International Monetary Fund
African Department

Zimbabwe: Where are we?

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Road Map

1\. Diagnostic of the problem

3\. Reforms to address macroeconomic imbalances

4\. Zimbabwe - IMF engagement

Diagnostic of the problem

- Macroeconomic instability driven by:

- **Large fiscal deficits financed by the issuance of quasi-currency instruments**
  - The fiscal deficit is estimated at 12.3 percent of GDP in 2018
  - Net credit to the central government by RBZ increased by $1.7 billion in 2017

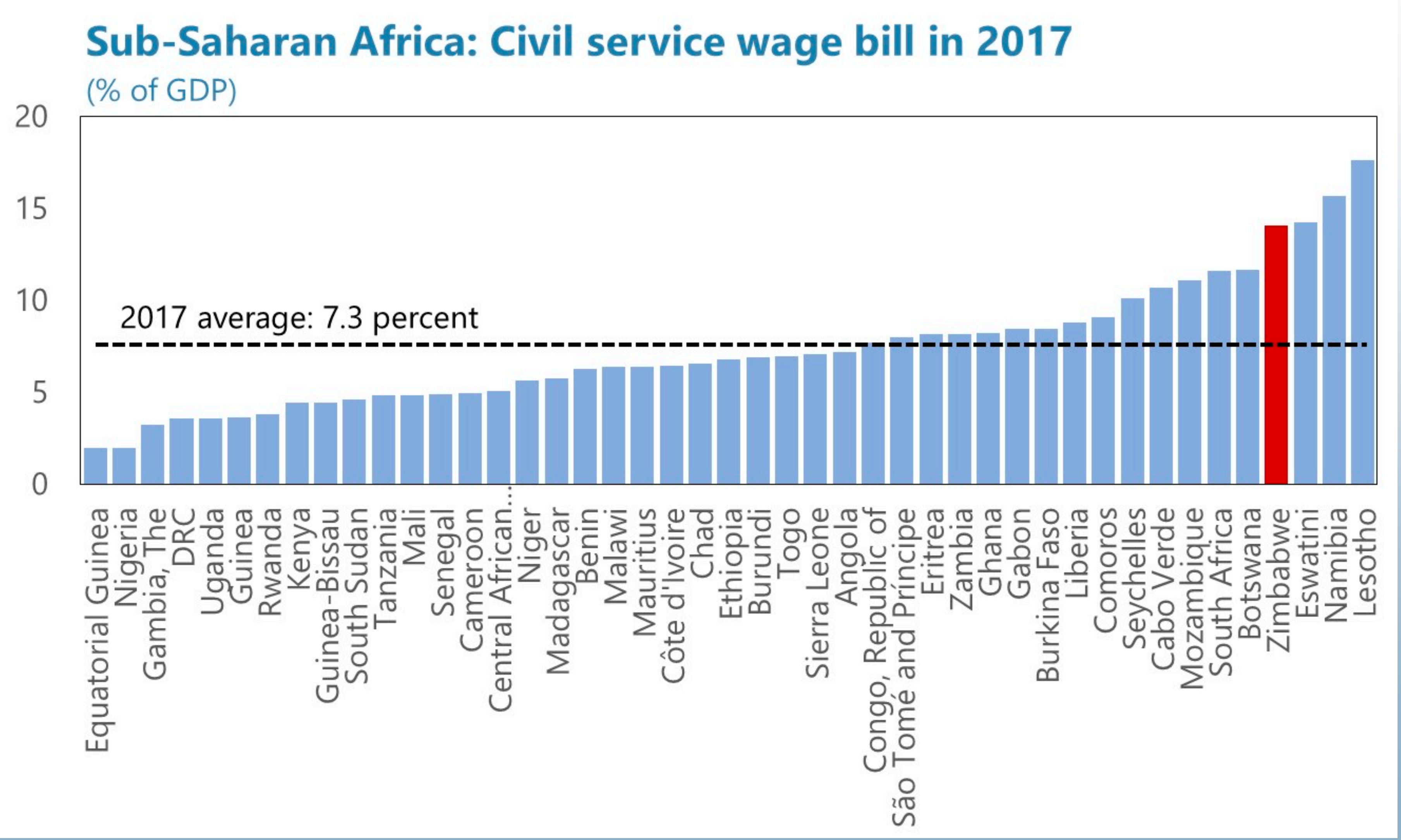
- **The current account deficit widened in 2018 due to a sharp increase in imports.**
  - fragile equilibrium is maintained by capital controls, restrictions on access to FX, and other distortions

- **Debt distress, with debt level of US$9 billion at end-2018.**

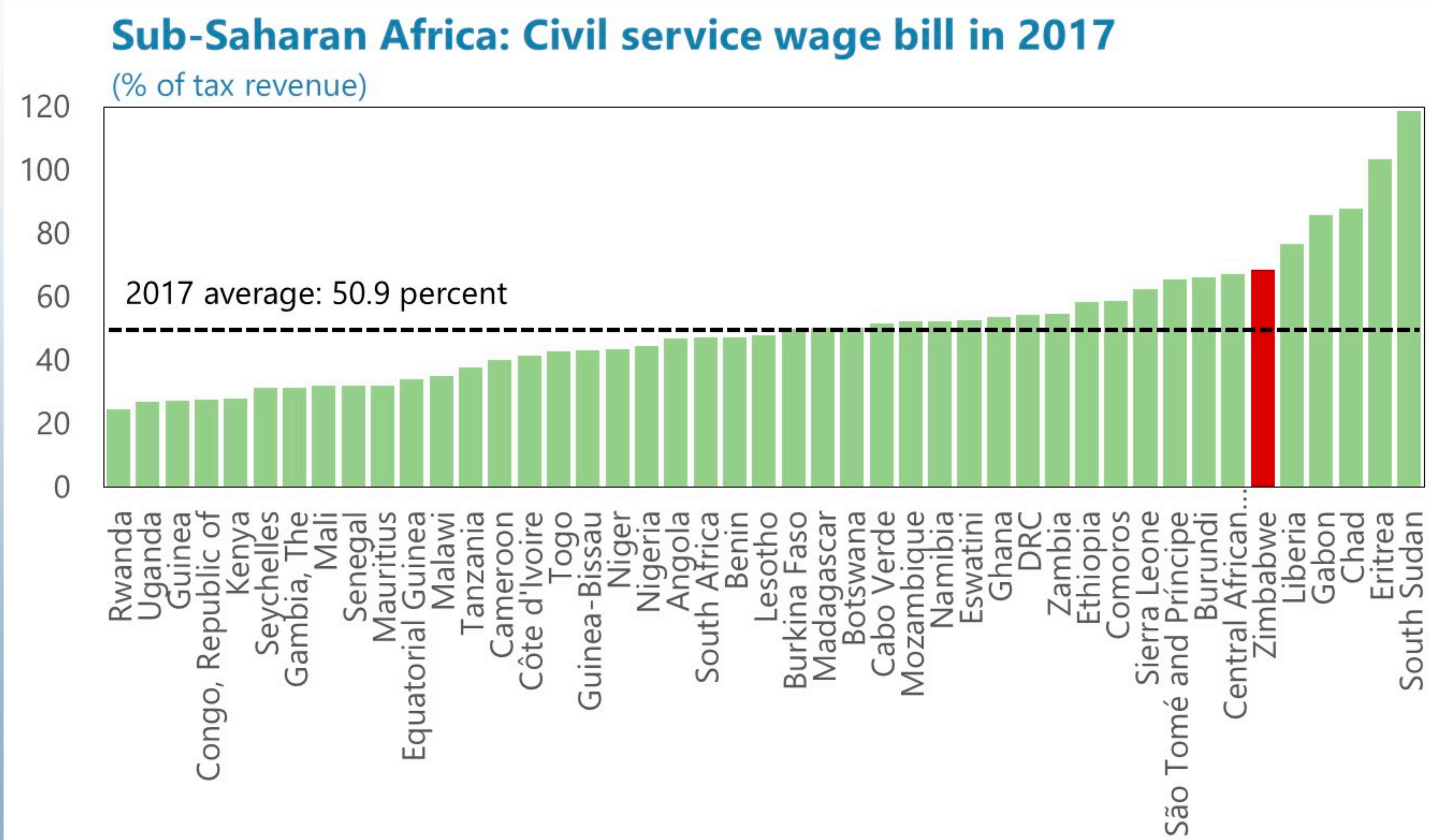
- **Inflation has picked up in recent months,** reaching 42 percent (y/y) in December 2018.

