ZIMBABWE

Table 1	**2019**
Population, million	17.3
GDP, current US$ billion	13.0
GDP per capita, current US$	749.0
School enrollment, primary (% gross)[a]	109.9
Life expectancy at birth, years[a]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2013); Life expectancy (2018)

The COVID-19 pandemic has further exacerbated underlying weaknesses with the economy projected to contract by 10 percent in 2020. Pandemic containment measures have adversely affected economic activity with services impacted the most. Inflationary pressures have intensified, fueled by excessive growth in money supply. Poverty levels have increased, as both inflation and food shortages have intensified.

Recent developments

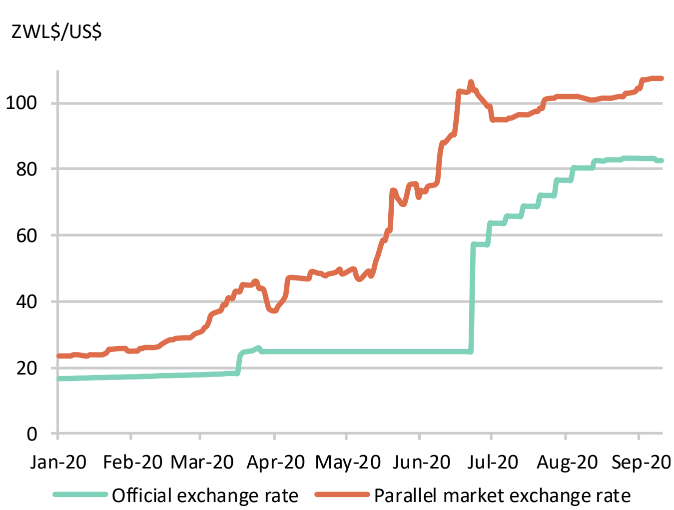
The global COVID-19 pandemic is pushing Zimbabwe deeper into recession, with GDP expected to contract by 10 percent in 2020 following a decline of 8.1 percent in 2019. Strict pandemic containment measures in place since April 2020 resulted in almost 90 percent of formal firms closed for nearly two months. Loss of sales was significant and broad-based, especially for domestic small and medium firms. The services sector, particularly tourism during the lockdown, came to a complete halt, while transport and trade have been constrained by restrictions on travel and border crossings. In July 2020, manufacturing sales were only half of their level a year earlier as a result of restricted mobility and reduced work hours, a sharp fall in demand and continued weakening of the domestic currency. Agriculture performance remained weak as drought conditions persisted and key inputs remained out of reach due to triple-digit inflation.

Inflation surged to 761 percent year-on-year in August 2020, with food prices increasing by 865 percent, resulting in a severe loss of purchasing power for the poor. Inflation was fueled by a rapid exchange rate depreciation, and intensified cash shortages amid disruptions of local and global markets. Relaxation of de-dollarization measures, reserve money targeting, and introduction of a forex trading auction have stabilized the parallel market exchange rate and reduced the differential with the official exchange rate, since end-June 2020. However, continued quasi-fiscal activities, in part related to COVID response, have undermined full currency stability and the local currency lost almost 80 percent of its value in the first eight months of the year.

Domestic challenges and global market disruptions caused by the pandemic have depressed imports more than exports, widening the current account surplus to 6.4 percent of GDP in 2020. In the first three months of the lockdown up to June, imports contracted by one-quarter, year-on-year, as fuel supplies fell drastically and imports were restricted to necessities (food, electricity, and medicines). Cumulatively, imports declined by 5.7 percent year-on-year in the first half of 2020. The impact of the pandemic on exports was less pronounced as exports are dominated by minerals which saw their prices increasing by double-digits. Migrant remittance inflows are still high, reflecting the use of official channels due to travel restrictions and border closures. Nevertheless, official reserves remained low, providing a cover of less than one month of imports.

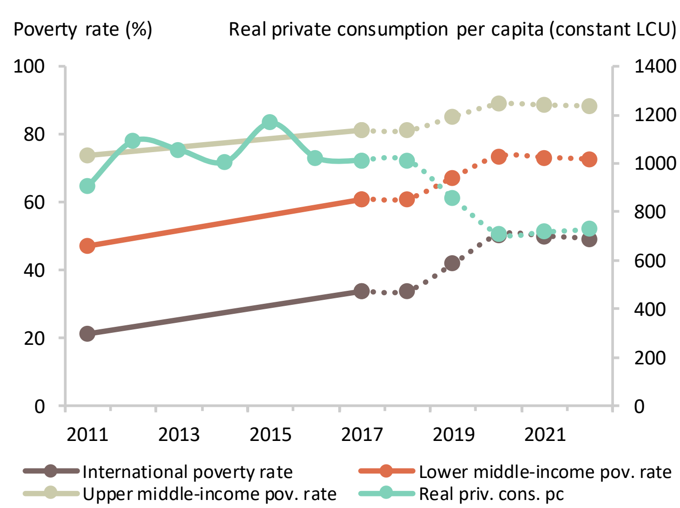
Despite weakening revenues and growing needs to protect lives and livelihoods, fiscal deficit is likely to be contained at 1.2 percent of GDP in 2020. Tax revenues fell with weakening domestic demand, increased use of US dollars as cash, and a lower excise rate on fuel and COVID-related inputs. Wage adjustments were kept limited in the first half of 2020 despite the continuing rise in prices. In July, however, salaries were raised by 50 percent and all civil servants

FIGURE 1 Zimbabwe / Exchange rates



Sources: Reserve Bank of Zimbabwe and World Bank Staff estimates.

