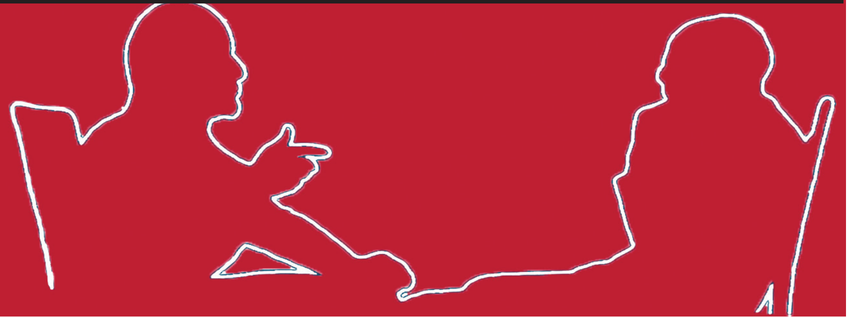
THE INTERVIEW



'Zim revival an uphill task'

The International Monetary Fund (IMF) recently gave an adverse report on Zimbabwe's Staff Monitored Programme (SMP) after the country failed to meet most of the set out targets. The programme is ongoing and the IMF has advised Harare to contain fiscal spending consistent with non-inflationary financing and tighten monetary policy to stabilise the exchange rate and start rebuilding confidence in the national currency. Our Assistant Editor John Kachembere (JK) caught up with Patrick Imam (PI), pictured, IMF's representative in Zimbabwe to discuss the SMP and various economic concerns. Below are excerpts of the interview.

JK: What is your outlook for the region?

PI: In our latest forecast, we are projecting that growth for sub-Saharan Africa as a whole will be around 3,2 percent in 2019 and rise to 3,6 percent in 2020.

The expected recovery, however, is at a slower pace than previously envisaged for about two-thirds of the countries in the region, partly due to a challenging external environment.

Growth is projected to remain strong in non-resource-intensive countries, averaging about six percent.

In contrast, growth is expected to move in slow gear in resource-intensive countries, with a rate of 2,5 percent.

JK: What are the projected downside risks to this growth outlook?

PI: Absolutely, the projected recovery faces significant headwinds. Firstly, external risks have increased considerably compared to our last update six month ago.

They include the threat of rising protectionism and retreat from multilateralism, the sharp increases in risk premia owing to tightening global financial conditions, and a faster-than-anticipated slowdown in China and in the euro area.

But within Africa, we also have strong regional variations in risks. In this part of the world for instance, the climate shock plays an important role right now.

In the Sahel region, the intensification of security challenges is a risk. And the potential spread of the Ebola outbreak beyond the Democratic Republic of Congo also needs to be monitored.

In addition, fiscal slippages, including those ahead of elections, could add to deficits and debt pressures in some countries.

JK: What are the implications of the US-China trade war on Africa, and how should Africa react to it?

PI: There is a clear consensus that the trade tensions between the US and China have contributed to the slowdown of global trade and manufacturing activity.

This has negative implications for Africa, as it reduces demand for commodities and intermediate goods produced on the continent.

I think we all very much hope that the US and China can find a way to resolve their disagreements and achieve a mutually beneficial compromise, which would then spark a rebound in world trade.

Until that happens, however, and in fact I would argue regardless of whether that happens or not, Africa needs to diversify its economic output and export destinations.

This could be achieved by increasing intra-regional trade between African countries for instance.

The recently signed African Continental Free Trade Area agreement should help promote regional trade exchanges.

In addition, African countries should build resilience to trade and other external shocks by implementing their fiscal consolidation plans and replenishing buffers.

Incase more negative risks to trade and growth were to materialise, sub-Saharan countries that have monetary and fiscal policy space should be advised to use it wisely, to sustain growth despite adverse external conditions.

Moreover, as the world's largest central banks adopt easing policy stance in response to deteriorating national and global economic prospects, this should help reduce market interest rates and curtail market financing costs for the African emerging market and frontier countries that have access to the international capital markets.

