

International Monetary Fund

African Department

Zimbabwe: Economic outlook and SMP Performance

Patrick Imam

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.





Roadmap

- ◆ Economic outlook
- ◆ SMP: Performance
- ◆ Sector performance
 - Financial Sector Development
 - Fiscal Development
- ◆ Way forward



ECONOMIC OUTLOOK



Zimbabwe: Economic outlook

- **Economic outcomes in 2019 were worse than anticipated**
GDP estimated at -8.3 percent due to drought, poor electricity generation, Cyclone Idai and austerity, and inflation triple-digit
- **Twin external shocks:** significantly impacted the macroeconomic adjustment, impacting hydro electricity production, worsening the humanitarian crisis.
- **No external support:** Zimbabwe continues to have external arrears to IFIs and bilateral official creditors. It is effectively blocked from traditional external support to address its balance of payments crisis
- **No domestic buffers:** The central bank has no reserves, leaving little policy ammunition to defend the new currency in a context of very weak confidence
- **2020 another “annus horribilis”:** growth of 0.8 percent but will be revised downwards, including because of coronavirus outbreak, while inflation will remain among highest in the world



Key macroeconomic indicators

Text Table 1. Zimbabwe: Macroeconomic Framework, 2017–23

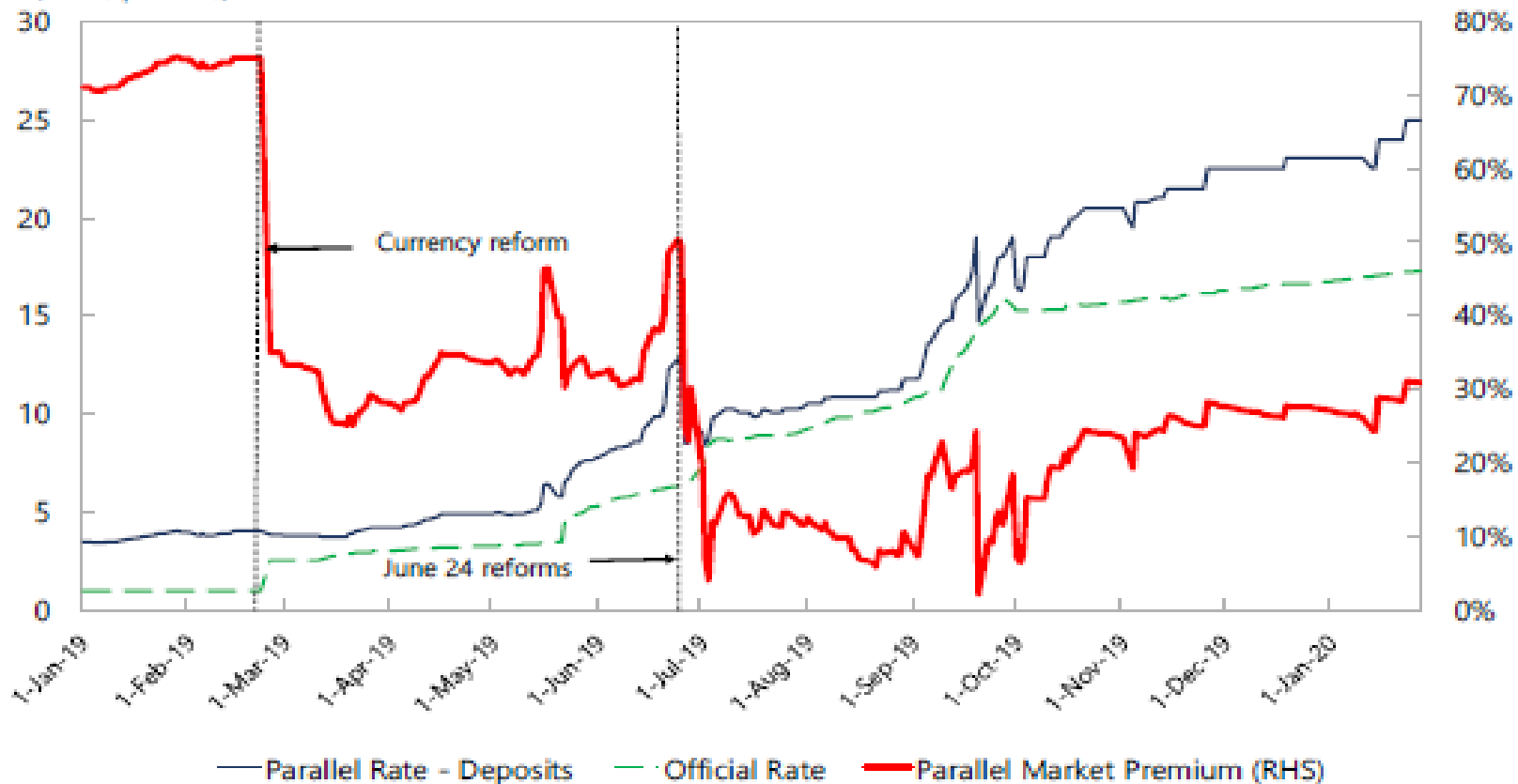
	2017	2018	2019	2020	2021	2022	2023
Real GDP growth (%)	4.7	3.5	-8.3	0.8	2.5	2.5	2.2
Inflation (% average)	0.9	10.6	255.3	221.1	3.7	3.0	3.0
Inflation (% eop)	3.4	42.1	521.1	52.0	3.0	3.0	3.0
Overall Fiscal balance (% GDP)	-7.1	-7.5	0.0	-5.0	-2.3	-2.1	-2.1
Consolidated public sector debt (% GDP)	54.4	44.2	50.1	53.9	56.0	55.9	55.7
Public and publicly-guaranteed external debt (% GDP)	40.1	37.8	47.6	51.5	52.7	52.1	51.5
Current account (% GDP)	-1.3	-5.4	0.7	-1.0	-1.4	-1.3	-2.3
FDI (% GDP)	1.4	1.6	0.6	1.1	0.7	1.6	1.9
Reserves (months of imports)	0.5	0.1	0.2	0.2	0.2	0.2	0.2

Sources: Zimbabwean authorities; IMF staff estimates and projections.



Currency stability work in progress, with parallel exchange rate volatile recently ...

Zimbabwe: Official and Parallel Market Exchange Rates (ZWL\$ per US\$)



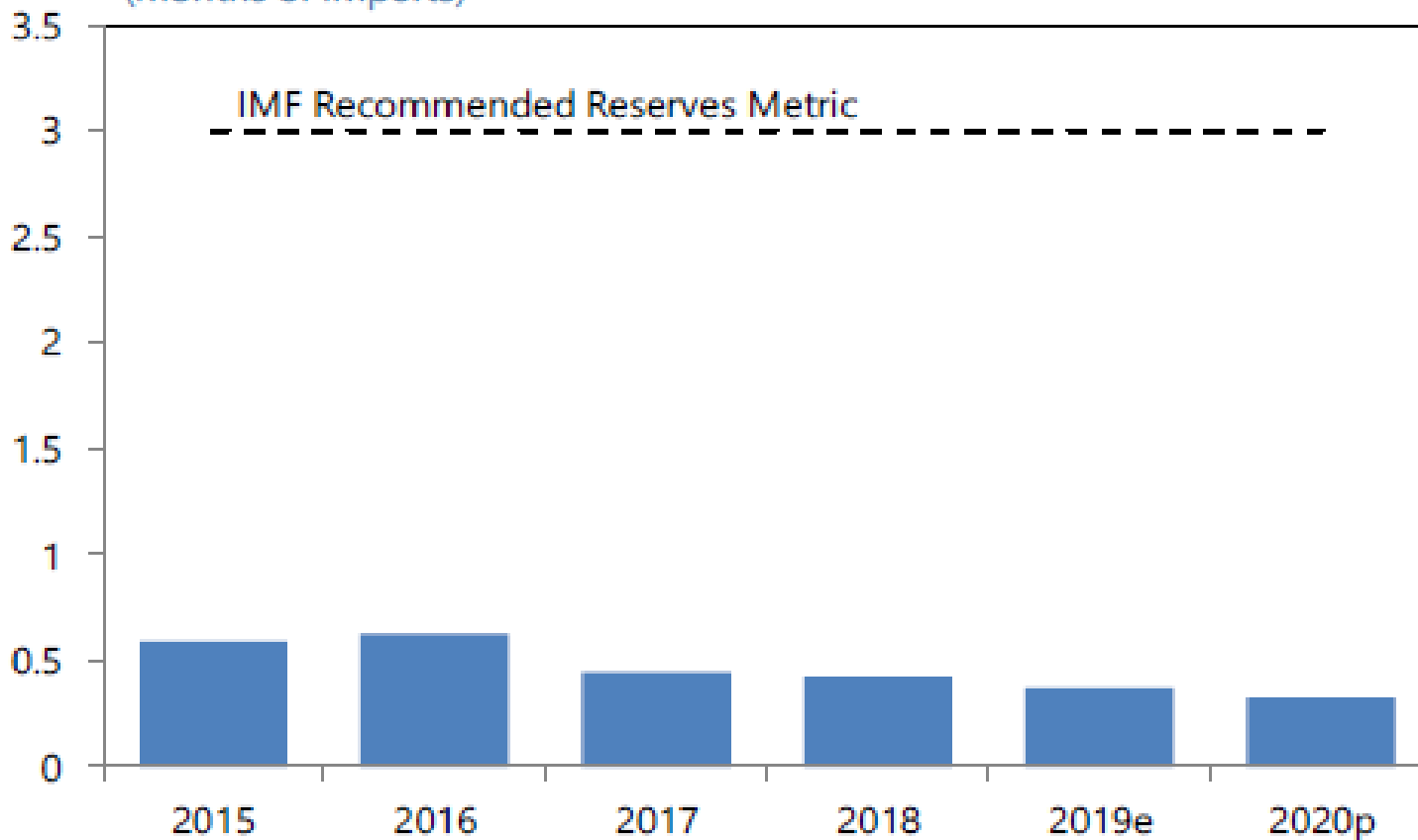
Sources: Zimbabwean authorities and IMF staff calculations.



... reflecting policy uncertainty amid a very low level of international reserves.

Gross International Reserves

(months of imports)





Worsening humanitarian crisis

- Cyclone Idai (270,000 people were in need of emergency humanitarian assistance)
- Drought (8.5 million people food insecure)
- Erosion of real wages and savings
 - ❖ the introduction of the new currency and sharp acceleration in inflow implies a substantial cut in real incomes and in the real value of savings
- Erratic fuel and electricity supply
- Authorities' inability to respond to the climatic shocks
- Limited support from the international community



SMP OBJECTIVES



SMP (May 2019) objectives and risks ...

- SMP was approved by IMF management in May 2019 and was due to expire at end-March 2020
- Objective – address macroeconomic imbalances
 - ◆ Fiscal Consolidation and halt RBZ lending to government
 - ◆ FX liberalization to achieve a market determined exchange rate
 - ◆ Governance reforms



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



SMP performance: Off Track

- **Quantitative Targets:**
 - ❖ Targets were satisfactory through end-June, but most end-September and end-December 2019 performance criteria missed owing to the large quasi-fiscal operations by the RBZ
- **Structural benchmarks:**
 - ❖ Largely satisfactory
- **Progress on fiscal reforms was overshadowed as:**
 - ❖ costly missteps on monetary and FX market reforms,
 - ❖ climate shocks crippled agriculture and electricity generation;
 - ❖ social impacts of the fiscal retrenchment and currency reform,
 - ❖ more than half of the population food insecure; and
 - ❖ external arrears constraining access to external official support, while additional commercial borrowing has worsened the debt overhang and likely complicated discussions on debt resolution.



SMP performance: QTs

Table 6. Zimbabwe: SMP Quantitative Targets

(in units as indicated)

	Dec.	End-June 2019			End-September 2019		
	Actual	Prog.	Prel.	Status	Prog.	Prel.	Status
1. Floor on the primary budget balance of the central government (ZWL\$ million) ²	...	-1,203	38	met	-1,604	-2,502 ³	not met
2. Floor on protected social spending (ZWL\$ million) ²	...	225	268	met	500	561	met
3. Floor on the stock of net official international reserves (in US\$ million) ⁴	56	-1,267	186	met	-1,267	66	met
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) ^{5,6}	...	0	108	not met	0	108	not met
5. Ceiling on changes in net domestic assets of the RBZ (ZWL\$ million) ⁷	...	300	-240	met	350	1,057	not met
6. Ceiling on credit to the nonfinancial public sector from the RBZ (ZWL\$ million) ⁸	...	0	-191	met	0	1,572	not met

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.

