News

Zim has to recalibrate budget - IMF rep

The Q&A

The International Monetary Fund (IMF) recently gave a damning report on Zimbabwe that the Southern African nation was off-track on benchmarks under the Staff Monitored Programme. Our News Editor Ndamu Sandu (**NS**) sat down with IMF resident representative to Zimbabwe Patrick Imam (**PI**) on the Article IV consultations and the impact of the coronavirus on economies. Find excerpts below:

NS: What are some of the key issues that came up for discussion during the consultations?

PI: The discussions were dominated by the issue of currency stability and inflation, fiscal sustainability as well as the humanitarian crisis. And we also discussed the governance challenges

The lack of exchange rate stability was central in our discussions, as it contributes to an already fragile socio-economic situation. It is imperative that the printing press stops and that there be a better coordination between monetary and fiscal policies to help stabilise the currency and avoid a repeat of what happened a decade ago. In our view, it is therefore crucial for the authorities to implement the Reserve Money Targeting Framework, which will be key in containing money supply growth and ultimately inflation. With the depreciating currency, inflation continues to rise and people's purchasing power is not safeguarded anymore, which explains the rising poverty levels.

While maintaining fiscal sustainability is central to stabilise the economy, in our discussions we emphasised that the vulnerable should be protected in an efficient way. For instance, subsidies should be targeted to the most vulnerable elements in society, especially women, children and the elderly, and should be structured in a way to minimise arbitrage and wastage. And while the authorities are concentrated on protecting the vulnerable, and the 2020 National Budget includes a significant increase in social spending, it is likely insufficient to meet the pressing humanitarian needs. The budget may therefore have to be recalibrated further over the year.

Finally, we discussed the importance of reducing governance and corruption vulnerabilities. This would help improve the business environment and ensure sustained growth.

NS: The forecasting record of the IMF has been poor so far for Zimbabwe. Why should we believe the new forecast numbers which many analysts argue are too optimistic?

PI: Look, it's fair to say that no analyst in the current environment has a good forecasting track record. No one in early 2019 was predicting an inflation or exchange rate or GDP number at end 2019 that was even close to the outturn. But why did all analysts have such a large forecasting error? This is because most didn't foresee, or at a minimum underestimated the impact of the drought. In addition, some of the authority's commitments, such as holding reserve money tight, were not upheld. Therefore, currency and inflation became de-anchored, and the initial forecast assumptions became void.

We estimate that with another poor harvest, growth in 2020 will be near zero. But we recognise that with no progress on clearing longstanding external arrears, the authorities will face a difficult balancing act of pursuing a tight monetary policy, to reduce the very high inflation levels, and fiscal policies to address the macroeconomic imbalances to help build confidence in the currency.

Our current 2020 forecast was established in December and assumes that the authorities continue their reform process. It is not a passive scenario that assumes the authorities do little. It is on the contrary based on the assumption that the authorities implement the policies that they have announced. Obviously, if the authorities do not stick to the reform process that they spelt out, then the ultimate outturn is likely to deviate significantly again from the current forecast. The current macroeconomic forecast in the Article IV does not yet integrate the data we received in the first two months of 2020, or the impact of the coronavirus for instance, which will likely be non-negligible on the economy.

NS: It is too early to discuss the impact of the coronavirus outbreak on Zimbabwe. But from your experience in West Africa, can you describe the impact from the Ebola outbreak in 2014-15 on the economy of Guinea, Liberia and Sierra Leone? Or if you go back in history from the Spanish Flu, how were the economies impacted?

PI: Let me first start with an important caveat. Whether it's Ebola or the Flu, they are not the same as the coronavirus. They are very different in many ways. But it is true that past outbreaks do provide potential lessons that policymakers should be mindful of. They allow one to identify what worked and what failed, and what to be weary of for the next outbreak.

