

International Monetary Fund
African Department



**Zimbabwe: Staff Monitored
Program**

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International Monetary Fund

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The views expressed do not necessarily reflect the views of the IMF or the Executive Board of the IMF.



Road Map

1.

- Diagnostic of the problem

2.

- Scope of the SMP

3.

- Risks

4.

- SMP Targets and benchmarks



DIAGNOSTIC OF THE PROBLEM



Warning

- **Many statistical series (e.g. nominal GDP) need to be re-estimated in the new local currency, the RTGS\$ because:**
 - Currency reform
 - Currency depreciation (official and unofficial rates)
 - GDP re-basement
- **ZIMSTAT aims to have revised macroeconomic statistics series ready by mid-2019**, but until then, a proxy for nominal GDP is required.
- A key implication of the depreciation of the RTGS\$ against the USD is that nominal GDP in local currency has grown rapidly, driven by a large GDP deflator.



Diagnostic

- Macroeconomic instability driven by:
- **Large fiscal deficits financed by the issuance of quasi-currency instruments**
 - ◆ The fiscal deficit is estimated at 7.1 percent of GDP in 2018
 - ◆ Net credit to the central government by RBZ increased by \$3.0 billion in 2018



Diagnostic (Con't)

- **The current account deficit widened in 2018 (-4.5 percent of GDP) due to a sharp increase in imports.**
 - ◆ fragile equilibrium is maintained by capital controls, restrictions on access to FX, and other distortions
- **Debt distress, with debt level of US\$9.6 billion at end-2018.**
- **Inflation has picked up in recent months, reaching 67 percent (y/y) in April 2019.**



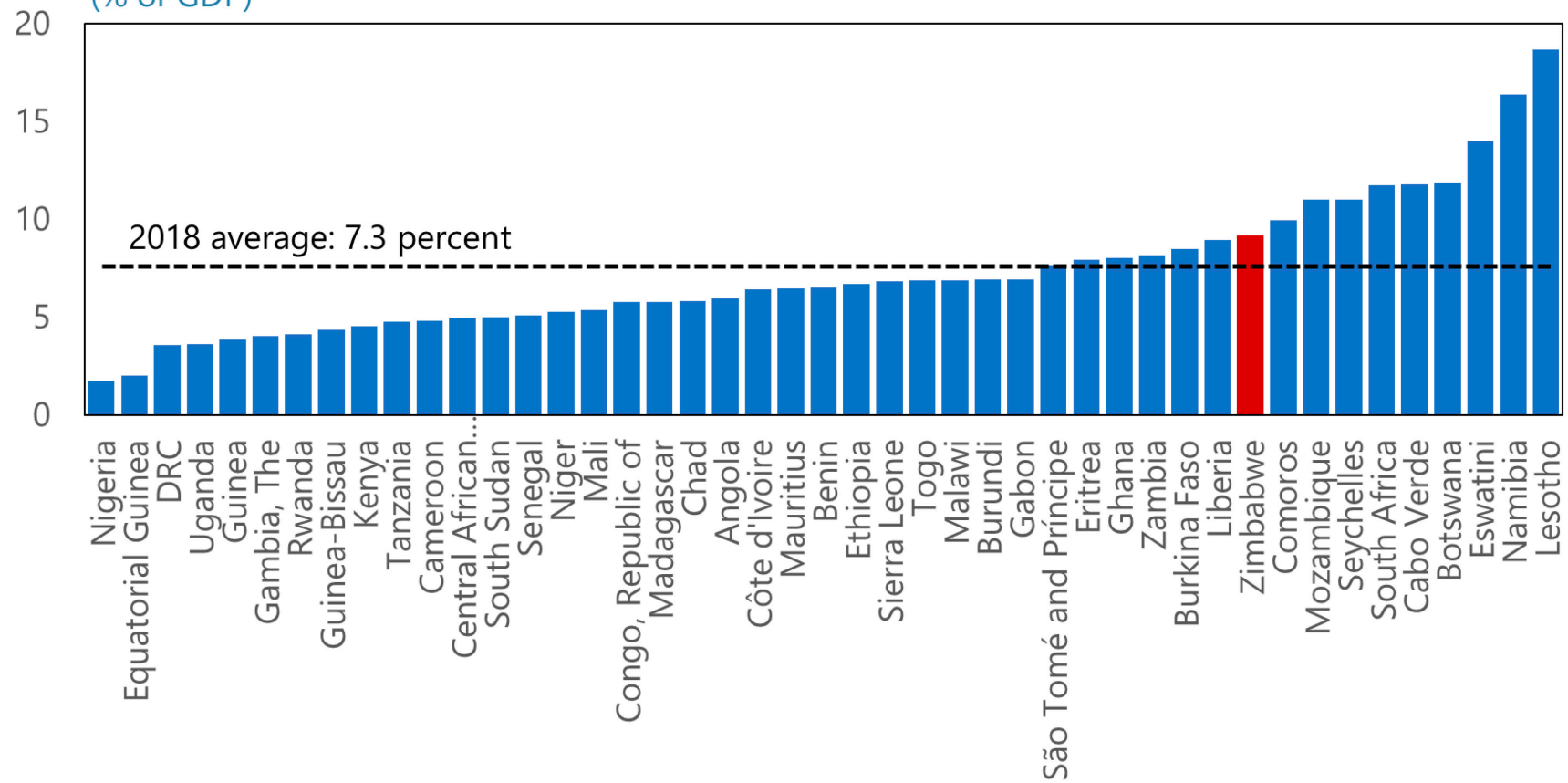
GOVERNMENT REVENUE AND SPENDING RELATIVE TO PEERS IS HIGH AND NOT EFFECTIVELY SPEND



Wage bill is slightly above peers both relative to GDP...

Sub-Saharan Africa: Civil service wage bill in 2018

(% of GDP)

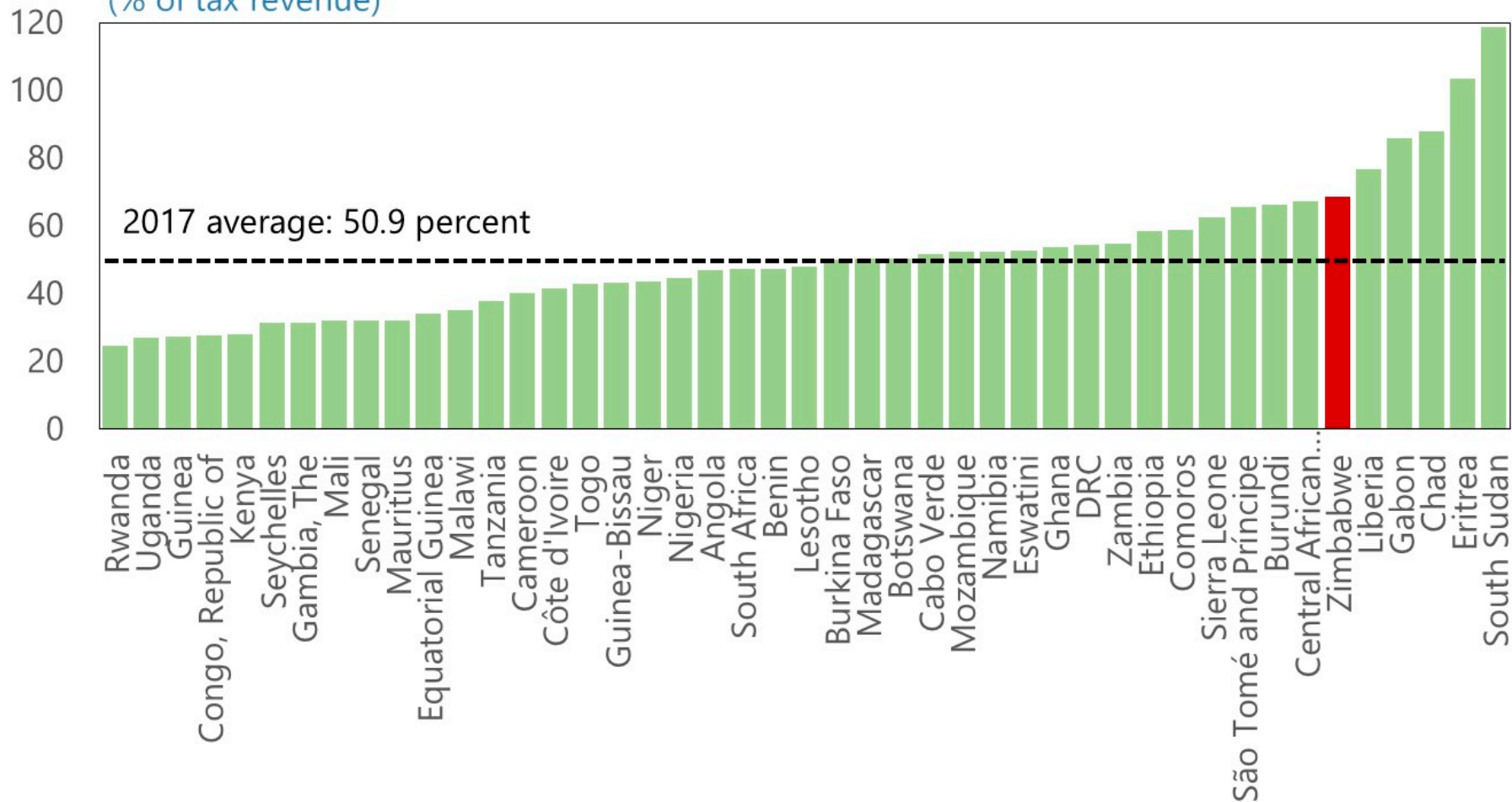




...and as a share of revenue...

Sub-Saharan Africa: Civil service wage bill in 2017

(% of tax revenue)

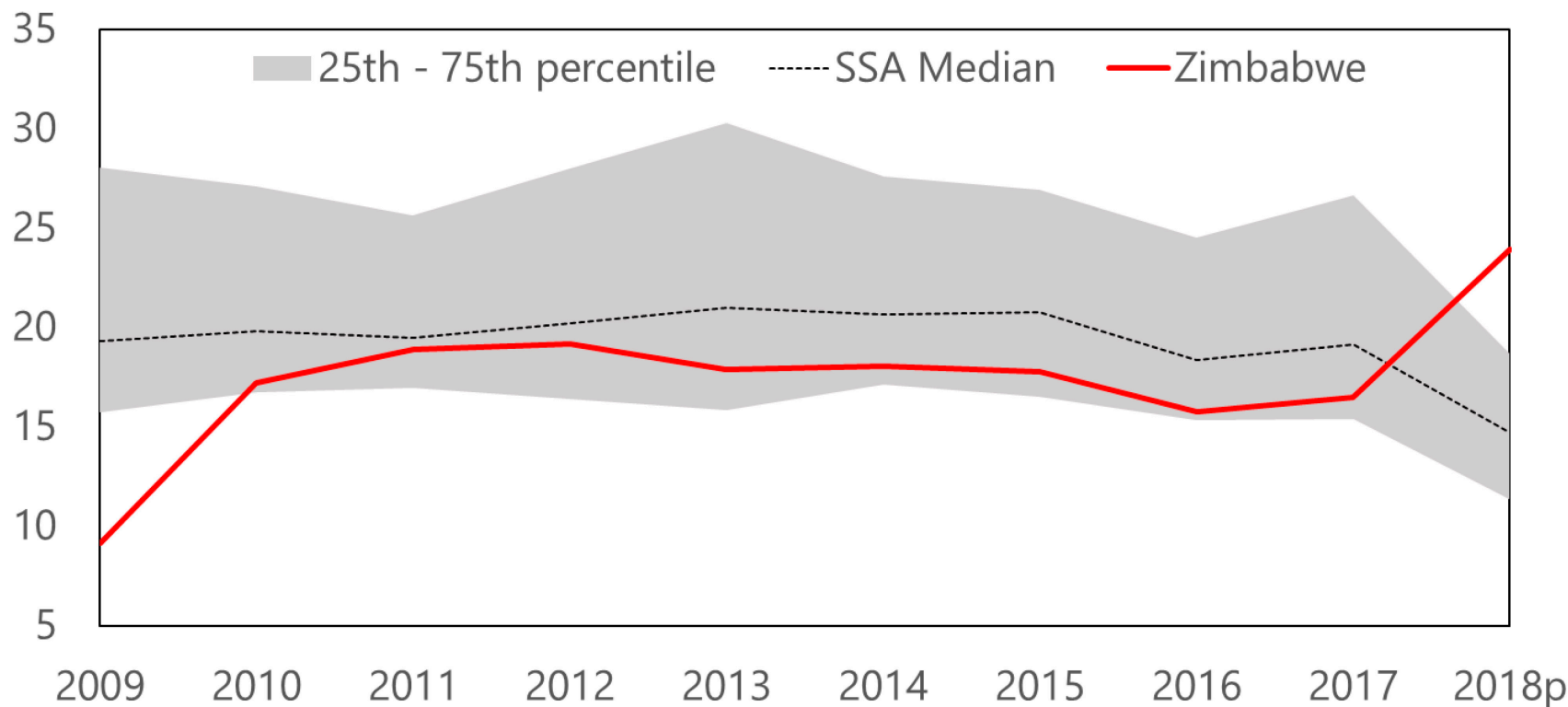




...whereas revenue is in line with SSA average.

