Zimbabwe

Recent macroeconomic and financial developments

Zimbabwe's economic growth accelerated to an estimated 6.3% in 2021 from a 5.3% contraction in 2020, supported by a bumper harvest, expanding agriculture by 36.2% in 2021, up from 4.2% growth in 2020. Per capita GDP likewise grew, by 4.9% in 2021 from a contraction of 6.7% in 2020. A mix of improved revenue mobilization and expenditure restraint contributed to a positive fiscal balance of 0.6% of GDP in 2021. Inflation slumped to 98.5% in 2021 from 557.3% 2020, reflecting a fall in food price inflation aided by improved food supply. The official exchange rate was Z$108/US$ in December 2021 and was overvalued as reflected in a 67% disparity with the parallel rate of Z$180/US$.

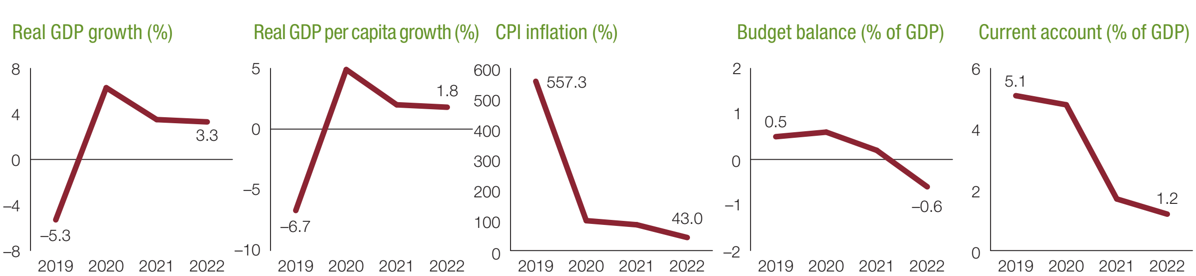
Zimbabwe is classified as being in debt distress with total debt of $13.7 billion, of which $13.2 billion is external. The current account balance remained positive on account of reduced food imports. Financial sector performance was satisfactory in 2021, with NPLs at 3.5% against a benchmark of 5%, while the capital-adequacy ratio was 32%, above the 12% requirement, in June 2021. In August 2021, Zimbabwe received its SDR allocation of 655.6 million ($960 million, 4% of GDP), half of which the government has prioritized for COVID-19 vaccination rollout, agriculture, mining, and infrastructure development; the balance is to build reserves. However, the poverty rate remained high, at 44.0%, in 2021.

Outlook and risks

Growth is projected to average 3.5% in 2022 and 3.2% in 2023, driven by continued favorable agricultural performance and improved macroeconomic stability. In the same period, inflation could drop to 85% and 43% on the back of stability in food prices and exchange rate stability. The fiscal deficit is forecast to narrow to 0.2% of GDP given continued fiscal discipline. The current account balance will remain positive largely because of reduced food imports as domestic production improves, as well as increased export earnings stemming from improved commodity prices. COVID-19 continues to present risks, and emergence of new variants could affect economic activity; the debt overhang and climate change are further risks. In 2021, Zimbabwe developed the Arrears Clearance, Debt Relief and Restructuring Strategy to guide engagement with donors and creditors for clearing its debt and unlocking development financing.

Climate change issues and policy options

Zimbabwe is two on the 2021 GCRI. Climate change has increased the frequency of extreme weather events such as droughts, floods, storms, and heat waves. Cyclone Idai in 2019 caused direct damage of an estimated $622 million to infrastructure, properties, crops, and livestock. Through its National Development Strategy 2021–2025, the government prioritizes mainstreaming climate change and related financing in national programs; strengthening early-warning systems; promoting climate-smart innovation and technology transfer; and strengthening capacity building and awareness on climate change adaptation and mitigation. Zimbabwe requires domestic and international support to push through with mitigation and adaptation measures: mitigation measures alone will cost an estimated $4.83 billion. Finance channeled through the National Climate Change Fund and Climate Finance Facility (under development) should crowd in the private sector through blended finance and results-based approaches for de-risking markets, scaling up impact investments, and increasing participation in climate actions. Zimbabwe is on course to meet SDG 13 on climate action.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.