Now let's take Ebola. The 2014-15 Ebola crisis was the largest Ebola outbreak to date, and it took a devastating toll. Ebola infected nearly 30,000 people and caused more than 11,000 deaths in the three countries impacted. But it's important to put Ebola in its context. Several factors contributed to the rapid escalation of the Ebola outbreak. The first known patient was in fact infected in December 2013 in Guinea. However, transmission went unrecognised and unaddressed for months, due to inadequate surveillance systems, weak public health infrastructure, shortages of healthcare staff and difficulty assessing remote communities. So the disease had time to spread throughout the three countries without much difficulty. In other words, had surveillance been better, the outbreak could have been contained earlier.

Once the outbreak spread to urban areas, the number of cases quickly overwhelmed healthcare systems. The poor infection control resulted in transmission in hospitals, which accelerated the disease spread. There was initial resistance of communities to seek medical help, but also local burial traditions and general unfamiliarity with Ebola also played a role, as this was the first time there had been widespread transmission of the disease in crowded urban areas.

The result was that draconian containment measures were put in place. This included restrictions on international travel, curfews and quarantines, school closures, and regional and national lockdowns. These efforts were essential to contain the epidemic. Besides the direct human toll of Ebola, the indirect costs of Ebola became also huge. Normal daily life was totally disrupted and came to a halt. In addition, as resources were diverted to fight the epidemic, entire health systems essentially shut down, particularly in Liberia, which seriously impacted health care provision, including diagnostic and treatment of other infectious diseases.

The Ebola outbreak and ensuing containment measures led to an economic crisis. There was a widespread economic collapse in the three countries. Non-essential government operations stopped. Extended school shutdowns ranging several months disrupted daily life and caused permanent loss of human capital. Sectors such as tourism and trade were severely affected by travel restrictions and declines in consumer demand. Agricultural production and markets in urban and rural areas were disrupted, and food insecurity increased. Large businesses under strain laid-off workers, and rising non-performing loans created liquidity and solvency problems for domestic banks. Mining operations were initially unaffected but were disrupted once Ebola spread to the regions where mines are located.

As a result, fiscal positions worsened considerably as tax revenues tumbled and spending needs increased dramatically in the three affected countries. There was an across-the-board revenue collapse, but especially pronounced for corporate and indirect taxes. Public infrastructure and new private investment projects were put on hold, further contributing to lower growth. Health and security and social spending needs increased dramatically. Hazard pay for health workers was a particularly contentious point, with low compensation, unreliable payment timing leading to strike notices and in general making it difficult to hire and retain staff.

Thankfully, the international community provided massive financial support, disbursing nearly US$6 billion in aid, which provided some relief.

NS: Are there lessons from Ebola for the coronavirus for Africa?

PI: Yes for sure, but I would like to emphasise again that Ebola and the coronavirus are not the same. The Ebola virus is much deadlier than the new coronavirus but also much less contagious. However, the impact of containment efforts will likely lead to similar public health responses, based on what one can see in countries already impacted, and hence there are some lessons that one can draw.

First, in the event of a coronavirus outbreak, public health systems in many African countries may quickly become overwhelmed. On many indicators, it appears likely that most African countries are not well-prepared for a pandemic. The Ebola experience shows that a serious outbreak affecting a few thousand people in an urban area can lead to a rapid shutdown of healthcare services, as scarce resources are redirected to fight the outbreak.

The economic impact of disease controls efforts can be large, especially if containment efforts are extensive and prolonged. The economic collapse witnessed during the Ebola outbreak can mostly be attributed to large declines in labor supply due to widespread containment efforts, as people were ordered or refrained from going to work. Services like tourism would be most affected. Even if agriculture production is resilient, food insecurity would rise if markets are disrupted and food cannot be transported to urban areas for instance. Mining may also be impacted.

While the international community can mobilise financial support quickly, in practice disbursements are often slow. Weak capacity in low-income countries, especially in times of crisis, may make spending paradoxically difficult, especially if tough procurement and spending measures must be followed. In addition to financial support, the donor community also plays a central role in providing technical support and know-how, for example in public health to improve aid effectiveness.

