ZIMBABWE

Table 1	2021
Population, million	15.1
GDP, current US$ billion	29.1
GDP per capita, current US$	1929.1
International poverty rate ($2.15)[a]	39.8
Lower middle-income poverty rate ($3.65)[a]	64.5
Upper middle-income poverty rate ($6.85)[a]	85.0
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	97.3
Life expectancy at birth, years[b]	61.7
Total GHG emissions (mtCO2e)	119.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy is expected to grow in 2022, albeit at a slower pace, reflecting worsening agriculture conditions and price instability. Inflation has returned to triple digit levels while the local currency has depreciated by over 70 percent since January 2022, constraining demand. Allocated budgets are being eroded by inflation and currency depreciation, affecting service delivery. Although it has declined since its peak of 2020, the international poverty rate remains persistently high.

Key conditions and challenges

Zimbabwe's economic development continues to be hampered by price and exchange rate instability, misallocation of productive resources, low investment, and limited structural transformation. High inflation, multiple exchange rates, unsustainable debt levels, and ineffective control over government spending have increased the cost of production, reduced incentives for productivity-enhancing investment, and encouraged informality. Trade integration has declined, and foreign direct investment (FDI) remains low, limiting transfer of new technologies and investment in modernizing the economy.

Unsustainable debt levels and long-standing arrears to international financial institutions (IFIs) limit Zimbabwe's growth potential. External debt is estimated at 76 percent of GDP in 2022. Over 70 percent of the debt is in arrears, constraining access to concessional finance needed to support productive investment. The government has prepared an Arrears Clearance, Debt Relief and Restructuring Strategy and resumed token payments to IFIs and Paris Club creditors.

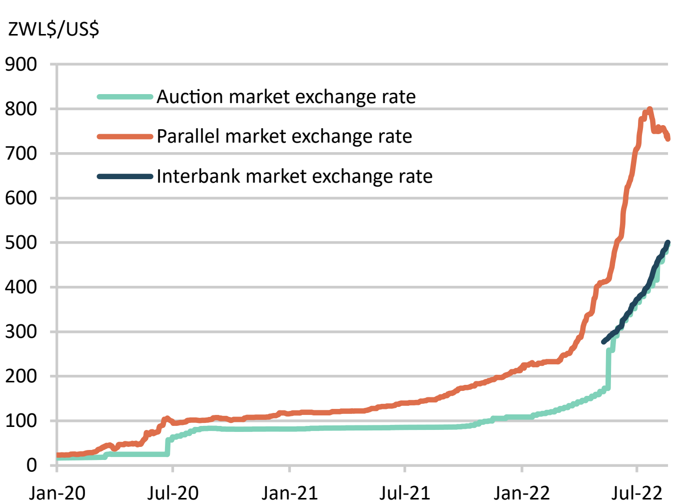
Although it has declined since 2021, the extreme poverty remains persistently high. Macroeconomic volatility, high dependence on low-productivity agriculture, slow pace of spatial and structural transformation, lack of creation of high-productivity jobs, and intermittent shocks such as droughts and pandemic have all contributed to increasing vulnerability in both urban and rural areas. However, Zimbabwe's social assistance programs have low coverage and may benefit from improved targeting.

Recent developments

Economic activity slowed in 2022, constrained by worsening agriculture conditions and price instability. Real GDP growth is projected to slow to 3.4 percent in 2022 from 5.8 percent in 2021. Mining, trade, and tourism took advantage of high commodity prices and relaxation of COVID-19 restrictions helping to drive growth in 2022. However, due to limited rains, agriculture production contracted after growing at double digits in 2021. Rising inflation, depreciation of the local currency, and higher interest rates have dampened consumption and investment. Strong remittance inflows mitigated to some extent the adverse impact on private consumption and together with higher gold exports have kept the external current account in surplus.

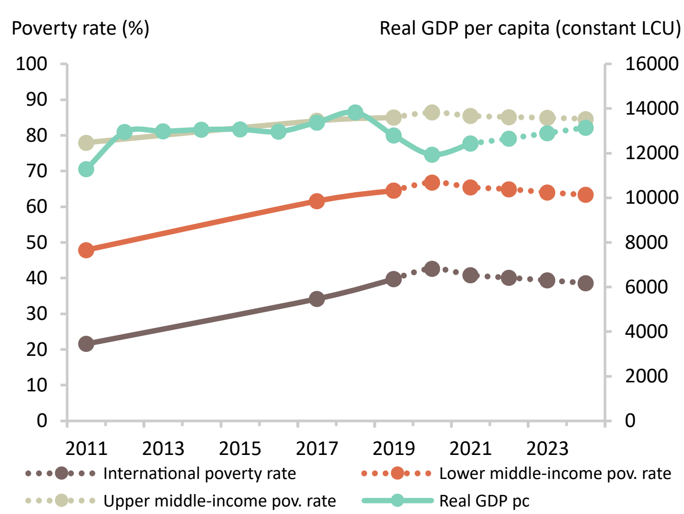
Annual inflation returned to triple digit levels, reaching 285 percent in August 2022, in response to further weakening of the local currency and surge in global prices due to the Russia-Ukraine war. Between January and August, the local currency depreciated by over 70 percent both on the parallel and official markets. To tame inflation, the Central Bank tightened monetary policy, raised the interest rates

FIGURE 1 Zimbabwe / Exchange rates



Sources: Zimstat and World Bank staff estimates.