³ Although in nominal terms the primary deficit target for end-September was missed, this reflects the higher inflation (as a share of GDP the deficit was below the SMP target).

⁴ The SMP targeted an unchanged level of NIR relative to end-December stock (US\$56 million), but the numbers erroneously reflected NFA (US\$-1,267 million). This has been corrected for the end-September and end-December 2019 targets.

⁵ Cumulative from April 30, 2019.

⁶ Reflects augmentation of loans for infrastructure projects (energy, water and telecommunication) originally signed between 2012 and 2015 but not disbursed.

⁷ Cumulative from March 1st 2019. For the NDA target, excludes foreign exchange valuation changes.



SMP performance: SBs

Table 7. Zimbabwe. SMP Structural Benchmarks

Benchmark	Objective	Completion Date	Comments
Cabinet to approve a revised 2019 budget consistent with a deficit of RTGS\$2.8 billion (Country Report No. 19/144, MEFP ¶9 and ¶10)	Restore macroeconomic stability	Prior Action	Done
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 (Country Report No. 19/144, MEFP ¶13)	Improve PFM, budget execution, and fiscal discipline	Prior Action	Done
Issue an instruction to disallow, with immediate effect, any future acquisitions of non-performing loans by ZAMCO (Country Report No. 19/144, MEFP ¶16)	Improve governance, PFM, and budget monitoring/execution	Prior Action	Done
Adopt regulations implementing the Public Financial Management (PFM) Act, including to ensure all expenditure commitments are recorded in IFMIS (Country Report No. 19/144, MEFP ¶13)	Improve governance, PFM, and budget monitoring/execution	June 2019	Done – Gazetted on the 14 th of June 2019 (SI 135 of 2019)
Complete a comprehensive stock-take of domestic expenditure arrears across the central government as of end-2018 (Country Report No. 19/144, MEFP ¶17)	Improve PFM, budget execution, and fiscal discipline	September 2019	Done – The report has been produced
Complete a review of agricultural support programs and develop an action plan based on its findings (Country Report No. 19/144, MEFP ¶10)	Improve targeting and efficiency of agricultural support programs	September 2019	Done – Smart Agriculture introduced in 2020 National Budget. Financing for Agriculture will be from the private sector with Government providing guarantees
Extend the coverage of IFMIS to 37 Districts by establishing 31 additional kiosks (Country Report No. 19/144, MEFP ¶13)	Improve governance, PFM, and budget monitoring/execution	September 2019	Done
Submit to Parliament draft amendments to the Banking Law to address gaps identified by the FSSR (Country Report No. 19/144, MEFP ¶22)	Maintain financial stability	December 2019	After the Financial Sector Stability Review (FSSR) Mission, the Reserve Bank requested for Technical Assistance (TA). The proposed TA has not yet commenced, and this will influence the recommendations to the Banking Law amendments.
Complete with assistance from the IMF and publish the report of a diagnostic assessment of Zimbabwe's governance vulnerabilities (Country Report No. 19/144, MEFP ¶24)	Strengthen governance and combat corruption	December 2019	The authorities have agreed to publish shortly their own assessment of governance vulnerabilities, which will feed into a comprehensive anti-corruption strategy.



Areas identified that need improvement...

- Haphazard implementation of policies
- Opaque transactions
- Distortions caused by multiple exchange rates, and a refusal to move quickly to a market determined exchange rate that have exhausted all the country's external buffers hesitancy in moving to a market-determined exchange rate, has fueled inflation and continued depreciation of the exchange rate
- A weak communication strategy
- The elongated impasse - major stakeholders remain in a 'wait and see' mode

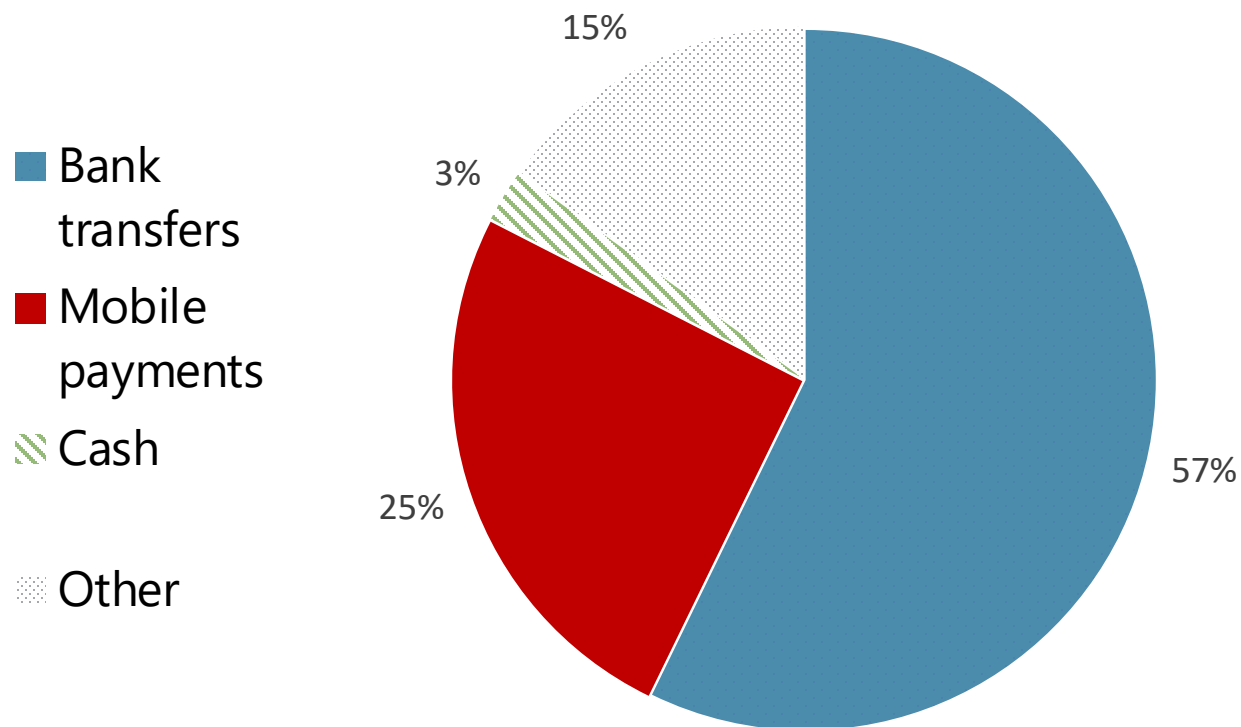


FINANCIAL SECTOR DEVELOPMENTS



Bank transfers dominated electronic transactions ...

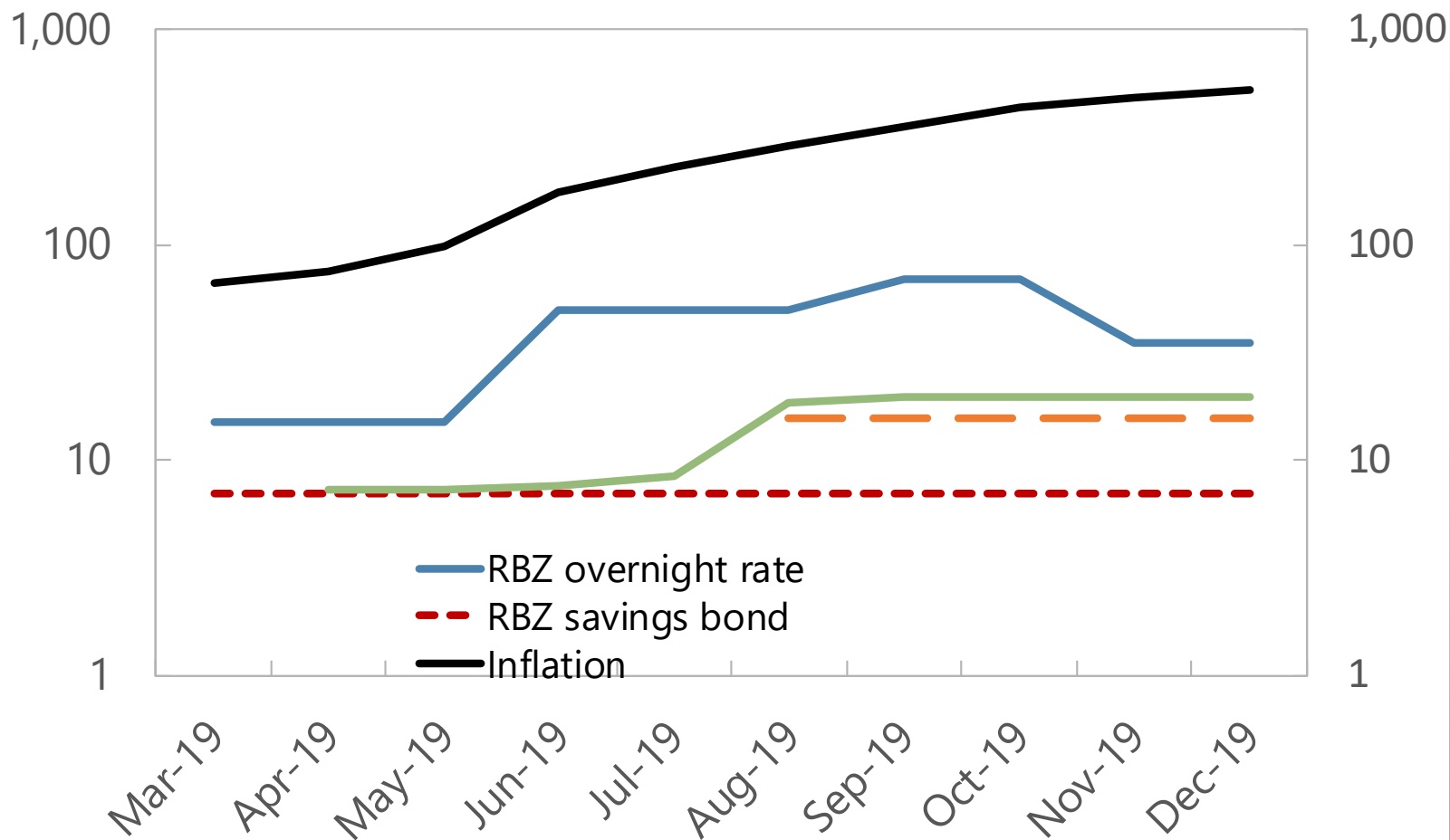
Zimbabwe: Financial Transactional Activities



Sources: Reserve Bank of Zimbabwe.



Rates not commensurate with inflation ...