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

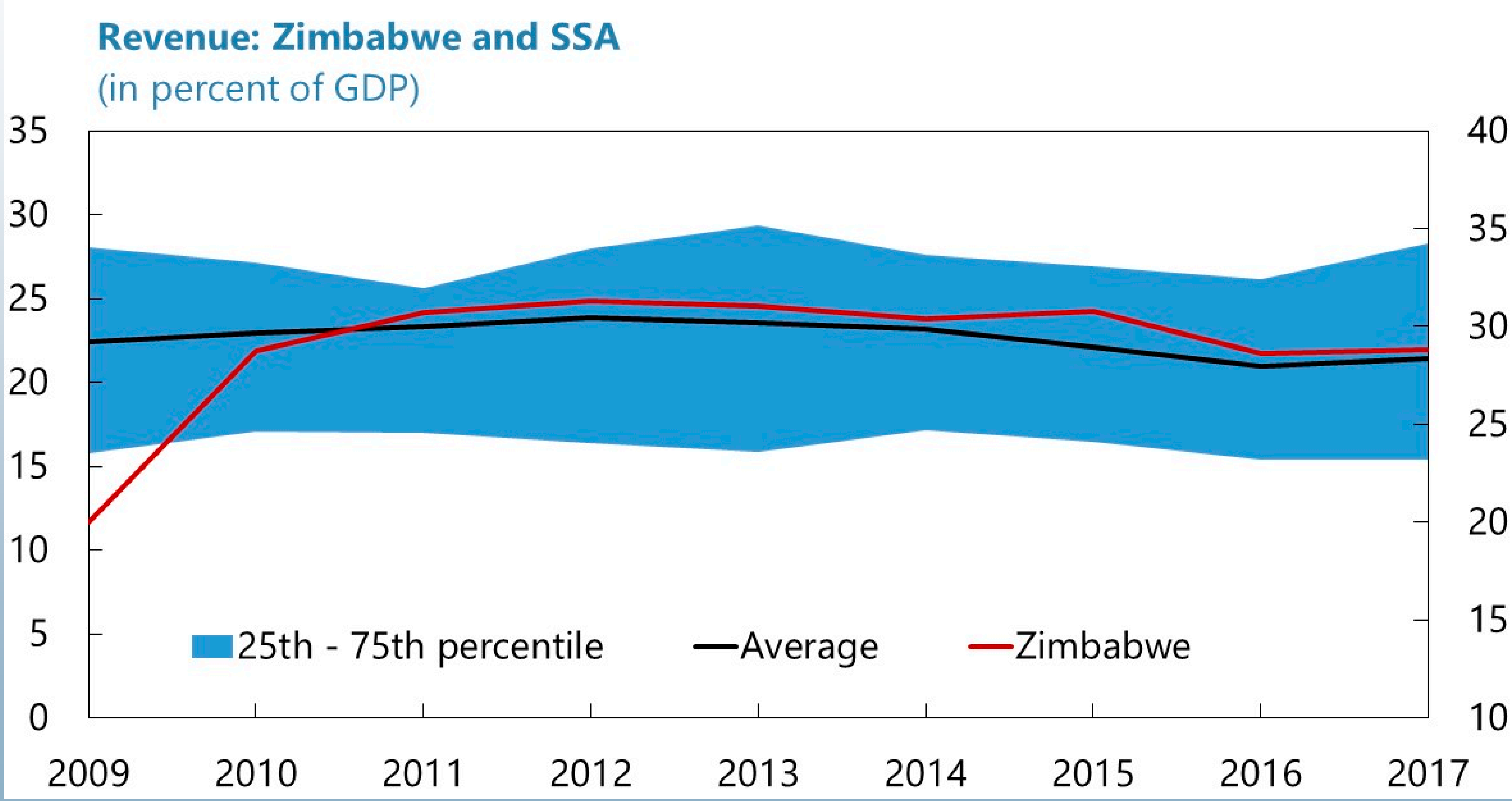
Wage bill is among the highest among peers both relative to GDP…



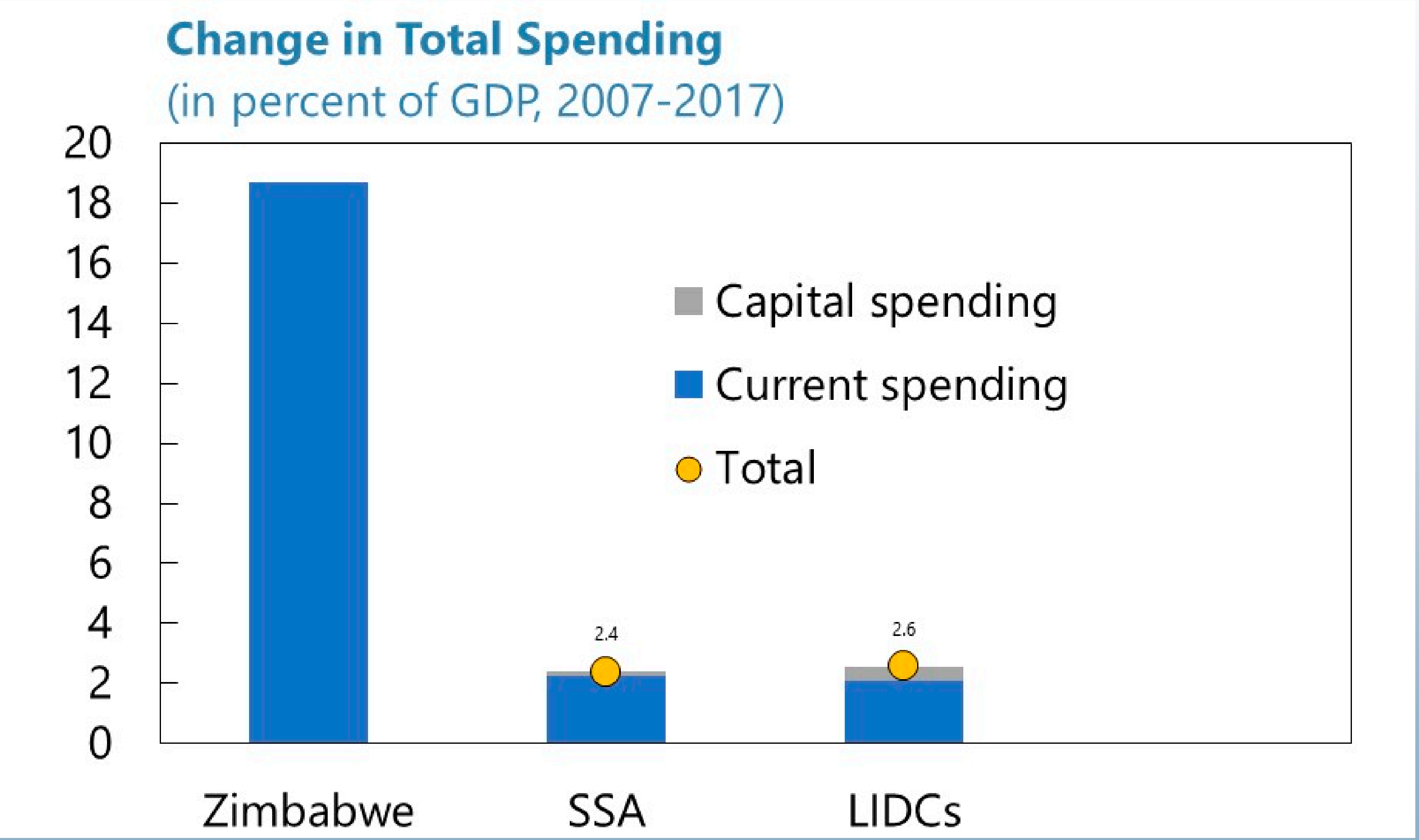
…and as a share of revenue…



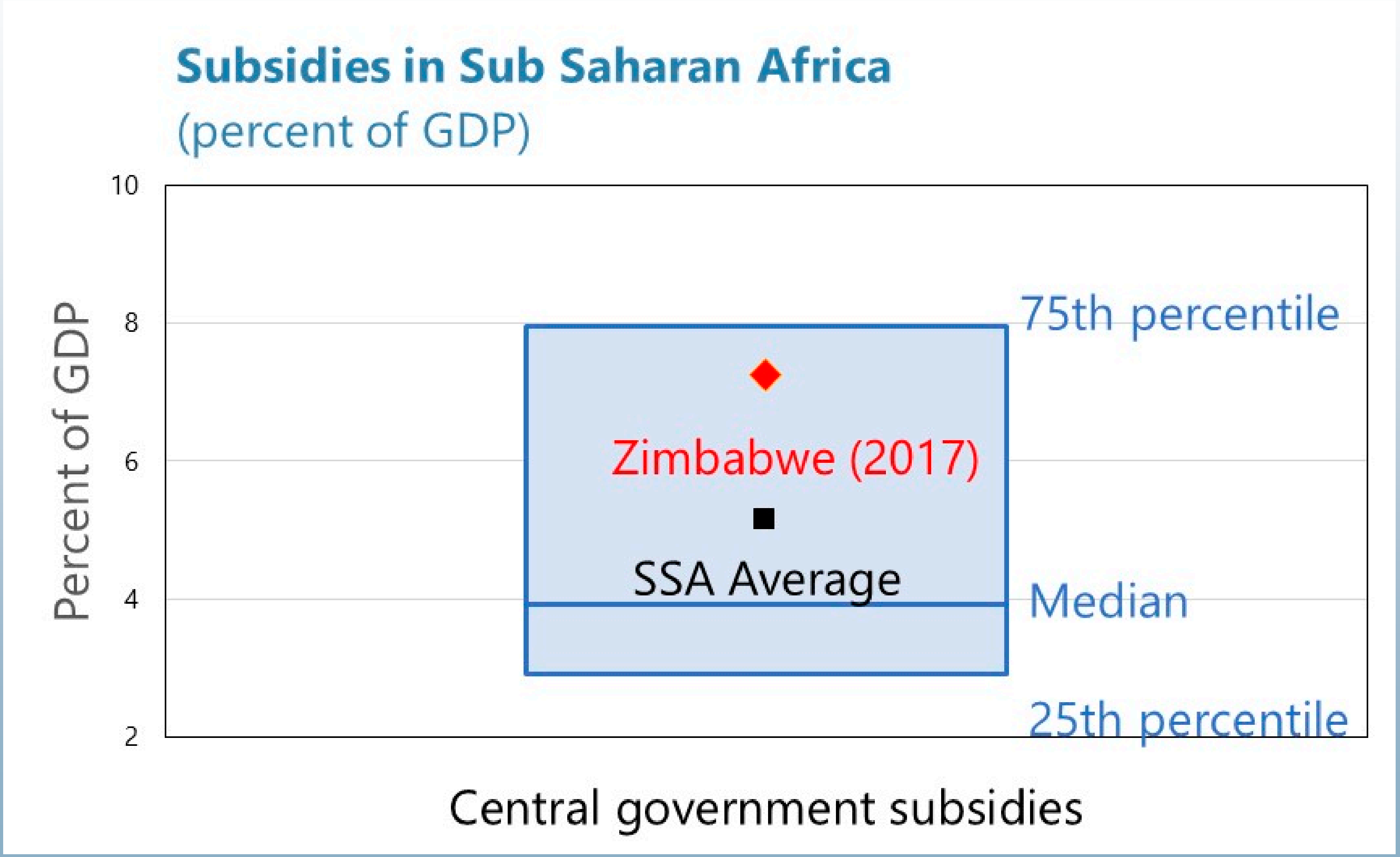
...whereas revenue is in line with SSA average.