Zimbabwe vs. Sub-Saharan Africa: Tax Revenue

(percent of GDP)

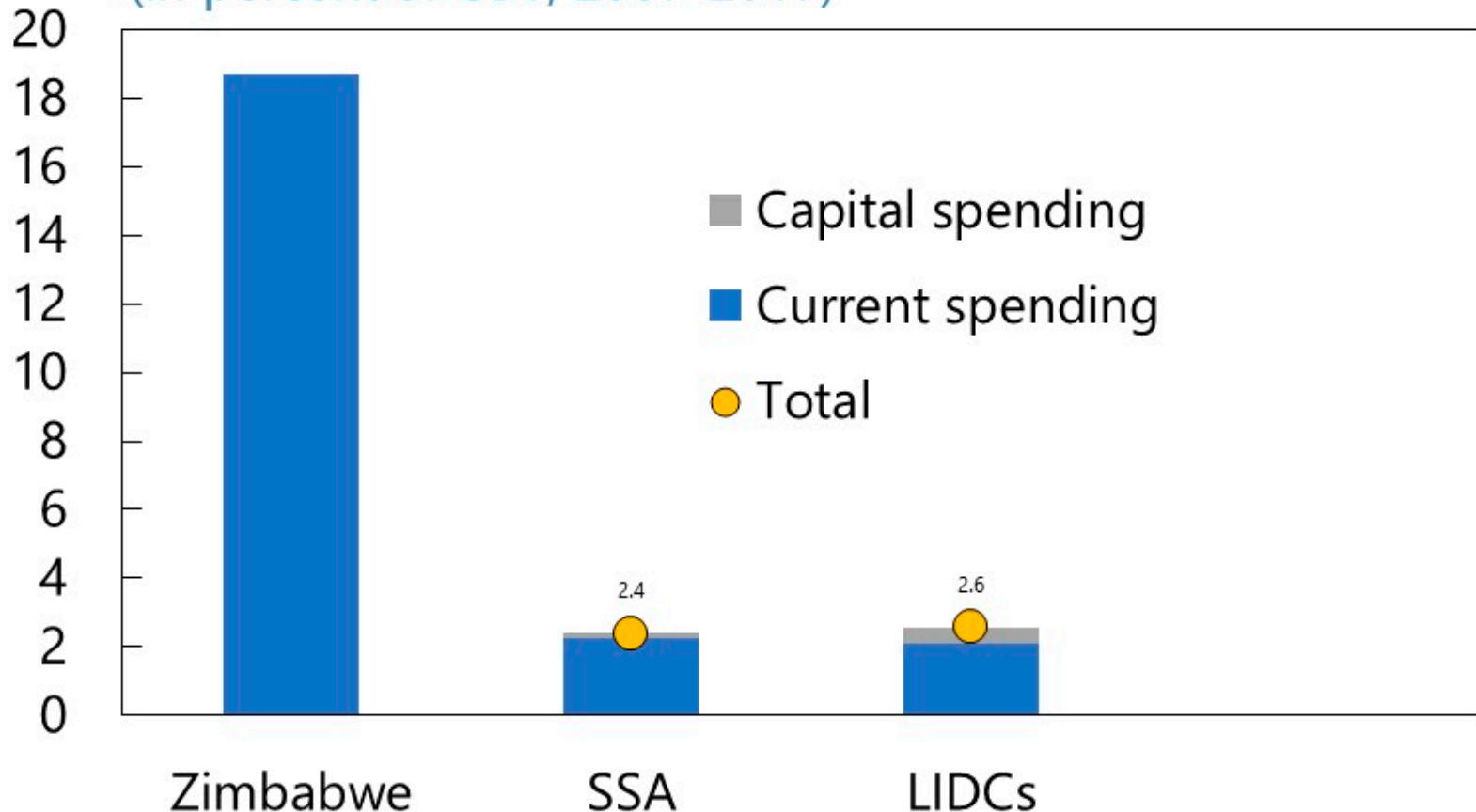




Higher government spending reflects an increase in current expenditure...

Change in Total Spending

(in percent of GDP, 2007-2017)

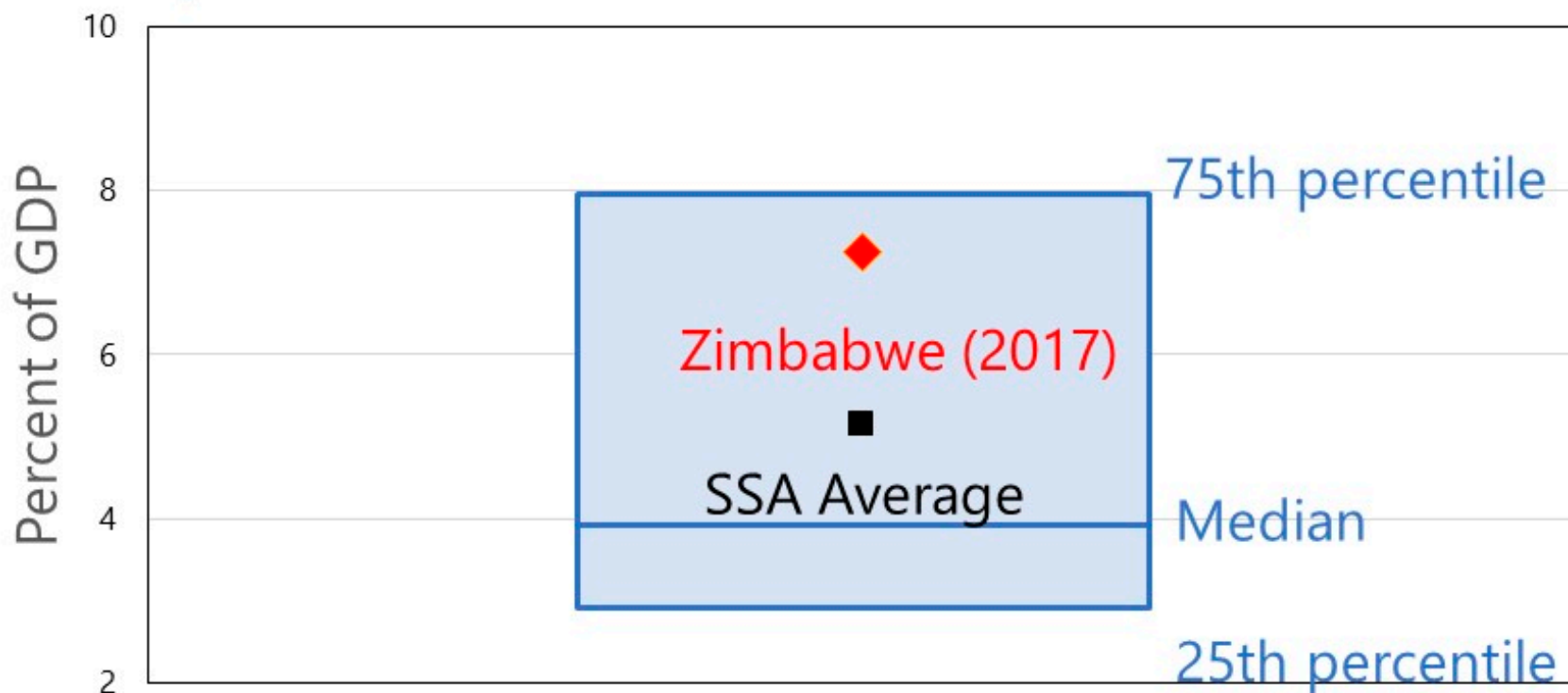




...which mostly go towards subsidies to agricultural and SOE...

Subsidies in Sub Saharan Africa

(percent of GDP)



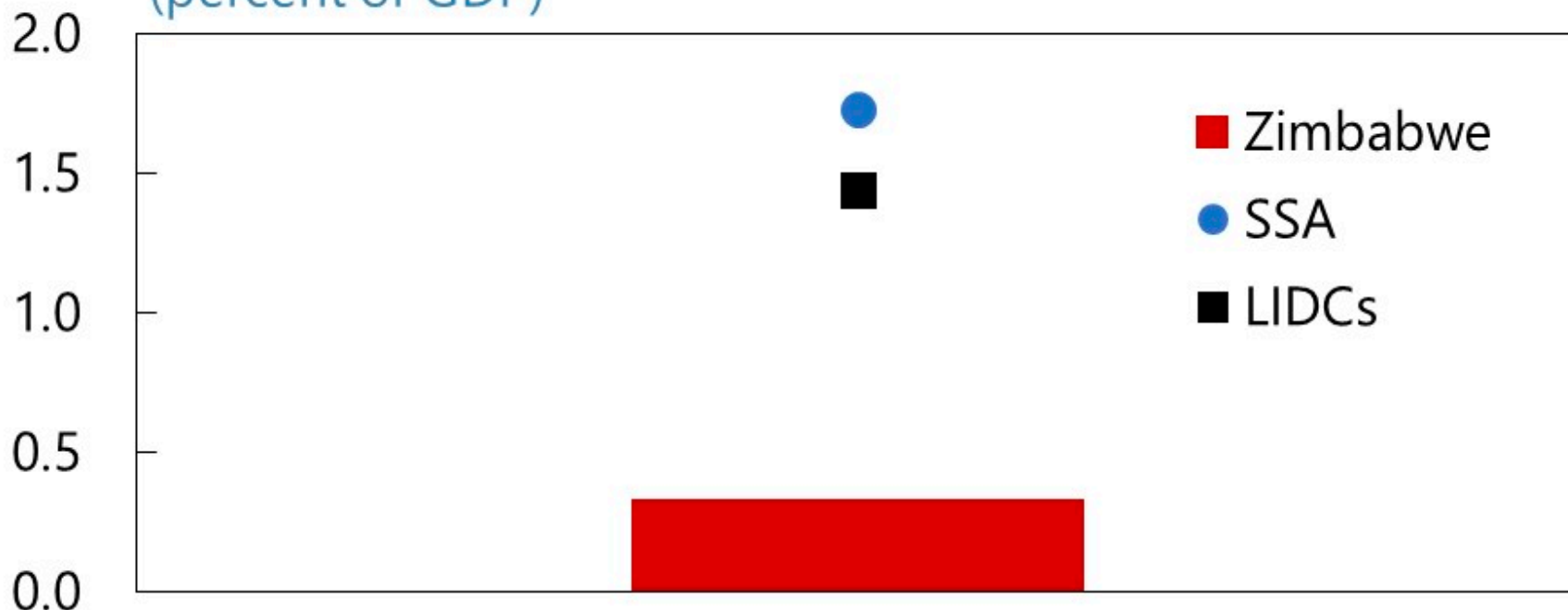
Central government subsidies



...whereas social spending is below the peers.

