ZIMBABWE

Table 1	2022
Population, million	16.3
GDP, current US$ billion	20.7
GDP per capita, current US$	1267.0
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]	50.3
School enrollment, primary (% gross)[b]	96.1
Life expectancy at birth, years[b]	61.1
Total GHG emissions (mtCO2e)	122.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Real GDP growth is estimated to have slowed to 3.4 percent in 2022 on the back of worsening agriculture conditions and macroeconomic instability. Annual inflation returned to triple digit levels in 2022, driven by both monetary expansion and external shocks. Poverty levels, albeit declining, remained elevated. Economic growth is projected to slow to 2.9 percent in 2023 and remain subdued in the medium term, reflecting global shocks and structural bottlenecks.

Key conditions and challenges

Zimbabwe's economic development continues to be hampered by price and exchange rate instability, misallocation of productive resources, high informality, 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.

High unsustainable debt and arrears to international financial institutions (IFIs) limit Zimbabwe's growth potential. External debt is estimated at 107 percent of GDP in 2022. The government has prepared an Arrears Clearance, Debt Relief and Restructuring Strategy, resumed token payments to IFIs and Paris Club creditors, and initiated a high-level structured Dialogue Platform with creditors and development partners.

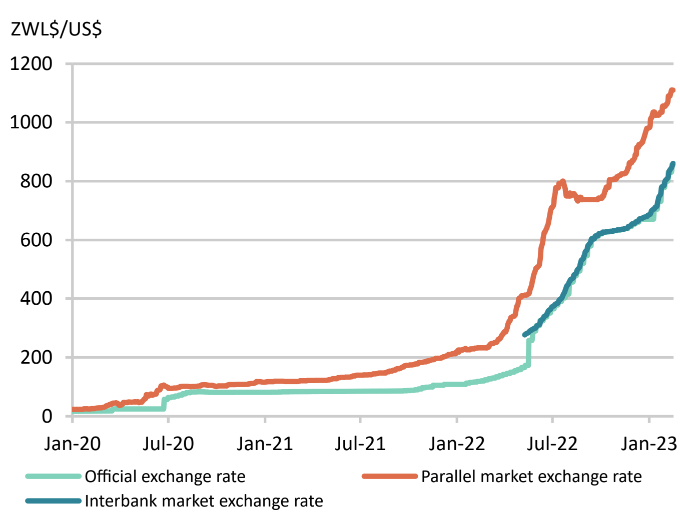
Although it has declined since its peak of 2020, extreme poverty remains high in the context of cyclical agricultural production and elevated food prices. Persistent inflation, high dependence on low-productivity agriculture, slow structural transformation, and intermittent shocks like drought, natural disasters, and pandemic have contributed to the high rate of poverty and vulnerability in Zimbabwe.

Recent developments

Real GDP slowed to 3.4 percent in 2022 from 8.5 percent in 2021 on the back of worsening agriculture conditions and price and exchange rate instability. Due to low rainfall, agriculture output contracted by 14 percent, after growing at double digits in 2021. Triple digit inflation constrained private sector demand, while fiscal austerity limited growth of government demand and investment. Mineral exporters benefited from high global prices and together with tourism contributed most to overall economic growth.

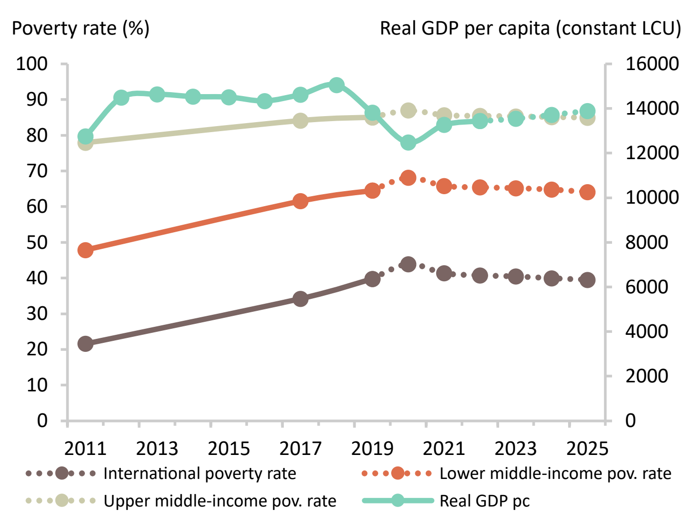
Inflation returned to triple digits, albeit declining since August 2022, fueled by broad money expansion and surge in global prices. Russia's invasion of Ukraine, through high food and energy prices, has exacerbated domestic inflationary pressures that emanated from lose monetary policy and quasi-fiscal operations, with annual inflation returning to triple digits in May 2022. End of period inflation reached 244 percent in 2022. However, monetary tightening, including sharp hike in interest rates, and fiscal policy measures brought inflation down to 230 percent in January 2023. Further, the relative relaxation on foreign currency auction controls contributed to declining parallel market premium from over 93 percent in July 2022 to 30 percent in February 2023. Despite still

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.

high inflation, the Central Bank reduced the interest rate from 200 percent per annum to 150 percent in February 2023.

