ZIMBABWE’S ECONOMIC PERFORMANCE
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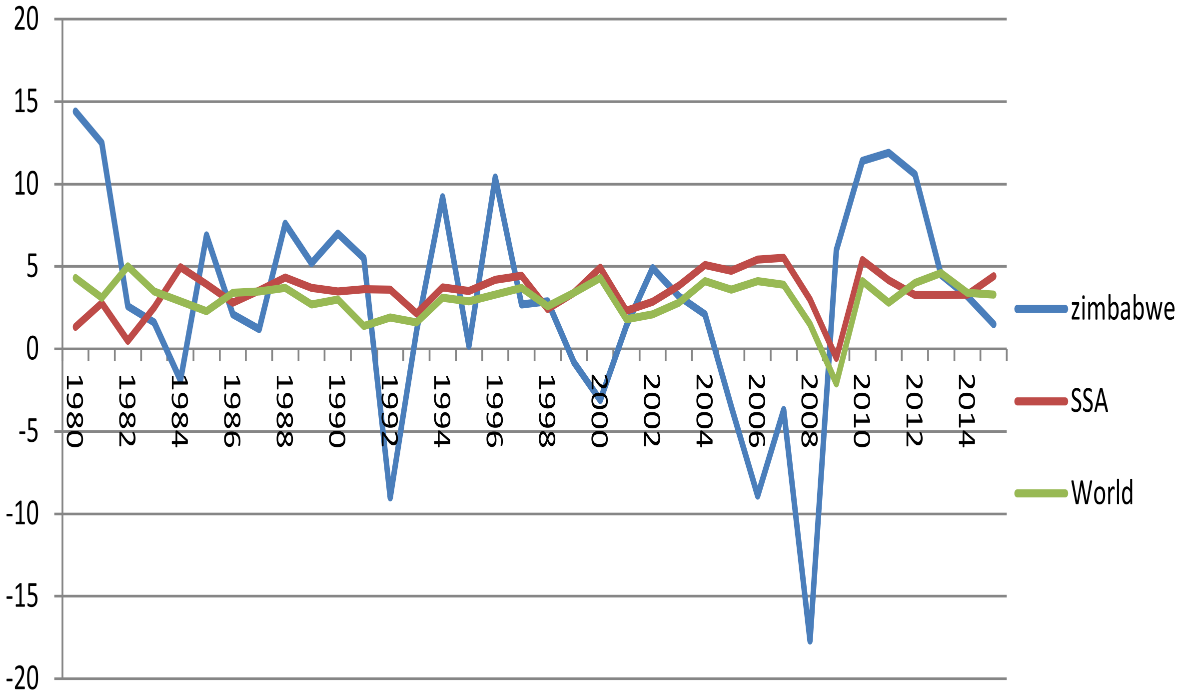
Weakening Economic Rebound

Having averaged 10% during the period 2009-2012, growth declined to an estimated 4.5% in 2013, 3.8% in 2014, a projected 1.5% in 2015, and a revised 1.2% in 2016. This deteriorating growth performance is as a result of the El Nino-induced drought, weak international commodity prices, the resultant liquidity shortages in the economy, low domestic savings, investment inflows, power supply shortages and policy inconsistencies and incoherence.

GDP Growth Trends – Zimbabwe, SSA and World, 1980-2015 (%)



Source: Derived from World Bank data.

Annual headline inflation remained negative, accelerating from -2.19% in January 2016 to -1.4% in June 2016 due to sustained depreciation of the South African rand; subdued international oil prices; and waning domestic demand. Annual average inflation for 2016 is projected at -0.4%, up from -2.4% in 2015.