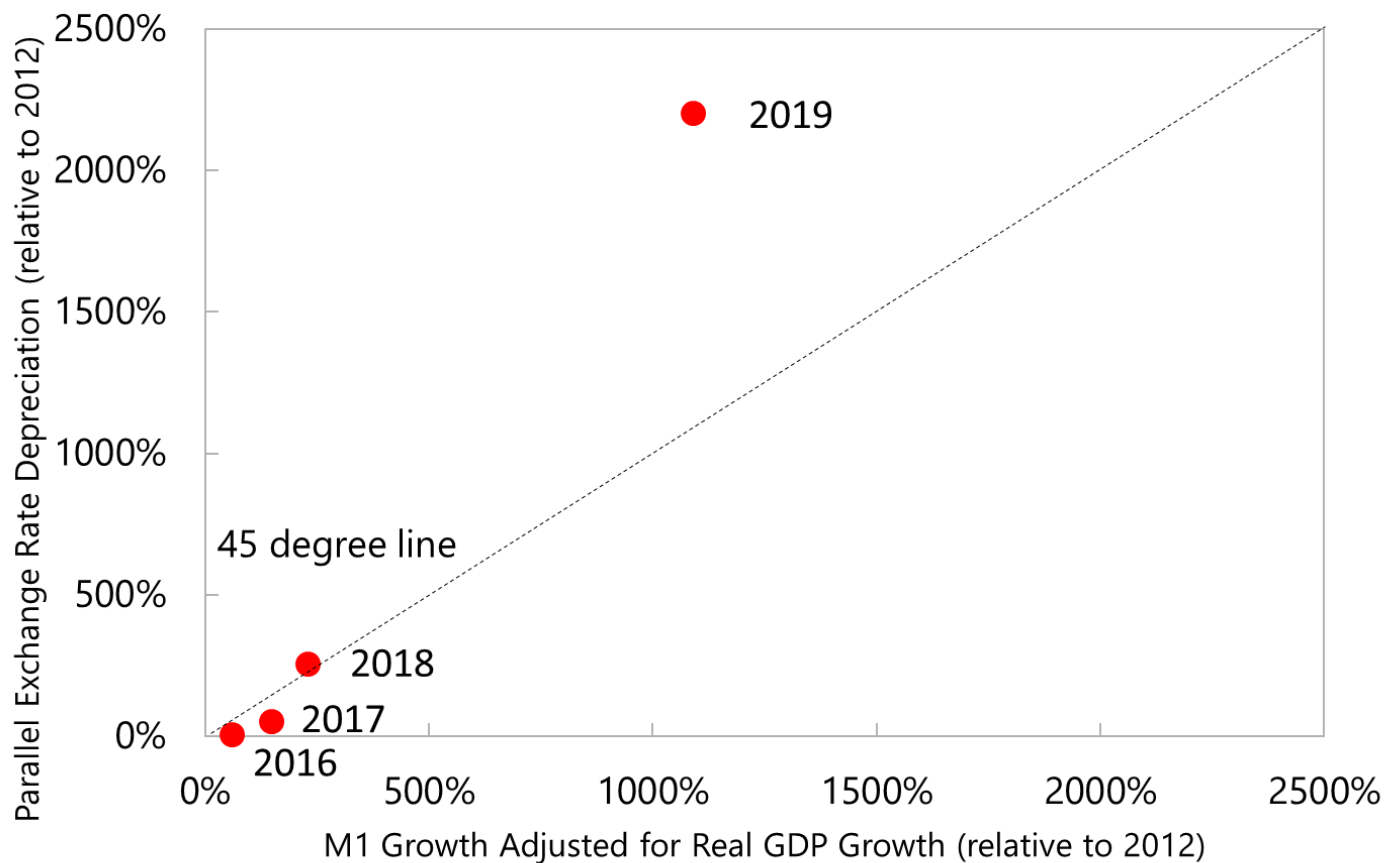


Sources: Zimbabwean authorities.



exchange rate has depreciated sharply ...

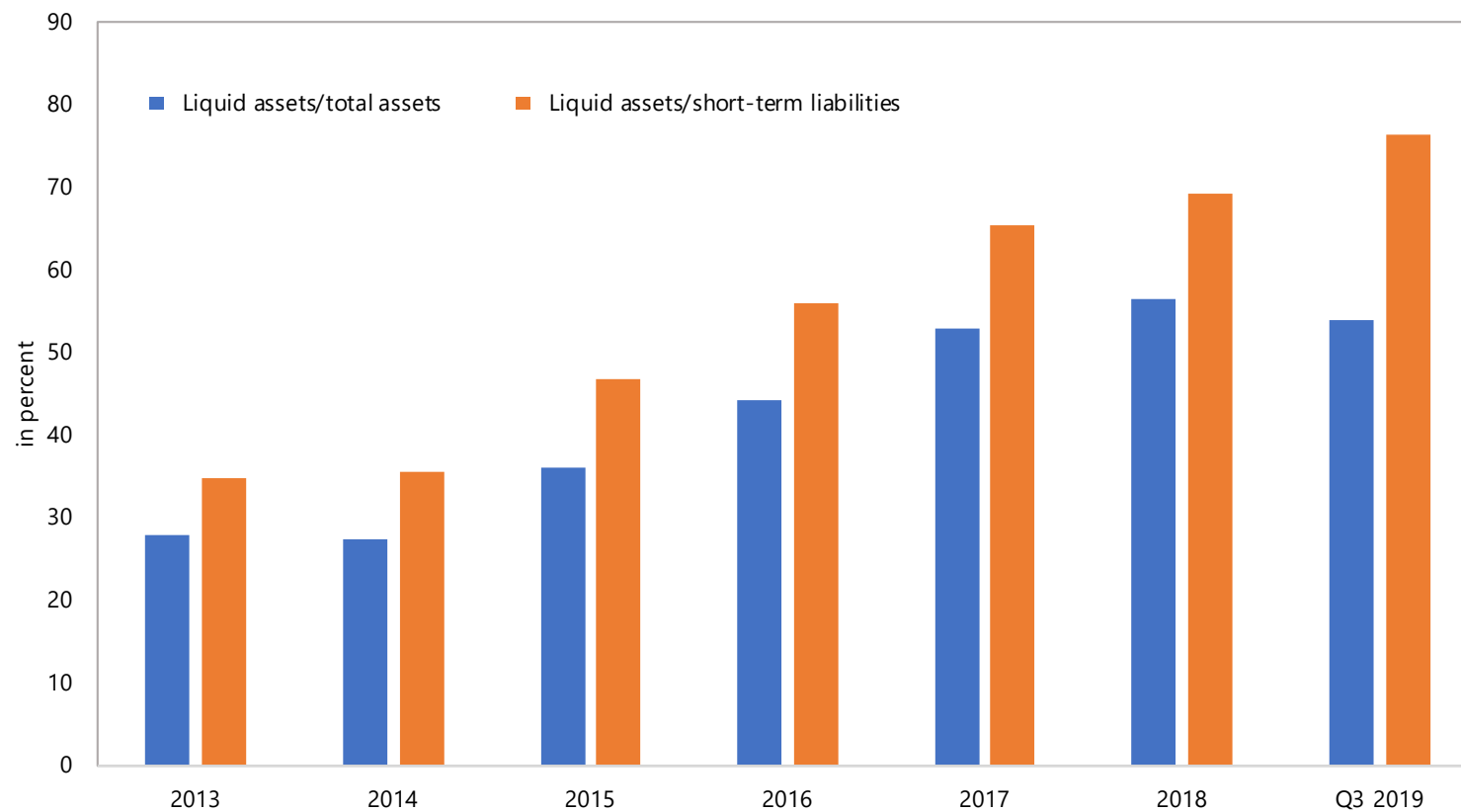
Zimbabwe: Money Supply and Parallel Exchange Rate



Sources: Reserve Bank of Zimbabwe and IMF staff calculations.

