic climate has become increasingly hostile to foreign investment. The financial system, which suffers from repeated crises, is failing.

Hyperinflation has crippled the national economy, severely undermining the country's economic potential. The government has used the Reserve Bank of Zimbabwe to finance deficit spending and to provide direct loans to state-owned enterprises. A corrupt and inefficient judicial system and general lack of transparency make entrepreneurial activity all but impossible.

BACKGROUND: When it became independent in 1965, Zimbabwe (then called Rhodesia) had a diversified economy, a well-developed infrastructure, and an advanced financial sector. The white minority eventually agreed to majority government, and Zimbabwe African National Union leader Robert Mugabe became prime minister in 1980 and president in 1987. In 2008, the ruling party lost its majority in parliament. Mugabe lost the 2008 presidential election but won the runoff when opposition leader Morgan Tsvangirai withdrew after widespread intimidation. Under a power-sharing agreement, Mugabe remains head of state, the cabinet, and the armed services. Mugabe's desperate attempts to retain power have included harsh political repression and economic mismanagement that has crippled agriculture, the mainstay of the economy. Zimbabwe is now one of Africa's poorest countries, and many Zimbabweans have fled.

Country's Score Over Time



Quick Facts

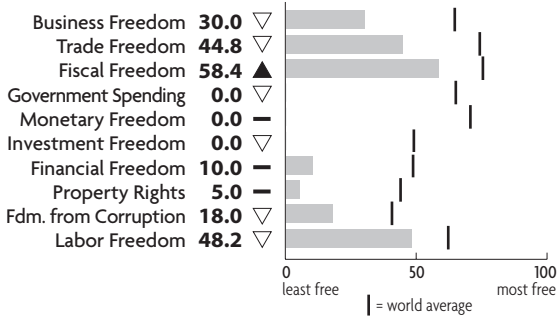
- Population:** 11.7 million
- GDP (PPP):** \$2.2 billion
 - 6.1% growth in 2007
 - 5.2% 5-year compound annual growth
 - Per capita: \$188
- Unemployment:** estimated to be over 20%
- Inflation (CPI):** 10,453.0%
- FDI Inflow:** \$52 million

2007 data unless otherwise noted
Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

ZIMBABWE'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 30

The overall freedom to start, operate, and close a business is seriously restricted under Zimbabwe's regulatory environment. Starting a business takes more than twice the world average of 35 days. Obtaining a business license takes much more than the world average of 218 days. Closing a business is relatively difficult and costly.

TRADE FREEDOM — 44.8

Zimbabwe's simple average tariff rate was 20.1 percent in 2007. Import bans and restrictions, services market access restrictions, import taxes, non-transparent regulations, government controls on exports and domestic trading of major agricultural commodities, inadequate access to foreign exchange, and customs inefficiency and corruption add to the cost of trade. Fifteen points were deducted from Zimbabwe's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 58.4

Zimbabwe has burdensome tax rates. The top income tax rate is 47.5 percent, and the top corporate tax rate is 30 percent. Other taxes include a 3 percent AIDS surcharge on all taxes, a value-added tax (VAT), and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 31.7 percent.

GOVERNMENT SPENDING — 0

Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending equaled 97.8 percent of GDP.

MONETARY FREEDOM — 0

Inflation averaged 223.7 percent between 2006 and 2008. The government sets price ceilings for such essential commodities as agricultural seeds, bread, maize meal, sugar, beef, stock feeds, and fertilizer; controls the prices of basic goods and food staples; influences prices through subsidies and state-owned enterprises and utilities; and has begun to arrest traders for not complying with orders to cut prices on a range of products. If Zimbabwe had a positive monetary freedom score, 15 points would be deducted to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 0

While hostile to most foreign investment, the government will consider investment up to 100 percent in high-priority projects with 51 percent indigenous ownership over time. Bureaucracy is non-transparent and corrupt, and the risk of expropriation, which is used to promote "indigenization," is high. The weak rule of law, restrictive labor rules, and inadequate foreign exchange significantly deter investment. Foreign exchange accounts are subject to government approval and restrictions. Payments and transfers are subject to government approval and numerous restrictions, and all outward capital transactions are controlled.

FINANCIAL FREEDOM — 10

Government intervention, inadequate supervision, and repeated crises have severely damaged Zimbabwe's financial system. In recent years, the financial sector has contracted significantly amid continuing uncertainty over economic policies and macroeconomic instability caused by the government. The government has used the Bank of Zimbabwe to finance deficit spending and direct loans to state-owned enterprises. Many banks suffer from a lack of liquidity, but the government has begun to tighten regulations and impose stricter capitalization requirements. The government also owns a savings bank and a development bank devoted to financing specific sectors. Political instability, the high cost of financing, and scarce access to credit have virtually destroyed the private sector.

PROPERTY RIGHTS — 5

The government's growing control of the economy puts many investments, particularly in real property, at risk. The U.N. estimates that the government's Operation Restore Order caused more than 700,000 persons to lose their homes, their means of livelihood, or both. Many of the confiscated properties had proper titles. The executive branch strongly influences the judiciary and openly challenges court outcomes. Corruption and expropriation are common.

FREEDOM FROM CORRUPTION — 18

Corruption is perceived as pervasive. Zimbabwe ranks 166th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a decline from 2007. There is widespread corruption in government. The ongoing redistribution of expropriated commercial farms provides substantial opportunities for corruption. Top officials hand-pick multiple farms and register them in the names of family members to evade the official one-farm policy, and individuals aligned with top officials are allowed to seize land that is not designated for acquisition.

LABOR FREEDOM — 48.2

Zimbabwe's labor regulations are restrictive. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on the number of work hours are rigid.