Social Assistance Spending in 2015

(percent of GDP)



Social Assistance Spending, % of GDP



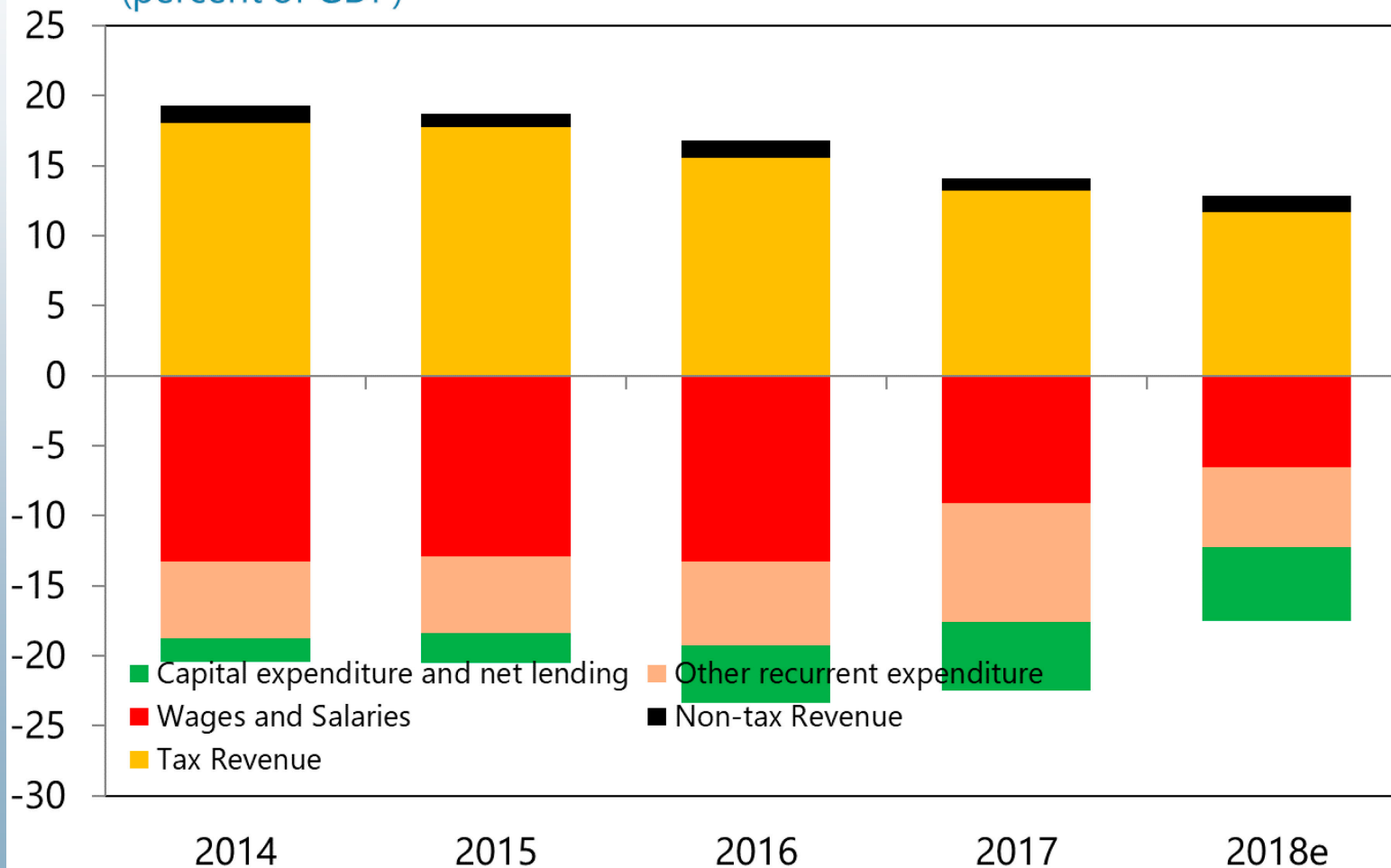
FISCAL CHALLENGE



Increasing subsidies, higher current spending and lower revenues ...

Fiscal

(percent of GDP)

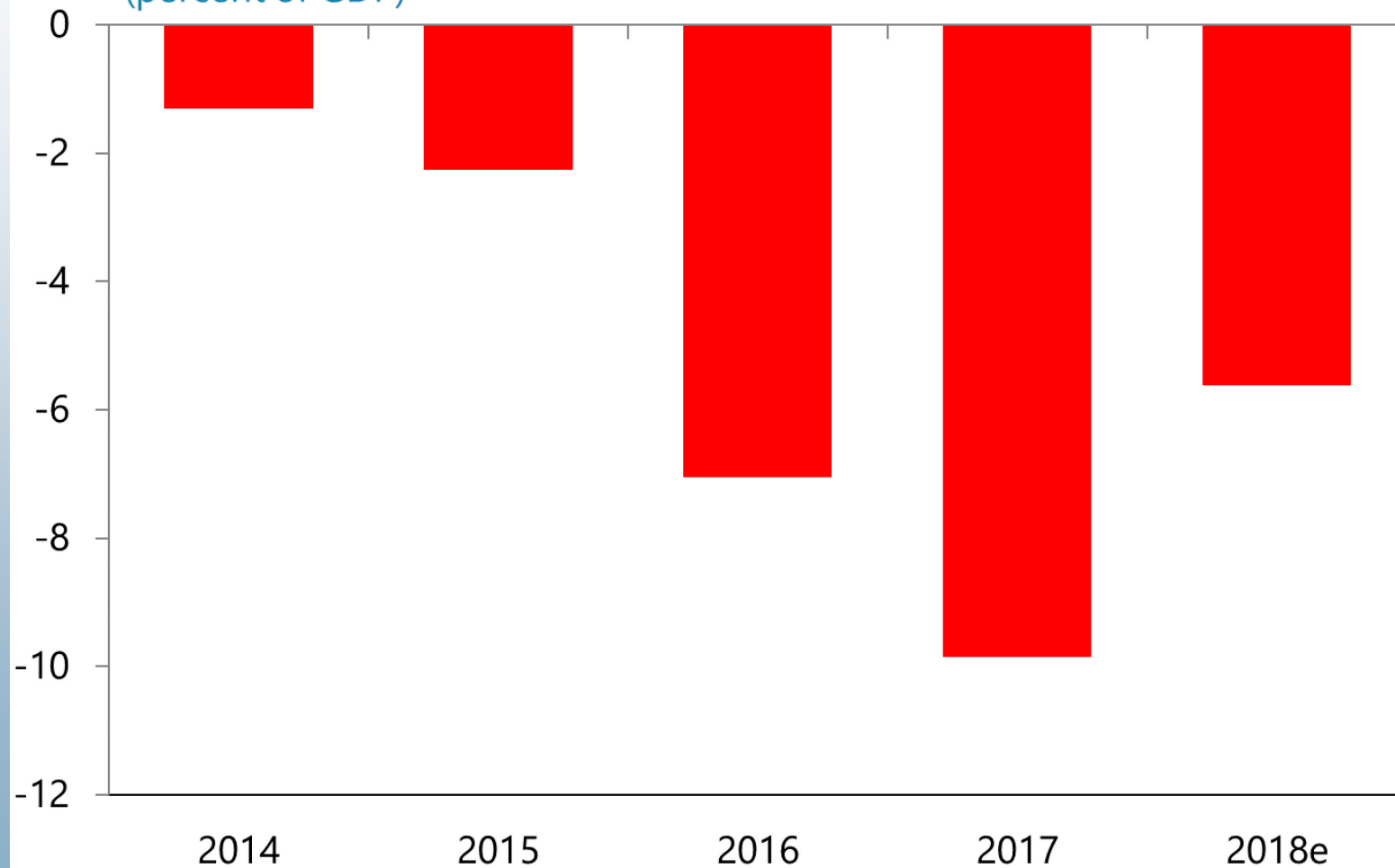




...are leading to a worsening fiscal position...

Fiscal Deficit

(percent of GDP)

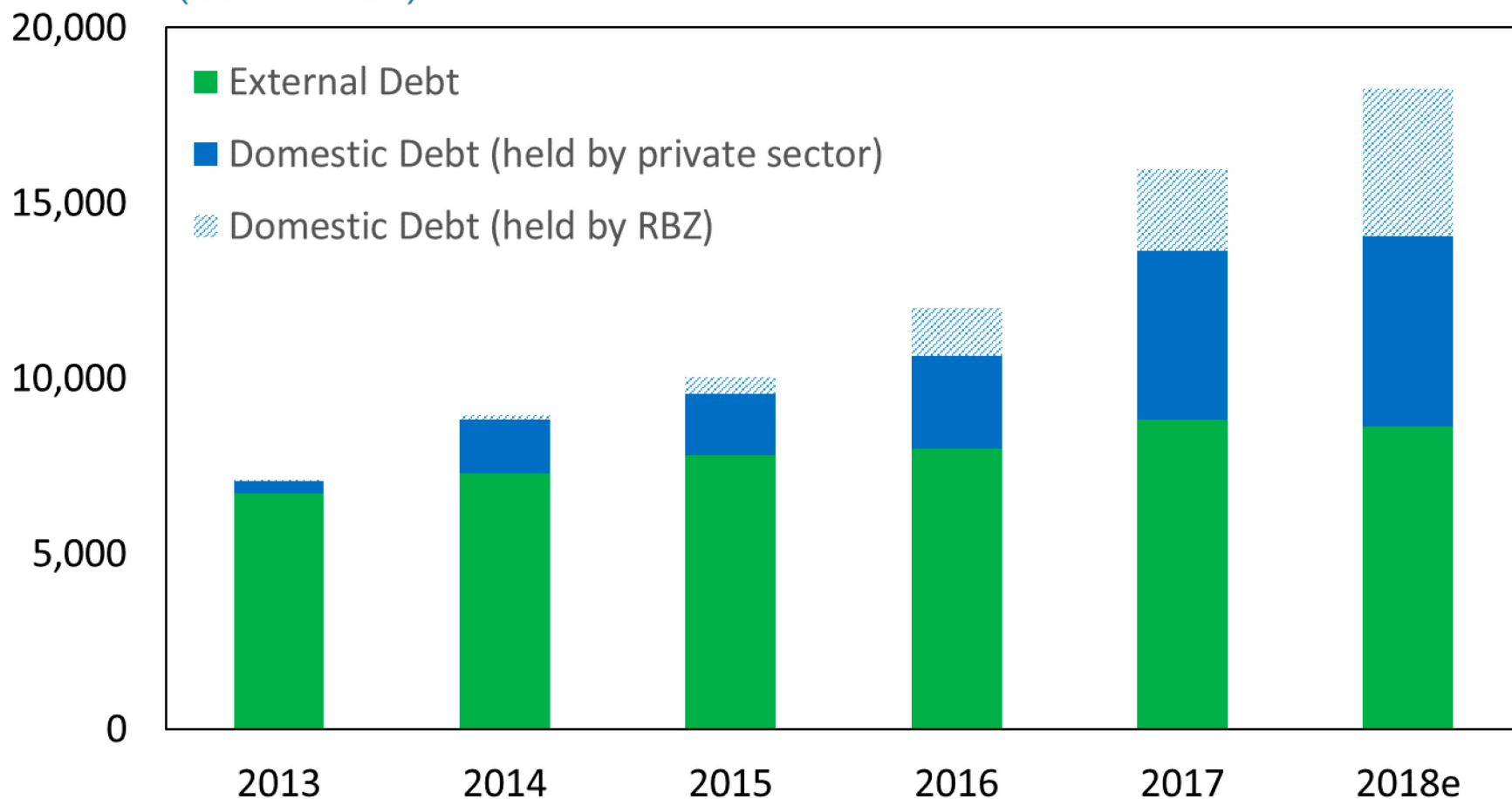




...contributing to higher government financing needs...