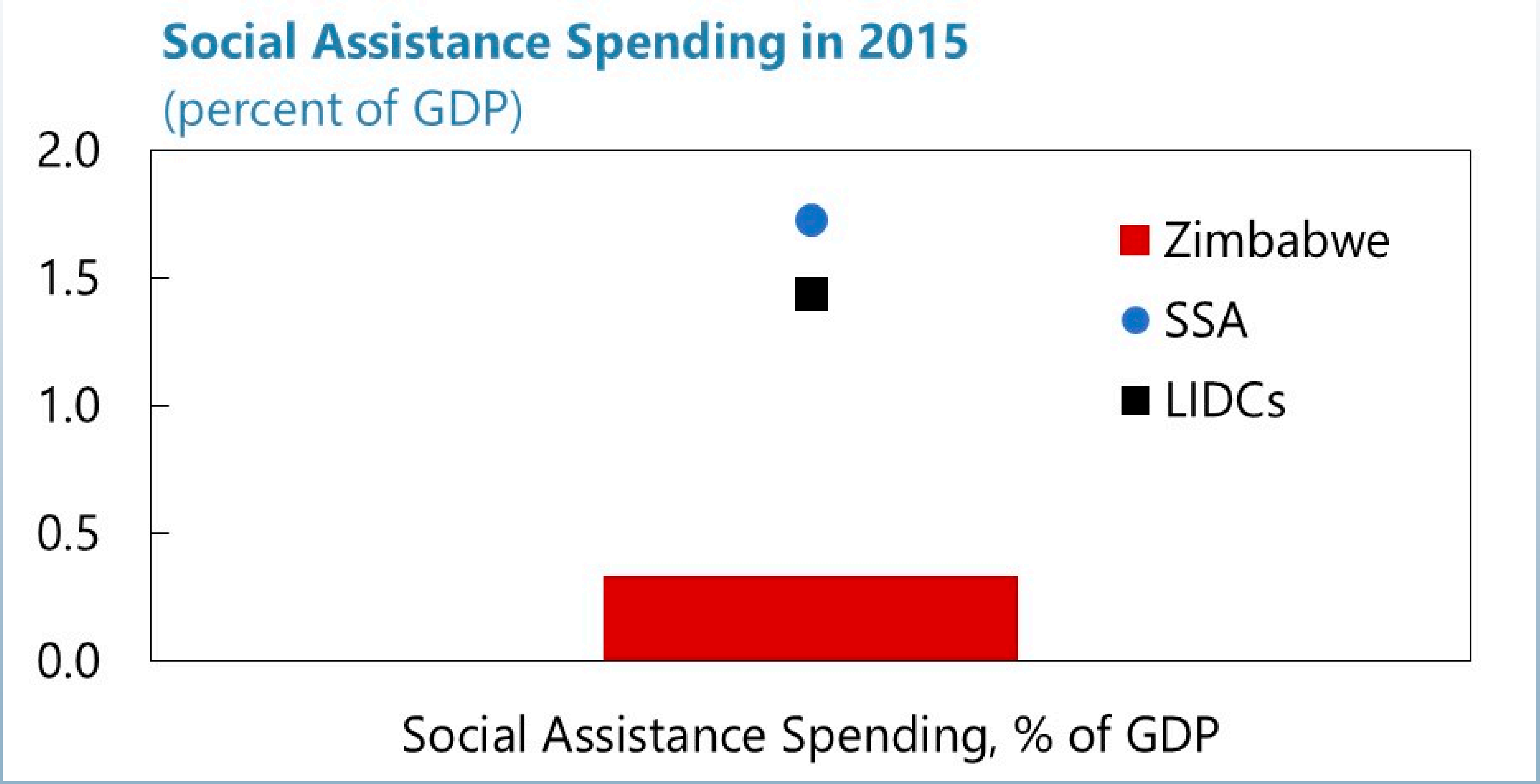
Higher government spending in the last decade reflects an increase in current expenditure…



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



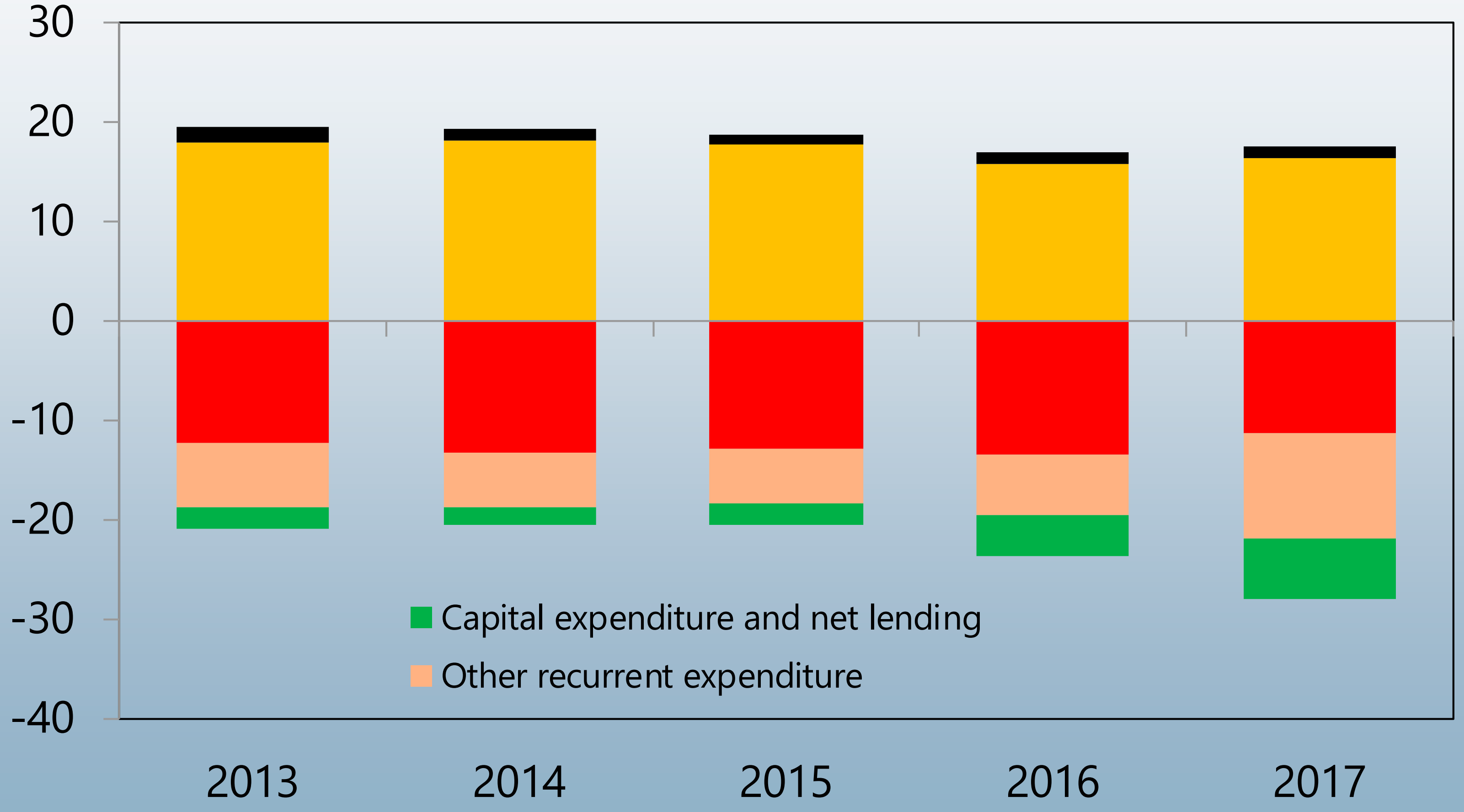
…whereas social spending is below the peers.



