Faculty of Commerce

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TESTING THE TWIN DEFICITS HYPOTHESIS IN ZIMBABWE (1980-2015)

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ABSTRACT

This research study attempts to investigate the evidence of the twin deficits hypothesis, that is, the simultaneous existence of the budget balance deficit and current account deficit in Zimbabwe. The issue of the long run relationship between the budget and current account deficit also revolves around the tenants of twin divergence hypothesis and the Ricardian Equivalence. As such, the study examines the causal relationship between current account and budget balances based on time series data for the period 1980 to 2015 in Zimbabwe. By applying noble econometric models, that is, VAR and Granger causality after successfully running the ADF-Fisher unit root test and cointegration rank test this study reveal that there is unidirectional relationship running from current account balance to budget balance. The policy recommendations are that the government should reduce current account deficit to improve budget deficit, for example, crafting of credible investment policies to attract foreign direct investment and productive capacity in the country. Further researcher are advised to use quarterly data and simultaneous equations model as these may give a better picture of the findings.