Domestic and External Public Debt

(USD million)

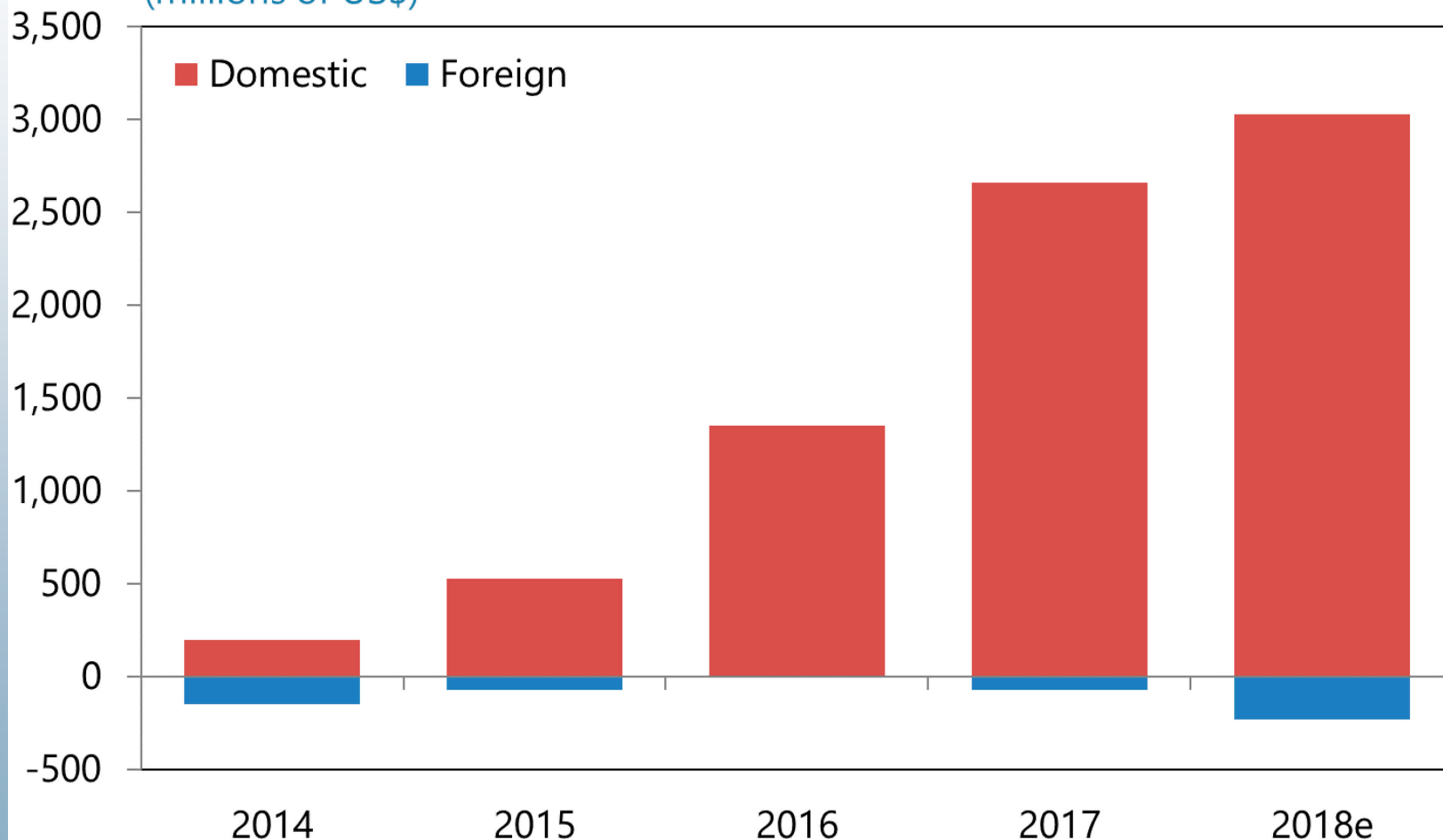




Increasing government financing...

Government Financing

(millions of US\$)

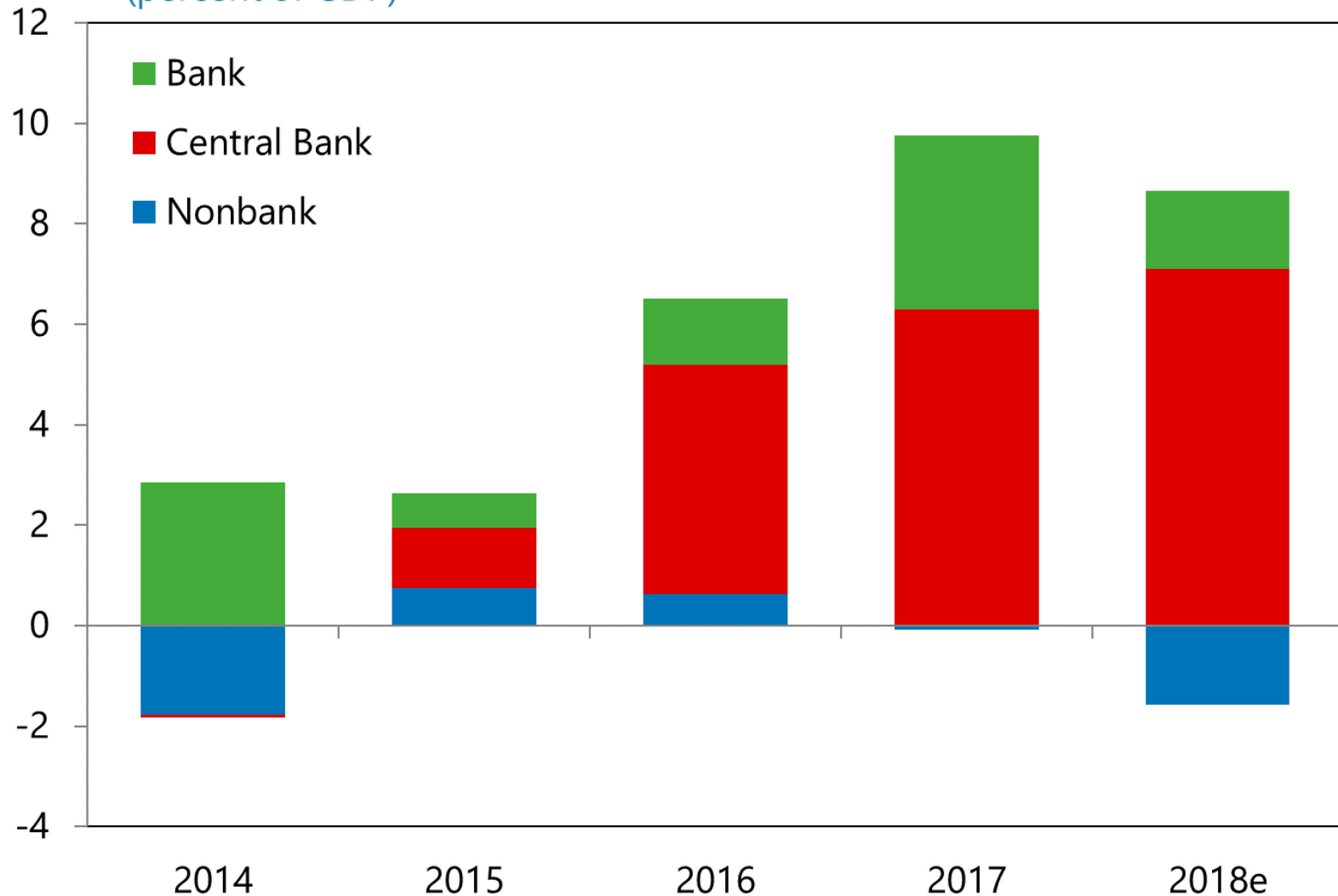




...with a lion share from Central Bank and Banks ...

Domestic Financing

(percent of GDP)

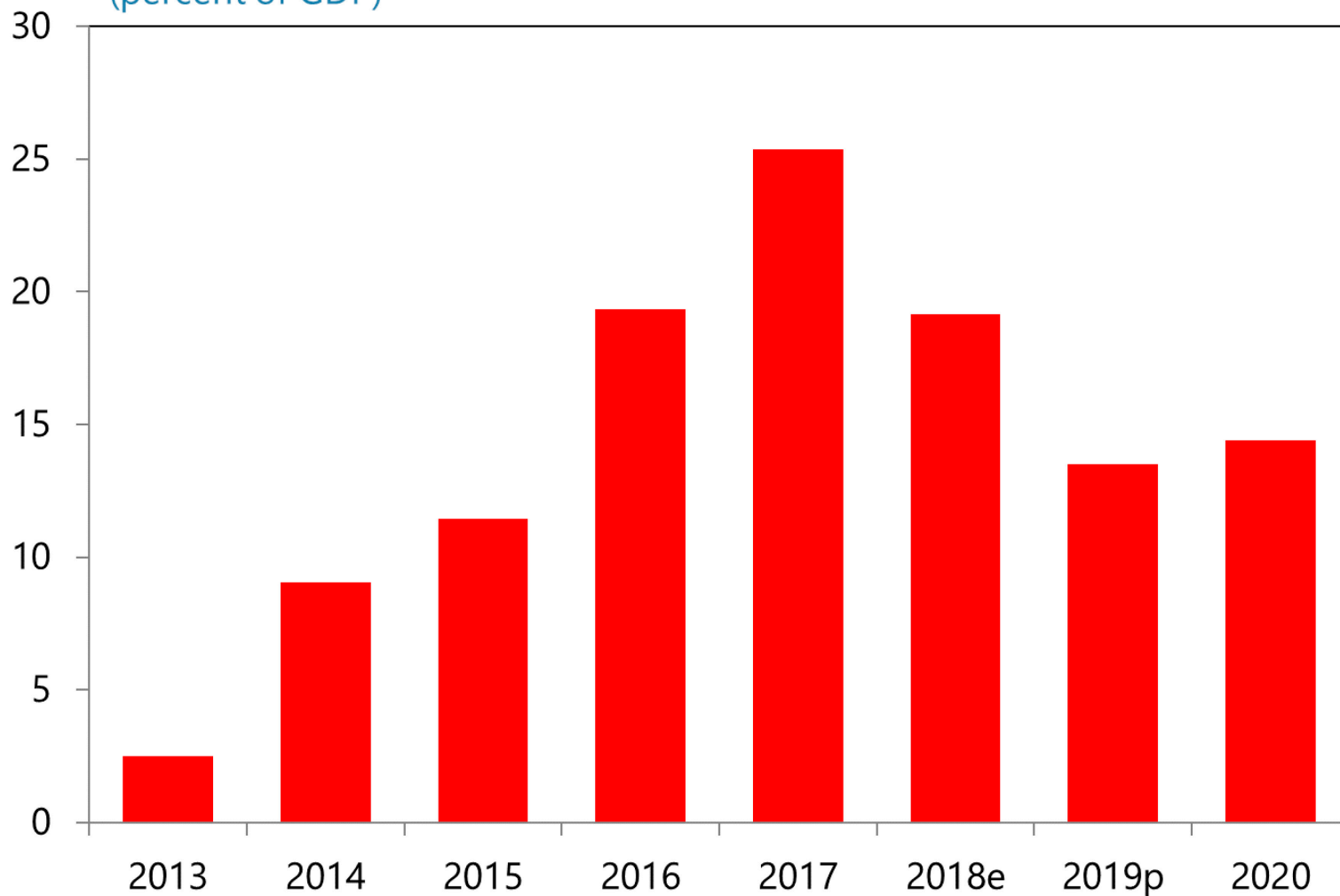




...resulting in high domestic debt.

Domestic Debt

(percent of GDP)