The 2014 National Budget Statement aptly summed up the economic challenges facing the country as follows:

i. High consumption, leading to negative domestic savings and, hence, exposing the country to rely on external savings;
ii. Liquidity constraint reflected in declining money supply growth, low financial intermediation and resulting in weak aggregate demand;
iii. High debt overhang resulting in limited and highly priced lines of credit;
iv. Limited external inflows in the form of foreign direct investment, lines of credit and grants linked to high country risk premium resulting in low confidence by investors;

v. Food insecurity owing to low productivity, low investment, as well as climate change induced droughts and erratic rainfall distribution pattern;
vi. Lack of industry competiveness due to obsolete equipment and out-dated technology as well as dumping and smuggling imposing unfair playing field with external competitors;
vii. Infrastructure deficits, in particular transport, energy and water, resulting in high cost of doing business and, hence, lack of competitiveness;
viii. Financial sector vulnerabilities stemming from weak governance, low interbank market activity, high non-performing loans (15.9% on average), low capitalisation and poor asset quality in several banks;
ix. Lack of transparency and accountability in the exploitation of our mineral resources;
x. Widening current account deficit due to faster growth of imports than exports leading to haemorrhaging of the economy.

Structural Regression

Zimbabwe is experiencing a structural regression reflected in the increasing dependence on natural resources, de-industrialisation and informalisation. The overreliance on imports, even for goods and services that can be produced locally, has created an unsustainable trade imbalance. For instance, exports are projected at US$3.4 billion in 2015, against imports of US$6.3 billion, resulting in a trade deficit of US$2.9 billion compared to US$2.7 billion in 2014. The huge import bill is fuelled by the continued depreciation of the rand against the US dollar, which lost over 13% of its value against the US dollar since January 2015, undermining the competitiveness of Zimbabwean exports. Of the US$2 billion export earnings during the period January to October 2015, at least 80% were primary commodities (agricultural products and minerals), over 50% of which are minerals. Hence, the economy is increasingly susceptible to external factors such as drought and international commodity markets.

Since the period of the Economic Structural Adjustment Programme (ESAP – 1991-95), the economy has experienced persistent de-industrialization. The share of the manufacturing sector in GDP peaked at 26.9% in 1992 before collapsing to 7.2% by 2002 and averaging 11.7% between 2009 and 2014. Industrial capacity utilization declined sharply from 35.8% in 2005 to only 18.9% by 2007, and below 10% by 2008, before improving to 33% in 2009, 43.7% in 2010, and 57.2% in 2011, and climbing down to 44.2% in 2012 and 39.6% in 2013, 36.3% in 2014 and 34.3% in 2015. The main causes of capacity underutilization have been weighted by the Confederation of Zimbabwe Industries (CZI) as follows: (i) low local demand (28.4%); (ii) capital constraints (18.6%); (iii) antiquated machinery and machine breakdown (12.3%); (iv) competition from imports (10.3%); (v) high cost of doing business (8.3%); (vi) cost / shortages of raw materials (6.9%); (vii) power and water shortages (6.4%); (viii) drawbacks from current economic environment (2%); and (ix) other (6.9%). This led the CZI in its State of the Manufacturing Survey to observe that: “Industries in Zimbabwe are under serious threat. Deindustrialisation has reached catastrophic levels, with dire consequences to the state of the economy,” (CZI, 2014: 6).

De-industrialization and economic decline was accompanied by a rapid informalization of the economy. According to the various Labour Force Surveys, while 80% of the currently employed persons 15 years and above were informally employed in 2004, it became 84.2% in 2011 and 94.5% by 2014. The youth, who have weak links in the labour market with no work-related experience have fared the worst such that 98% of the currently employed youth aged 15-24 years and 96% of currently employed youth aged 15-34 years were in informal employment (2014 Labour Force Survey). As the economy de-industrialized, the role of small and medium-sized enterprises in the economy grew such that they employ about 60% of the workforce and contribute about 50% of GDP. Regrettably, 85% of Micro, Small and Medium Enterprises (MSMEs) are unregistered.

Deteriorating Fiscal Position

The fiscal position remains unsustainable owing to the continued underperformance of revenues and increase in government expenditures. Since 2012, fiscal space has been shrinking, resulting in budget allocations to most sectors declining, accompanied by very low outturns. Growth in the public wage bill has outstripped growth in real GDP. Expenditure overruns have burdened the fiscus due in part to lack of fiscal discipline. For instance, the size of the Public Service (excluding the Army) increased from 203,362 in February 2009 to 245,926 in December 2011 and 276,163 by December 2014, a 35.8% growth rate between 2009 and 2014, despite a policy of a general freeze on recruitment introduced by Government in 2011. Furthermore, the decision to stagger annual bonus payments for civil servants in 2015 created a stress in 2016 such that employment costs constituted 96.8% of total revenue for the period January to June 2016, leaving very little for capital expenditures, operational expenses and interest payments.

