ZIMBABWE

Table 1	2021
Population, million	15.1
GDP, current US$ billion	26.2
GDP per capita, current US$	1737.2
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]	97.3
Life expectancy at birth, years[b]	61.5
Total GHG Emissions (mtCO2e)	116.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

GDP growth is estimated to have rebounded to 5.8 percent in 2021, reflecting an exceptionally good harvest and relative stabilization of prices. Disinflation policies were effective in bringing down inflation to double digits for the first time in two years. As a result, poverty levels declined. The economy is projected to continue to recover in 2022, albeit at a slower pace, as agriculture conditions worsen and food and fuel prices surge.

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. After almost three years of droughts, favorable rains boosted economic growth in 2021, supporting the recovery. Steps to stabilize prices and exchange rates, as well as relaxation of COVID-19 restrictions, improved the environment for doing business. As a result, after two years of recession, Zimbabwe's economy is estimated to have grown by 5.8 percent in 2021.

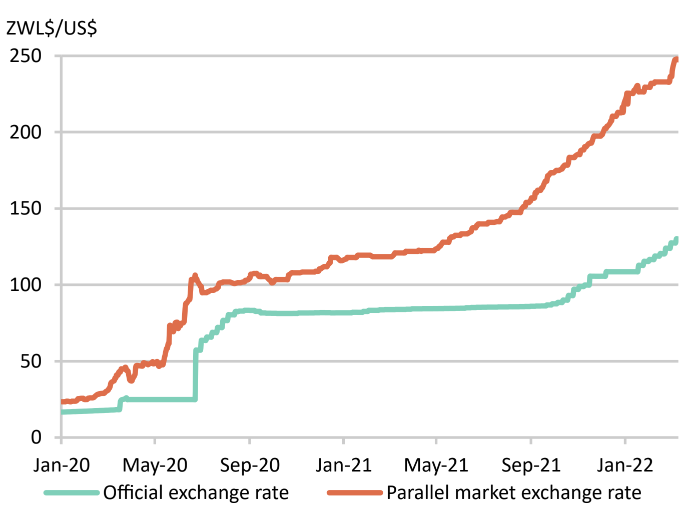
The extreme poverty rate has increased steadily between 2011 and 2020, only declining in 2021 following exceptionally good harvest and disinflation policies. International poverty rate was 22 percent in 2011, and it was estimated to be 41 percent in 2021 and 40 percent in 2022. Although poverty remains an overwhelmingly rural phenomenon, in recent years it has increased relatively faster in urban areas, leading to an urbanization of poverty. Zimbabwe's international poverty rate (PPP $1.90/person/day) was half the level in sub-Saharan African in 2011 but by 2019, it was on par with the rest of the continent (42 percent). Inequality has also increased over the last decade, with the Gini coefficient increasing from 42 in 2011 to 50.3 in 2019 – among the highest in the world. Unemployment remained high at 19.1 percent in 2021.

In addition to further efforts to solidify macroeconomic stability, Zimbabwe's recovery needs to be underpinned by policies promoting productivity growth. These policies would include 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

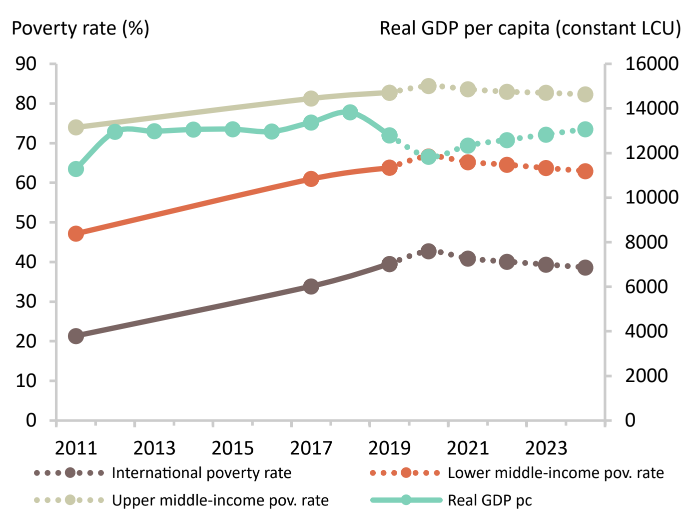
The economy rebounded in 2021 driven by recovery of agriculture and industry and relative stabilization of prices and exchange rates. GDP is estimated to have grown by 5.8 percent in 2021 after contracting by 6.2 percent in 2020. An exceptionally good agriculture season, coupled with slowing inflation and higher remittances boosted domestic demand. Relaxed pandemic restrictions, good vaccination levels, and favorable terms of trade supported stronger industrial production and exports, with exports of minerals expanding by over 51 percent in a year. A widening of the current account

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 calculations using data from Zimstat PICES surveys 2011, 2017 and mini-PICES 2019.

surplus in 2021 and the SDR allocation helped increase international reserves.