FISCAL CHALLENGE

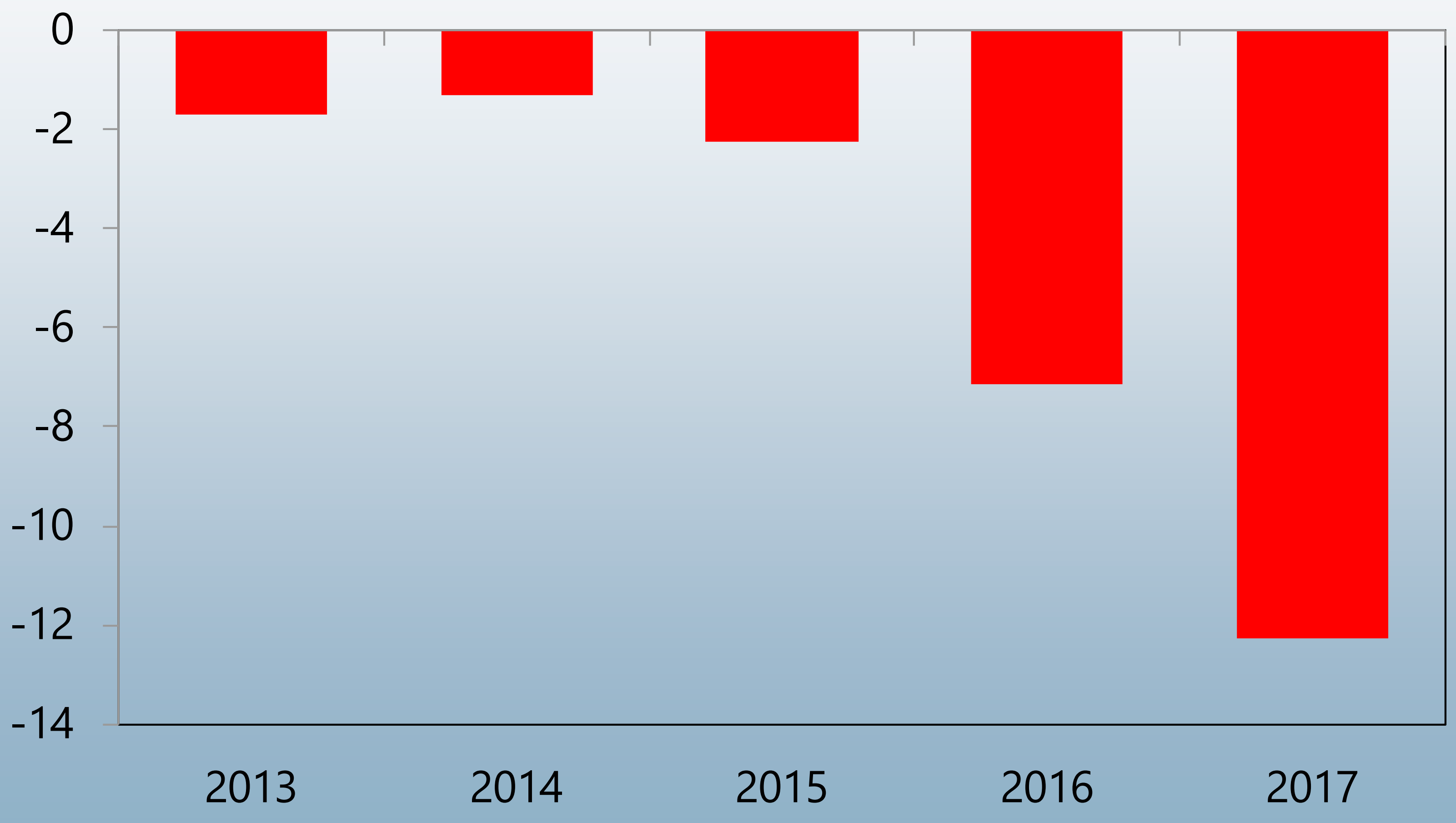
Increasing subsidies, higher current spending and low revenues …

Fiscal

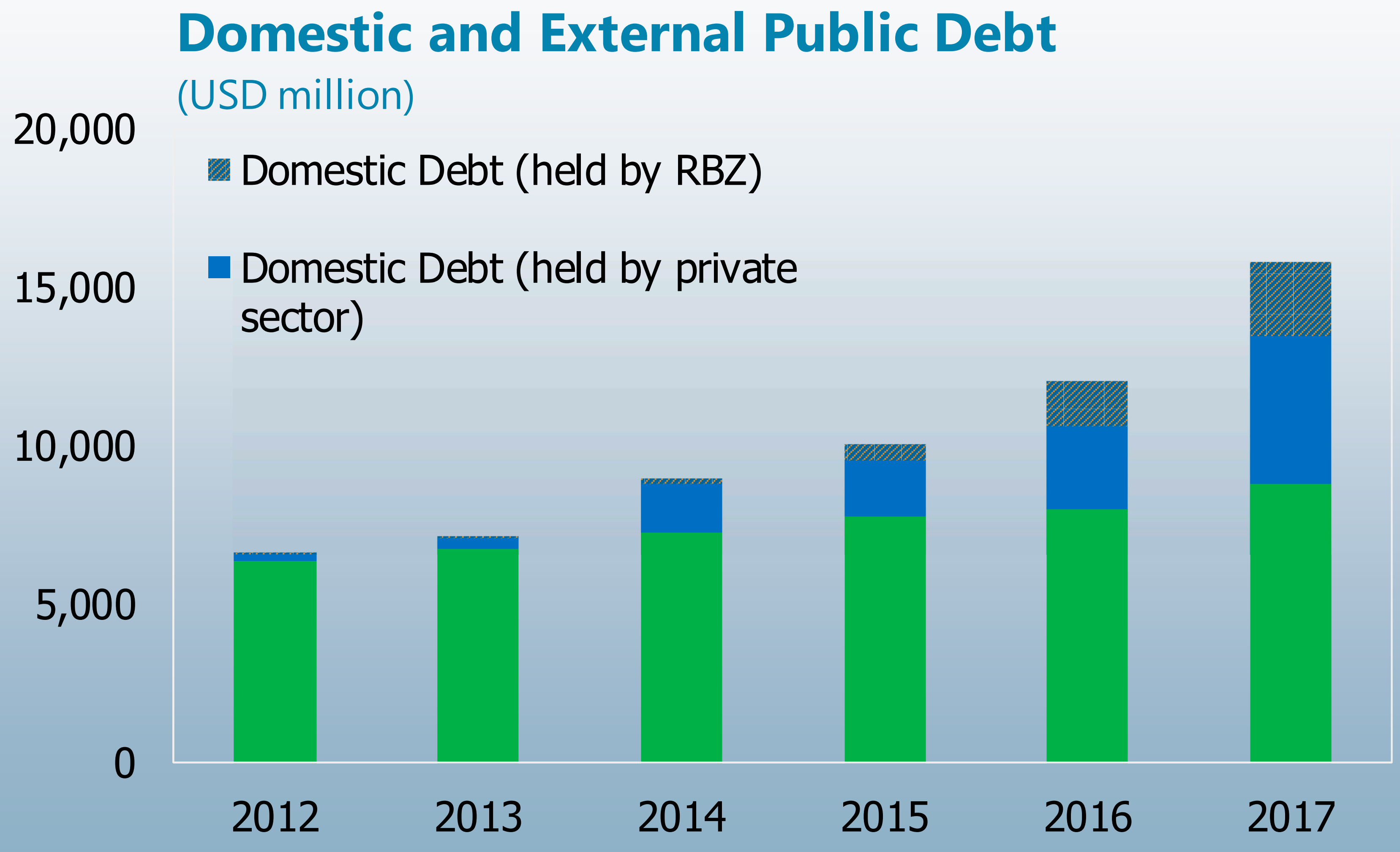


…are leading to a worsening fiscal position…

Fiscal Deficit

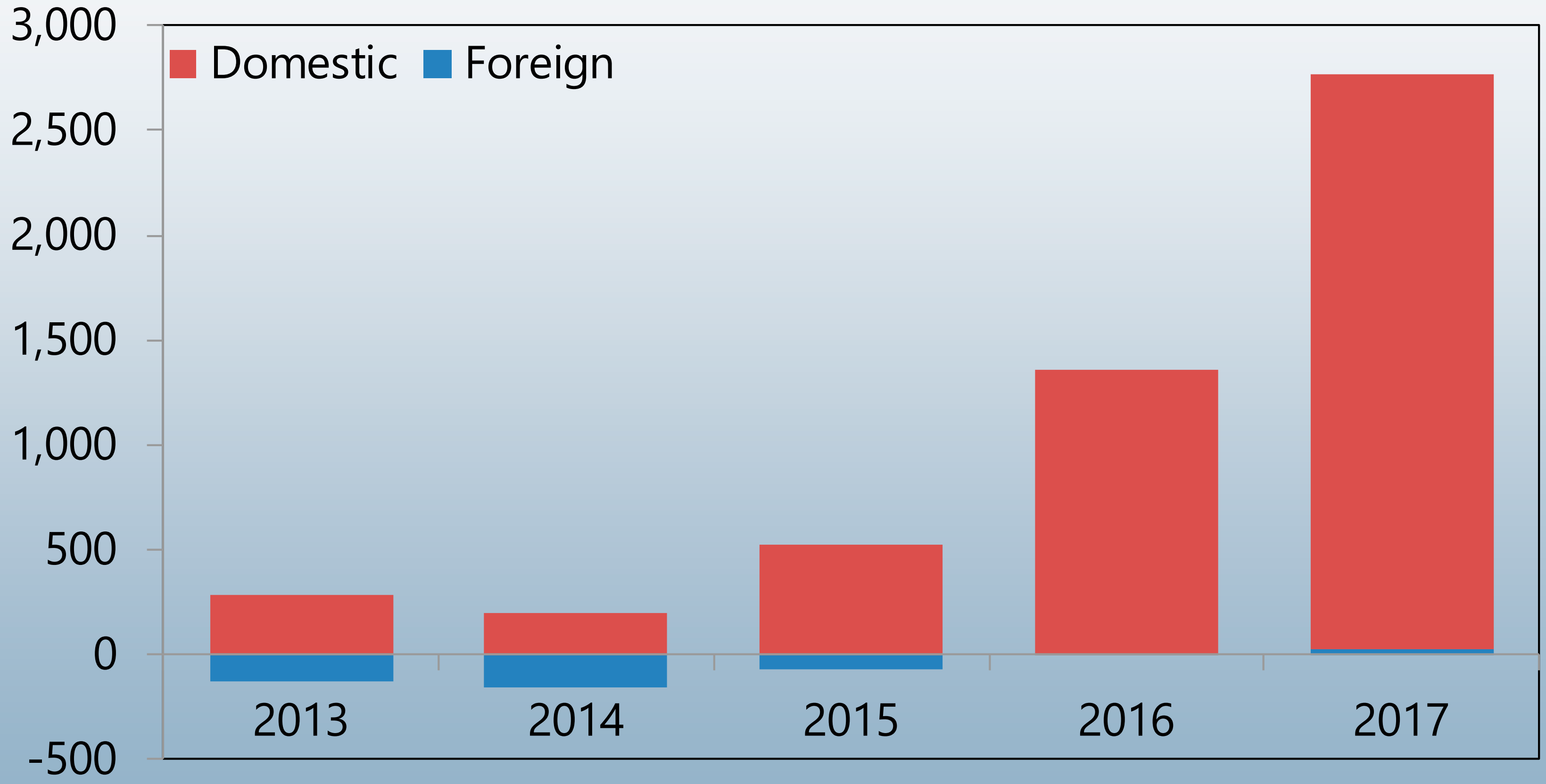


...contributing to higher government financing needs...

