SMP to tackle urgent macroeconomic imbalances

ZIMBABWE, grappling with a deteriorating economy expected to plunge into recession this year, has agreed with the International Monetary Fund (IMF) on macroeconomic policies and structural reforms to underpin a Staff Monitored Programme (SMP) to extricate the economy from crisis.

Dumisani Ndlela (DN) spoke to the new IMF country representative in Zimbabwe, Patrick Amir Imam (PAI) on the programme and the broader economic challenges facing the country.

DN: Mr Imam, you are the new resident representative of the IMF in Zimbabwe. How are the relations between Zimbabwe and the IMF?

PAI: The relationship between the IMF and the government is excellent. There is a high level of trust and confidence between the two parties.

The discussions are always frank, pragmatic and constructive and we share the joint vision of stabilising the economy and moving the country forward. We have so far provided a lot of technical assistance and economic advice to the authorities. With the Staff Monitored Programme coming in principle into place shortly, this productive relationship will only deepen further.

DN: The new government has enacted economic reforms since September 2018. Why are the economic reforms not working? Is the government failing?

PAI: We have to put the current economic situation of Zimbabwe into its context. I think we should be clear upfront that the government has inherited a very difficult economic situation, due to misguided economic policies from the past. Starting from 2015, the fiscal situation deteriorated sharply. The large fiscal deficits since then were financed by the printing of money. This built up pressure in the economy which was nominally dollarised, impacting the credibility of the currency regime. Without the front-loaded reform that this government undertook, one can easily imagine that we would have had a repeat of what happened a decade ago.

The government enacted the Transitional Stabilisation Plan to address these ills and to put the economy back on a sustainable trajectory.

Yes, and this is not unexpected, the first few months have been painful. Cutting spending and raising taxes is always difficult and was never going to be popular. But remember, the government had to do this to address the root cause of the macroeconomic imbalance.

This austerity measures allowed the government to significantly reduce the budget deficit, and to stop the financing of the budget deficit by printing money. We are now in the midst of the adjustment, and the conditions for macroeconomic stability are being put in place.

Going forward, and assuming the government maintains the cap, inflation should be contained, and we should expect a rapid disinflation starting mid-year. The economy should hit bottom this year and stabilise, and growth pick up thereafter.

The government was not helped by the natural disasters that afflicted the country in recent months, from the El Nino induced drought to the destruction brought about by Cyclone Idai. These have ravaged the agricultural sector and caused significant harm to the most affected regions. However, what is very notable to me is the level of ownership of the reforms, and the determination of the government to move ahead with the reform agenda.

In my 15 years at the Fund, I have worked on numerous IMF programmes, including countries like Mexico or Senegal. And what I can tell you is that it's rare to see such a level of committed in an economic team, which is willing to tackle the problems head-on, despite the political costs involved. This is reassuring and gives me confidence that this government will successfully stabilize the economy if it continues on the current track.

DN: Were the US sanctions harmful to the economy, as claimed by the government?

PAI: We have not investigated this issue directly, but it's clear that sanctions are not going to be helpful in reviving the economy. Having said that, it is certainly not the case that sanctions would explain why Zimbabwe, at independence, was a middle-income country with a low debt load, and at present is a low-income country with high debt levels. Zimbabwe's economic woes are largely self-inflicted and reflect poor economic management over the past decades.

DN: So, what is the purpose on the recently agreed Staff Monitored Programme? What reforms is Zimbabwe expected to implement during the SMP?

PAI: The SMP aims to tackle the most urgent macroeconomic imbalances, and to create a track-record of economic reforms. The SMP draws entirely on the Transitional Stabilisation Plan, which is the government's road-map to stabilise the economy and to kick-start growth, and to move the country towards a middle-income status by 2030. The SMP is going to support the government in this endeavor and should be thought of as translating the TSP into concrete measures with precise commitments and timelines.

Besides the fiscal consolidation that is already underway and the currency reform that is still in its early stage, the authorities are committed under the SMP to carry out structural reforms such as reforming State-owned Enterprises, addressing corruption and improving the business climate to spur private sector investment.

For the international community, a successful SMP is a first step in the direction of full international re-engagement. If things go well, we hope that the SMP will be a stepping-stone to a deeper engagement with the IMF. And it will help in the normalization process with the international community, in particular Zimbabwe's creditors.

DN: We had two previous SMPs in place that failed? Why is this new one different?

PAI: I disagree with your statement. This is factually incorrect. The two previous SMPs which were in place in 2013 and 2015 were deemed to be successful. The authorities met the targets during the implementation phase, and macroeconomic stability was largely maintained. The issue was the policy slippages thereafter. Following the post-SPM phase, some of the progress that had been made were reversed.

Patrick Imam — the IMF representative trying to help Zimbabwe fix its economy.

DN: Can we expect that the SMP reforms will be tough on the country?