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



Source: World Bank. Notes: see Table 2.

and government pensioners were awarded a flat allowance in US dollars to prevent further erosion of purchasing power. Basic service delivery remained underfunded and implementation challenges delayed payment of scaled up social assistance to urban beneficiaries. Fiscal space to mitigate the impact of the pandemic and support the post-COVID recovery is constrained, with limited or no recourse to concessional external financing because of debt arrears.

The COVID-19 pandemic has exacerbated poverty. Extreme poverty levels—using the national poverty line of PPP US$ 1.8 per day—are projected to have risen to 50 percent or 8 million in 2020, up from 42 percent or 6.6 million in 2019. In July 2020, 20 percent of those in urban areas that were working for pay before the COVID-19 pandemic had lost their jobs as some businesses closed. In rural areas, this was 10 percent, according to the high frequency household phone survey conducted in July 2020. Thirty percent of household businesses no longer had any revenue.

Outlook

The outlook is gloomy as domestic vulnerabilities are likely to persist, even if the global pandemic recedes in 2021. The negative effects of the pandemic and domestic challenges are expected to linger in 2021, and Zimbabwe's economic recovery is likely to be slow. GDP is projected to grow by 2.9 percent in 2021 as the adverse impacts of the drought subside and business activity starts to recover, but real GDP is not expected to reach its pre-COVID level until after 2022.

The current account surplus is projected to narrow to 4.3 percent of GDP in 2021, as rebound of domestic demand pushes up import spending. Improved global demand will support modest export growth.

The overall fiscal deficit is projected to average around 3 percent of GDP in 2021–22, as domestic revenues remain low and fall short of high social needs. The government plans to continue with the fiscal adjustment and a conservative monetary policy will help ensure stabilization of the economy.

Poverty levels will remain high at 50.0 and 49.2 percent in 2021 and 2022 respectively as the short-term rebound in economic growth is insufficient to make a dent on poverty. Given continued population growth (1.4 percent), this is insufficient to reduce the number of extreme poor. With many competing spending priorities, high reliance on donor financing for social assistance programs, and weak capacity to reach out to the extreme poor, especially in urban areas, more than half of the poorest risk being left without any social assistance.

Risks and challenges

A longer and deeper global recession combined with a severe and lengthy local outbreak in Zimbabwe could lead to a much larger contraction of the economy and a sharper rise in poverty. Further, inflationary pressures might constrain agriculture recovery, as few farmers will afford the inputs. Stability of the economy hinges on the effectiveness of monetary policy measures to contain money supply growth and discontinue quasi-fiscal activities. The shortage of foreign currency may put pressure on prices and wages with a high possibility of entering a wage-price spiral. Risks of social tension remain if the macroeconomic instability continues and external financing is not available.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.7	3.4	-8.1	-10.0	2.9	3.1
Private Consumption	1.4	2.1	-13.4	-13.7	3.0	2.9
Government Consumption	14.5	9.2	-28.1	-29.1	-8.1	3.5
Gross Fixed Capital Investment	23.0	4.5	-5.2	-1.5	9.4	0.9
Exports, Goods and Services	4.7	4.1	-5.1	-2.7	3.5	4.5
Imports, Goods and Services	3.2	7.7	-21.0	-15.0	1.9	3.4
Real GDP growth, at constant factor prices	4.8	3.1	-8.1	-11.4	2.8	3.1
Agriculture	10.0	18.3	-18.3	-5.3	4.9	4.9
Industry	2.5	2.1	-6.8	-6.8	3.8	2.3
Services	5.1	1.3	-6.9	-14.2	2.0	3.1
Inflation (Consumer Price Index)	0.9	10.6	255.1	654.9	80.0	20.0
Current Account Balance (% of GDP)	-1.4	-3.7	6.3	6.4	4.3	2.2
Net Foreign Direct Investment (% of GDP)	-1.8	-5.1	-3.2	-3.9	-3.5	-3.2
Fiscal Balance (% of GDP)	-9.8	-5.9	0.3	-1.2	-3.1	-2.8
Debt (% of GDP)	63.8	61.4	53.8	63.1	64.9	66.1
Primary Balance (% of GDP)	-8.8	-4.6	1.2	-0.6	-2.5	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	33.9	34.0	41.9	50.4	50.0	49.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	61.0	61.0	67.3	73.5	73.2	72.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	81.3	81.3	85.3	88.9	88.7	88.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2017-PICES. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.