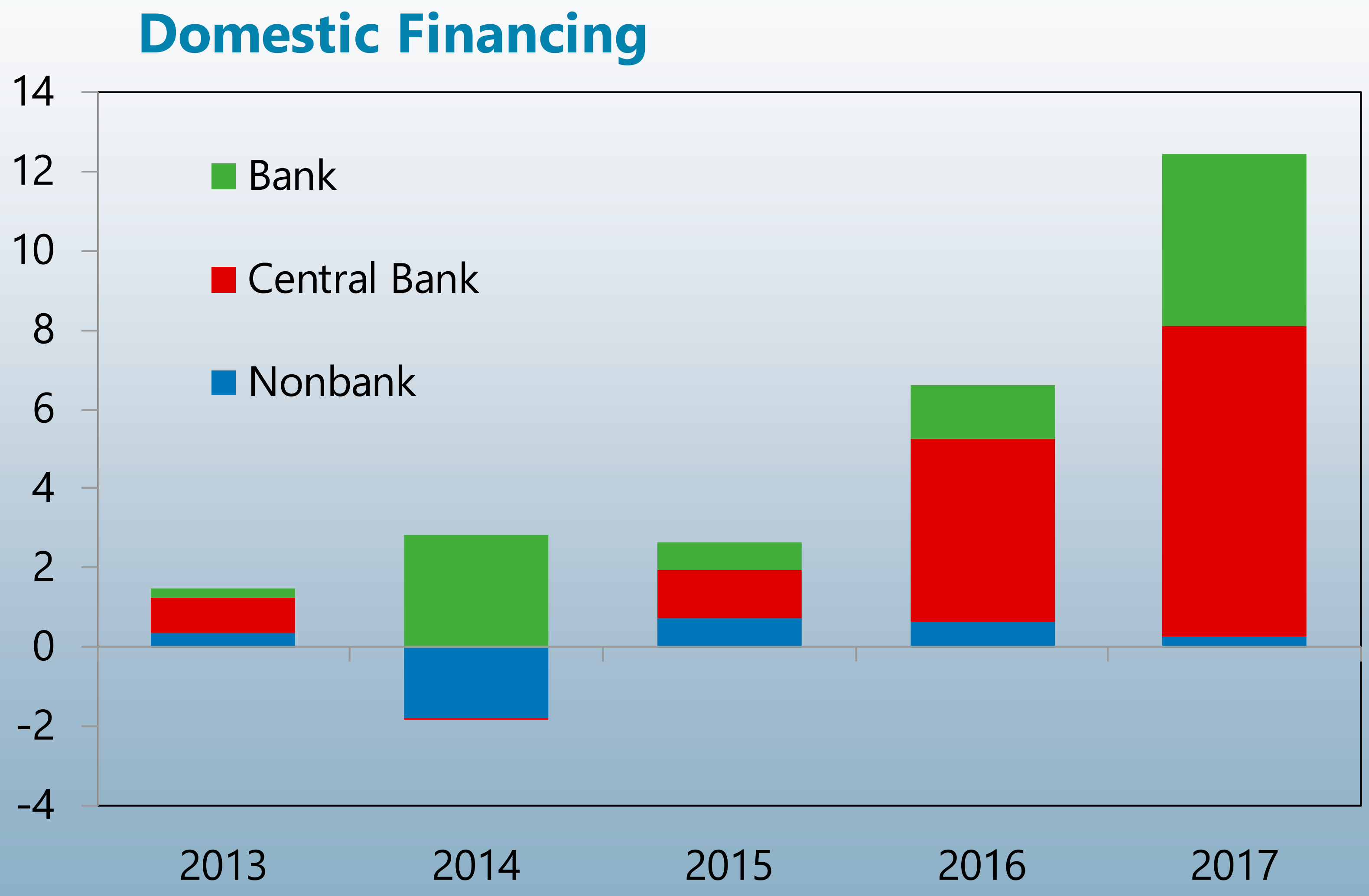


Increasing government financing...

Government Financing

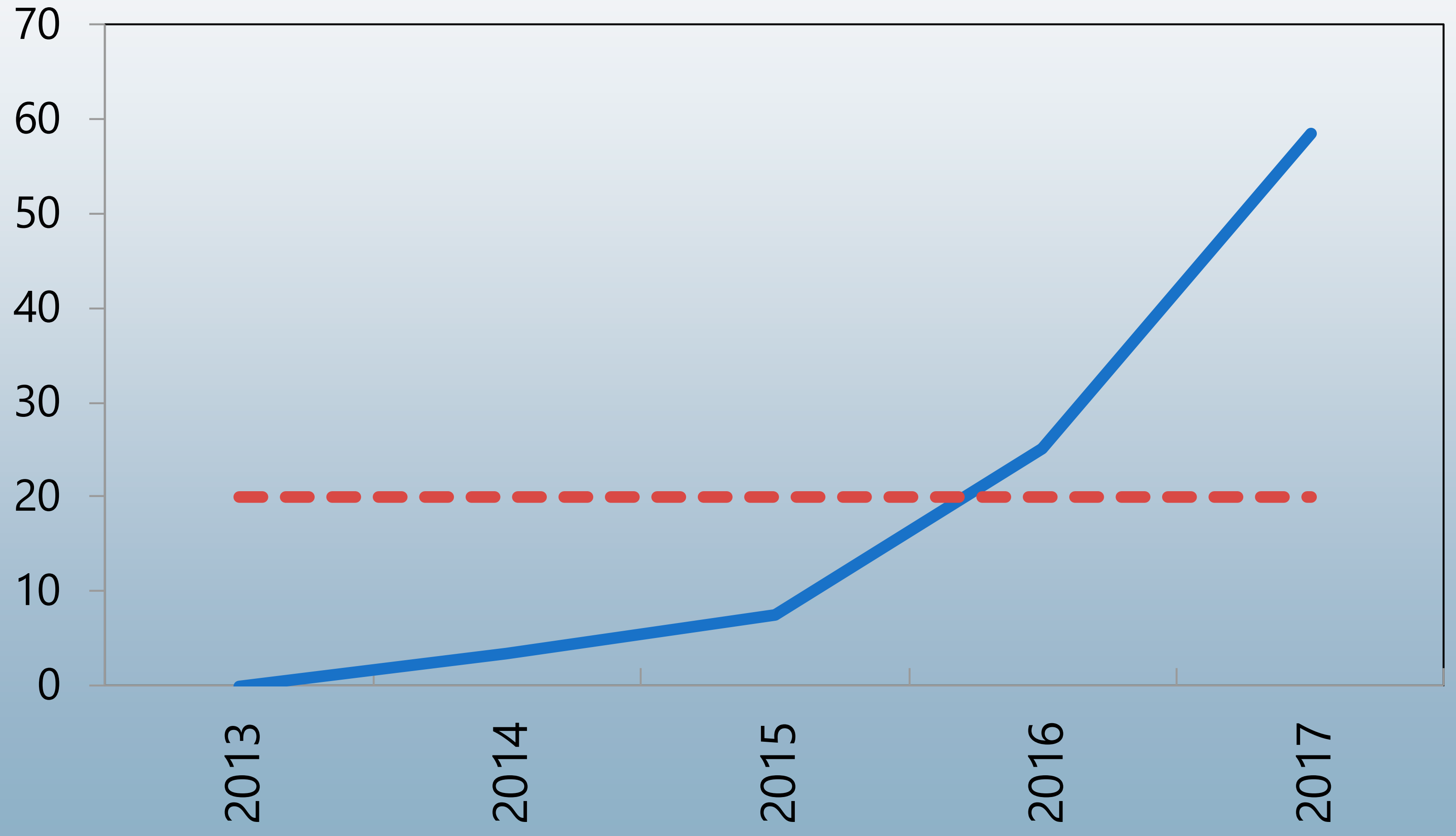


...with a lion share from Central Bank and Banks...