During the period January to June 2016, revenue under-performance against over-expenditures resulted in a cumulative budget deficit of about US$623.2 million, way above the full-year target of US$150 million. The Mid-Term Fiscal Policy Review of 2016 cautioned that failure to contain the budget deficit in the shortest possible time will worsen the deficit to an estimated year-end level of over US$1 billion. As a result, the Minister of Finance proposed salary and job cuts (25,000) amongst a host of other measures to contain runaway expenditures. The Budget deficit has been financed primarily through issuance of treasury bills by the Reserve Bank on behalf of Government, which are being rolled over, thereby threatening financial sector and macroeconomic sustainability.

The major component to high expenditures is the wage bill, which is at the centre of the fiscal deficits and, hence, overall macro-economic instability. Projections suggest that revenues will fall short of meeting employment costs, leaving no room for expenditures on operations and maintenance, and capital projects. As a result, pay dates of public service, grant-aided institutions and pensioners have been periodically rescheduled from normal programmed pay dates as a result of resource constraints during the first six months of this year resulting in demonstrations by civil servants against the unilateral nature of such decisions. Large expenditures on the wage bill left the 2016 Budget struggling to honour both developmental expenditures and targeted external payment obligations. A study by LEDRIZ (2016) found that the practice where workers come to work without being paid (*wage theft*) is becoming rampant in the parastatal and private sectors of the economy, resulting in the rise in the working poor. Lack of capacity to service domestic debt has resulted in roll-overs, posing some financial risks on domestic debt instrument holders and domestic financial institutions.

Owing to the dominance of recurrent expenditures in the national budget, there is little room for operational and capital expenditures. As a percentage of total votes, health received 7.1% in 2014, a projected outturn of 8.2% in 2015 and 8.3% in 2016, against the Abuja Declaration where at least 15% of the budget should go towards the health sector. As a percentage of the total vote, primary and secondary education received 18.5% in 2014, 22.7% in 2015 and

20.3% in 2016, against the the Dakar Declaration where at least 20% of the National Budget should be allocated towards education. Ominously, 98.4% of the budget for Education is taken up by employment costs. As a percentage of total votes, Agriculture, Mechanisation & Irrigation Development received 8.3% in 2014, 5.3% in 2015 and 3.6% in 2016 against international standard (the Maputo Declaration) of 10% towards agriculture. During the period 2012-2016, the budget for the Ministry of Agriculture, Mechanization and Irrigation (MoAMI) declined by 36%, with that for the Agricultural and Extension Services (AGRITEX) Department, declining by 84%.

It should be pointed out that part of the challenges with revenue underperformance relates to illicit financial outflows, estimated in the 2016 Budget and Monetary Policy Statements at US$1.8 billion a year. It also reflects failure to account for mineral resource revenues. For instance, on diamonds, the 2016 Budget Statement notes that: "…this is a resource that seems to have not benefitted the generality of our people, notwithstanding that the diamond industry has potential to uplift our population, especially as we fully exploit the diamonds value chain," (paragraph 357, page 81). The President recently shocked the Nation when he revealed in February 2016 that Government could not account for US$15 billion diamond revenues.

Debt Overhang and the Arrears Clearance Strategy

The debt situation remains unsustainable with total public and publicly guaranteed debt including arrears as of September 2015 estimated at USD 8.4 billion, of which USD 1.3 billion is domestic debt, whilst USD 7.1 billion is external debt. The country has arrears of USD 111 million to the IMF; USD 1.1 billion to the World Bank; and USD 601 million to the African Development Bank (AfDB). Arrears to the Paris Club creditors are USD 2.7 billion and those to the non-Paris Club creditors are USD 700 million. The Mid-Term Budget Statement of 8 September 2016 indicated an external debt overhang of around US$7.5 billion as at end of June 2016, with arrears accounting for almost 80% of the debt. The debt overhang is militating against efforts at mobilising reasonably priced long-term lines of credit. Clearance of arrears and unlocking new financing requires the country to build capacity to honour old and new debt obligations to IFIs and other bilateral and new lenders.