The fiscal deficit was contained for a fourth year in a row, but quasi-fiscal operations continued. The fiscal deficit is estimated at 1.5 percent of GDP in 2022, from 1.7 percent in 2021. Additional spending driven by inflation was matched by higher revenue. The large part of additional spending was allocated for wages, public investment, procurement of grain, and social protection. Revenues increased significantly due to high inflation and exchange rate valuation gains as some of the taxes (45 percent) were collected in U.S. dollars.

The current account remained in surplus though narrowing from 1.5 percent of GDP in 2021 to 1.1 percent in 2022 as trade deficit widened. The merchandise trade deficit increased sharply as import growth continued to outpace growth of exports on the back of high global prices. However, strong remittances and improvements in tourism receipts from abroad kept the current account in surplus.

The job loss and economic disruptions associated with the COVID-19 pandemic have mostly dissipated. The modest economic growth in 2022 translated into a marginal decline in the international poverty rate. Nevertheless, about 6.2 million people lived below the international poverty line in 2022.

Outlook

Real GDP growth is projected to slow further to 2.9 percent in 2023 and remain subdued in the medium term, reflecting global shocks, structural bottlenecks, and price and exchange rate instability. Growth in 2023 will be driven mostly by agriculture, mining, and further recovery of tourism and other related services. Agriculture output is expected to grow on account of better rains, but costly inputs and financing issues are likely to weigh on yields of key crops.

Downside risks to the outlook are high reflecting potential policy loosening prior to elections, sharp global slowdown of growth, volatile commodity prices, and climate change. Inflation will slow down but remain in triple-digits in 2023. Further monetary tightening and liberalization of the exchange rate could bring inflation to double-digit levels from 2024.

The fiscal deficit is projected to increase in 2023, reflecting election spending pressures. Higher wages and transfers will drive expenditure while investments in public infrastructure are expected to be moderate. Revenue will continue to benefit from high inflation and exchange rate depreciation. With limited access to concessional financing and rising costs of commercial financing, financing of future deficits will become more difficult, necessitating further fiscal consolidation. The current account surplus will continue shrinking, reflecting increase in imports and slowdown in remittances inflows.

The international poverty rate is expected to decline modestly in the medium term along with the projected increase in GDP per capita. Although the agriculture sector is expected to do relatively well thanks to the timely rain, high food prices and slow economic growth will continue to retard the pace of poverty reduction. Breaking the correlation of household welfare with the weather cycles, increasing labor productivity through capital deepening and structural transformation, and instituting a robust social protection system are the structural priorities to reduce poverty and vulnerability.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-7.8	8.5	3.4	2.9	3.4	3.4
Private Consumption	-2.7	4.7	3.4	3.5	3.2	3.2
Government Consumption	-23.8	142.1	0.8	2.6	1.9	2.2
Gross Fixed Capital Investment	-4.1	-3.8	6.9	1.1	5.6	5.3
Exports, Goods and Services	-39.8	41.1	6.0	2.8	3.8	3.8
Imports, Goods and Services	-29.0	54.8	5.5	3.1	3.1	3.1
Real GDP growth, at constant factor prices	-7.7	8.4	3.4	2.9	3.4	3.4
Agriculture	4.1	17.5	-14.1	3.0	3.4	3.4
Industry	-8.2	6.4	7.4	3.3	3.5	3.7
Services	-9.6	7.7	5.1	2.7	3.3	3.2
Inflation (Consumer Price Index)	557.2	98.5	193.4	124.0	74.0	54.0
Current Account Balance (% of GDP)	3.0	1.5	1.1	0.4	0.7	0.5
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.4	0.8	0.7	0.6	0.5
Fiscal Balance (% of GDP)	1.5	-1.7	-1.5	-1.7	-1.5	-1.5
Revenues (% of GDP)	13.3	15.2	18.9	17.6	17.5	17.8
Debt (% of GDP)	92.1	81.7	111.6	106.2	87.2	79.2
Primary Balance (% of GDP)	1.5	-1.7	-1.4	-1.6	-1.1	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	43.9	41.4	40.8	40.5	40.0	39.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	68.1	65.8	65.4	65.2	64.8	64.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.9	85.6	85.4	85.3	85.1	84.9
GHG emissions growth (mtCO2e)	-1.3	3.2	2.3	1.6	1.7	1.8
Energy related GHG emissions (% of total)	10.7	11.4	12.1	12.2	12.3	12.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2019-PICES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.