ZIMBABWE

Table 1	2016
Population, million	14.2
GDP, current US$ billion	16.4
GDP per capita, current US$	1149
International poverty rate ($ 1.9)[a]	21.5
Gini coefficient[a]	43.2
Life expectancy at birth, years[b]	57.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011 PPPs.
(b) Most recent WDI value (2014)

Economic growth is projected to recover to 2.8 percent in 2017 up from 0.7 percent last year. Good rains boosted agricultural growth and poverty alleviation in rural areas. The large and growing fiscal deficit has drained liquidity from the banking system. Quantitative restrictions on cash withdrawals from banks have led to an active parallel market on which cash dollars trade at a premium to interbank dollars. Inflation remains low and a well-functioning interbank market provides liquidity for domestic transactions.

Recent developments

Economic growth is projected to recover to 2.8 percent in 2017 up from 0.7 percent in 2016. Exceptional good rain patterns during 2016-17 have boosted agricultural growth and poverty alleviation in rural areas for the 2017 H1. Most of the subsistence crops performed well during this year, but output for the main cash crop – tobacco – declined by 2.3 percent. The good harvest combined with cash shortages kept inflation at 0.1 percent year-on-year in August, 2017, down from 0.7 percent in May.

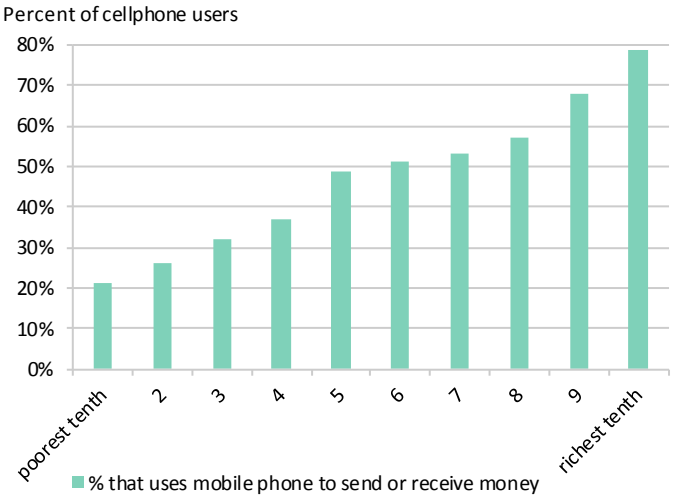
The fiscal deficit for the first 6 months in 2017 stood at 5.1 percent of annual GDP compared to 3.8 percent during the same period last year. The rising deficit is largely due to higher than budgeted expenditure which swamped modest improvements in revenue. Employment costs continue to account for two thirds of expenditure and 80 percent of revenue. The Reserves Bank of Zimbabwe (RBZ) has resumed its engagement in fiscal expenditure (quasi-fiscal activities), administrating export subsidies and other fiscal activities with US$190 million already committed in 2017. The authorities continue to use a RBZ overdraft to pay public sector wages. Further, in absence of access to international capital market due to external arrears with international financial institutions, the deficit is financed on the domestic capital market. Between December 2016 and May 2017 domestic debt increased by 17 percent to US$4.7 billion (27 percent of GDP).

In practice, most transactions are paid through domestic interbank transfers and a parallel foreign exchange market has developed. Demand deposits in commercial banks are trading for US dollar cash at a 25-32 percent discount on the parallel market and bond notes officially trade at par with the US dollar but were valued at a 5-10 percent discount on the parallel market as of August, 2017. Selected imports receive a foreign exchange allocation at the official exchange rate, which amounts to an import subsidy. Exports of gold, tobacco, platinum and nickel are required to surrender export earnings at the official rate, which amounts to an export tax which is only partially offset by an export subsidy of 5-10 percent. Export taxes are regressive as they disproportionately hit labor-intensive activities (gold mining and tobacco farming), negatively affecting low-income groups.

The poor are most affected by the cash shortages as they make less of 'mobile money'. While 85 percent of the population has a mobile cellular subscription, only 21 percent of mobile phone owners among the poorest tenth of the population makes use of these phones to receive or send money, while this is the case for 79 percent of the richest tenth (figure 1).

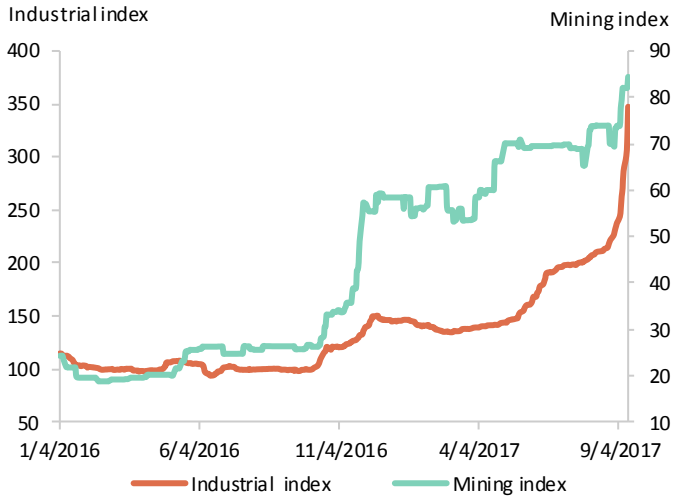
The current account deficit continues to narrow, as exports increase faster than imports. The 2017 H1 trade deficit declined by 5 percent to US$1.3 billion compared to the same period a year earlier. Imports increased by 5.6 percent in the first half of 2017 compared to same period last year while exports increased by 18.6 percent.