The high public debt burden has been further exacerbated by the lack of a diversified export base and declining terms of trade and competitiveness, which makes it difficult for the country to adjust to changing world demand for tradable goods and changing production patterns. These structural weaknesses have constrained the country's ability to generate high and sustainable growth that is necessary to mitigate the debt distress. Growth in debt has continued to outgrow exports.

The government has stepped up reengagement with creditors. The 15-month second Staff Monitored Programme (SMP) approved in October 2014 provides a basis and benchmark for the country's reengagement efforts. The country has also increased repayments to the World Bank and the AfDB. However, the anticipated rise in government debt service obligations to USD 300 million, beginning in 2016, will further crowd out capital and social expenditures.

A quadripartite Committee chaired by the Governor of the RBZ comprising the AfDB, World Bank, and the IMF was established in May 2015. The committee was mandated to come up with strategies to resolve the country's debt burden. A synthesis of arrears clearance options and extensive deliberations by the Committee yielded an agreed direction in terms of the government's preferred roadmap for the clearance of debt arrears.

The government adopted an arrears clearance plan that entails using a combination of the country's own resources, bridge financing with international and regional banks, and bilateral loans. Creditors at the 2015 IMF/World Bank annual meetings held in Lima, Peru, in October endorsed this plan whereby the country was expected to clear repayment arrears of US$1.8 billion to the World Bank, IMF and AfDB by 30 April 2016. However, this target was missed as the fiscal space deteriorated resulting in a new target of clearing these arrears by end of October 2016, which looks unlikely against deteriorating revenue inflows.

Poverty, Inequality and Unemployment

Zimbabwe is a low income country with a gross national income (GNI) per capita of US$ 840 in 2014, way below that of the 1960s. Income poverty as measured by the proportion of people whose income is less than the Total Consumption Poverty Line (TCPL) in Zimbabwe remains high, above 70% since 1995 (75.6% in 1995; 70.9% in 2001 and 72.3% in 2011/12).
Though declining, income inequality in Zimbabwe, as measured by the income Gini coefficient, is relatively high, at 0.42 in 2011/12. Urban unemployment is high and worse for the youth (37.5%), particularly young women (46.6%). Even during periods of economic rebound, job losses have been accentuated. For instance, between 2011 and 2014, 4,610 firms closed, resulting in 55,443 workers being retrenched. The overreliance on mining has promoted jobless growth as suggested by the fact that while its share in output has grown from 3.4% during the period 1991-96 to 10.7% by 2012, its share in employment has declined from 6.6% in 1980 to 3.4% by 2014.

Political, Social Impact

The fall-out from the ever deteriorating economic situation is that the State is now fragmented, characterized by competing factions characterized by succession battles in view of the advanced age of the President. First towards the end of 2014, the faction led by the then Vice President Joice Mujuru was purged from Government positions. No sooner had this faction been kicked out than the factional fights intensify with one allegedly led by the new Vice President who replaced Joice Mujuru, Emerson Mnangagwa (the so-called Lacoste Group), and another allegedly led by the First Lady, Grace Mugabe (the so-called G40 Group). So intense are the factional wars that this has affected Government business. The recent factional in-fights have resulted in the hitherto loyal group of war veterans, who are allegedly aligned with the Vice President Mnangagwa under the War Veterans Association disowning the President through a hard-hitting communiqué following the sacking of their Chairman from a Ministerial position and his expulsion from the ruling party ZANU (P.F.).

In the meantime, various social movements mobilized around vendors, #this flag; # tajamuka (we have revolted), campaigns against the proposed introduction of bond notes, a currency backed by a US$240 million AFREXIMBANK facility under the guise of an export incentive scheme, movement coordinated by unemployed graduates for jobs among others. These new social movements are led by younger persons and are organized through the social media. Interestingly, because of the destruction of their social base, with only 5.5% of all jobs formal, the trade union base has shrunk considerably, and their organizing power has been severely whittled down. Because of falling membership, failure to collect subscriptions, and fragmentation, the voice of trade unions has become so frail that it is of little consequence to the unfolding drama. As such, the ZCTU is now riddled in debt and has recently postponed its Congress scheduled for end of September 2016 as a result of organizational challenges.