ZIMBABWE

Table 1	2020
Population, million	14.9
GDP, current US$ billion	17.0
GDP per capita, current US$	1145.1
International poverty rate ($1.9)[a]	39.5
Lower middle-income poverty rate ($3.2)[a]	63.8
Upper middle-income poverty rate ($5.5)[a]	82.8
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	109.9
Life expectancy at birth, years[b]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

The economy is projected to rebound in 2021, driven by recovery in agriculture, although output per capita will not reach pre-pandemic levels until after 2023. Inflation though declining is projected to remain high in 2021, responding to rising international oil and food prices. Fiscal deficit is projected to be within sustainable limits, as revenue continues to recover while non-wage expenditure is constrained by implementation challenges. Poverty levels will remain high, amid continued elevated prices, and a slow recovery of jobs and wages.

Key conditions and challenges

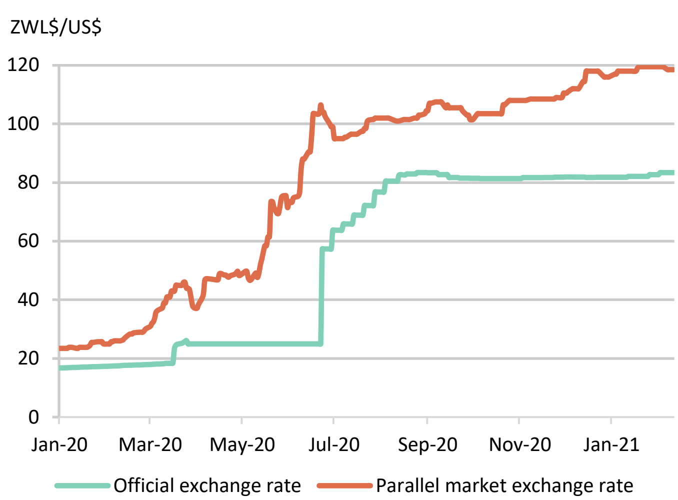
Macroeconomic challenges and natural disasters have kept Zimbabwe's growth volatile. High inflation, unstable exchange rates, and unsustainable debt have constrained macroeconomic stability and productivity growth. Trade integration has declined and foreign direct investment (FDI) remained low, limiting transfer of new technologies and investment in modernizing the economy. Increased frequency of unfavorable weather events, including a drought persisting for almost three years and the devastating Cyclone Idai, downsized rain-fed agriculture, electricity and water production with ripple effects to other economic sectors and social conditions. As a result, after growing at 6.8 percent in 2010–14, Zimbabwe's economy contracted by 1.3 percent in 2015–20.

With no access to concessional external financing, Zimbabwe has relied on mobilizing domestic resources, donor assistance, and expensive external loans to mitigate the impact of natural disasters and the pandemic. To contain inflation, fiscal policy remained tight which has weakened delivery of basic social services. As a result of low or negative economic growth and natural disasters, extreme poverty has steadily increased over the last decade, rising from 21 percent in 2011 to 39.5 percent in 2019 (based on $1.90 poverty line). With the onset of the COVID-19 pandemic, the number of extreme poor is estimated to have reached 42.3 percent in 2020 (based on $1.90 poverty line) of the population in 2020. Bringing the pandemic under control so that economic activity can resume as normal remains the priority in the near term. Zimbabwe's recovery needs to be underpinned by policies promoting productivity growth, such as reducing state intervention in the economy; lessening the regulatory burden; strengthening governance and anti-corruption efforts; lowering barriers to regional trade integration; and removing forex retention requirements. Service delivery needs to be strengthened and household vulnerability reduced through robust social safety net programs.

Recent developments

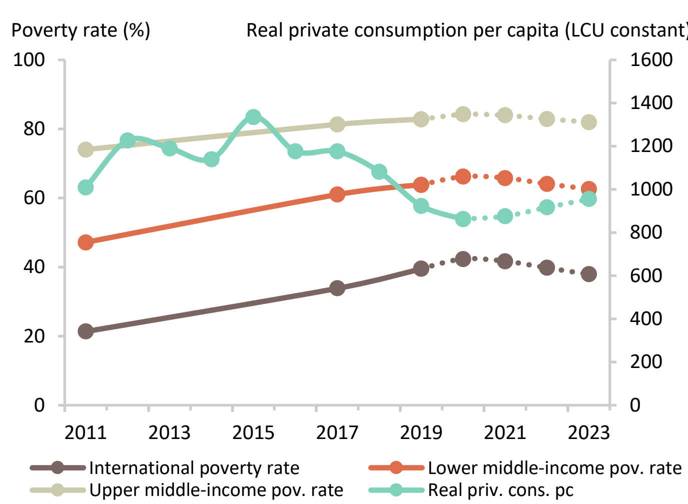
GDP is estimated to have contacted by 8 percent for a second year in a row as the pandemic halted economic recovery. Containment measures depressed manufacturing, non-mineral exports, and the hospitality, trade, and transport sectors. Sales of manufacturing and services firms in July 2020 were about half the level of the previous year. Supply-side shocks subsided after mobility restrictions were eased, but domestic demand was weak in an environment of triple-digit inflation, loss of productive jobs and income losses. Several years of drought necessitated increased imports of maize and electricity, while the pandemic presented new demands for lab equipment and medical

FIGURE 1 Zimbabwe / Official and parallel-market 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.

supplies. High inflows of remittances and a positive trade balance kept the current account in surplus.

