COUNTRY RISK REVIEW

Political Environment

Robert Mugabe became Prime Minister of Zimbabwe in 1980 when his ZANU-PF party won the general election following the end of white minority rule and has remained the country's dominant party since. He was the President of Zimbabwe from 1987, after converting the country's initial parliamentary system into a presidential one, until his resignation in 2017. From 1997 to 2008, the economy experienced a consistent decline (and, in the latter years, hyperinflation), though it has since seen rapid growth after the use of currencies other than the Zimbabwean dollar was permitted. In 2017, in the wake of over a year of protests against his government as well as Zimbabwe's rapidly declining economy, a coup resulted in Mugabe's resignation. Emmerson Mnangagwa has since served as Zimbabwe's president.

Economic Landscape

Zimbabwe’s economic progress remains hindered by multiple challenges. In 2023, as per the World Bank, the real GDP is estimated to have increased by 5.5%, following a 6.5% rise in 2022, driven by growth in agriculture, mining, and services boosted by remittances. However, economic activity in Zimbabwe falls short of its potential due to macroeconomic volatility caused by monetary instability, significant exchange rate distortions, high inflation, and erosion of the fiscal revenue base. This is further worsened by underinvestment due to the difficult business environment, raising the cost of doing business, and power shortages, which are estimated to cost Zimbabwe 6.1% of its GDP per year. However, tailwinds include Zimbabwe being one of the fastest-growing SADC economies in 2023 and 2022.

Inflation Crisis

In 2024, inflation is estimated to remain high due to the local currency losing value. In February, annual inflation rose for the fourth consecutive month, driven by sharp depreciation in both official and parallel foreign exchange markets. The annual inflation rate increased from 26.5% in December

2023 to 47.6% in February 2024. Additionally, the official exchange rate depreciated by 788% in 2023, and the parallel market premium was estimated at 30% as of February 2024.

Budgetary Challenges

Real GDP was estimated to have increased by 5.5% in 2023 cf. 6.5% growth in 2022 on the back of expansion in agriculture, mining, and remittances-induced services growth. Fiscal pressures grew in 2023 due to national elections and the transfer of the Reserve Bank of Zimbabwe's (RBZ) external liabilities to the Treasury. The government raised civil servants' salaries in both foreign and local currency. The Treasury assumed responsibility for servicing USD 1.8bn in RBZ's external debt. Additionally, some revenue proposals from the 2024 budget were reversed, raising concerns about the budget's credibility. Despite this, taxes like the sugar tax led to higher prices. The current account surplus decreased in 2023 as remittances from non-governmental organizations declined.

The national budget's overall deficit was 1.5% of the GDP in 2023, equating to USD 336.8bn. Furthermore, additional financing requirements of USD 575.5bn were prevalent, inclusive of amortisation of loans and government securities of USD 248.6bn. Due to the inflationary pressures of the economy, which peaked from May to June 2023, the macroeconomic fiscal framework was revised, including one that widened the budget deficit to USD 3.6tn in nominal terms. This also led to the revision of the borrowing plan for 2023.

Mounting External Debt

Zimbabwe's external debt has surged significantly in recent years, largely due to external arrears and legacy debt. The debt increased from USD 9.5bn in 2018 to USD 17.5bn in 2023, which approximately represents a rise from 26% to 95% of GDP. This increase is partly attributed to debt arrears, as the Government of Zimbabwe ceased servicing its external debt in 2000. By 2023, Zimbabwe's external arrears had accumulated to USD 6.9bn, mostly owed to international financial institutions including the World Bank, the IMF, the Arab Bank for Economic Development in Africa, the OPEC Fund for International Development, and the Kuwait Fund. It is noteworthy that the World Bank’s lending program in Zimbabwe is inactive due to arrears, and the role is now limited to only providing technical assistance and analytical work through Trust Funds. Currently, the government is executing an arrears clearance and debt resolution strategy, which is crucial for resolving debt issues and securing financial support. As part of this strategy, Zimbabwe resumed token payments to multilateral creditors in 2021.

Fiscal and Economic Challenges

The fiscal balance was in surplus during the first half of 2023 as the government slowed spending to contain inflation and exchange rate pressures. The government transferred all quasi-fiscal operations from the Central Bank to the Treasury, and this will increase interest payments during the second half of 2023. The current account surplus narrowed during the first half of 2023 as the widening of the trade deficit outpaced the growth of remittances.

Despite a decline in extreme poverty since 2020, poverty levels remain significant (estimated at 44% in 2022) due to fluctuating agricultural production and elevated food prices. The ongoing inflation, reliance on low-productivity agriculture, slow structural changes, and periodic shocks such as droughts, natural disasters, and the COVID-19 pandemic have all contributed to the high levels of poverty and vulnerability in Zimbabwe. Additionally, the high, unsustainable debt and arrears to international financial institutions (IFIs) further limit its fiscal flexibility and growth potential.

Foreign Exchange Shortages

Zimbabwe suffers from a shortage of foreign exchange. To address the shortage, the Government of Zimbabwe implements a foreign currency retention system where exporters must convert a proportion of their export receipts (currently 25 percent) into local currency at the official interbank market rate. This acts as a tax on exporters, particularly when there is a significant gap between the interbank and parallel market rates. Exporters consistently lose money when forced to exchange U.S. dollars at the interbank rate. International firms have also faced challenges in repatriating profits.

Imports and Exports

According to the Reserve Bank of Zimbabwe annual report, merchandise exports marginally rose by 2.9% from USD 7000.2m in 2022 to USD 7203.5m in 2023, largely driven by agricultural and manufactured exports. During 2023, merchandise imports rose by 6.5% to USD 8656.4m, from USD 8131.8m in 2022. The growth was driven by increased imports of fuel, machinery, electricity, and grain.

Outlook and Risks

Real GDP growth is expected to decline further to 3.3% in 2024, partly due to structural bottlenecks, macroeconomic instability caused by high inflation and severe exchange rate volatility, an El Niño-related drought, and lower commodity prices. The El Niño-induced drought will impact most rain-fed crops and may worsen electricity supply shortages. However, ongoing increases in remittances will help boost growth in services (wholesale and retail trade) and construction. Inflationary pressures will rise in 2024 due to drought conditions and domestic tax increases. The fiscal deficit is expected to widen in 2024, driven by high-interest payments on external debt, spending related to drought mitigation, wage pressures, and the reversal of several budget revenue measures. The fiscal deficit is projected to reach 2.5% of GDP in 2024 before decreasing to under 2% in the medium term. The current account surplus is anticipated to shrink further due to increased imports prompted by drought conditions and lower commodity prices.

Zimbabwe's risk outlook remains precarious due to the confluence of economic, political, and social challenges. The country faces significant inflationary pressures, driven by currency instability and a reliance on imports, which has eroded purchasing power and increased the cost of living. Political uncertainty, marked by governance issues and policy inconsistencies, further undermines investor confidence and economic stability. Additionally, the drought and agricultural challenges threaten food security and livelihoods. Despite these challenges, efforts towards economic reforms and international re-engagement offer a glimmer of hope, but substantial risks persist in the near to medium term.