

Recent macroeconomic and financial developments

Before the COVID-19 pandemic, Zimbabwe's economy was already in recession, contracting by 6.0% in 2019. Output fell because of economic instability and the removal of subsidies on maize meal, fuel, and electricity prices; suppressed foreign exchange earnings; and excessive money creation. The onset of the COVID-19 pandemic and continued drought led to 10% contraction in real GDP in 2020. Inflation soared, averaging 622.8% in 2020, up from 226.9% in 2019. Foreign exchange reforms were instituted in June 2020, which dampened an inflation that raged at an annual rate of 838% in July. Fiscal and current account deficits also recovered after July, but both deteriorated for the year as a whole. The budget deficit rose from 2.7% in 2019 to 2.9% in 2020, while the current account went from a surplus of 1.1% of GDP in 2019 to a deficit of 1.9% in 2020. The exchange rate depreciated ZWL2.5 in February 2019 and stabilizing around ZWL82 to the US dollar in December 2020. Poverty stood at 70.5% in 2019 while unemployment remained high at over 21%. The banking system is stable. Banks have some room to increase credit. The loan-to-deposit ratio was 38.8% in 2020 against a benchmark of 70%. Non-performing loans are at 3.23%, well under the regulatory benchmark of 5%. The capital adequacy ratio is more than three times the regulatory requirement of 12%.

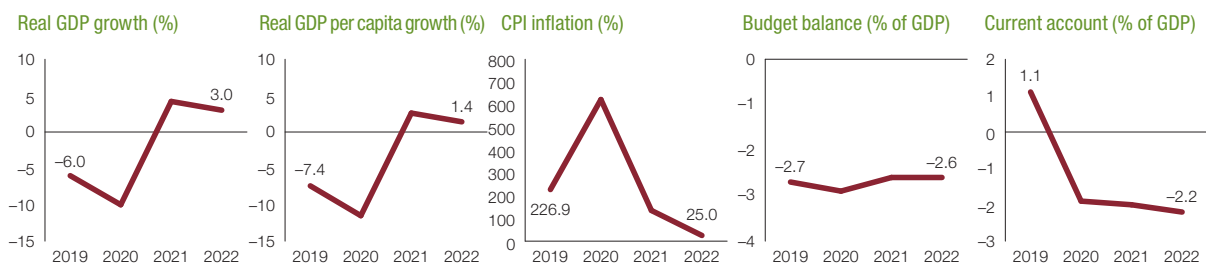
Outlook and risks

Modest economic recovery is projected in 2021, if effective measures are taken to stabilize foreign exchange

and avoid excessive money creation. But the outlook is clouded by a number of factors. The pandemic and government policies to contain the disease will affect production levels across all sectors—although a partial easing of border closures may help. The industrial and mining sectors are equally faced with reduced competitiveness, low commodity prices, and interruptions in electrical service that disrupt output. The problems are exacerbated by debt distress and arrears, and low international reserves that can cover less than one month of imports. Zimbabwe's economic situation will remain challenged in 2021, although the foreign exchange reforms, especially the weekly Forex auctions, introduced in June 2020 could create price stability and create room for modest economic recovery.

Financing issues and options

Zimbabwe's total public debt is \$11.1 billion (53.9% of GDP), of which 95.6% is external, including \$6.4 billion in arrears to international financial institutions, bilateral, and private creditors. Zimbabwe has been in default since 2000. A Staff Monitored Program with the International Monetary Fund to help Zimbabwe implement economic policies from May 2019 to March 2020 collapsed in September 2019. The government and the Fund have not agreed to a new arrangement, which would be aimed at helping Zimbabwe clear its arrears. As a result, the country will have to continue to rely largely on domestic resource mobilization and borrowing from non-Paris Club members like China. The international financial institutions will not resume lending until debt arrears are cleared.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.