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]	109.2
Life Expectancy at birth, years[b]	58.0

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

(b) Most recent WDI value (2013)

The post-dollarization boom is over and trend GDP growth is now 2-3 percent. Continued adverse weather conditions have drastically reduced agricultural production, and Zimbabwe is forecast to grow by 1.4 percent in 2016. Recently, per capita income has stagnated as trend growth barely covers population growth. In 2016, poverty is expected to rise and the poor, especially in rural areas, will bear the brunt of the decline in economic growth. Moreover, the economic downturn generates continued deterioration in income distribution, leaving the rural poor even poorer.

Recent developments

In 2015 growth slowed to 1.1 percent down from 3.8 percent in 2014 driven by poor agricultural output (figure 1). The worst affected are those that reside in rural areas as agriculture is the foundation of rural livelihoods. As a result, the poverty rate is estimated to have increased by approximately 2.8 percent in rural Zimbabwe (figure 2). Rural areas are home to two-thirds of Zimbabwe's population, 79 percent of the poor and 92 percent of the extreme poor. The decline in production of both cash and subsistence crops has negative welfare implications. The sharp decline in the rural areas' production base contrasts with greater resilience displayed by a number of sectors in urban areas, leading to a growing income divide between the rural and urban areas. Though the manufacturing and mining sectors struggled in 2015 due to rising capital costs, decline in external competitiveness, as well as sharp declines in commodity prices among other factors, a persistent shift in economic activity from industry to services ensured that growth continued in urban areas. The services sector grew by 2.7 percent in 2015.

The fiscal situation remained tight in 2015 as Zimbabwe follows a cash budget. The fiscal deficit remained below 3 percent of GDP, far below the average of Sub Saharan African countries. However, about 80 percent of total expenditure covered the wage bill, leaving little for other crucial spending such as social and capital spending that impacts directly on the poor. And user fees became the source of revenue for non-wage expenditures in education and health services, again negatively impacting access for the poor.

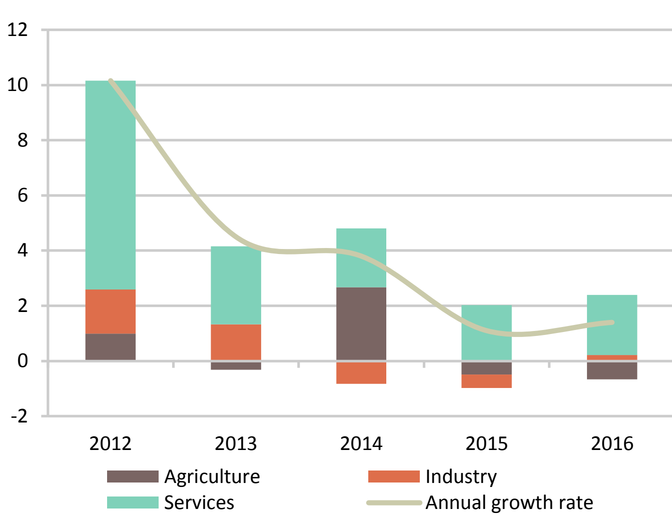
The current account balance is large at 10.8 percent of GDP in 2015. This is almost equal to the investment rate of about 13 percent of GDP, mainly driven by appreciation of the U.S. dollar against major trading partner currencies and inadequate domestic production. International reserves remained at around 2 weeks of import cover in 2015, leaving Zimbabwe highly exposed to external shocks.

Inflation remained in negative territory, as prices declined by 2.4 percent in 2015, driven mostly by depressed domestic demand and depreciation of the South African Rand. Deflation was experienced in both tradable and non-tradable goods. The depressed prices at least served as a hedge for the poor, as food inflation remained lower than any other CPI category in 2015.

Outlook

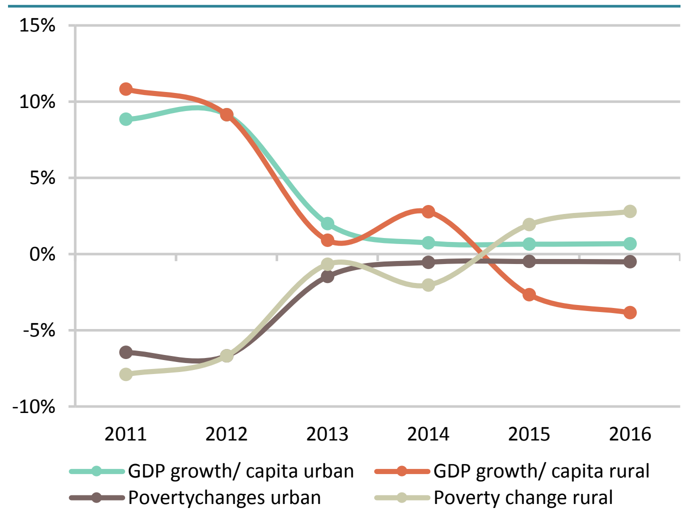
The short term economic outlook remains bleak, with growth projected at 1.4 percent in 2016, amid continued El Nino induced declines in agriculture output. Growth is projected to recover sharply to 5.6 percent in 2017 and 3.5 percent in 2018, on the back of better agricultural output, and as investment in drought resistant crops intensifies. Zimbabwe is well placed to attract investment in the energy sector,