JK: You mention the African Continental Free Trade Area Agreement (AfCFTA). What effects do you see AfCFTA having on the continent?

PI: The IMF and researchers from academia and think-tanks all indicate that the AfCFTA has the potential to yield significant benefits to the continent.

Although the effect of the AfCFTA on income is likely to be limited in the short run, it has been estimated that the agreement could increase GDP by up to five percent over the longer run.

Our own estimates at the IMF on long-run income gains from the AfCFTA are broadly consistent with this, with most gains coming from the lifting of non-trade barriers. But the potential gains from the AfCFTA are unlikely to be uniform.

Small and more open economies and countries with strong trade links to the rest of the region are likely to benefit more from deeper regional integration.

We in fact estimate that AfCFTA would boost intra-regional trade by about 80 percent over the long run. Overall trade would expand by about eight percent.

At the same time, one has to recognise that the structural changes that the AfCFTA would unleash could give rise to important transitional costs.

These include for instance a potential loss of tax revenue in the short term or transitional increases in unemployment. One can also think of fiscal revenue losses from lower import tariffs.

The authorities should obviously be prepared to tackle these challenges and attempt to counter the negative consequences.

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JK: A number of countries including Zimbabwe are facing the challenge of unsustainable levels of public debt. What is your assessment of this and what other options do they have?

PI: During the annual IMF-World Bank meetings that were just held in Washington, this was indeed a recurrent topic of discussion.

A risk is that we of course overgeneralise for a region that is rather heterogeneous. But yes, the average public debt in sub-Saharan Africa was estimated at about 55 percent of GDP at the end of 2018 and has been on an upward trend compared to, say, a decade ago.

There is, however, a wide heterogeneity in debt dynamics across countries. Oil exporters have seen some reduction in debt burden, while other resource-intensive and non-resource-intensive countries continue to see increases in debt over the past few years.

Reductions of debt ratios mostly reflect fiscal consolidation in non-resource-intensive countries and a growth rebound in oil exporters due to rising oil prices.

For most countries in the region, public debt remains sustainable under current projections. Out of 35 low-income and developing countries in the region, 19 have low to moderate debt vulnerabilities.

However, 16 of these countries are classified as having either a high risk of debt distress or being in debt distress already, which means that their debt burden ratios are close to or exceed risk thresholds.

Looking ahead, public debt ratios are expected on average to stabilise or even decline but this depends on the implementation of fiscal consolidation plans.

For countries that have low or moderate debt vulnerabilities but have been experiencing rapid increases in debt because of high public investment, there is a need to make sure that the return on that investment is high.

They should also look for alternative approaches to create fiscal space for further development spending.

This could entail higher domestic revenue mobilisation, stronger public financial management, and improved public investment efficiency.

Our advice to countries that face high risk of debt distress is to consolidate their fiscal position, strengthen debt management frameworks, increase transparency, and better prioritise external borrowing.

Recourse to the external financing could be well justified for projects that are expected to boost a country's export potential and fiscal revenues.

It is also understandable that authorities in many countries want to benefit from the historically low international interest rates and availability of financing to upgrade their infrastructure and address their countries' social problems.

However, they should consider the long-term debt sustainability when making borrowing decisions.

JK: Let's focus on Zimbabwe. What is the economic outlook?

PI: Our current projections are for a negative GDP growth in 2019 of –7,1 percent. This reflects the adverse weather conditions, mining disruptions, electricity shortages, and headwinds from the fiscal consolidation.

And the risks are to the downside. We expect a rebound in growth next year of 2,7 percent. Regarding the country's medium-term prospects, they are conditional on the implementation of a coherent reform strategy and accelerated reengagement.

JK: What are the main challenges facing the Zimbabwean economy?

PI: I think it's important to emphasise the context. The challenges that the government has to tackle were created years, if not decades ago, and hence they will not be addressed in one year alone. Rome was not built in a day, and neither will Zimbabwe be transformed in a short period of time.