The need to contain inflation limited fiscal and monetary policy responses to the pandemic. Fiscal policy remained tight—with a small deficit of 1.2 percent of GDP—despite wage pressures and additional spending needs to respond to the pandemic and growing number of poor. In June 2020, the Reserve Bank of Zimbabwe operationalized the reserve money targeting framework, floated the exchange rate, and introduced a foreign currency auction. These measures helped to stabilize the parallel market exchange rate and reduce the parallel market premium (see Figure 1), although the auction exchange rate system remained distortionary. As a result, inflation slowed to 322 percent in February 2021 from its peak of 838 percent in July 2020.

The economic disruption continues to undermine household welfare. More than a quarter of households were severely food insecure in July 2020, while the coverage of the social assistance program remains low, and 28 percent of agricultural households are unable to sell their farm products. Nationally, 16 percent of non-farm business owners reported temporary or permanent closure of businesses in July 2020, and 58 percent had no, or lower revenue compared to the previous month.

Outlook

After two difficult years, Zimbabwe's economy is set to return to positive growth in 2021 amid downside risks. GDP is projected to grow by 2.9 percent in 2021, led by a recovery in agriculture, and due to base effects. The impact of a second wave of the pandemic and uncertainty about the roll out of vaccines are expected to weigh on recovery of domestic and external demand. Domestic demand is projected to remain weak on the back of continuing high inflation, limited fiscal space for expansion, and weak labor market due to the pandemic. Economic recovery is expected to strengthen in 2022 with GDP growing at around 5 percent as the deployment of vaccines intensifies and consistent implementation of the recently approved National Development Strategy reforms start bearing fruit. However, a more prolonged pandemic, weaker global demand, and heightened macroeconomic instability could delay economic recovery, increase poverty, and worsen human capital development outcomes. If risks materialize, economic growth could be lower than 2 percent in 2021. Recovery of tourism, trade, and transport is unlikely to occur until 2022.

Despite renewed economic activity, poverty is likely to remain high as the scars from two years of recession, food insecurity, natural events, and the economic dislocations of the pandemic linger. The number of extreme poor is expected to remain at 6.3 million in 2021 amid elevated prices, risk of more surges in coronavirus cases, and a slow recovery of jobs and wages in the formal and informal sectors. Given limited social safety nets for protecting the growing number of poor, household vulnerability will likely remain high with continuing negative coping strategies such as depleting assets, compromising on quantity and quality of food, forgoing precautionary health care, and keeping children out school. Delayed economic recovery will further deepen poverty and social exclusion.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	-8.1	-8.0	2.9	5.1	5.0
Private Consumption	-6.7	-13.4	-5.2	3.0	6.4	5.9
Government Consumption	9.2	-19.2	15.9	4.7	22.2	22.6
Gross Fixed Capital Investment	25.8	-4.3	-18.9	3.2	-35.3	-70.4
Exports, Goods and Services	-29.3	-5.1	-1.4	3.0	5.3	5.5
Imports, Goods and Services	-25.3	-21.0	3.0	4.5	6.1	5.8
Real GDP growth, at constant factor prices	5.1	-8.1	-8.0	2.9	5.1	5.0
Agriculture	18.3	-21.1	-5.2	6.8	8.1	9.3
Industry	3.2	-10.2	-2.7	6.7	10.2	11.8
Services	4.0	-5.1	-10.4	0.8	2.4	1.2
Inflation (Consumer Price Index)	10.6	255.1	556.6	150.0	30.0	20.0
Current Account Balance (% of GDP)	-5.7	6.3	6.2	4.2	2.0	0.9
Net Foreign Direct Investment (% of GDP)	-3.0	-1.5	-0.9	-2.1	-2.7	-2.9
Fiscal Balance (% of GDP)	-6.0	0.3	-1.2	-2.2	-2.5	-3.0
Debt (% of GDP)	72.4	88.5	88.6	87.2	85.6	81.7
Primary Balance (% of GDP)	-4.6	1.3	-0.2	-0.6	-0.5	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]		39.5	42.3	41.7	39.8	37.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		63.8	66.2	65.8	64.0	62.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		82.8	84.2	83.9	82.9	82.0

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: 2018-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.