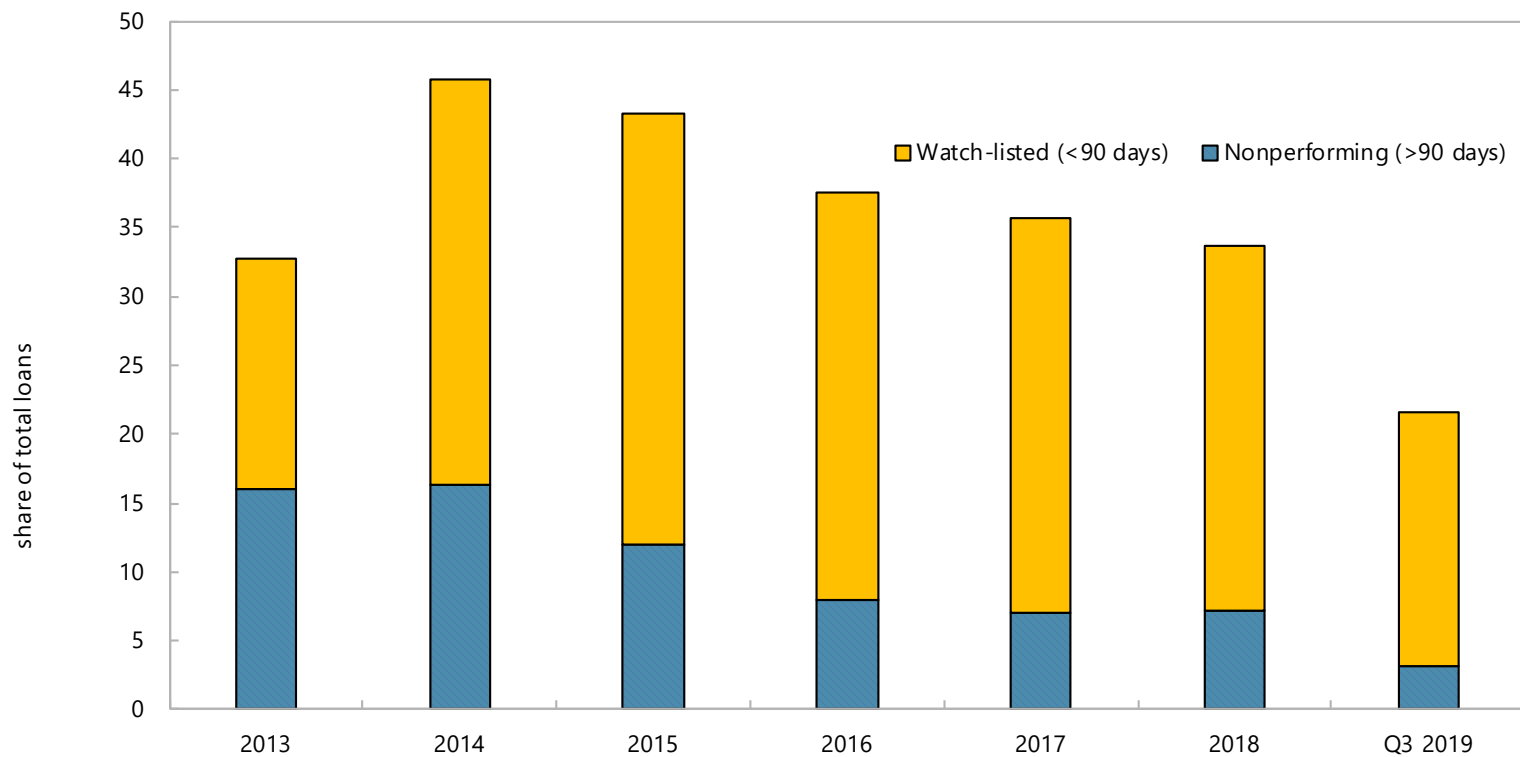


Liquidity ratios



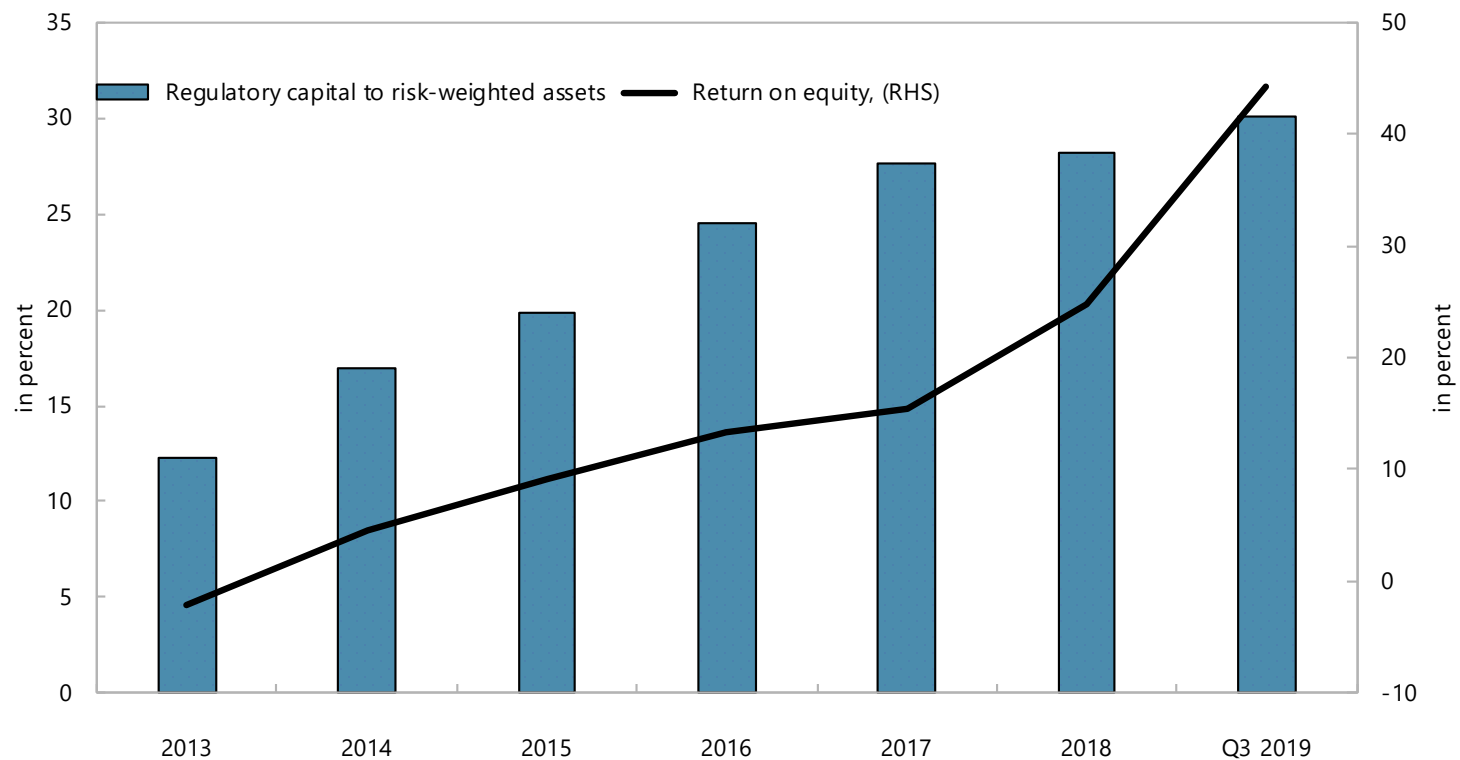


Loan performance



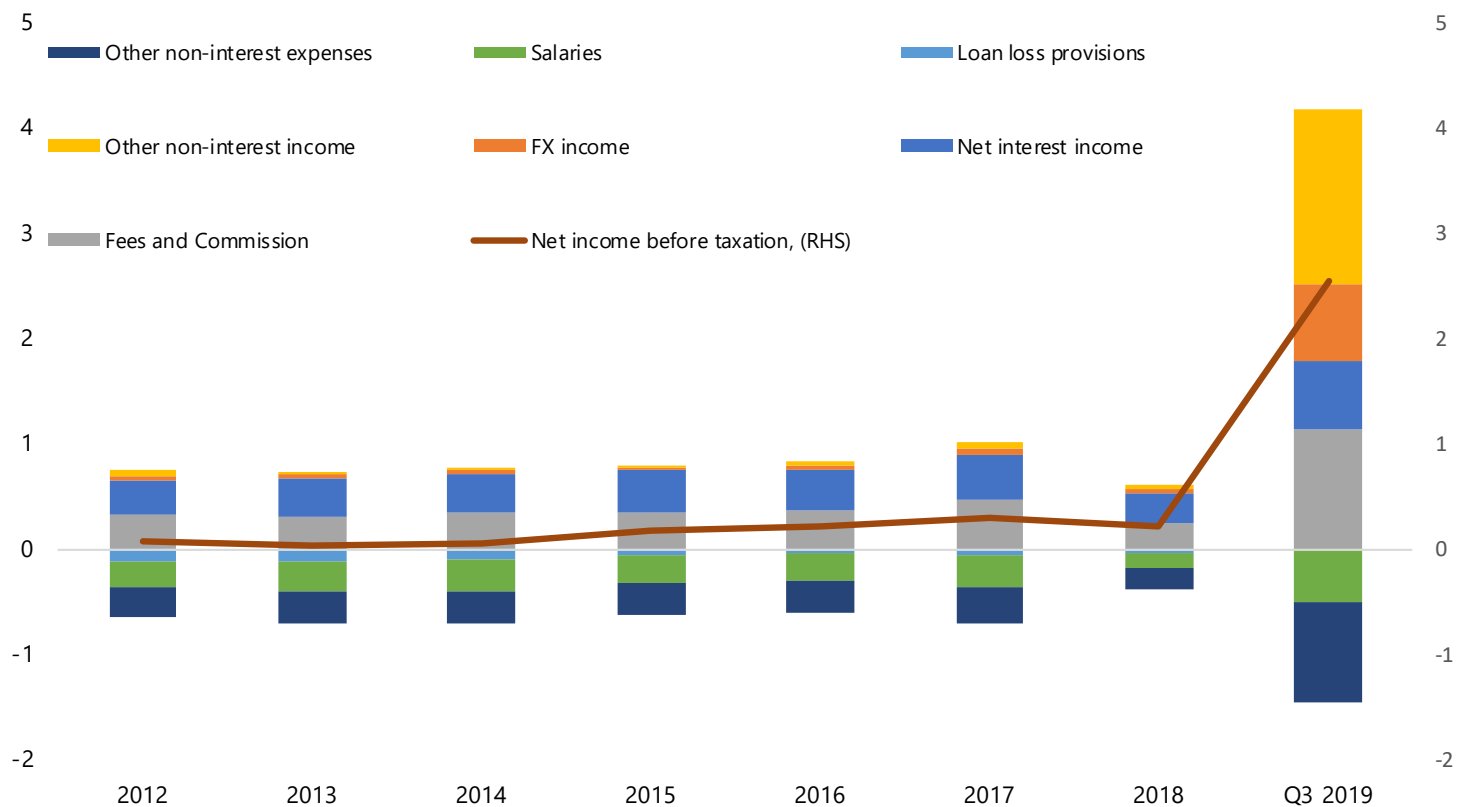


Capital ratio and profitability





Bank's income and expenses





FISCAL DEVELOPMENTS



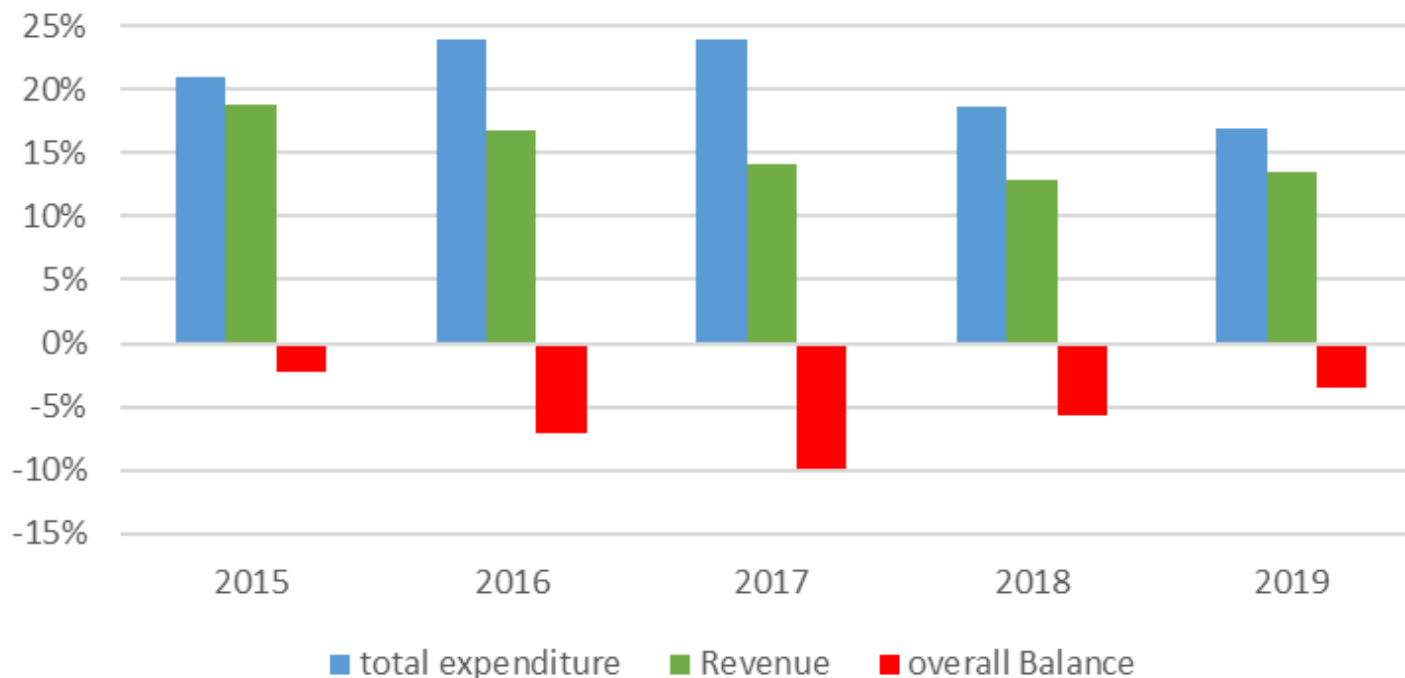
Spending pressures ...

- Demands for further public sector wage increases
- Humanitarian crisis
- Quasi-fiscal activities of the RBZ that will need to be absorbed by the central government,
- Pressure to finance agriculture could push the deficit back into an unsustainable stance (risks to budget execution)
- Subsidies



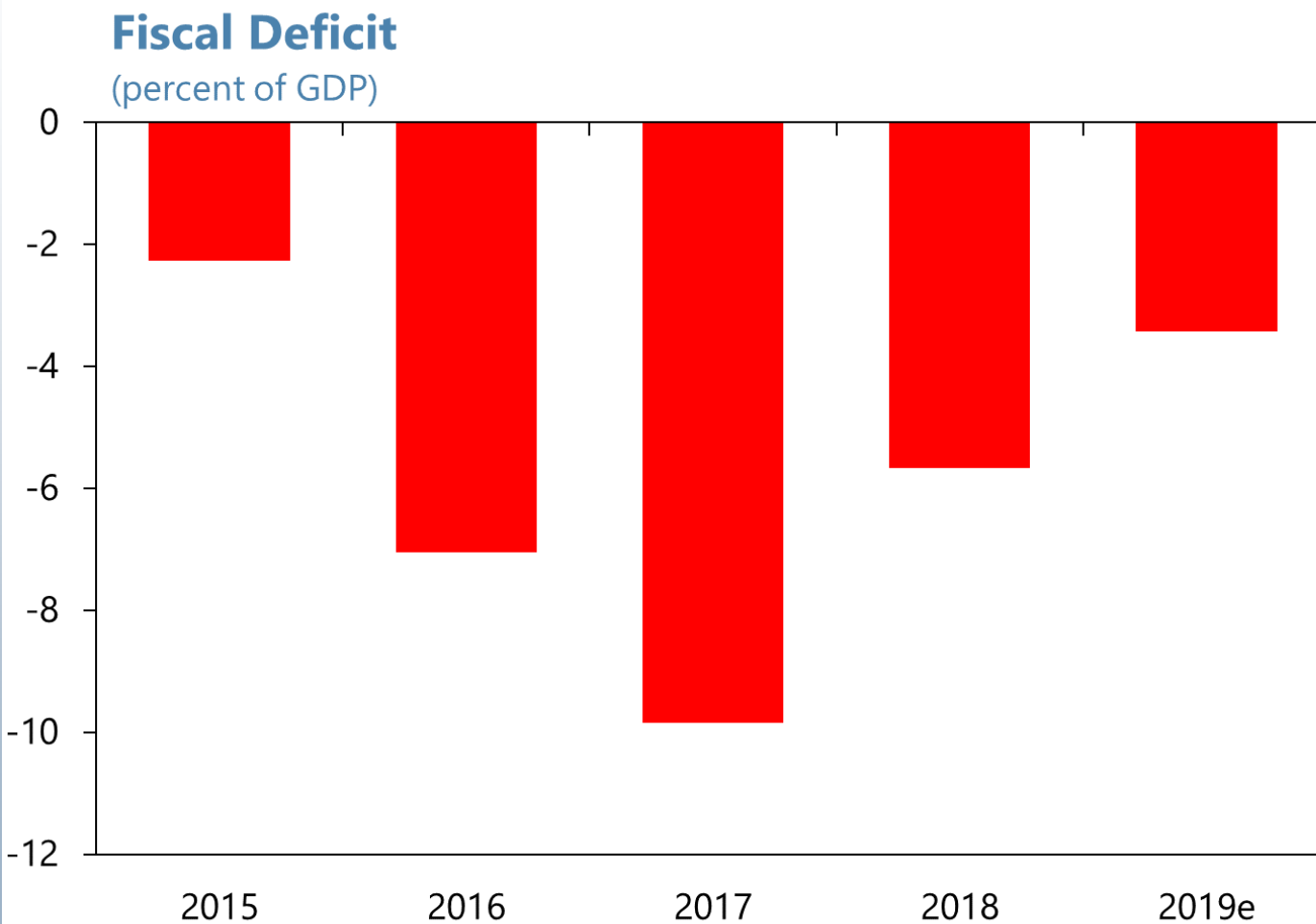
Revenue, expenditure and deficit

Zimbabwe: Revenue, Expenditure, and Deficit
(percent of GDP)