Having said that, the policy actions that the government put in place are aimed at tackling the root causes of economic instability and to enable private-sector led growth.

The key challenge is to contain fiscal spending consistent with no printing of money to finance the government's deficit, and to stabilise the exchange rate. At the same time, the government must do everything it can to protect its most vulnerable citizens.

This is of course not an easy feat. The risks to budget execution are there, given justified demands for further public sector wage increases, given the quasi-fiscal activities of the RBZ that will need to be absorbed by the central government, and given pressure to further subsidise agricultural production that could push the deficit back into an unsustainable stance.

And if not well handled, this could create a stagflationary environment, whereby inflation remains high, and the economy continues to be in the doldrums. It's important to avoid this fate through concrete steps to enforce budget and monetary discipline and to create conditions for the private sector to drive growth. And it's in the government's hand to do so.

Now, these adjustment challenges are magnified by slow progress on the international reengagement, which reflect the pace of implementing fundamental political reforms.

So to summarise, progress has been uneven, and efforts will need to be intensified on both the economic and political fronts to drive Zimbabwe forward.

The economic and political context is challenging, but the government is clearly committed to move on all these fronts.

JK: Is fiscal consolidation realistic when needs are so high, especially with a poor outlook for the upcoming harvest?

PI: Look, food security is rightly the top priority for the authorities, given that nearly 8,5 million people are expected to be food insecure in the coming months. And there is no question that it is imperative to ensure that any reform strategy includes appropriate safeguards to support the most vulnerable, whether the children or the elderly for instance.

Now, given limited resources, it's imperative to ensure that fiscal resources are used as effectively as possible.

This means government should reduce inefficient spending such as the governance-challenged agricultural support system, to better target support via the harmonised cash transfer for instance, or growth-enhancing public infrastructure investing.

And the government is moving in that direction. But I cannot overemphasise that a durable fiscal stance will require as a prerequisite a monetary policy that is consistent with low inflation and exchange rate stability. This means a cessation of monetisation of the deficit.

I would agree with your assertion that the pace and speed of fiscal consolidation is far from optimal, especially in the context of a drought, Cyclone Idai and the electricity shortages.

However, the alternative is to have a deficit that is financed by printing money, which would be a short-term palliative at best, as this would lead to a further vicious cycle of inflation and currency depreciation, and eventually a repeat of what occurred a decade ago.

Thankfully, the international community is also doing a lot as well to alleviate the food insecurity situation. But yes, under a more normal financing environment with direct external budgetary support, fiscal consolidation would have been less painful.

JK: What is the status of the SMP? Will Zimbabwe now be eligible to receive financial support from the IMF?

PI: The authorities and IMF management agreed to a Staff Monitored Programme in May 2019. The aim of the SMP is to address the substantial macroeconomic imbalances of the economy in a comprehensive manner.

A mission to assess the performance under the SMP took place in early September and these discussions continued in October in Washington during the Annual IMF-World Bank meetings.

A mission from headquarters is expected to come to Harare in the coming weeks to continue and hopefully finalise the discussions on the recalibrated SMP.

On the question of IMF financial support, you may know that Zimbabwe has been in good standing with the IMF since it repaid its outstanding arrears in 2016.

However, Zimbabwe has arrears to multilateral development institutions such as the World Bank and the African Development Bank, and the IMF rules don't permit us to provide financial support to any member country that has arrears to other international financial institutions.

Therefore, before becoming eligible for financial support from the IMF, Zimbabwe will need to clear its arrears with the other International Financial Institutions.

Moreover, Zimbabwe will also need to reach an understanding with its bilateral creditors over the clearance of arrears.

Beyond the issue of arrears, an IMF financing arrangement will require Zimbabwe to be ready to continue to implement strong macroeconomic policies and structural reforms to promote external sustainability and foster private sector development by reducing the cost of doing business, for instance.

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