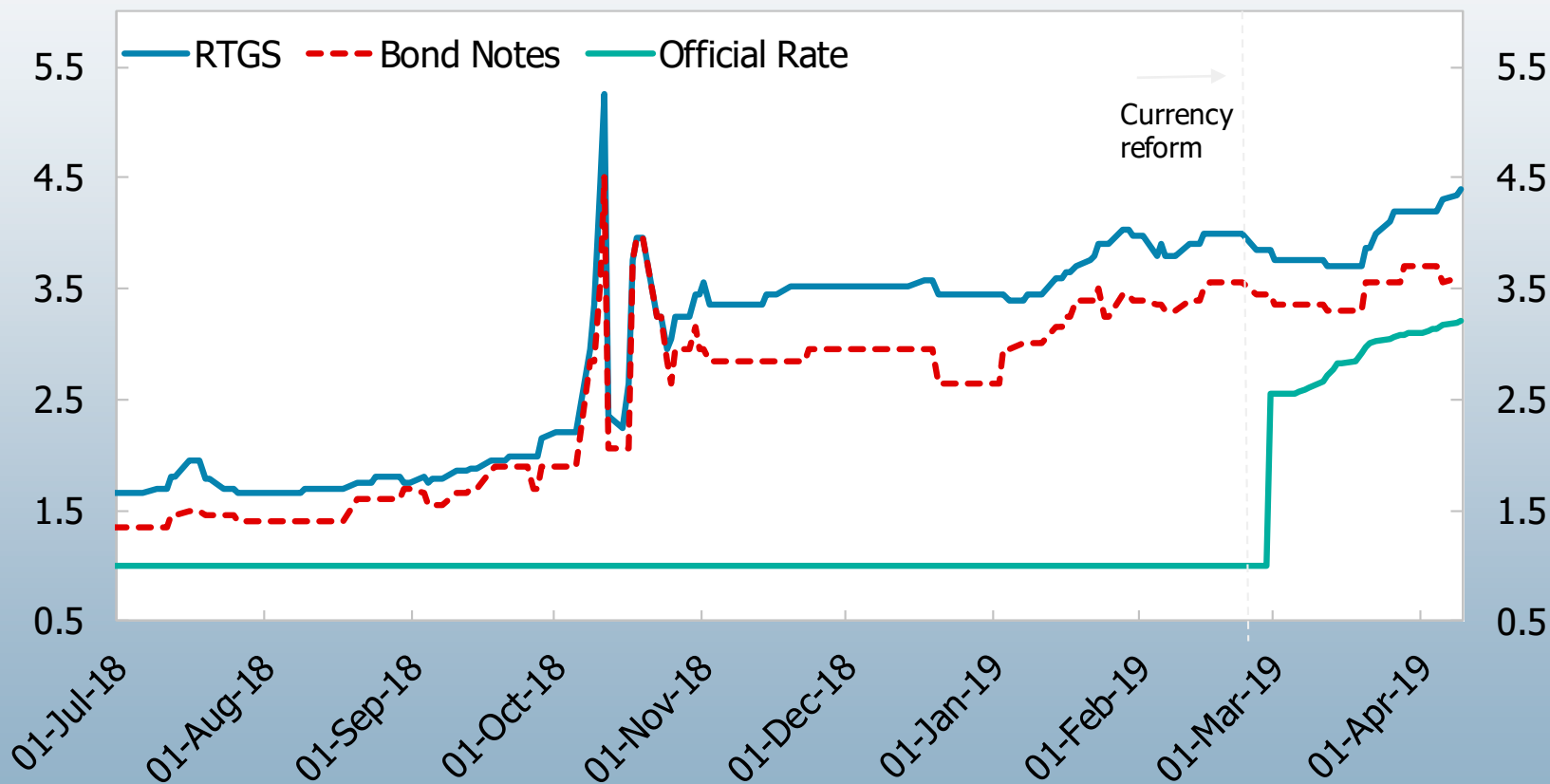


FISCAL CHALLENGES POSE RISK TO EXCHANGE RATE REGIME AND FINANCIAL STABILITY



Zimbabwe: Parallel Market Exchange Rate

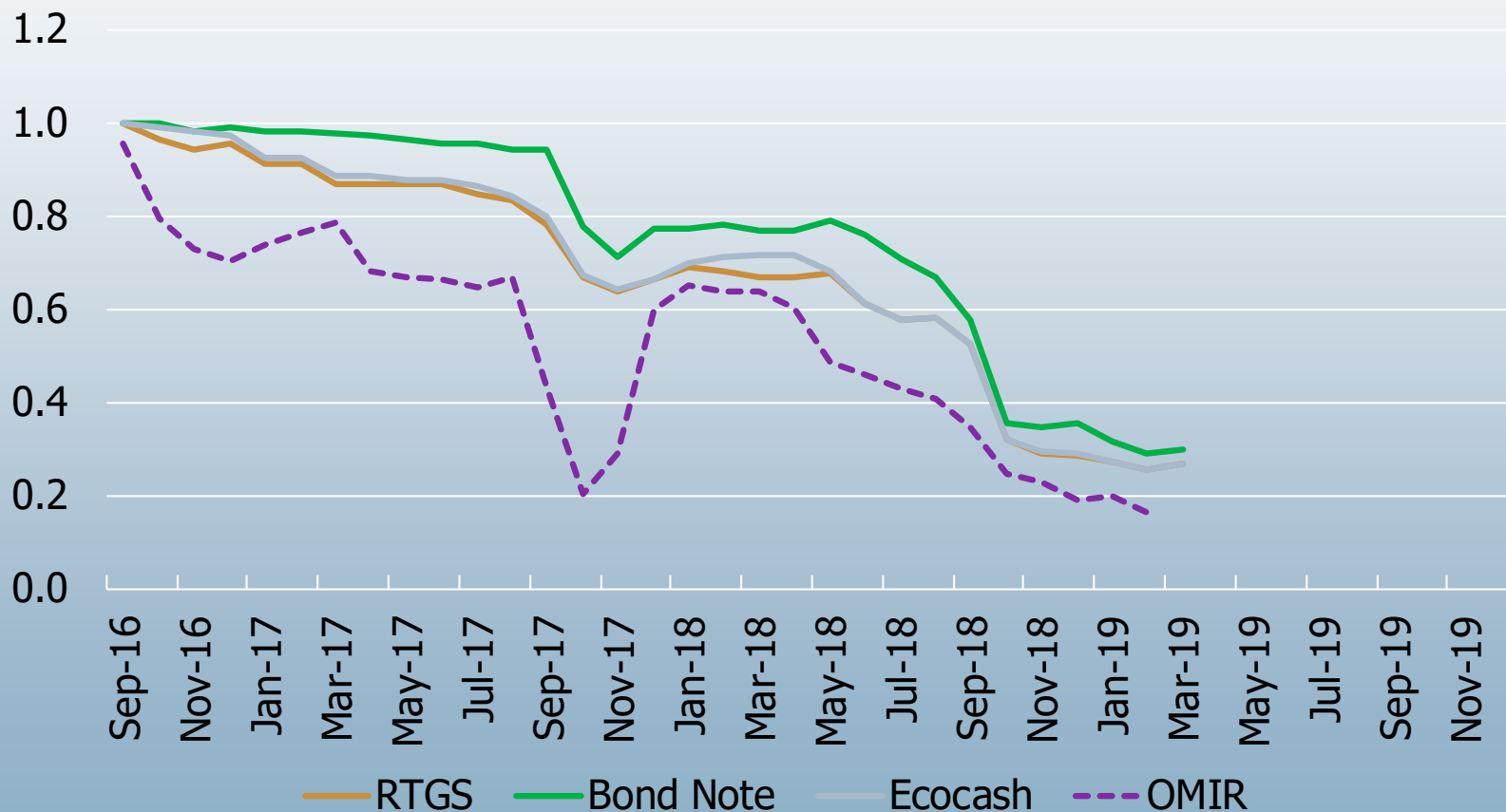
Zimbabwe: Parallel Market Exchange Rate
(Local currency unit per 1 US\$)





The financing of the deficit through printing money led to rising parallel market exchange rate...

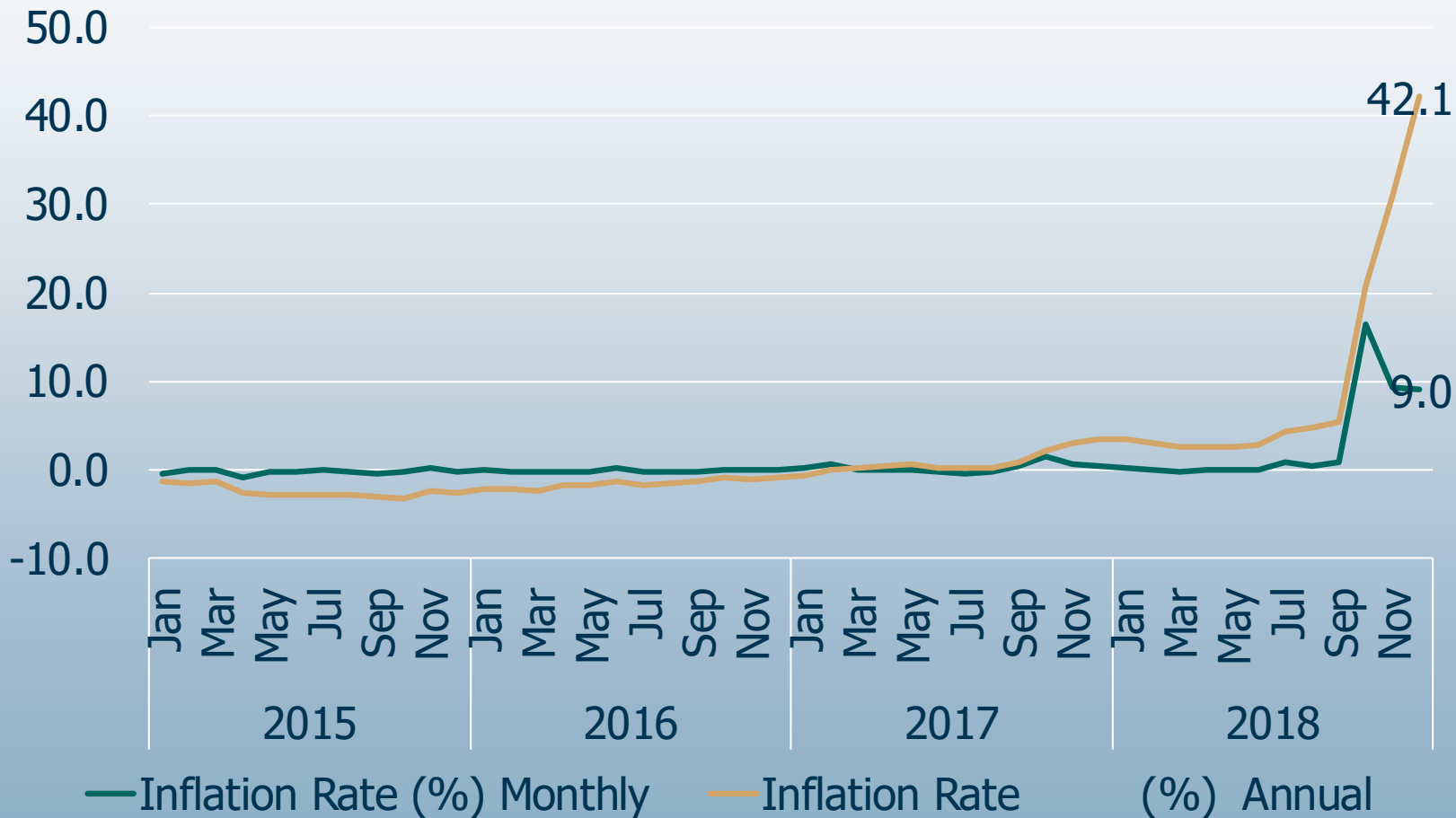
Zimbabwe: Parallel Market Discount (1 USD per ZIM dollar)





...contributing to rising inflation.

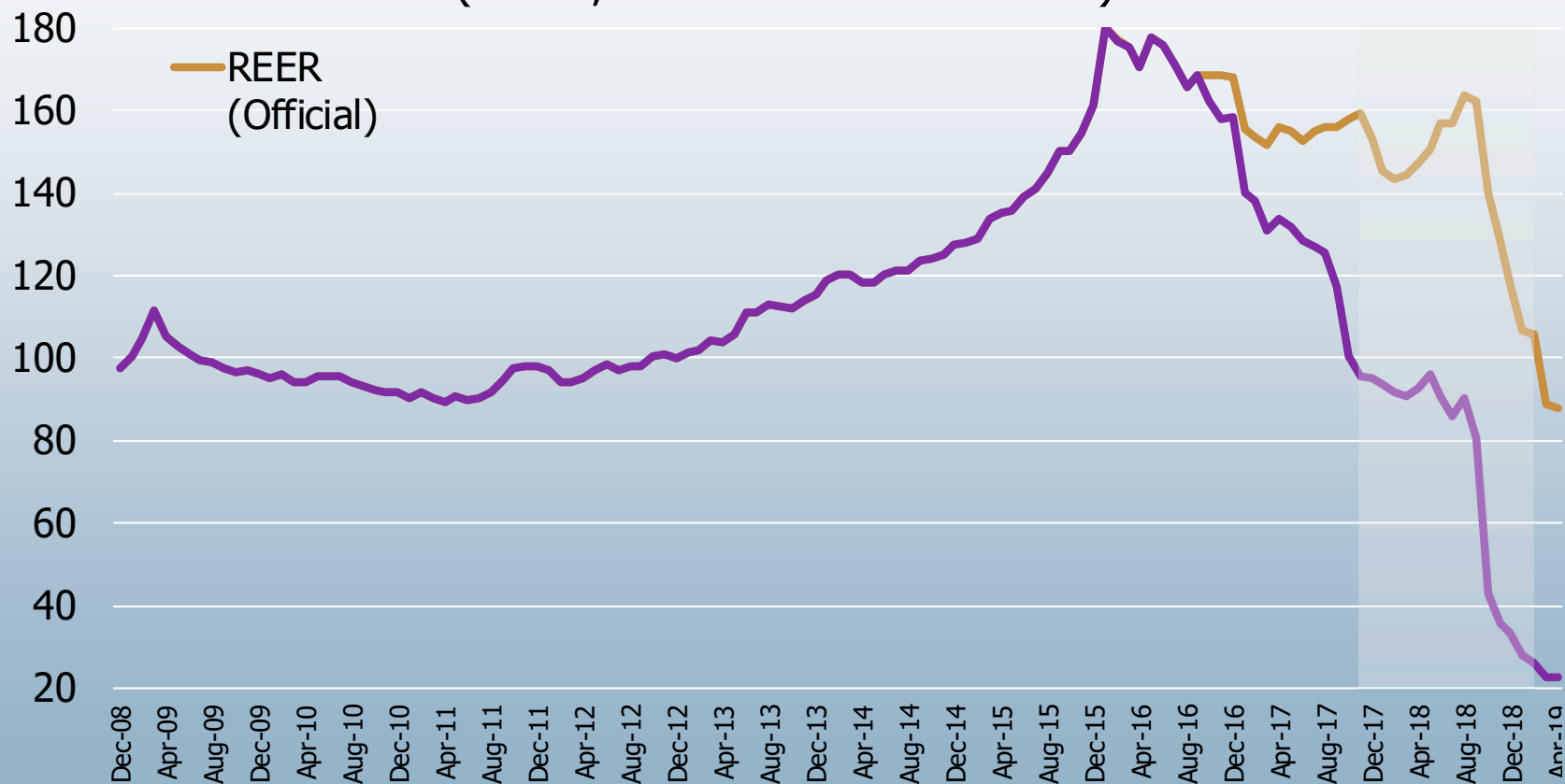
ZWE Inflation





... leading a the real effective exchange rate depreciating.