PAI: Let me start by saying that the Fund does not impose any reforms on a country. Typically, what happens is that countries come to the IMF because they have major macroeconomic or financial imbalances. In that context, the authorities, in conjunction with the Fund, diagnose the problem, and remedies are found based on an intensive and inclusive dialogue. However, it is true that any reform package depends on the level of adjustment needed. Let's for example picture a doctor–patient relationship. Any medication prescribed would have to match the level of the pain and depth of the disease. A patient who has a flu will require a different medicine from a patience who has say cancer. And therefore, the deeper the health deterioration, the more invasive and painful the treatment is. Similarly, when a country has large macroeconomic imbalances, it will require a stronger and typically more painful adjustment. However, the Fund is acutely aware of the social consequences of adjustments, and therefore insists in all its programs, as this is also the case in the SMP for Zimbabwe, that social spending increases to protect the most vulnerable elements in society.

DN: What are the risks to the SMP?

PAI: The risks to the SMP are non-negligible. They include above all the difficulty to implement politically and socially tough fiscal adjustment policies. With limited access to external financing and very low levels of international reserves, the room for manoeuvre is obviously not very high. We have seen this for instance with the El Nino drought and Cyclone Idai.

These natural disasters have already impacted the 2019 budget negatively with huge outlays on food imports, infrastructure rehabilitation and other social support.

DN: What are your growth projections for 2019?

PAI: For 2019, we currently expect a contraction in GDP of about minus 2 percent. This is due to the fiscal consolidation, inflation that cuts people's purchasing power, an agricultural sector that is negatively impacted by the drought as well as the cyclone.

On the positive side, mining is expected to do reasonably well, which is why the growth rate is only mildly negative. However, for the population, this mild recession may feel much more severe, as the growth in the mining sector is by definition not inclusive and doesn't benefit many workers in the economy. It is an activity that is capital intensive and lack forward or backward linkages with the economy.

To get a pro-poor, inclusive growth, we need an agricultural sector that blossoms. We expect the bottom will be reached this year, and the economy should start recovering next year. This is because the bulk of the fiscal adjustment will be behind us by then, uncertainty will have declined, distortions from multiple exchange rates will have been removed, and relations with external creditors will start normalising. Depending on the speed of the re-engagement the growth momentum could be even stronger.

DN: You mentioned earlier that the government within the SMP framework will tackle the issue of corruption. In the context of a weak governance, and with a strategy of the government to tackle corruption credibly lacking, how can the IMF support Zimbabwe?

PAI: Governance is an issue in Zimbabwe, but I would argue that it is a problem all over Africa. While it is obviously difficult to measure, the various corruption perception indexes that are commonly used suggest that there has not been a significant improvement in the level of corruption, despite the first reform push in that direction. This year's Corruption Perceptions Index from Transparency International shows little progress, with Zimbabwe ranked 157 out of 180.

Now should corruption preclude us from having a programme with a country? I think the answer is clearly no, otherwise the IMF could only have programmes with countries such as Sweden and Norway, which don't need our help. We are here precisely because the situation is challenging.

What is important is to be realistic in the reform process, to first recognize the problem of corruption, and then to set-up reforms to gradually tackle this cancer. And it's clear that to me that the authorities are not in denial.

The President himself mentioned upfront his concerns about corruption during his Independence Day speech. The authorities are mindful that corruption holds back development. Going forward, to tackle corruption, more will have to be done in the areas of transparency and to ensure that the legislation is in place and provide the right incentives for instance.

It is true that so far, the government reform efforts to tackle corruption have not yielded significant improvements. However, there is progress that we have to acknowledge.

The effective implementation of the Public Procurement and Disposal of Public Assets Act is a first step. As the IMF, we also encourage the effective implementation of the Public Finance Management Act which should make corruption harder.

While not yet discussed, joining the Extractive Industries Transparency Initiative is something that would be very welcome. It would increase the level of transparency in the mining sector and would signal to investors that the country adheres to international standards and is open for business. Our next Article IV, the annual health check-up that is scheduled for September of this year, will probably delve more closely into governance vulnerabilities in Zimbabwe.

DN: Any final word?

PAI: Zimbabwe is currently in a tough spot but has everything to succeed. One can see the potential everywhere from natural resources to above all its human capital. However, to translate that potential into an improvement in the wellbeing of the population will take time. We have to be realistic.

The economic problems have been building up over decades, and hence cannot all be addressed at once. The reforms that the authorities are undertaking are not always going to be popular but will be crucial to provide the basis for sustainable growth.

In the Zimbabwean context, it is also important to emphasize the importance of political reforms. Like in many countries in the region, fixing the politics is as, if not more important, than fixing the economy. This is why the international community is putting so much emphasis on the political reform process. With the economic and political reforms moving forward, there is no reason to think that the country will not regain its status as the Switzerland of Africa.