However, one interesting feature of the coronavirus that differs from Ebola is that the whole world is likely to be impacted. At this stage, I think it's probable that every country will be impacted. In that case, international financial support may be more difficult to obtain. For instance, many lower-income countries in Africa, Asia and Latin America may be affected by local outbreaks at the same time, multiplying demand for financial support at the same time, while donors' aid budget may be under strain as advanced countries battle the infection themselves.

NS: The recent Monetary Policy Statement talked of how subsidies are impacting bank reserves. Did the issue of subsidies come up for discussion and what is the view given that these are now, according to government targeted subsidies as opposed to fuel subsidies?

PI: As subsidies are a key item in the government budget, we did discuss them. In fact, the Article IV report discusses the issue extensively. As you will know better than I do, Zimbabwe has a long history of government handing out subsidies, and the sums are large relative to other sub-Saharan peers. If you look at the history of subsidies in Zimbabwe, my understanding is that these subsidies have often been allocated to State-Owned Enterprises in the past. But in recent years, after the land reform, they have increasingly been directed towards helping farmers, and to a larger extent, agribusinesses. The subsidy ranged from importing grains to getting fuel and other imported items at subsidised rates through Foreign Exchange allocation at preferential rates for instance. So these subsidies were often off-budget.

Over recent year, the fiscal costs of Command Agriculture has been dramatic and a principal contributor to the unsustainable deficits in recent years. The cost of grain subsidies and input schemes escalated substantially in 2016 with the start of Command Agriculture. Overall, nearly 20 percent of GDP worth of fiscal and quasi-fiscal expenditures were spent on agriculture between 2015- 2018, and preliminary indications are for the 2019-2020 crop season to also incur significant fiscal costs. These numbers are very large, but they underestimate even the real costs to the economy, as they are a prime reason for the destabilising macroeconomic environment, given the printing by the RBZ to finance this. In addition, and this was documented extensively by the Public Accounts Committee, the money was not spending efficiently. There is no commensurate relationship between how much money was put into agriculture and the output.

While subsidies are not necessarily a bad thing, our advice to the authorities, and they are in full agreement, is that they can achieve the same outcome with less costs. The question one needs to ask is what the aim of the subsidy is. Is it about increasing agricultural output, or is it about helping the small-scale vulnerable producers? In both cases, there are more efficient ways of achieving the goal than through current policies. If it's about raising agricultural output, then what needs to be addressed is the underlying issue of land tenure and property rights. The government is working on it, but banks and farmers are not yet taking up these 99-year leases which suggest that it's still work in progress. Leases must be usable so that we can have a well-functioning system like in neighbouring countries, and that incentivise effective production.

If on the other hand, the subsidies are about helping the vulnerable, then the authorities are advised to contain spending on inefficient subsidies and transfers. We have seen with the recent subsidies for mealie-meal that despite the laudable aim, the subsidy did not achieve its aim of providing cheap mealie-meal to the vulnerable groups. Instead it disappeared from the shelves, and vulnerable groups had to buy it on the black market at a high cost. The government has recognised this, and is bolstering more effective social transfer tools, notably harmonised cash transfer.

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Patrick Imam

CITY WATCH

Council has adopted the e-agenda to enable active stakeholder participation and achieve the mid-term goal of reaching the 75 percent customer satisfaction by year end.

Speaking to stakeholders at Town House today, Acting Mayor Councillor Happymore Gotora said council was engaging residents through social media platforms.

"We have adopted the e-agenda. We are engaging our stakeholders through our social media platforms that include Facebook, instagram, Twitter and our website. Those who have been engaging can testify as this initiative has helped in solving certain issues," he said.

He said social media platforms also serve as notice boards that give stakeholders information about the activities being carried out in council. Cllr Gotora said the involvement of the stakeholders in the running of council will enable council to benchmark its success and failures.

"Stakeholder participation is central to good governance and an important factor in sustainable development. The city came up with a comprehensive stakeholder policy document in 2016 that governs the way we work," he said.

He hailed the stakeholders working with Council to achieve the world class vision and the mid-term agenda of customer satisfaction by the end of 2020.

"We need to share the same vision with our stakeholders in order to reach and achieve our desired goals," he said.