Zimbabwe: Real Effective Exchange Rate (Index, December 2012 = 100)



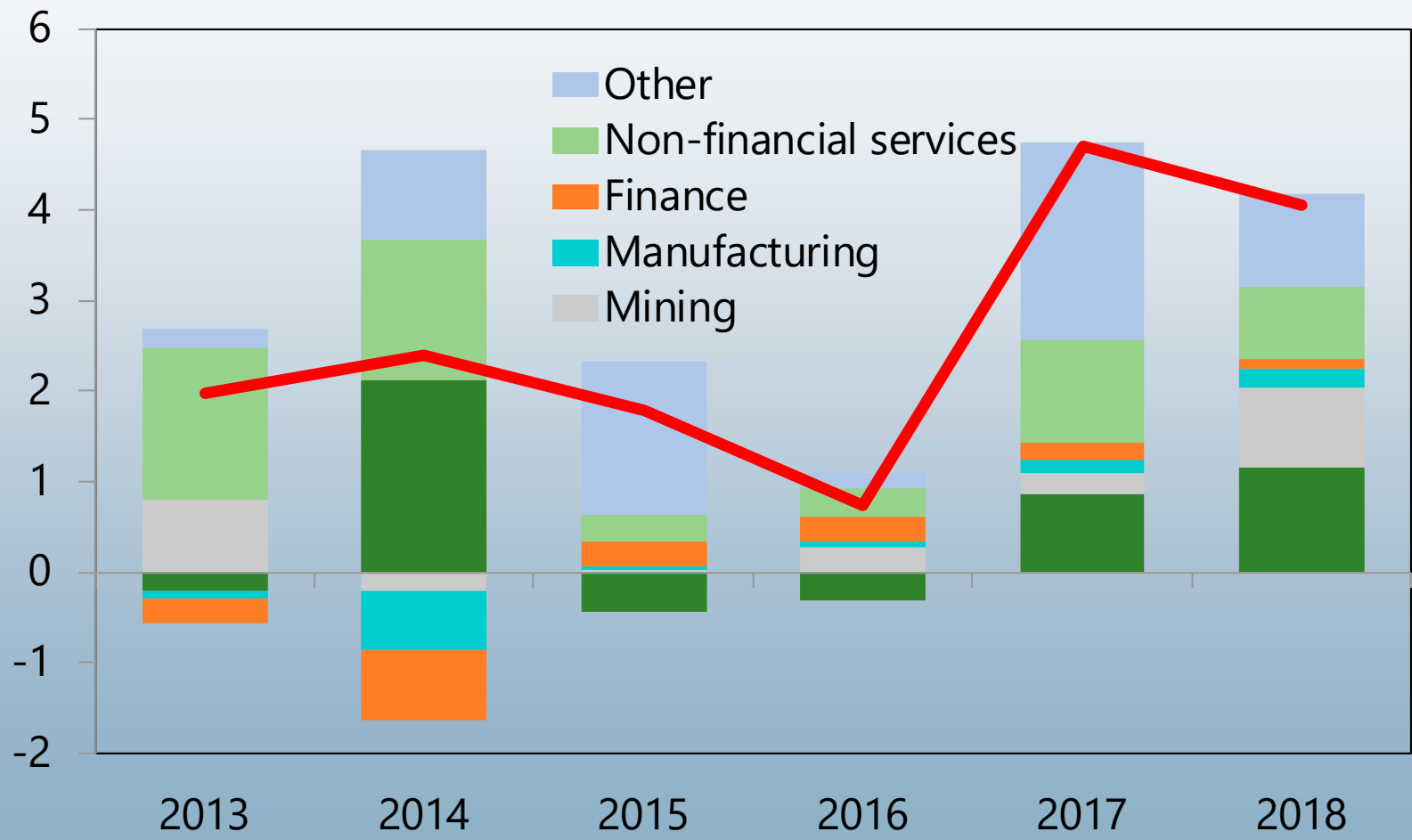


GROWTH CHALLENGE AND EXTERNAL CONSTRAINTS



Absent reforms and reengagement, growth prospects remain subdued...

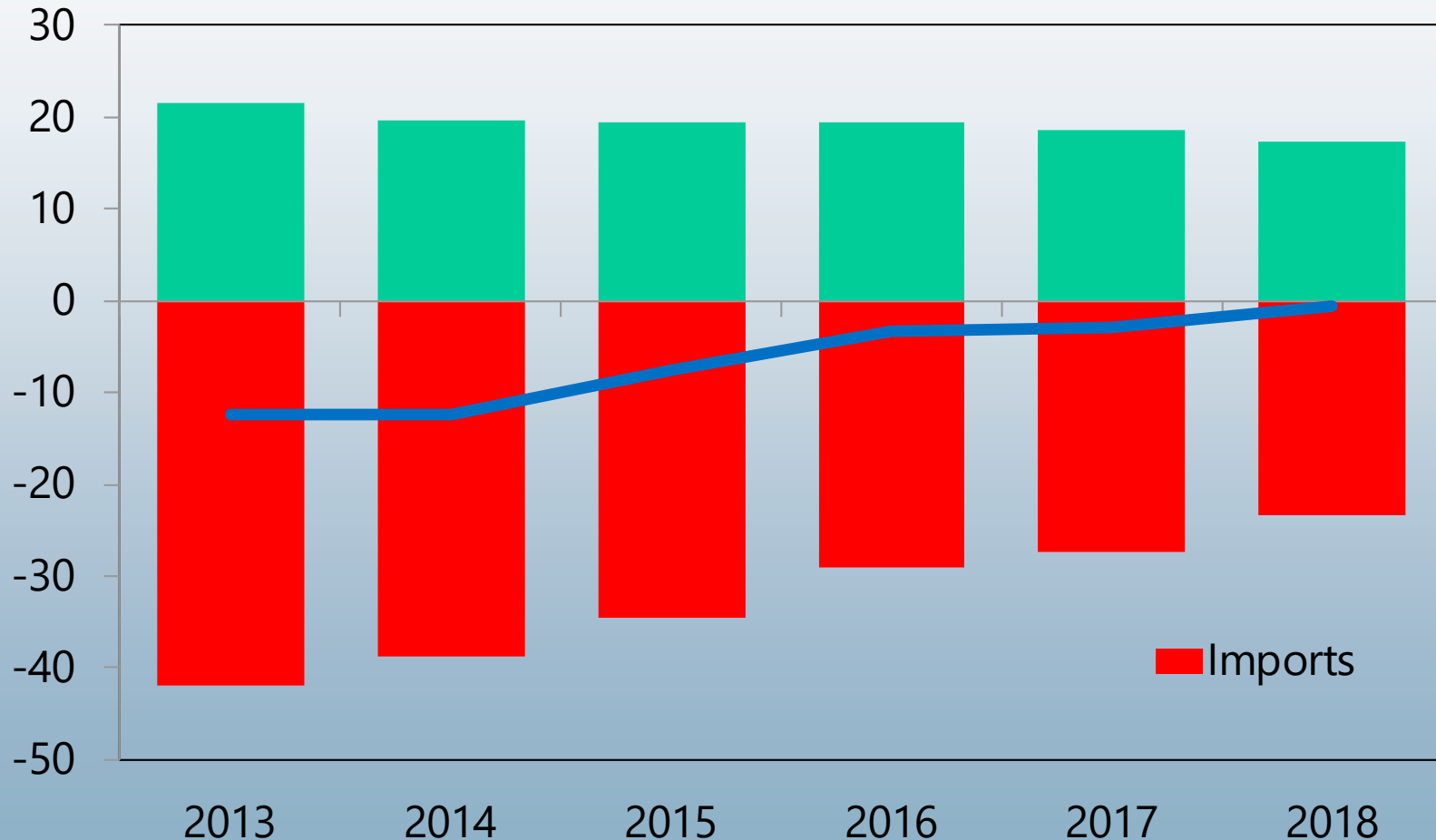
Real GDP Growth





The current account has shrunk due to limited external financing ...

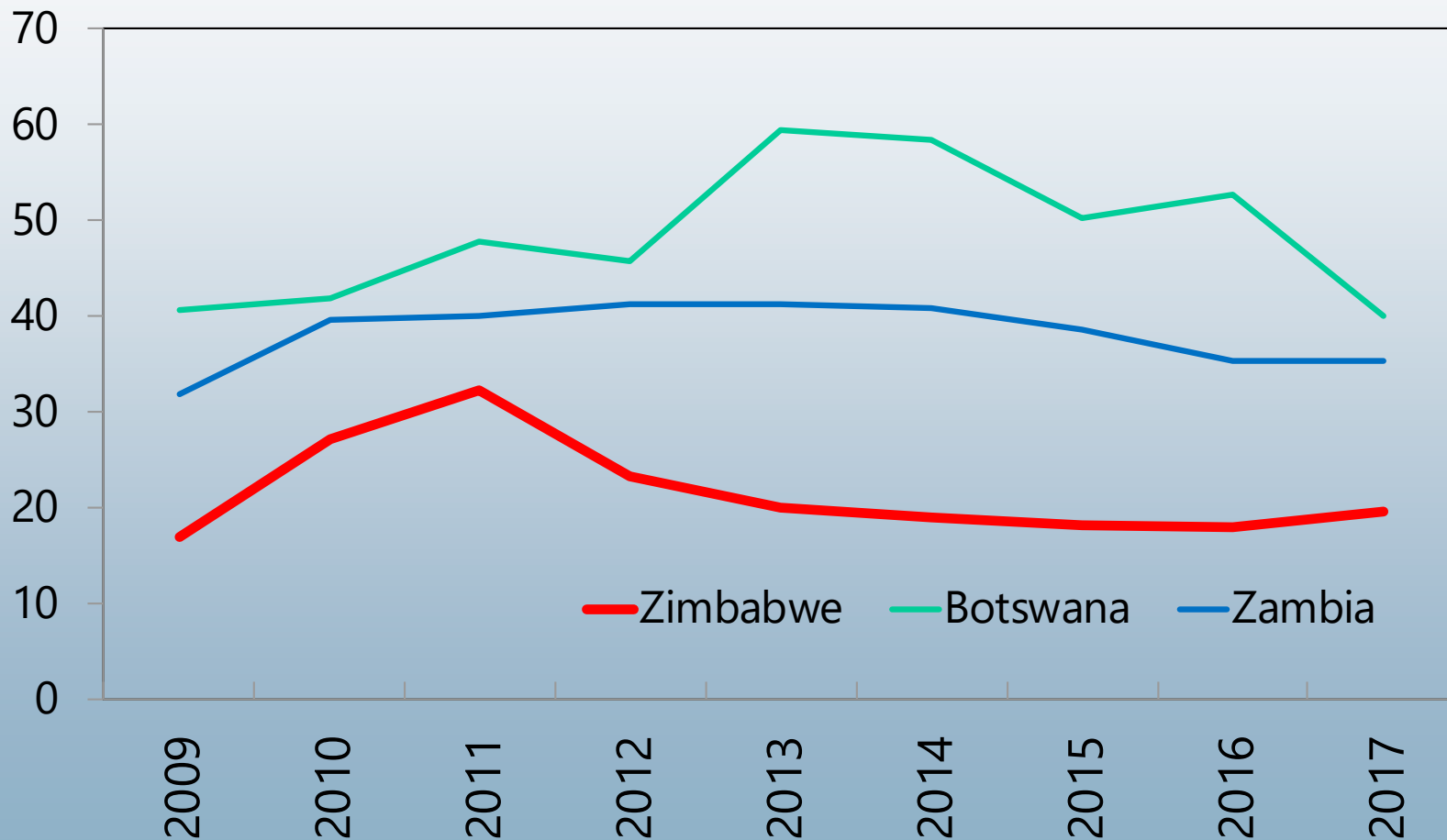
Current Account





Export performance has been weak.