Disinflation policies were effective in bringing down inflation in 2021. Inflation slowed from 838 percent in July 2020 to 60.7 percent in December 2021. Monetary policy was further tightened in the end of 2021 and in early 2022 to calm inflationary pressures from continuing distortions in the foreign exchange market and rising international prices.

Fiscal policy remained relatively tight, with most of the additional spending financed by SDRs. The fiscal balance turned into a cash deficit of 1.5 percent of GDP. Procurement of vaccines and higher spending on agriculture and public infrastructure contributed most to the fiscal deficit. Revenue collection improved, driven by better performance of corporate income tax, VAT, and money transfer tax. Public indebtedness worsened further as the government assumed RBZ's legacy debt, adding over US$2.5 billion to external arrears and external debt reached US$14.5 billion.

Poverty levels decreased, reflecting the bumper maize harvest of the 2021 season. After peaking at 43 percent, in 2020, international poverty rate fell to 41 percent in 2021. The decline in poverty is primarily driven by rural areas thanks to the bumper harvest of 2021. There was also a marked improvement in food security, with the share of population in severe or moderate food insecurity falling from 61 to 38 percent between March and November 2021. The lack of improvement in the extreme poverty rate in urban areas suggests that despite the reopening of the economy and loosening of mobility restrictions, intermittent closures continue to affect employment, incomes, and livelihoods of urban residents. Social assistance programs play a limited role in reducing poverty and vulnerability due to their low coverage and lack of poverty focus in targeting.

Outlook

The economy is projected to continue to recover in the medium term, amid downside risks. GDP is projected to grow by 3.7 percent in 2022 but slowdown in the medium term as the positive base effects diminish. The downward revision to the growth outlook is based on worsening agriculture conditions as well as global price increases and supply side disruptions due to the conflict in Ukraine and associated sanctions on Russia. Agriculture output is set to contract by 1.5 percent in 2022 from double digit-growth in 2021 on the account of falling rain levels and rising prices of key agriculture inputs. Mining production and exports are expected to benefit from continuing high international prices while tourism, trade, and transport are likely to start recovering with positive spillover effects on other sectors of the economy. The risks to the outlook are significant with heightened global risks as global growth slows down and uncertainty about the pandemic remains. Domestic risks also weigh on growth performance and are linked to climatic shocks, expansionary fiscal and monetary policy in the run up to the 2023 parliamentary elections that might undermine disinflation policies and keep large distortions in the foreign exchange market, thereby delaying economic recovery.

Poverty levels are expected to further decline in 2022, albeit marginally. As conditions for a good harvest deteriorate, prices remain high, and the capacity of the social system to target and reach the poor with adequate social safety nets is constrained. If inflation is not adequately managed, the purchasing power of incomes will be eroded, putting more people in or at risk of poverty and delaying improvements in basic service delivery.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-6.1	-6.2	5.8	3.7	3.6	3.6
Private Consumption	-19.9	-5.2	11.6	3.3	3.4	3.5
Government Consumption	-1.7	-2.0	3.0	4.3	5.5	4.4
Gross Fixed Capital Investment	-9.0	-3.0	6.2	4.9	4.8	4.0
Exports, Goods and Services	29.7	1.6	6.0	3.3	3.2	3.4
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	5.8	3.7	3.6	3.6
Agriculture	-17.8	4.2	17.2	-1.5	2.5	2.7
Industry	-11.1	0.0	6.4	4.6	3.6	4.1
Services	-2.1	-13.6	2.5	4.3	3.9	3.5
Inflation (Consumer Price Index)	255.3	557.2	98.5	72.0	44.0	34.0
Current Account Balance (% of GDP)	4.6	3.6	4.0	2.6	0.3	-0.7
Net Foreign Direct Investment (% of GDP)	-1.2	-0.8	-0.4	-0.7	-0.5	-0.4
Fiscal Balance (% of GDP)	0.2	1.7	-1.5	-1.7	-2.0	-1.1
Debt (% of GDP)	94.8	109.7	88.4	81.6	78.3	76.3
Primary Balance (% of GDP)	0.4	1.8	-1.4	-1.5	-1.9	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.5	42.7	40.9	40.1	39.4	38.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	63.8	66.7	65.2	64.6	63.7	63.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.8	84.4	83.6	83.0	82.7	82.3
GHG emissions growth (mtCO2e)	-1.6	-2.9	2.3	1.2	0.7	0.8
Energy related GHG emissions (% of total)	12.6	10.5	10.4	10.1	9.5	8.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
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 based on GDP per capita in constant LCU.