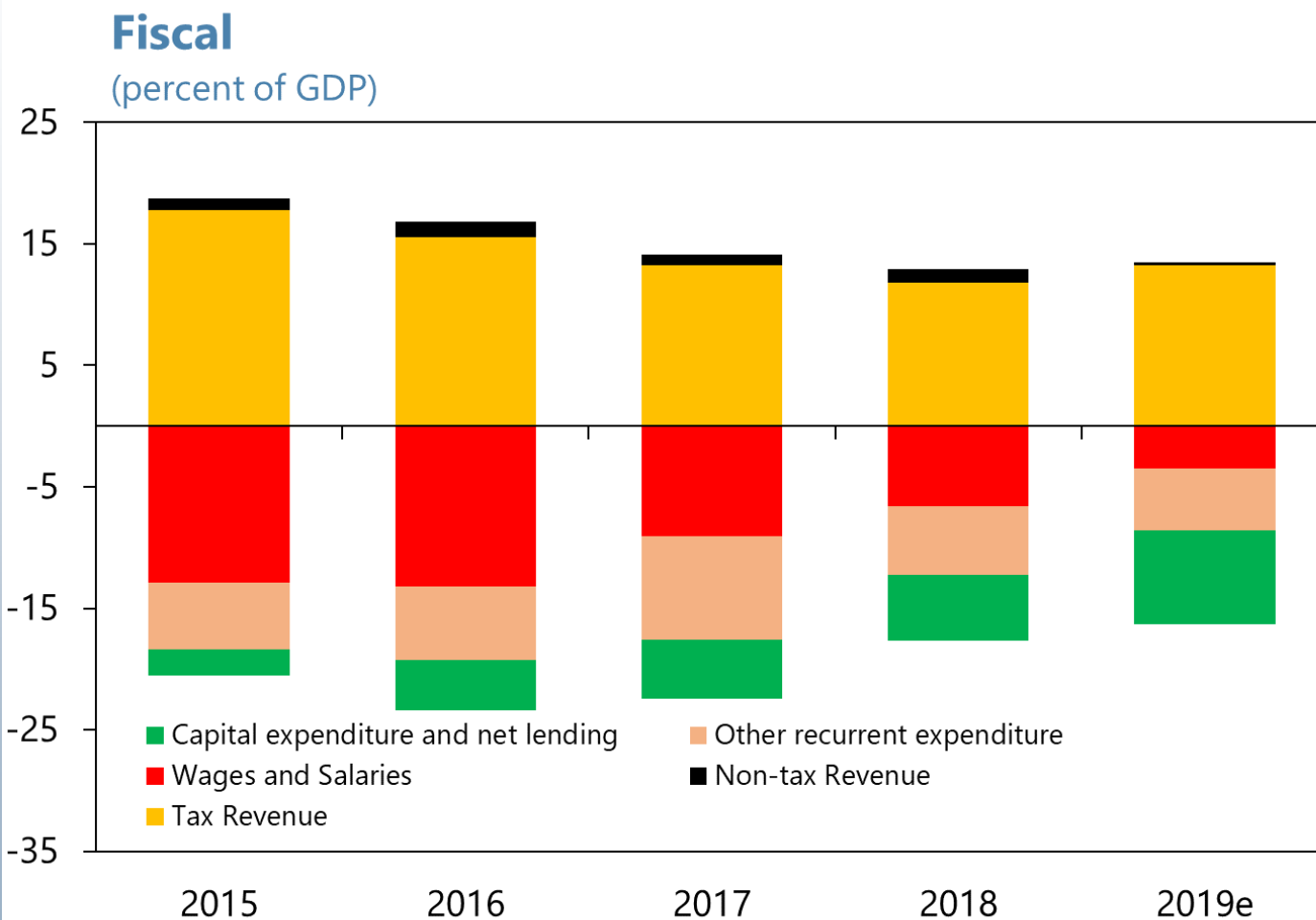


Significant fiscal adjustment after the July 2018 elections ...



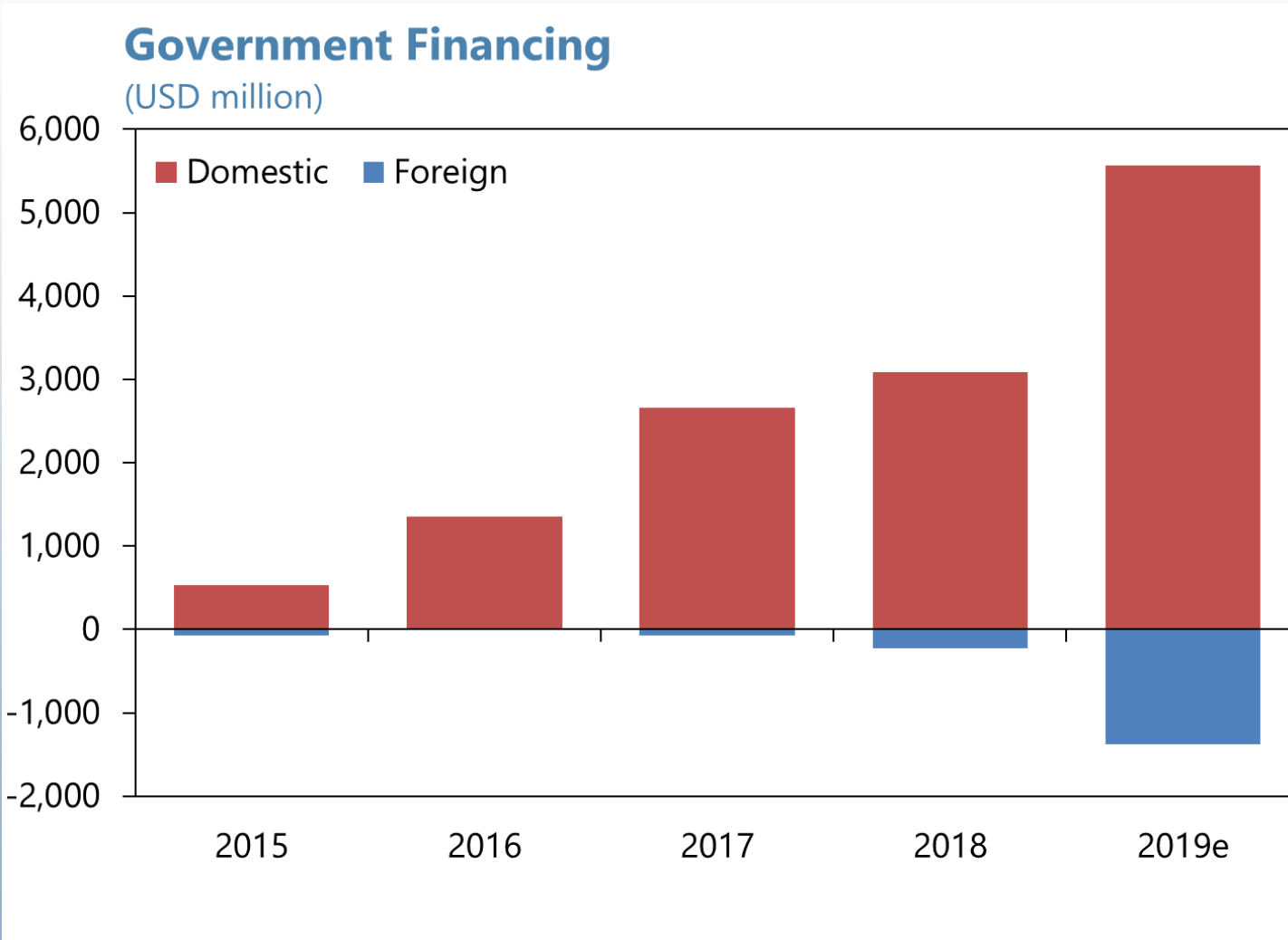


...reflecting revenue measures and expenditure cuts especially on wages ...



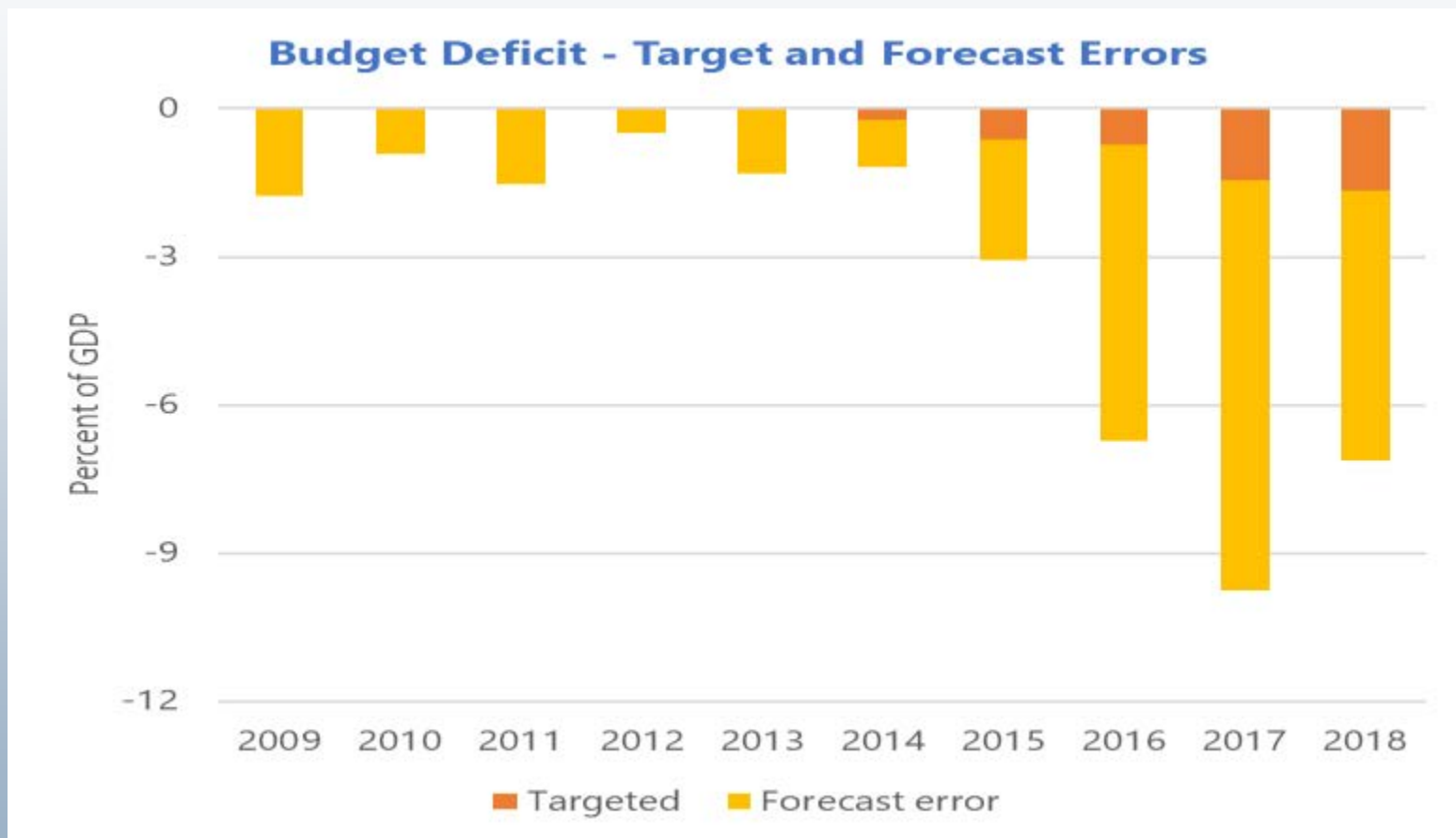


...reducing government financing needs...