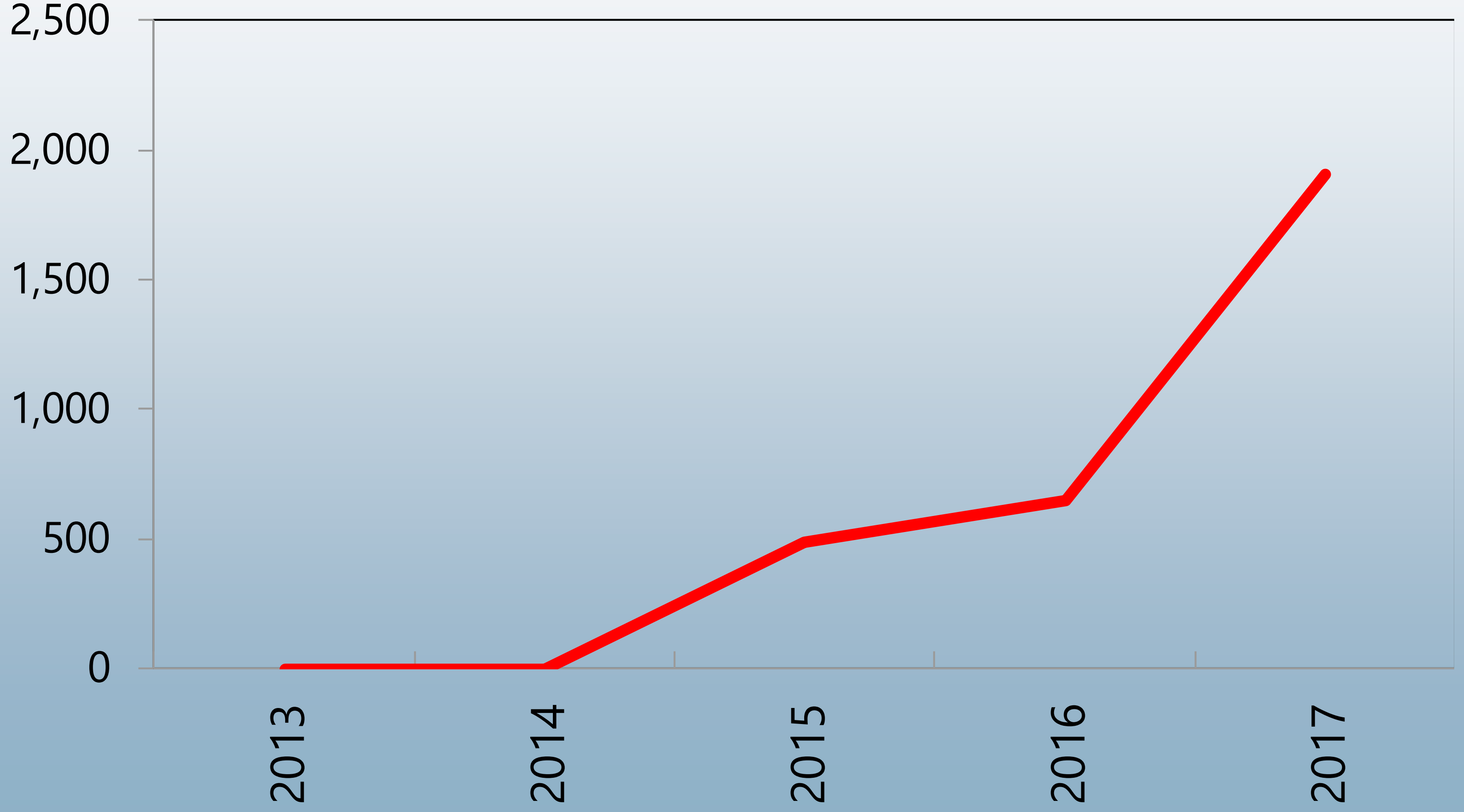
…met by an overdraft from RBZ…

RBZ Overdraft and Loans

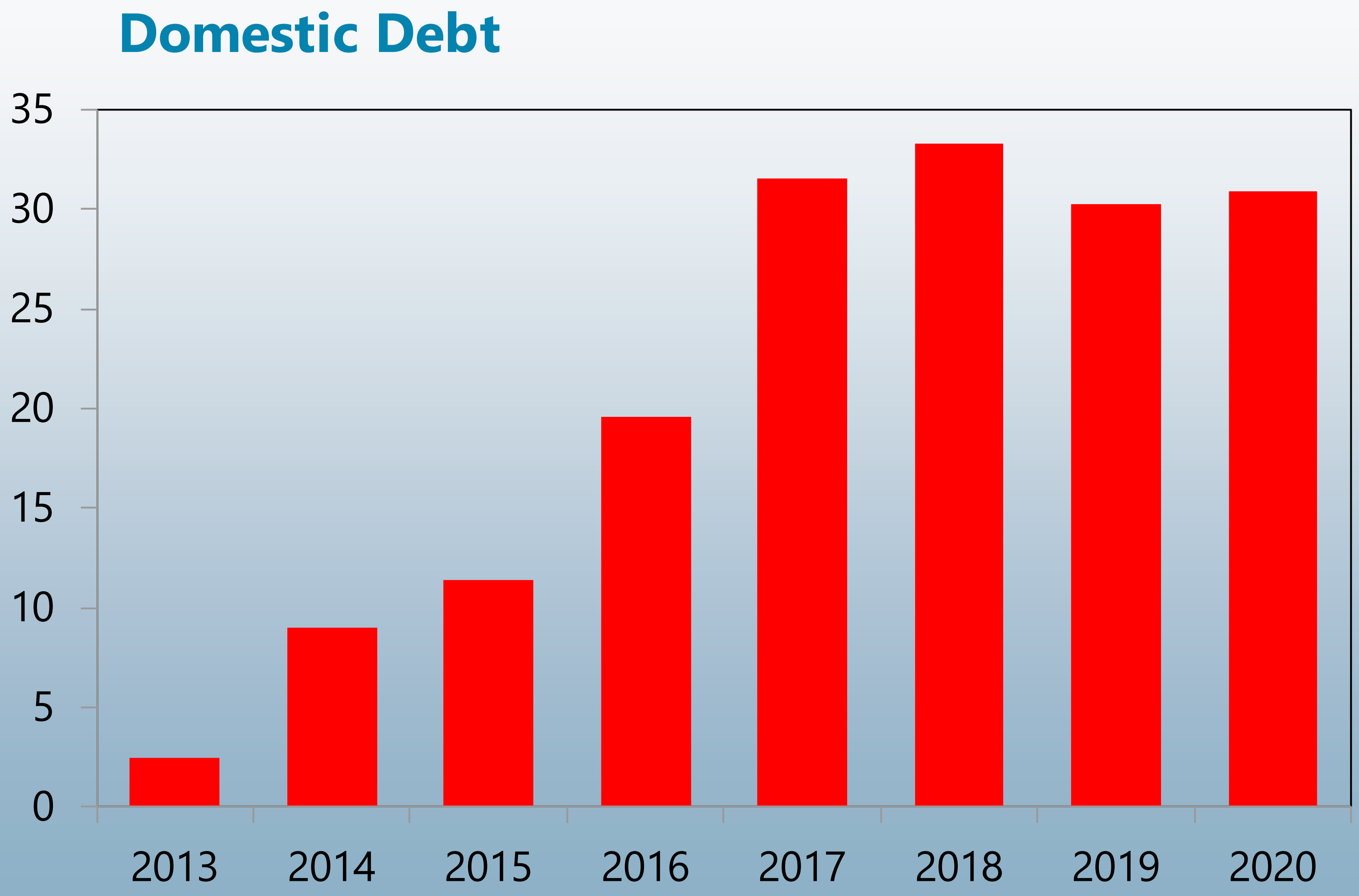


...and issuance of Treasury Bills...

T-Bills Issued



...resulting in high domestic debt...

