# ZIMBABWE

| Table 1 | 2015 |
|---|---|
| Population, million | 15.6 |
| GDP, current US$ billion | 13.8 |
| GDP per capita, current US$ | 885 |
| School enrollment, primary (% gross)[b] | 102.4 |
| Life Expectancy at birth, years[b] | 53.6 |

Sources: World Bank WDI and Macro Poverty Outlook.
Notes:

(b) Most recent WDI value (2014)

*Zimbabwe has been severely affected by a financial crisis and drought; the economy is projected to grow by only 0.4 percent this year. An expansionary fiscal policy has cushioned the slowdown so far. Going forward, external payment arrears may lead to a further contraction in imports and a decline in GDP. The financial crisis continues to have a significant impact on incomes, while the drought has disproportionately affected the rural poor.*

## Recent developments

The first half of 2016 indicates weakening economic activity compounded by a liquidity crisis that has intensified since May 2016. The El Niño induced drought coupled with a decline in agricultural productivity, adversely affected the agricultural sector leading to growth of 1.1 percent in 2015, down from 3.8 percent in 2014. While declining agricultural growth was more than offset by continued growth in services (at over 3 percent per year on average), poverty increased. This was particularly pronounced in rural arears. The number of extremely poor people are estimated to have increased by 100,000 during 2015 to 3.2 million (figure 2).

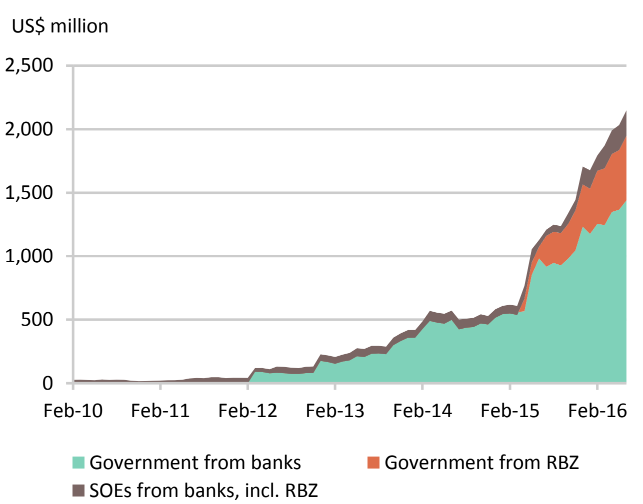
During 2015-16, aggregate demand was supported by an expansionary fiscal policy. From March 2015 to June 2016, government borrowing from the banking sector increased by US$1.4 billion or about 10 percent of GDP. Most of the increase in public borrowing was to pay Reserve Bank of Zimbabwe (RBZ)-and selected State-Owned Enterprises arrears. In turn, this was financed primarily by Treasury Bills (T-Bills), which were purchased by the commercial banks at a discount. Bank's purchases of T-Bills and other public sector borrowing may have contributed to liquidity shortages and crowded out bank lending to the private sector. Faced with cash shortages, banks were unable to honor demand deposits. Quantitative limits on cash withdrawals (supported by the RBZ) were imposed. To address liquidity shortages, the RBZ announced on May 4, 2016 that it would issue "bond notes", triggering increased demand for US dollars. At present, demand for imports is constrained by liquidity shortages as well as restrictions introduced to protect domestic producers.

The domestic-interbank payment system continues to function, but cash payments command a premium, complicating the measurement of inflation. Officially, inflation at end July 2016 year-on-year was reported to be -1.6 percent. However, discounts for US dollar cash payments exist and complicate the effective monitoring of price developments.

The external position remains difficult. The current account deficit narrowed by 4½ percentage points of GDP in 2015, due to the rising cost of financing options. In June 2016, the government imposed temporary restrictions on imports of basic goods that compete with local production, contributing to a further narrowing of the current account deficit. During January – July 2016 imports declined by US$568 million (16 percent) compared to the same period in 2015. And despite a fall in exports (a decrease of 10 percent) the current account narrowed by US$420 million, 3 percentage points of annual GDP.

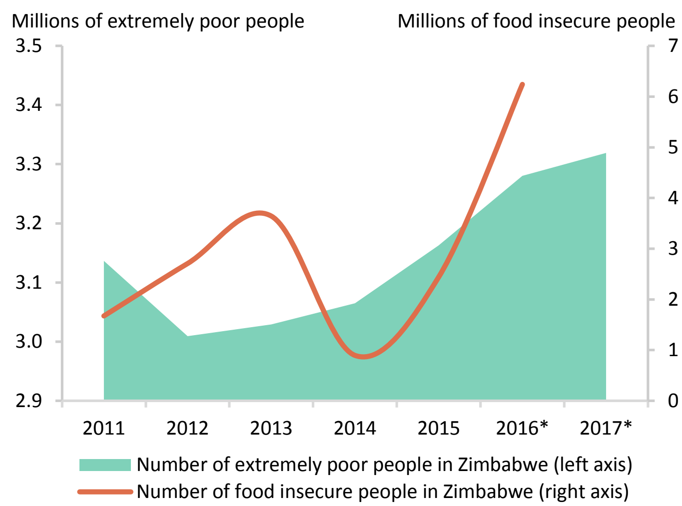
The Central Government deficit widened for the first six months of 2016 as revenues contracted and expenditures increased. Revenues from January to June 2016 fell by 3.6 percent year-on-year, while total expenditure increased by 21 percent. As a result, the deficit increased to US$623 million, up from US$57 million during the same period last year. Expenditures are

**FIGURE 1 Zimbabwe** / Public sector borrowing from banking system (January 2010-January 2016)




Source: Reserve Bank of Zimbabwe.