... deficits have been systematically under-projected

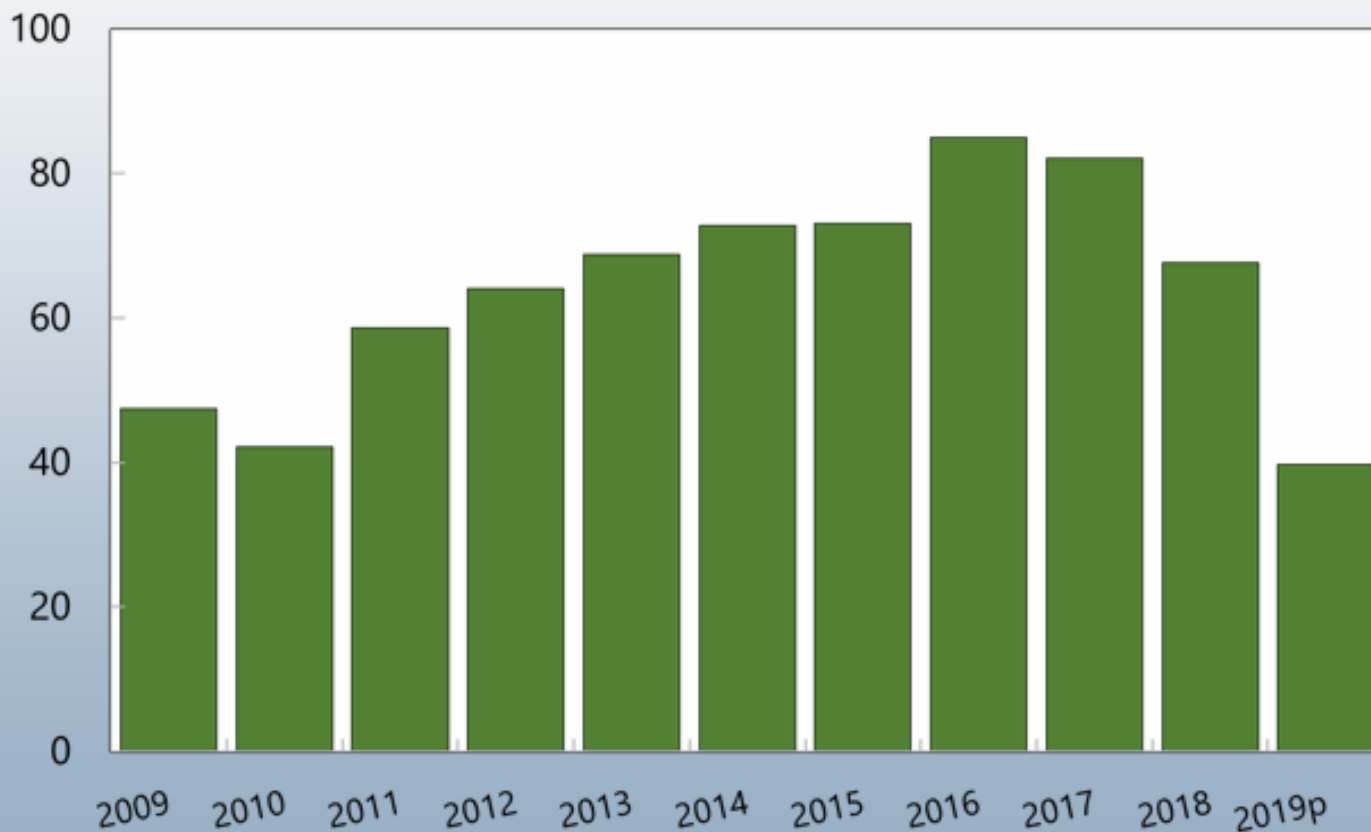




The last decade saw a large expansion of government wage bill ...

Zimbabwe: Public Wage Bill

(Wage bill to tax revenue ratio)



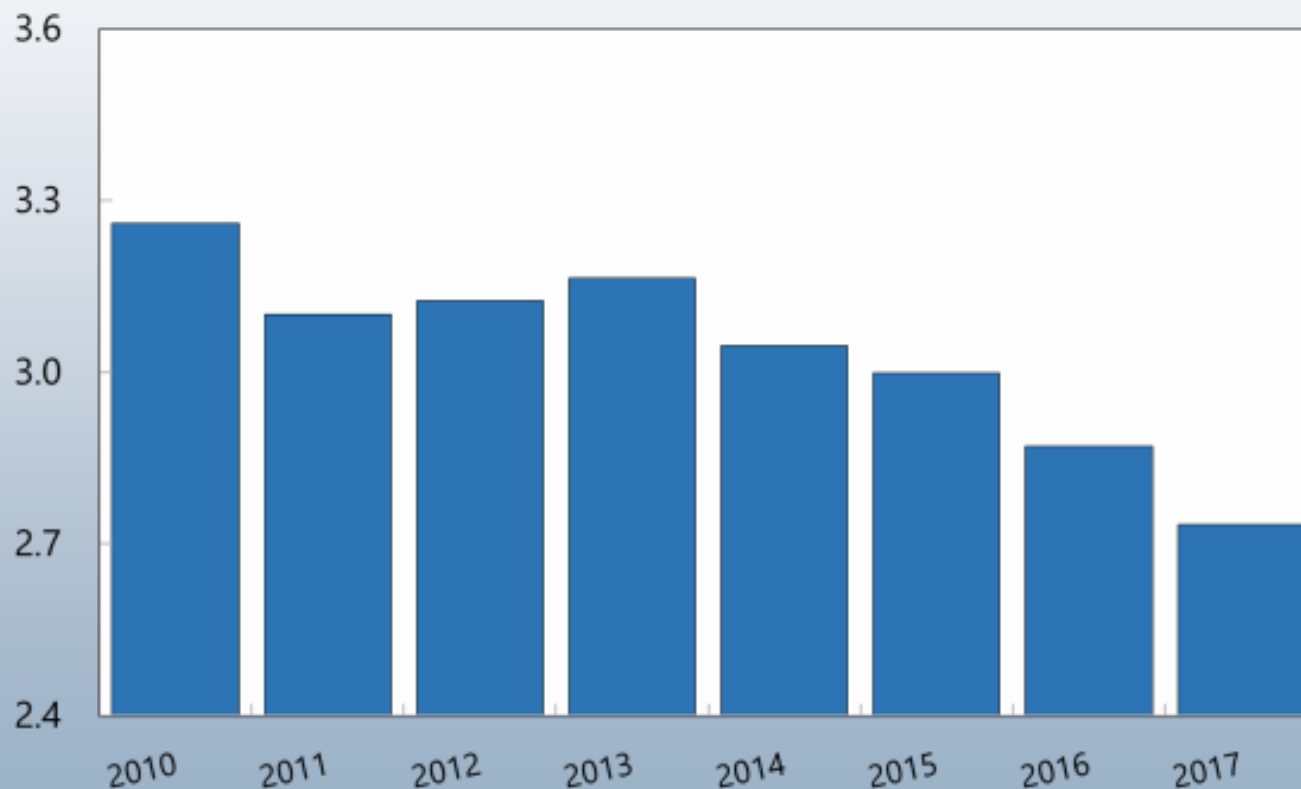
Sources: Zimbabwean authorities, and IMF staff calculations and projections.



although public employment remained on a downward path ...

Zimbabwe: Public Employment

(Employment to working age population ratio)



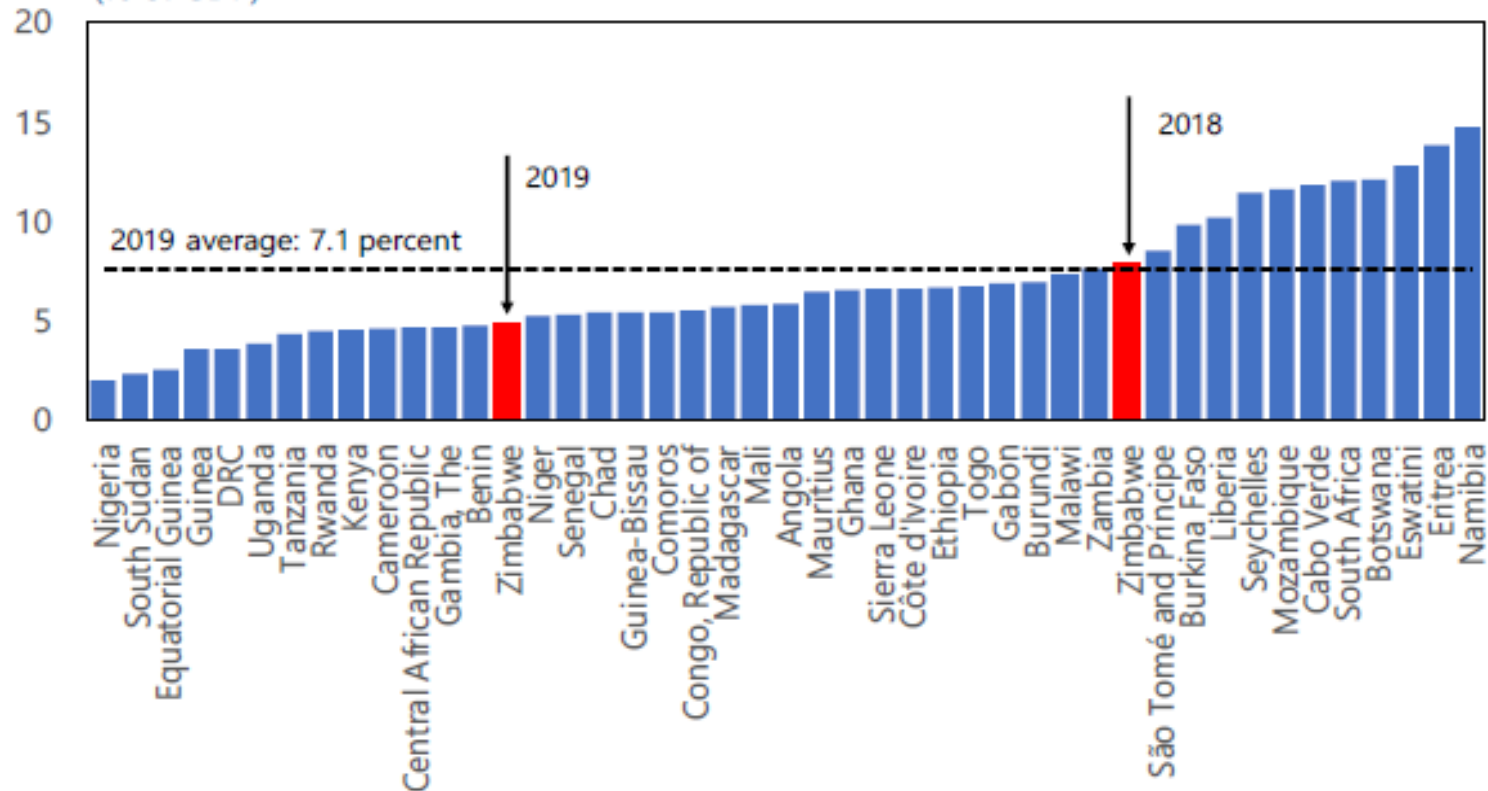
Sources: Zimbabwean authorities, and IMF staff calculations.



Zimbabwe's wage bill was until 2018 among the highest among peers relative to GDP...

Sub-Saharan Africa: Civil service wage bill in 2019

(% of GDP)



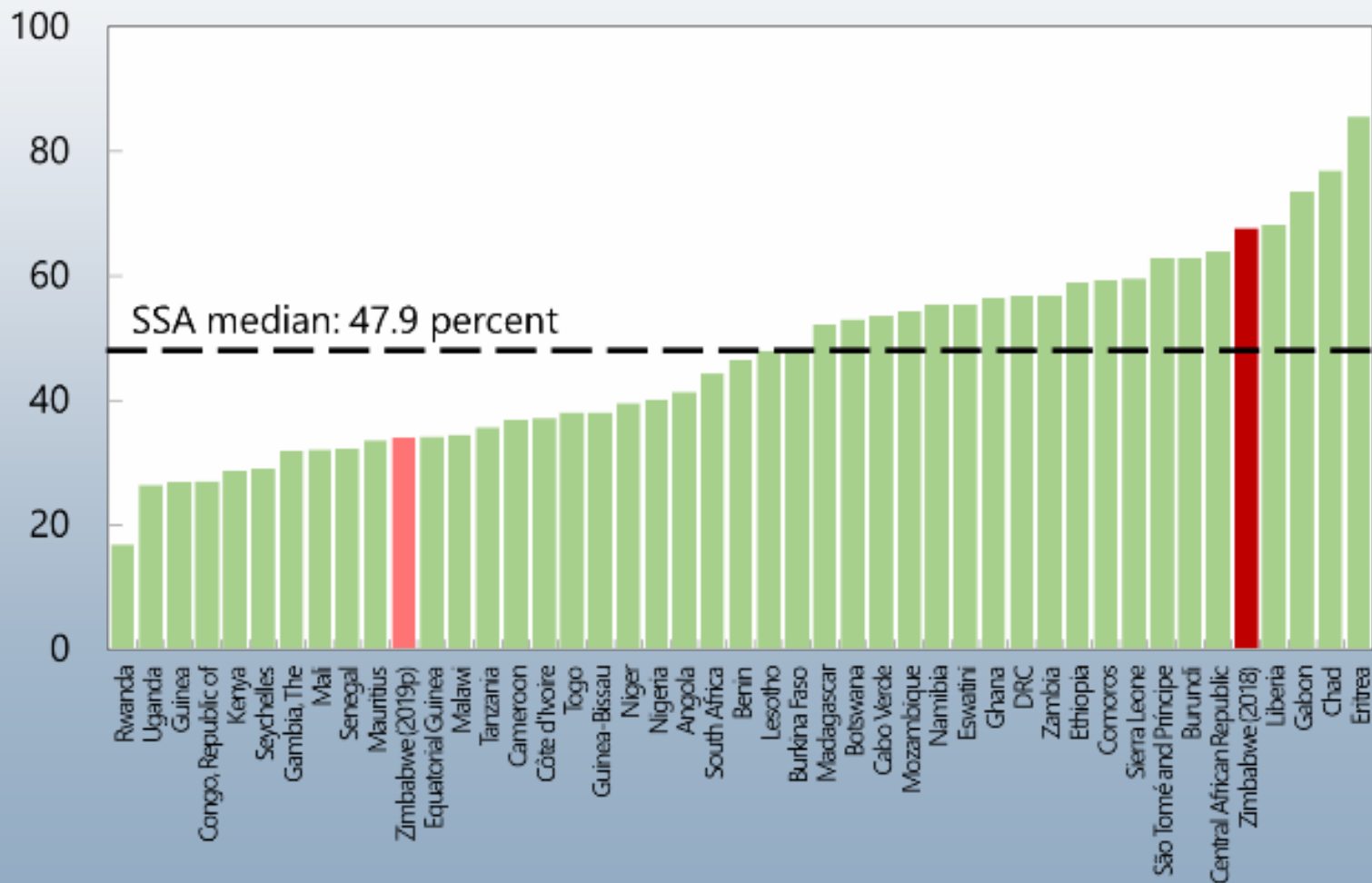
...whereas revenue is below SSA average.