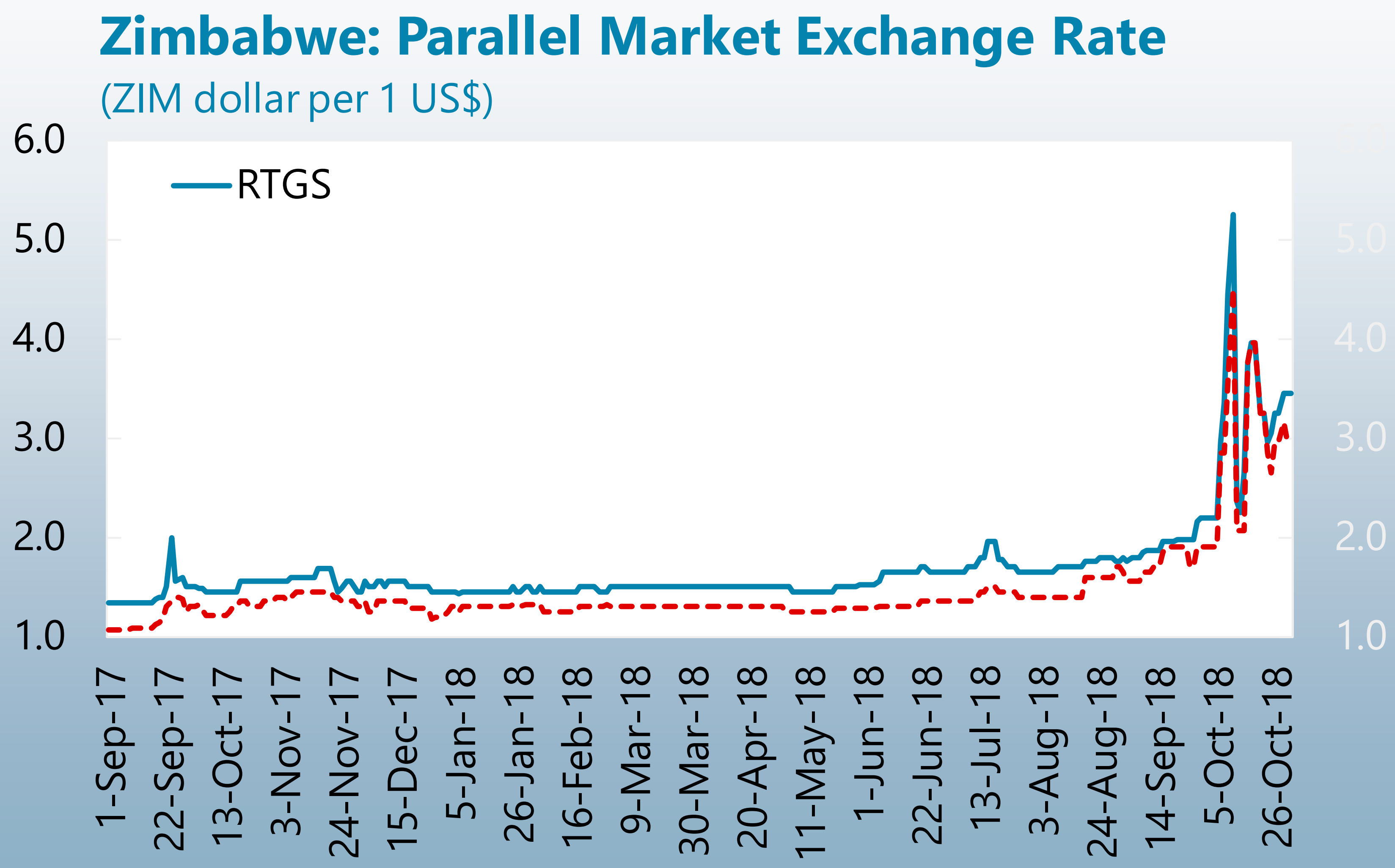


Fiscal reforms

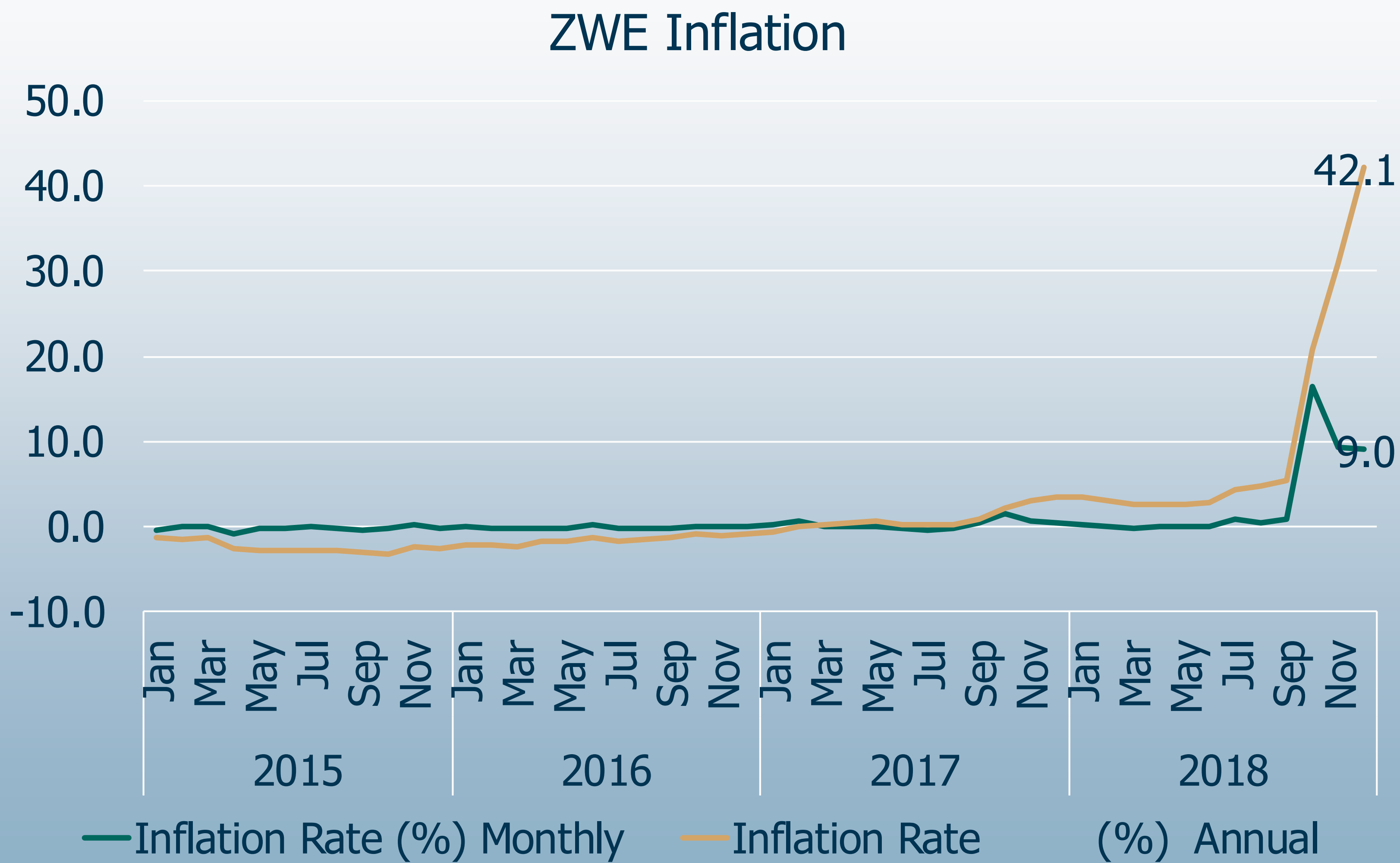
- Reduce the wage bill – they could do this by cutting wages for top civil servants e.g. 5 percent cut
- Address grain subsidies
- Rationalize agricultural input schemes
- Limit SOEs transfers
- Increase revenues
- PFM reforms

FISCAL CHALLENGES POSE RISK TO EXCHANGE RATE REGIM AND FINANCIAL STABILITY

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

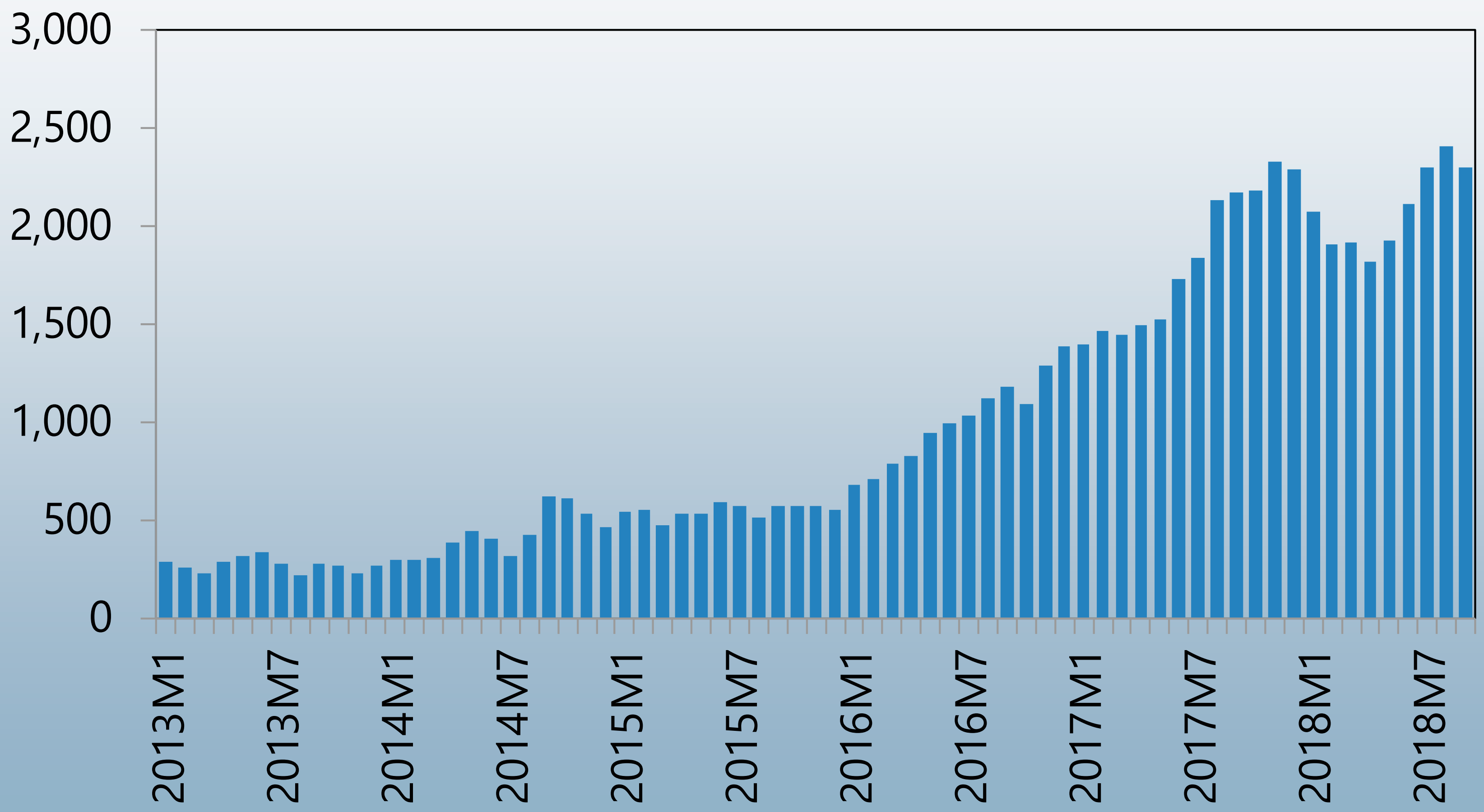


…contributing to rising inflation…



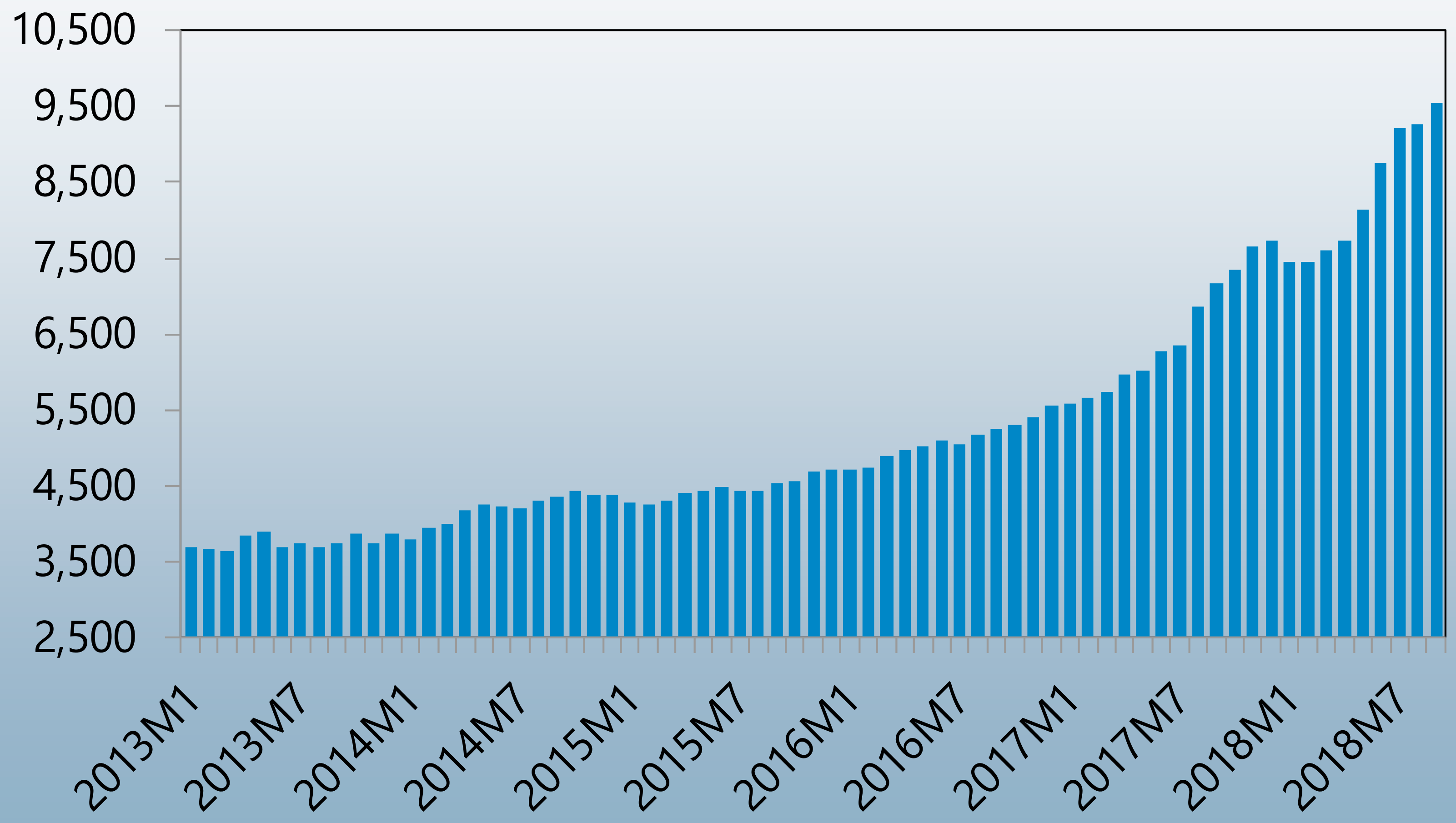
Commercial banks have increasingly illiquid deposits at the RBZ...