**FIGURE 2 Zimbabwe** / Number of extremely poor people and food insecure people in Zimbabwe




Sources: World Bank staff estimates and Zimbabwe Vulnerability Assessment Committee (ZIMVAC).
Note: * projection.

dominated by the wage bill which accounted for over 97 percent of revenues and 70 percent of total expenditures during January to June 2016. This wage bill leaves little for non-wage expenditures, which have become increasingly financed by user fees and extra-budgetary funds.

## Outlook

The economic outlook remains challenging. Agriculture is projected to shrink by 4.2 percent in 2016 due to the drought, while growth in services is expected to slow in the wake of the financial crisis. Industry continues to expand thanks to a recovery in gold and platinum production. While imports and exports are viewed to contract by 18 percent and 9 percent, respectively. As supply compresses, investment is projected to fall by two-thirds and private consumption by 0.3 percent. Fiscal revenues are seen to fall by 4 percent, driven mainly by a fall in import-based fiscal revenues, such as customs duties and value added tax. Government borrowing from the banks and non-bank financial institutions has reached its limit, and hence the fiscal deficit is projected at 4.2 percent of GDP, implying dramatic narrowing of the deficit during the remainder of the year.

The fall in agricultural output will increase poverty. The number of extremely poor people is expected to increase to 3.28 million in 2016 up from 3.16 million in 2015. Moreover, the number of food insecure people will increase to over 4.4 million people by end 2016 and early 2017 (figure 2).

In response to the crisis, the Government announced a fiscal adjustment program in the Mid-Year Fiscal Statement presented on September 8, 2016. The program involved measures to limit the wage bill. However some of these were subsequently reversed. The Mid-Term Monetary Policy Statement published on September 16, reiterated the authorities' commitment to issuing "bond notes" later this year.

## Risks and challenges

In the absence of a strong adjustment program the economic situation is projected to continue to deteriorate. Fiscal adjustment in the form of a reduction in the public sector wage bill is needed to prevent further accumulation of government borrowing from the banking system. Without a fiscal adjustment and/or access to external credit through arrears clearance, the government will have to borrow from banks. This is likely to result in an accumulation of public debt, diminishing investor confidence and limiting Zimbabwe's growth prospects.

Greater transparency in the management of the conversion of interbank dollars and cash dollars is a key challenge to ensure the unification of prices, which is vital for private and public transactions. Similarly, recently introduced trade restrictions risk limiting competition, encouraging rent seeking, and discouraging efficient and competitive production, while also raising the cost of exports.

**TABLE 2 Zimbabwe** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

| | 2013 | 2014 | 2015 | 2016 f | 2017 f | 2018 f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 4.5 | 3.8 | 1.1 | 0.4 | 3.8 | 3.4 |
| Private Consumption | 6.8 | 0.7 | 0.3 | -0.3 | 1.0 | 0.2 |
| Government Consumption | 5.1 | 4.7 | 0.3 | 0.2 | -2.9 | -2.4 |
| Gross Fixed Capital Investment | -41.3 | 7.7 | -3.6 | -62.7 | 73.3 | 61.8 |
| Exports, Goods and Services | -3.6 | -3.7 | -2.8 | -9.0 | -2.2 | -2.1 |
| Imports, Goods and Services | 1.5 | -7.4 | -3.9 | -18.0 | -6.1 | -5.0 |
| **Real GDP growth, at constant factor prices** | 2.7 | 9.8 | 1.2 | 1.3 | 3.6 | 3.8 |
| Agriculture | -2.6 | 25.0 | -5.2 | -4.2 | 12.0 | 3.5 |
| Industry | 4.8 | -2.5 | 1.4 | 3.9 | 2.4 | 3.0 |
| Services | 2.7 | 13.9 | 2.7 | 1.2 | 2.4 | 4.4 |
| **Inflation (Private Consumption Deflator)** | 5.1 | -0.2 | -0.1 | -0.4 | 1.1 | 1.6 |
| **Current Account Balance (% of GDP)** | -18.1 | -15.1 | -10.6 | -3.1 | -1.9 | -1.4 |
| **Fiscal Balance (% of GDP)** | -1.9 | -1.5 | -1.2 | -4.3 | -2.0 | -2.4 |
| **Debt (% of GDP)** | 54.1 | 53.3 | 41.3 | 43.9 | 43.9 | 48.6 |
| **Primary Balance (% of GDP)** | -1.0 | -0.4 | -0.5 | -2.7 | -0.5 | -0.9 |

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Note: f = forecast.