FIGURE 1 Zimbabwe / Contribution to growth



Sources: World Bank staff calculations and IMF.

FIGURE 2 Zimbabwe / Changes in GDP/capita and the poverty rate by urban and rural (in percentages)



Source: World Bank staff estimates.
Note: Due to limited access to the national survey data, the international comparable poverty rate for Zimbabwe cannot be calculated. This chart presents projected likely changes in the poverty rate based on growth elasticity of poverty reduction.

as prices are attractive. The country has good prospects for provision of electricity as sources in Zimbabwe are more diversified than in other countries. However, the mining sector outlook remains depressed due to continued low international minerals prices as well as political and policy uncertainty. Despite this, gold and diamond mining output is projected to expand. Manufacturing is also projected to pick-up in 2016 as the ongoing restructuring in the sector will boost growth. And services are viewed to continue as the main driver of growth, with expected output gains averaging more than 5 percent through 2018.

The current account is expected to widen to about 11.1 percent of GDP in 2016, as government will import maize due to the drought. Exports are projected to expand as the US$/rand exchange rate is likely to ease toward a long run equilibrium rate. Deflation will persist (however slowing) for the rest of 2016, with annual average inflation projected at -0.2 percent. Drought will force upward pressure on food prices, negatively affecting the poor. Economic growth in the rural areas is projected at -1.5 percent while it is positive for urban areas at 3 percent in 2016 (figure 2). This presents enormous poverty challenges in the rural areas. The government fiscal position will remain tight, combined with small adjustments in wage expenditure and constraints to fiscal revenues as economic growth slows.

Risks and challenges

Despite near-term adverse developments, Zimbabwe's growth prospects appear to be favorable in the medium to longer run, with a pickup in output growth to more than 5 percent in 2017, provided the risks and challenges associated with investment spending are addressed. To rebound above trend growth, Zimbabwe should prioritize attracting stronger foreign investment. For example the current guidelines of the Indigenization Act are still not clear on the compliance levy. There is need for much greater transparency in the design of investment policies.

Zimbabwe's current challenge is that the rural economy, where most of the poor live is not integrated into the mainstream of economic activity. The reorganization of the rural economy in the wake of land reform provides an opportunity for broad-based growth, but both the extent of this growth and its contribution to public finances will hinge on the authorities' efforts to strengthen tenure security in the rural sector and create a stable investment climate for both large agribusinesses and smallholder farmers. Formal financial intermediation is critical to strengthen agricultural value chains and tighten integration with international markets.

Zimbabwe has a comparative advantage of a well-educated population that can be exploited to increase economic growth by exporting services. The current stepped up polices on remittance channels should be complemented by government policies that attract service industry into Zimbabwe and build a base for exporting services.

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

	2013	2014	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	4.5	3.8	1.1	1.4	5.6	3.5
Private Consumption	6.6	0.0	0.3	-1.4	0.5	-0.2
Government Consumption	5.1	4.7	0.3	1.9	1.1	2.2
Gross Fixed Capital Investment	22.4	1.4	-3.6	53.8	29.1	21.0
Exports, Goods and Services	5.9	5.6	-2.8	-1.7	8.6	5.1
Imports, Goods and Services	3.3	1.1	-3.9	2.7	-2.2	-0.3
Real GDP growth, at constant factor prices	2.7	9.8	1.2	1.9	5.9	4.0
Agriculture	-2.6	25.0	-5.2	-12.1	3.0	3.0
Industry	4.8	-2.5	1.4	1.5	3.0	3.0
Services	2.7	13.9	2.7	5.5	8.1	4.8
GDP Deflator	3.7	-1.3	-1.5	1.6	2.7	2.8
CPI Inflation, period average	1.6	-0.2	-2.4	-0.2	1.0	1.6
Current Account Balance (% of GDP)	-20.7	-17.6	-10.8	-11.1	-8.4	-7.1
Fiscal Balance (% of GDP)	-2.1	-1.0	-0.9	-1.1	-1.2	-1.2
Primary Balance (% of GDP)	-1.9	-0.7	-0.3	-0.2	-0.1	0.0

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