FIGURE 2 Zimbabwe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

(from 80 percent to 200 percent), further liberalized the forex market, and issued gold coins as a store of value. These measures have stabilized the parallel market and narrowed the parallel market premium to below 35 percent in September 2022. Nevertheless, inflation is estimated to average 213 percent in 2022.

In a high inflationary environment, fiscal deficit was kept low during the first half of 2022 (2022H1) but fiscal pressures have built up. Fiscal deficit stood at 0.3 percent of GDP during 2022H1, well below the initial target. However, inflation eroded allocated budget, necessitating a large supplementary budget. The additional spending was allocated mainly for cost-of-living adjustments, public investment, procurement of grain, and social protection. Pressures for further wage adjustments and pre-election spending are expected to keep the fiscal deficit at 1.8 percent of GDP in 2022.

In line with the modest economic growth in 2022, poverty rate declined marginally. However, these modest gains are threatened by a looming food crisis and limited fiscal space to mitigate the impact on the poor. With most of the poor relying on subsistence agriculture, international poverty rate is expected to remain high at 40 percent.

Outlook

Economic growth is projected to be around its potential in the medium term but risks to the outlook are significant. Real GDP growth is expected to grow at 3.6 percent in 2023 and 2024 supported by better agriculture season, slowing inflation, and relaxation of pandemic requirements. Agriculture production is projected to return to growth as the rain levels normalize and fertilizer prices go down. Manufacturing and services are expected to benefit from subsiding global and domestic prices, as well as the pandemic. However, downside risks to the outlook are high reflecting global slowdown of growth, volatile commodity prices, climate change, and ability of the government to control inflation and forex market distortions in an election period. Inflation is projected to slow down as monetary stance remains tight and global prices go down. Nevertheless, inflation levels will remain elevated and still in triple digits in 2023.

Fiscal deficit is projected to widen during the election year of 2023. Continuing wage pressures, demands for higher spending on agriculture and support to loss-making state-owned enterprises remain key fiscal risks.

Poverty rate is expected to decline modestly in the medium term, but vulnerability due to climate shocks and inflationary pressure remains high. The shocks to agricultural output due to changing and more volatile climate, and economic shocks such as inflation, supply-chain disruptions will continue to strain household finances.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-6.1	-5.3	5.8	3.4	3.6	3.6
Private Consumption	-19.9	-4.3	11.3	3.3	3.4	3.2
Government Consumption	-1.7	-1.2	4.8	1.7	5.5	7.8
Gross Fixed Capital Investment	-9.0	-3.0	6.2	-2.9	4.6	3.2
Exports, Goods and Services	29.7	1.6	6.0	5.5	3.3	3.8
Imports, Goods and Services	-29.5	9.8	25.1	2.9	3.4	3.5
Real GDP growth, at constant factor prices	-7.5	-6.6	8.9	3.4	3.6	3.6
Agriculture	-17.8	4.2	17.3	-5.0	4.3	4.3
Industry	-11.1	0.0	6.4	3.5	3.2	3.2
Services	-2.1	-13.6	8.8	5.6	3.7	3.7
Inflation (Consumer Price Index)	255.3	557.2	98.5	212.7	105.5	50.5
Current Account Balance (% of GDP)	4.6	3.6	4.9	2.7	1.6	0.4
Net Foreign Direct Investment Inflow (% of GDP)	1.2	0.8	0.4	0.6	0.5	0.5
Fiscal Balance (% of GDP)	0.2	1.7	-1.7	-1.8	-2.1	-1.1
Debt (% of GDP)	94.8	109.7	79.6	78.9	78.8	76.3
Primary Balance (% of GDP)	0.4	1.8	-1.6	-1.7	-2.0	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	39.8	42.6	40.8	40.1	39.4	38.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.5	66.8	65.5	64.9	64.0	63.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.0	86.5	85.5	85.2	84.9	84.6
GHG emissions growth (mtCO2e)	-0.2	-1.3	2.4	1.7	1.5	1.6
Energy related GHG emissions (% of total)	11.8	10.8	10.9	11.2	11.4	11.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2019-PICES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.