Recent reforms brought the government wage bill back to a sustainable position...

Sub-Saharan Africa: Government Wage Bill

(% of tax revenue; 2018 or latest available)

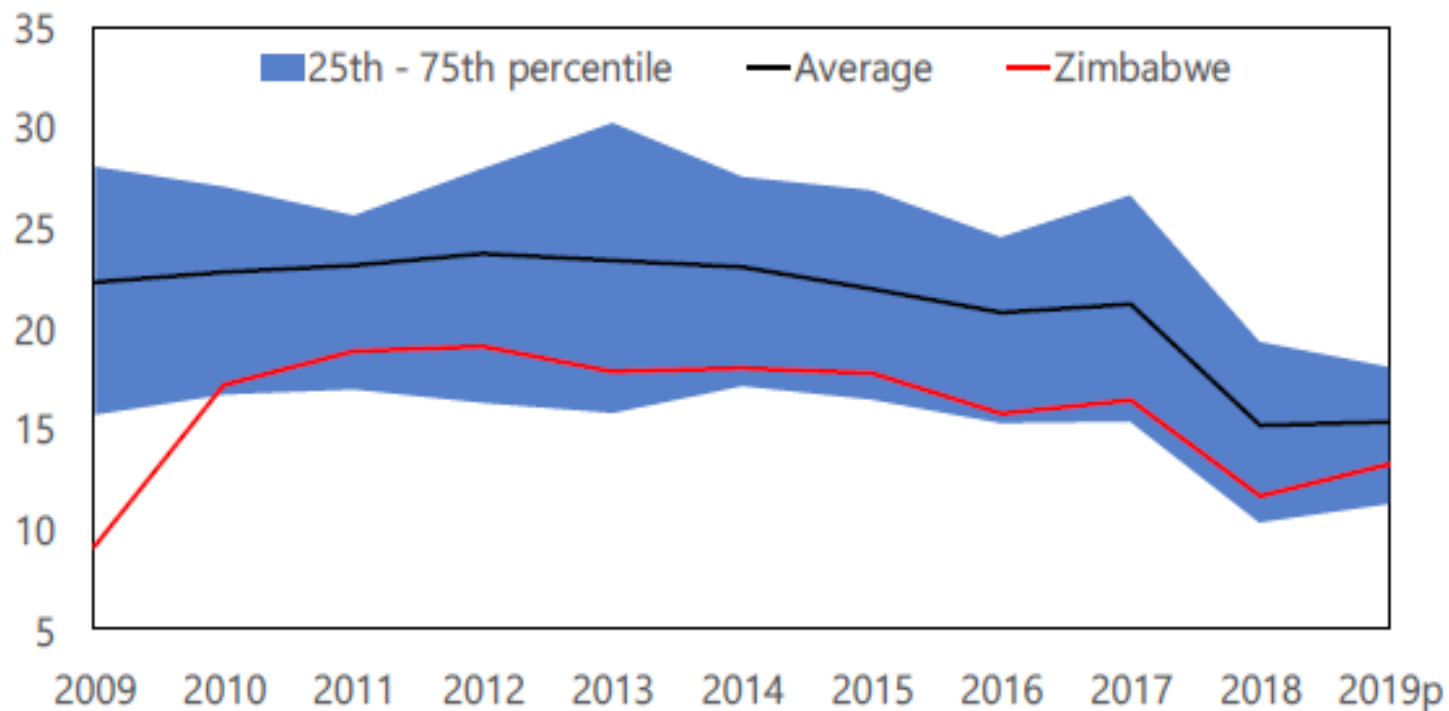




... whereas revenue is below SSA average.

Revenue: Zimbabwe and SSA

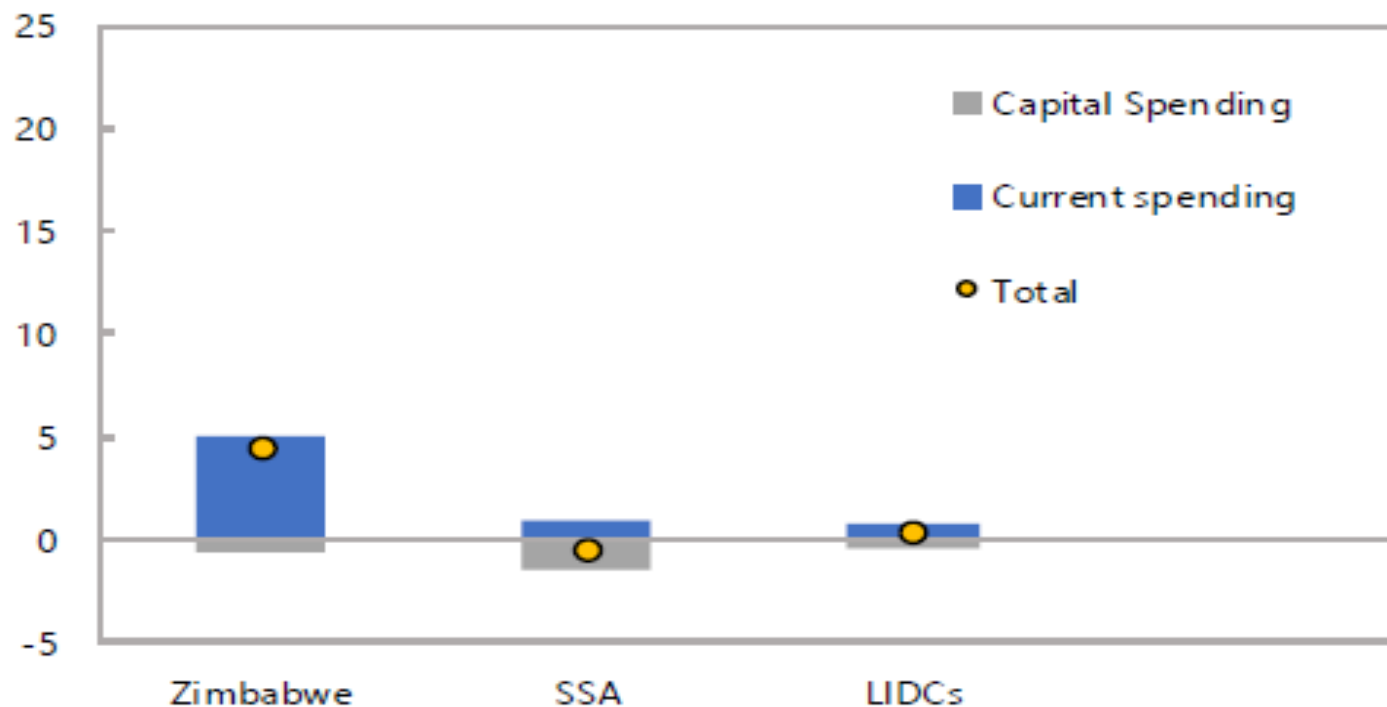
(in percent of GDP)





Higher government spending in the last decade reflects an increase in current expenditure...

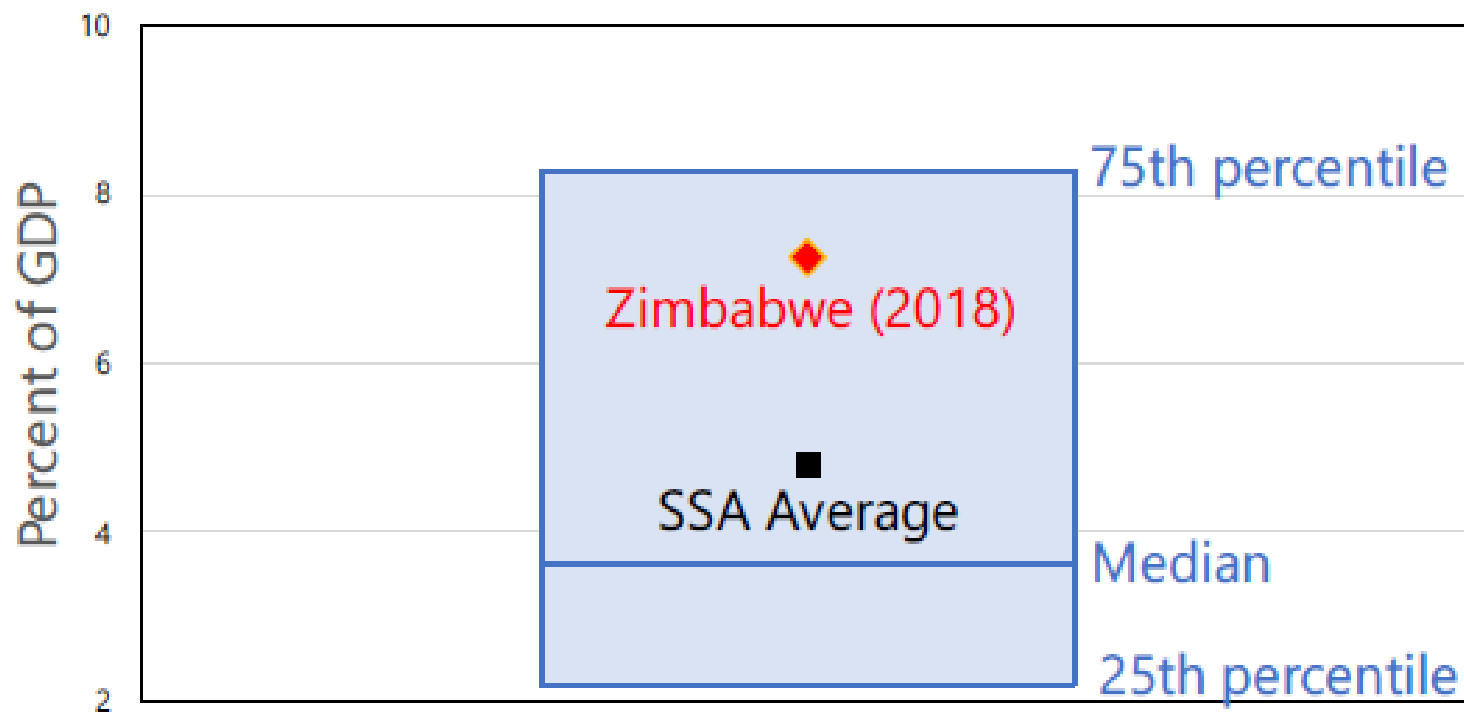
Change in Central Government Expenditure (in percent of GDP, 2010-2017)





...which mostly go towards subsidies to agriculture and SOEs...