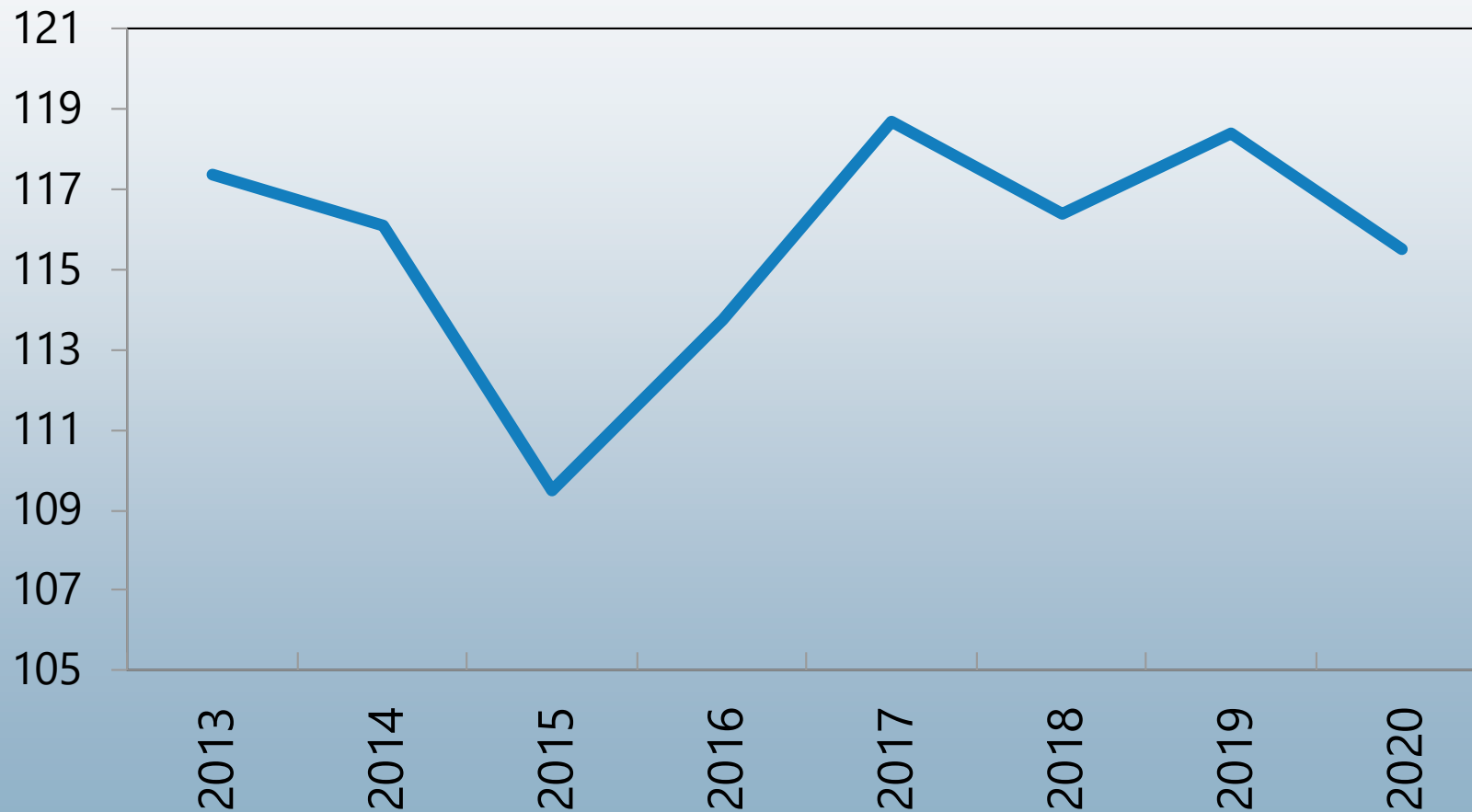
Exports





... driven by deteriorating export prices in some instances.

Commodity Export Price Index ^{1/}

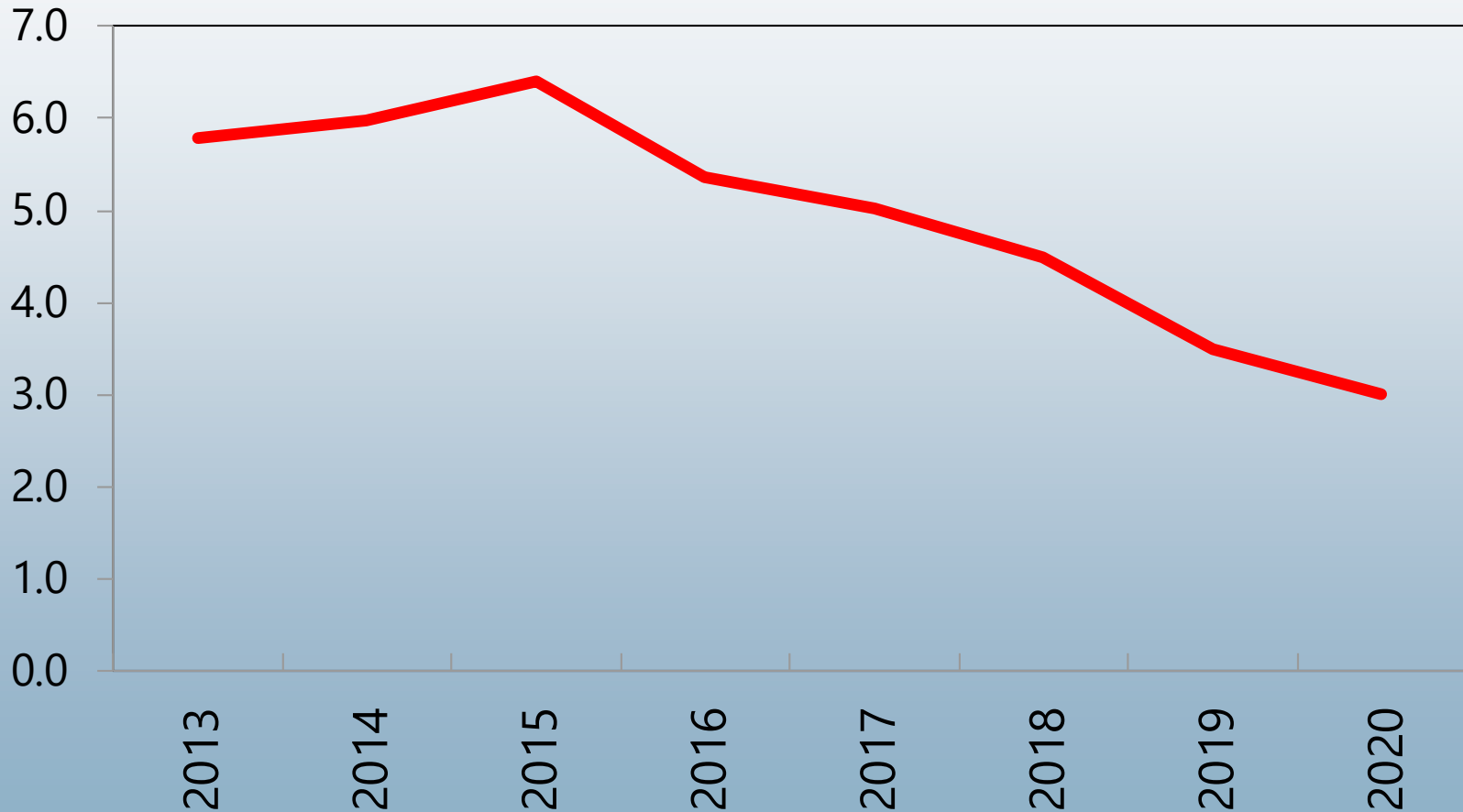


^{1/} Tobacco, gold and diamonds.



Remittances have been declining...

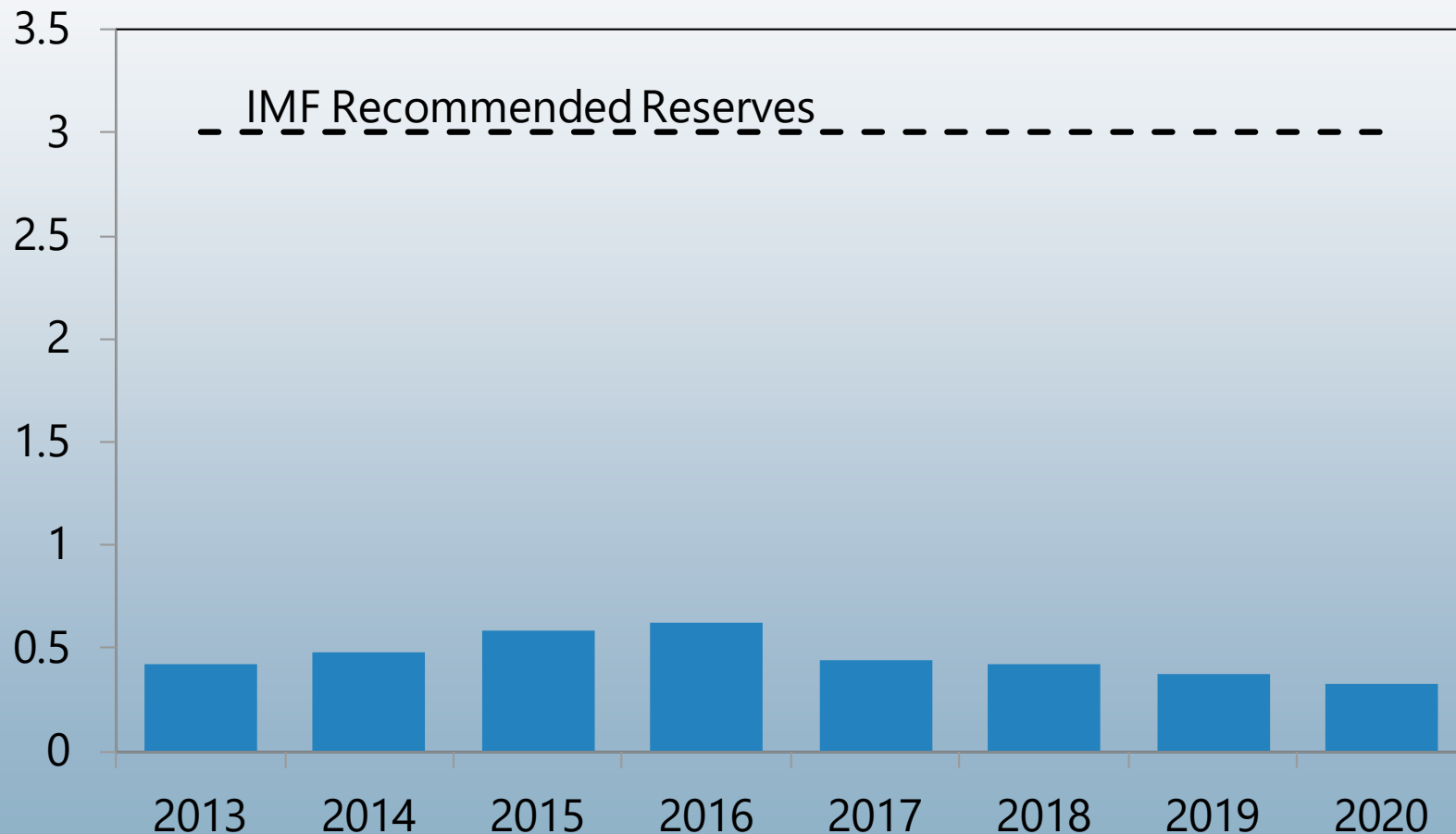
Remittances





...and reserve levels are very low amid policy uncertainty...