FIGURE 1 Zimbabwe / Use of mobile money by income decile



Source: FinScope Zimbabwe consumer survey (2014) and World Bank staff estimates.

FIGURE 2 Zimbabwe / Stock exchange indexes



Source: Zimbabwe stock exchange (2017).

Outlook

Economic growth in 2017 is projected at 2.8 percent up from an earlier projection of 2.3 percent in March, 2017. The revision is due to better-than-projected agriculture output and the well-functioning market for mobile money that is mitigating the impact of cash shortages on economic growth. Exceptionally good rains during 2016-17 are projected to boost GDP, with agriculture output projected to increase by 21 percent. The mining sector is also expected to continue growing and industrial growth is projected to expand by 1.1 percent. Gold, chrome and diamonds are projected to drive mining growth. Gold projections are broadly unchanged while chrome projections are revised up after the removal of an export ban on unprocessed chrome. Diamond production is projected to increase after the anticipated resolution of lawsuits that are keeping some diamond mines closed.

Fiscal pressures are expected to intensify as the government guarantees prices for agricultural staple commodities well above world market prices. State-Owned Enterprises offer suppliers of staple commodities prices that are almost double the import landing prices in part to allow them to repay agricultural inputs that are provided under government-sponsored "command agriculture". The fiscal deficit is projected to increase after taking account of the performance during the first half of 2017 compared to the same months a year earlier. While revenues are projected to increase, expenditure will remain elevated as proposed expenditure rationalizations are slowed down in the run up to the 2018 election.

The financial sector challenges are expected to continue due to a projected increase in the Government overdraft with the RBZ. In response, capital inflows are projected to remain low and the parallel market premium is projected to rise further. In practice, the rich may continue to hedge the inflation risk by depositing their assets abroad and investing in real assets through the stock market which has performed exceptionally well during 2017 (figure 2). The poorest groups do not have that option and are likely to be negatively affected by a rise in inflation, exacerbating their disproportionate share of the cash crisis burden. Extreme poverty is likely to rise, partially off-setting the decline in 2017. Bond notes in circulation are projected to increase to US$480 million by year end, up from US$180 million in August. Ongoing doing business and public procurement reforms are definitely welcome but cannot address the main macro-economic imbalances.

Risks and challenges

Exchange rate dynamics pose significant risk to macroeconomic stability. The gap between US dollar, bond notes and bank (RTGS) balances might lead to rapid inflation. Government reliance on RBZ financing (overdraft) increases the risk. Inflation will hurt the poor most.

Preparations for national elections -due no later than August 2018- are underway. The preparation may make it difficult to control public expenditure. The private sector has adopted a wait-and-see attitude which might curtail inflow of the much-needed foreign direct investment. The risk of political instability remains low, though ruling party factionalism might continue to disturb the implementation of government policy.

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

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices	2.8	1.4	0.7	2.8	0.9	0.2
Private Consumption	-5.5	-10.6	-15.2	0.9	1.9	2.0
Government Consumption	19.6	13.1	21.6	7.7	-2.1	-6.0
Gross Fixed Capital Investment	12.7	4.2	-28.1	-28.0	-9.6	-4.7
Exports, Goods and Services	-3.1	-2.6	11.7	4.8	3.6	3.5
Imports, Goods and Services	-6.7	-16.3	-20.0	-3.9	0.1	0.1
Real GDP growth, at constant factor prices	2.7	0.3	0.7	2.8	0.9	0.2
Agriculture	23.0	-5.2	-3.7	21.6	7.0	5.5
Industry	-2.0	-0.1	1.4	0.5	0.6	2.2
Services	1.4	1.6	1.2	0.3	-0.3	-1.8
Inflation (Private Consumption Deflator)	4.4	12.0	12.0	16.0	20.0	23.1
Current Account Balance (% of GDP)	-14.2	-9.3	-4.5	-3.8	-3.7	-2.8
Fiscal Balance (% of GDP)	-1.2	-2.4	-8.8	-9.5	-8.5	-6.8
Debt (% of GDP)	53.9	59.6	68.7	73.4	76.1	76.4
Primary Balance (% of GDP)	-0.9	-1.9	-8.0	-8.5	-7.3	-5.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	14.5	15.9	17.2	13.0	13.2	13.2

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty and Equity Global Practice.
Notes: f = forecast.
(a) Calculations based on using 2011. Nowcast: 2014 - 2016. Forecast are from 2017 to 2019
(b) Poverty predictions are based on a estimated poverty elasticity of growth of 1.83.