Subsidies in Sub Saharan Africa (percent of GDP)



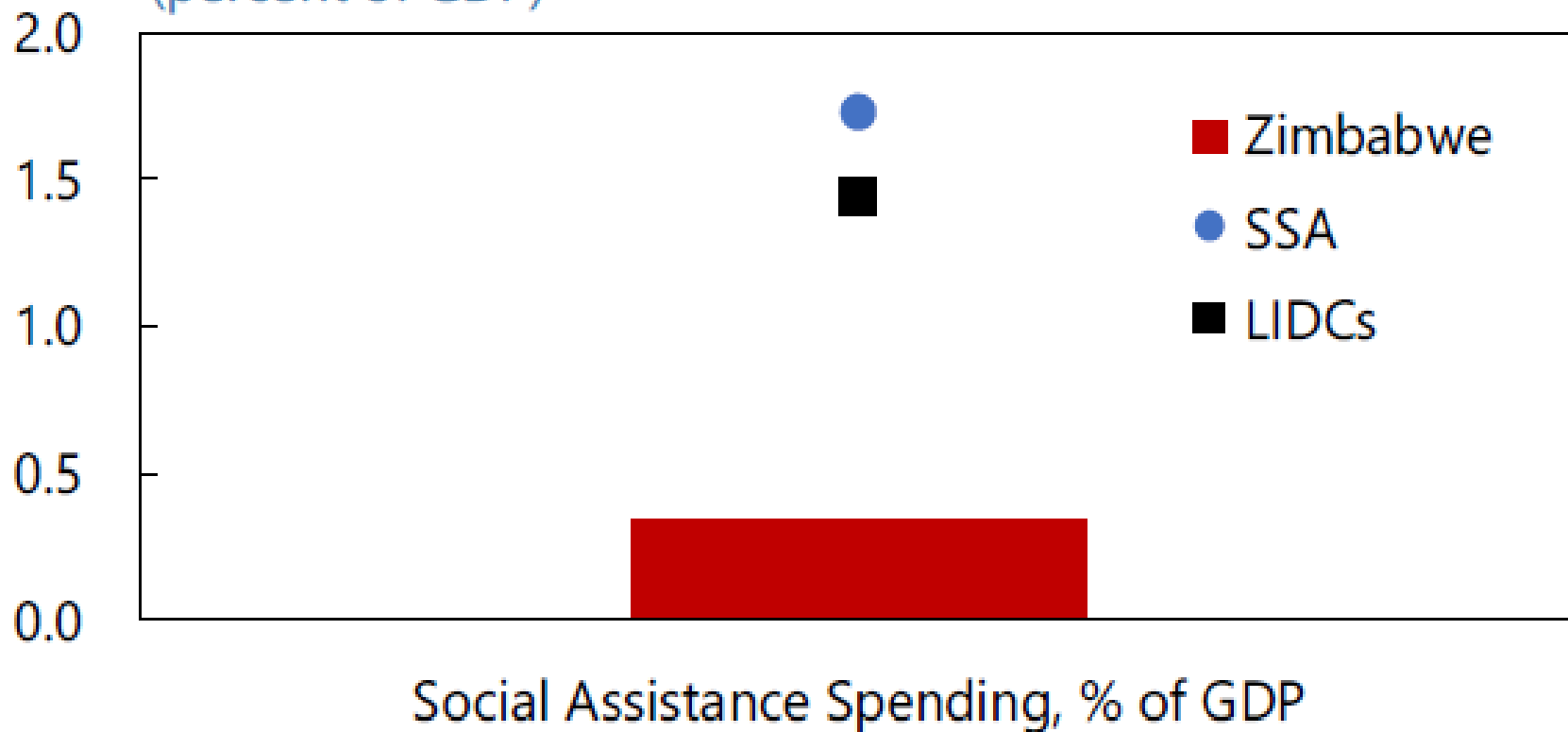
Central government subsidies



...whereas social spending is below the peers.

Social Assistance Spending in 2015

(percent of GDP)

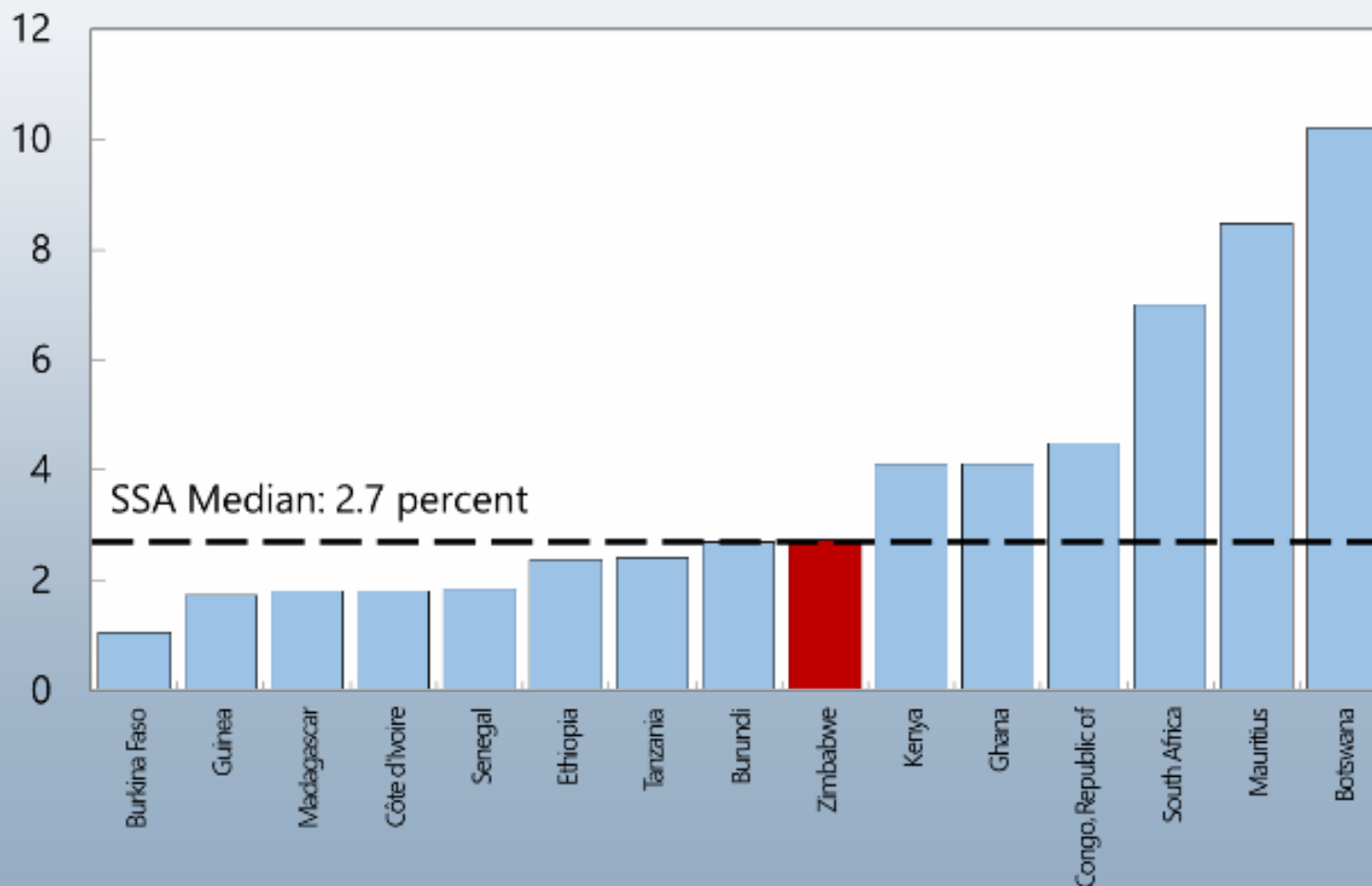




... while public employment remains in line with peer countries ...

Sub-Saharan Africa: Public Employment

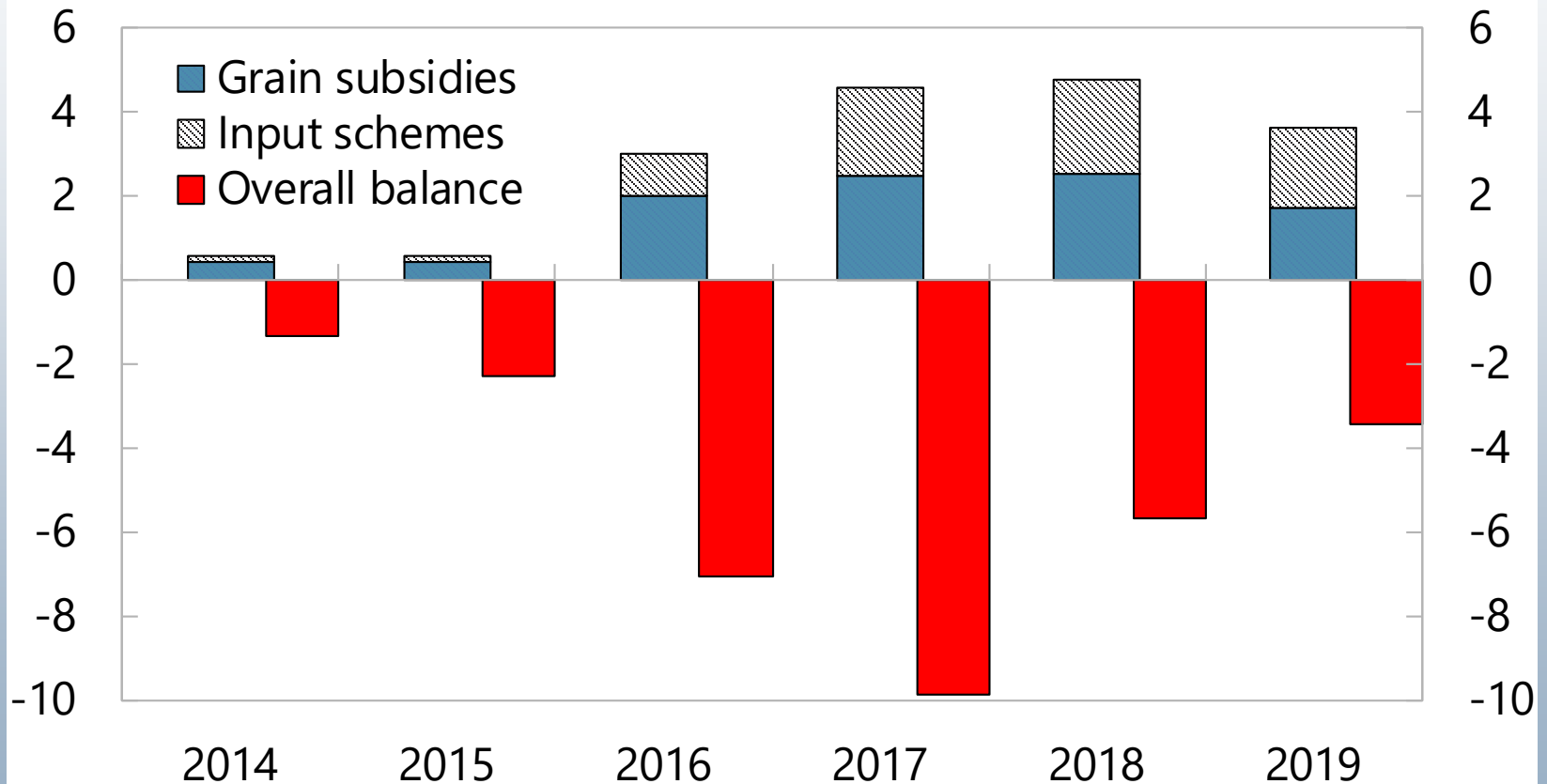
(% of working-age population; 2017 or latest available)





Agricultural subsidies are dominating...

Zimbabwe: Agriculture Spending (in percent of GDP)



Sources: Zimbabwean authorities.



Governance vulnerabilities

Successful reforms have helped... ..but need to build on progress.

- An IMF governance diagnostic mission visited Harare Sept. 18 to Oct. 4, 2019
- Authorities committed to publish Governance Vulnerability Report by end-December, 2019
- Diagnostic mission emphasized need to:
 - Reform Command Agriculture
 - Strengthen debt management (in particular borrowing/issuance authority)
 - Improve public financial management
 - Address RBZ governance, improve operations, and strengthen transparency
 - Moving to a market-based FX allocation system critical to reduce rent-seeking market distortions



WAY FORWARD



SMP: What next

- IMF will continue to support Zimbabwe through technical assistance, policy advice and innovative ways
- Stakeholders see SMP as an important vehicle for supporting macroeconomic stability
- The authorities need to
 - ◆ Ensure that there are no policy slippages
 - ◆ Improve on communication
 - ◆ Improve on transparency
 - ◆ Need no hesitancy in implementing key steps in particular, in currency reform
 - ◆ Transparency is also needed especially publishing the RBZ balance sheet



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



Conclusion

- Zimbabwe has come a long way
- Efforts are needed on both the economic and political front to drive Zimbabwe forward, build credibility - improve communication and policy consistency
- IMF to maintain a close and continuous dialogue on policy issues with Zimbabwean authorities, in order to restore macroeconomic stability



Thank you