Gross International Reserves





STAFF MONITORED PROGRAM



Transitional Stabilization Program (TSP)

- **Significant economic reforms are underway**
- TSP is a stabilization and structural reform program aimed at addressing the deep macroeconomic imbalances and fostering private sector growth
- **The program targets;**
 - ◆ fiscal consolidation during 2019-20,
 - ◆ reforming and privatizing state-owned enterprises,
 - ◆ addressing corruption in procurement and revenue administration, and
 - ◆ promoting private-sector investment by improving the ease of doing business and access to finance.
- **Political reforms are advancing (POSA, AIIPA)**



Staff Monitored Program

● **The SMP is anchored on the policies laid out in the authorities' TSP:**

- ◆ Assist the authorities to implement and monitor the key policies outlined in their TSP
- ◆ 2019 budget halts central bank financing of the budget
- ◆ The program would help Zimbabwe build a track record of sound economic policies towards normalizing relations with external creditors



SMP main objectives:

- (i) **reduce the fiscal deficit** to restore macroeconomic stability, while maintaining investment in infrastructure and priority social spending;
- (ii) **stop monetary accommodation** of the fiscal deficit to stabilize inflation and the exchange rate;
- (iii) **increase financial sector stability** by implementing financial sector reforms and tightening the regulatory framework;
- (iv) **address governance and corruption vulnerabilities**; and
- (v) **advance the structural reform agenda**, including in Public Financial Management (PFM) and revenue administration, as well as State-Owned Enterprise Reform.



Fiscal Adjustment

- **The baseline is built on a revised 2019 Budget approved by Cabinet on April 23.** Significant fiscal adjustment is needed to stabilize the economy and restore confidence (4.0 percent of GDP compared to 7.1 percent in 2018):
 - ◆ **Wage bill:** reduced by 2½ percent of GDP by (e.g. limiting wage increases in 2019 to 18 percent in nominal terms)
 - ◆ **Grain subsidies:** reducing expenditure by 2.3 percent of GDP in 2019 (e.g. ensuring proceeds from grain sales are returned to the budget)



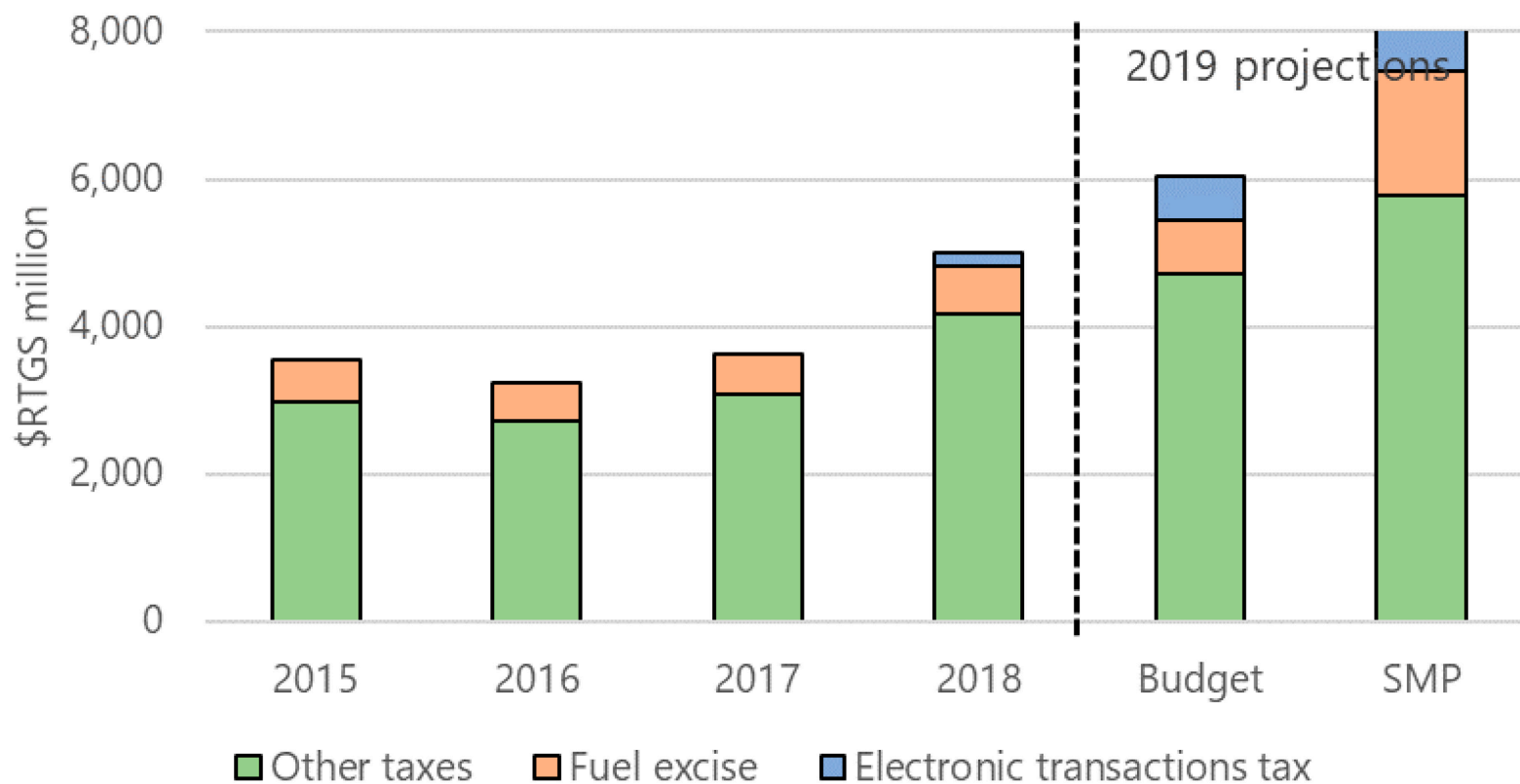
Fiscal Adjustment (Con't)

- **Limiting transfers to SOEs:** in line with efforts to privatize or liquidate 43 parastatals and strengthen governance and accountability in 31 other SOEs. Committed to reviewing the mandate of ZAMCO and freeze additional financing for its operations.
- **Revenue increases:** The 2 percent tax electronic financial transactions introduced in October 2018 is projected to raise about RTGS\$1.2 billion (or 1.7 percent of GDP) in 2019. Hike in fuel excise taxes in January and the planned change in mid-2019 to establish a transparent fuel price formula that is projected to increase revenue by RTGS\$1 billion in 2019 relative to 2018



Fiscal Adjustment (Con't)

Zimbabwe: Tax Revenue





Expenditure Side/Financing

- **Increase social spending:** on education, health, and social protection programs targeted at vulnerable households (e.g. distribution of food reserves to the most vulnerable population at subsidized prices, scaling up the cash transfer program, support to rural areas affected by drought, expanding free food program in schools, and subsidies for public transportation)
- **Defined-contribution pension system to be introduced in 2019:** cost an additional 0.6% of GDP p.a. but saving over long-run)
- **Earmark 5% of projected revenue (about 1/2 percent of GDP) to be transferred to provinces and municipalities,** in line with Constitutional requirements
- **To protect the most vulnerable, target a minimum floor on social spending** (RTGS\$750 million for 2019)
- The financing of the fiscal deficit in 2019 relies mainly on issuing debt instruments in the domestic market.
- **No new non-concessional debt allowed.**



Macroeconomic Outlook ...

- **The *exchange rate*, after a period of high volatility and overshooting, is expected to appreciate slightly relative to the current level in the parallel market**, consistent with the tight fiscal and monetary policies targeted under the program.
- **Real GDP *growth* is projected to be negative in 2019 (-2.1 percent)**, as the significant consolidation and the impact of the drought and the cyclone drag down economic activity. A rebound in economic activity is expected in 2020 and over the medium term, as uncertainty declines, distortions from multiple exchange rates are removed, and relations with external creditors normalize.
- **Monthly inflation is expected to moderate starting in mid-2019**, which would help to anchor inflation expectations and nominal interest rates.



Medium-Term Macroeconomic Framework—Baseline

	2016	2017	2018	2019
	Act.	Act.	Est.	Proj.
Real GDP growth (%)	0.7	4.7	3.4	-2.1
Inflation (% , average)	-1.6	0.9	10.6	80.8
Inflation (% , eop)	-0.9	3.4	42.1	49.6
Current account balance (% GDP)	-3.5	-1.3	-4.5	-2.2
Overall fiscal balance (commitment basis, % GDP)	-7.1	-9.9	-5.6	-4.0

1) Excludes (i) any potential external debt restructuring, and (ii) contingent liabilities to farmers.

Sources: Zimbabwean authorities; IMF staff estimates and projections.



Risks to the outlook

- **Risks remain tilted to the downside and include factors both within and outside the authorities' control:**
 - ◆ Social and Political resistance to reform
 - ◆ Policy slippages (e.g. currency reform), or interference by vested interests,
 - ◆ Spending pressures, particularly on wages, social support, subsidies to SOEs and agriculture, and financial sector bailouts could jeopardize fiscal goals.
 - ◆ The envisaged deep fiscal adjustment needs to be carefully implemented to avoid a too a heavy toll on vulnerable portions of the population.



Risks to the outlook (Con't)

● Factors beyond the authorities control include:

- ◆ A worse-than-envisaged agricultural season,
- ◆ Exacerbating risks of poverty and social discontent, and
- ◆ A slow recovery in confidence that delays a resumption of economic activity, particularly in export industries like mining.
- ◆ The outlook also does not factor in a significant macroeconomic impact from Cyclone Idai, and the power cuts going forward.



Quantitative Targets

Table 1. Zimbabwe: Proposed Quantitative Targets¹

(in units as indicated)

	2018	2019		
	Dec. Actual	Jun. Prog.	Sep. Prog.	Dec. Prog.
1. Floor on the primary budget balance of the central government (RTGS\$ million) ²	...	-1,203	-1,604	-2,005
2. Floor on protected social spending (RTGS\$ million) ²	...	225	500	750
3. Floor on the stock of net official international reserves (in US\$ million)	-1,267	-1,267	-1,267	-1,267
4. Continuous ceiling on the stock of new non-concessional external debt contracted or guaranteed by the public sector with original maturity of one year or more (in US\$ million) ³	...	0	0	0
5. Ceiling on changes in net domestic assets of the RBZ (RTGS\$ million) ⁴	...	300	350	400
6. Ceiling on credit to the nonfinancial public sector from the RBZ (RTGS\$ million) ⁴	...	0	0	0

¹ Program performance will be monitored based on the quantitative targets for June, September, and December 2019.

² Value of cumulative flows since December 31 of the previous year.

for priority infrastructure projects.

³ Cumulative from April 30, 2019.

⁴ Cumulative from March 1st 2019. For the NDA target, excludes foreign exchange valuation changes.



SMP Structural Benchmarks

Table 2. Zimbabwe: SMP Structural Benchmarks

Benchmark	Objective	Completion Date
Cabinet to approve a revised 2019 budget consistent with a deficit of RTGS\$2.9 billion (¶9 and ¶10)	Restore macroeconomic stability	Prior Action
Issue instructions to ensure that no payments shall be made by the RBZ on behalf of Government without explicit and case-by-case authorization by the MoFED (¶13)	Improve PFM, budget execution, and fiscal discipline	Prior Action
Adopt regulations implementing the Public Financial Management (PFM) Act., including to ensure all expenditure commitments are recorded in IFMIS (¶13)	Improve governance, PFM, and budget monitoring/execution	June 2019
Complete a comprehensive stock-take of domestic expenditure arrears across the central government as of end-2018 (¶17)	Improve PFM, budget execution, and fiscal discipline	September 2019
Complete a review of agricultural support programs and develop an action plan based on its findings (¶10)	Improve targeting and efficiency of agricultural support programs	September 2019
Extend the coverage of IFMIS to 37 Districts by establishing 31 additional kiosks (¶13)	Improve governance, PFM, and budget monitoring/execution	September 2019
Submit to Parliament draft amendments to the Banking Law to address gaps identified by the FSSR (¶22)	Maintain financial stability	December 2019
Complete with assistance from the IMF and publish the report of a diagnostic assessment of Zimbabwe's governance vulnerabilities (¶24)	Strengthen governance and combat corruption	December 2019



Conditions for IMF financial engagement

Arrears clearance to the IFIs

+

Financing assurances from bilateral
creditors

+

Comprehensive, consistent package of
policies for sustainable, inclusive growth



Reengagement



Thank you