Bank Deposits at RBZ



… as do private depositors with commercial banks.

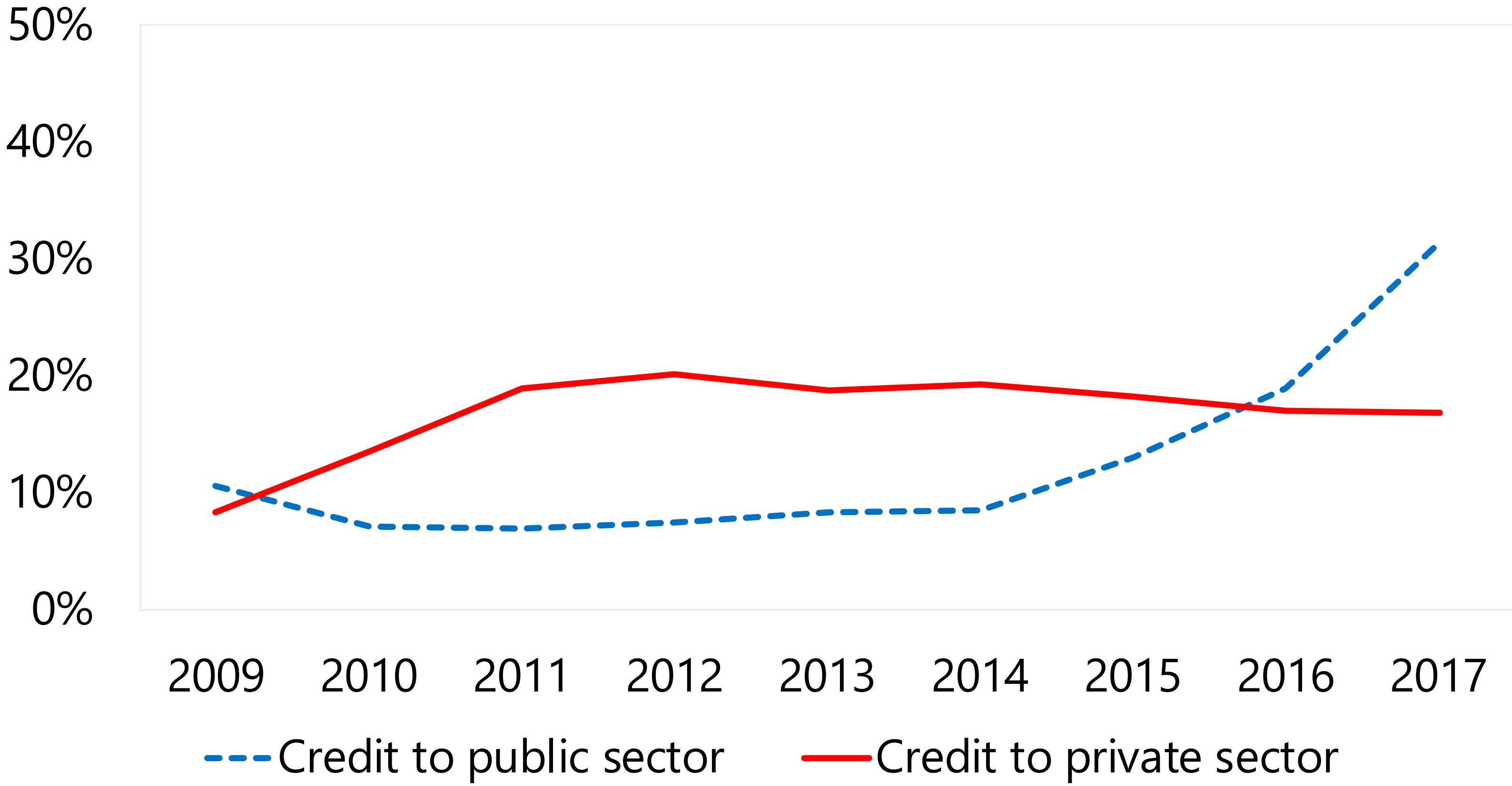
Deposits in Commercial Banks



The private sector is being crowded out.

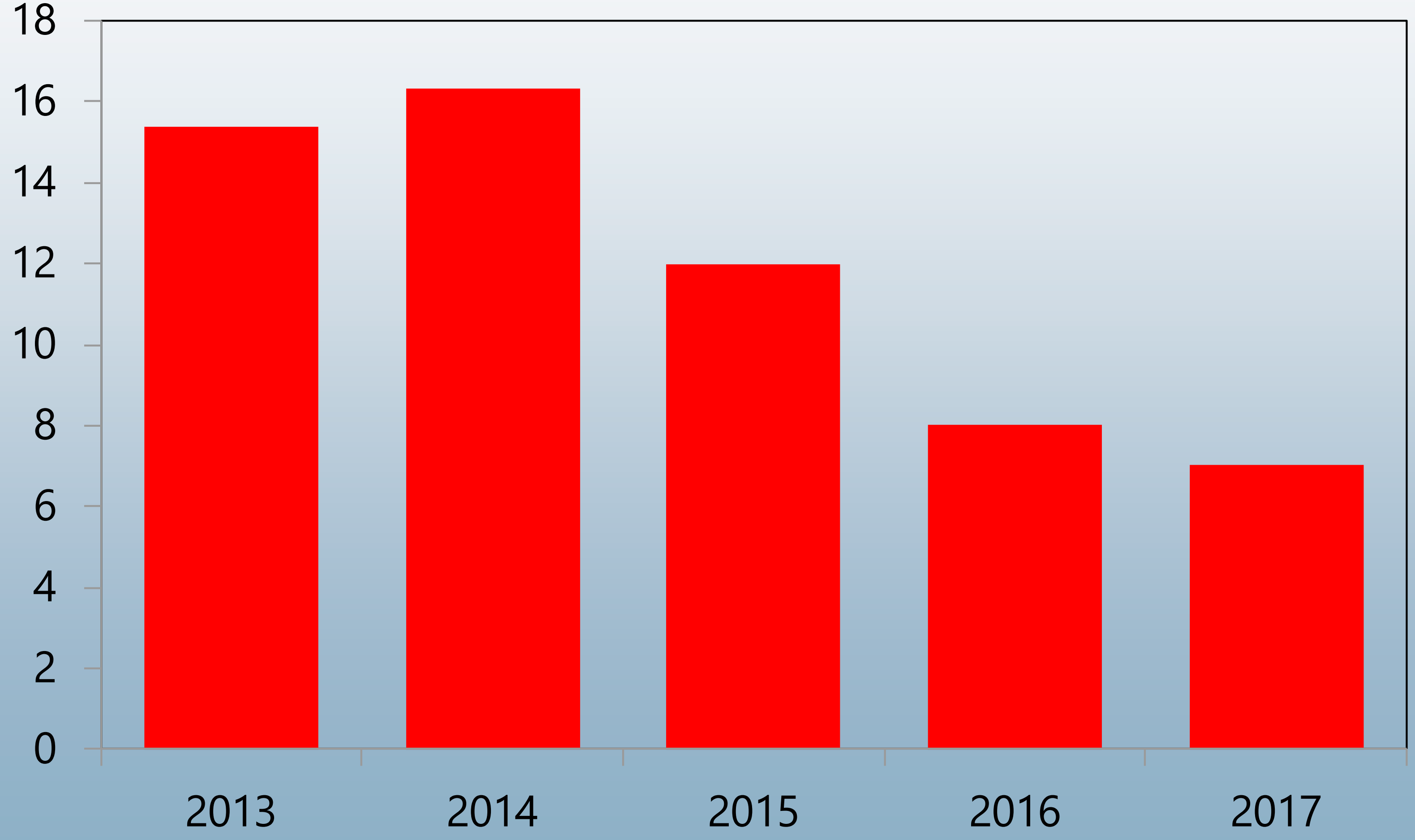
Credit to public and private sectors

(percent of GDP)



Non-performing loans peaked in 2014.

Nonperforming Loans



Monetary sector reforms

- Currency reform – Minister declared in the next 12 months
- Monetary Policy will depend on chosen exchange rate regime
- Maintaining financial stability will be crucial
  - Improve bank supervision
  - Ensure capital adequacy of banks

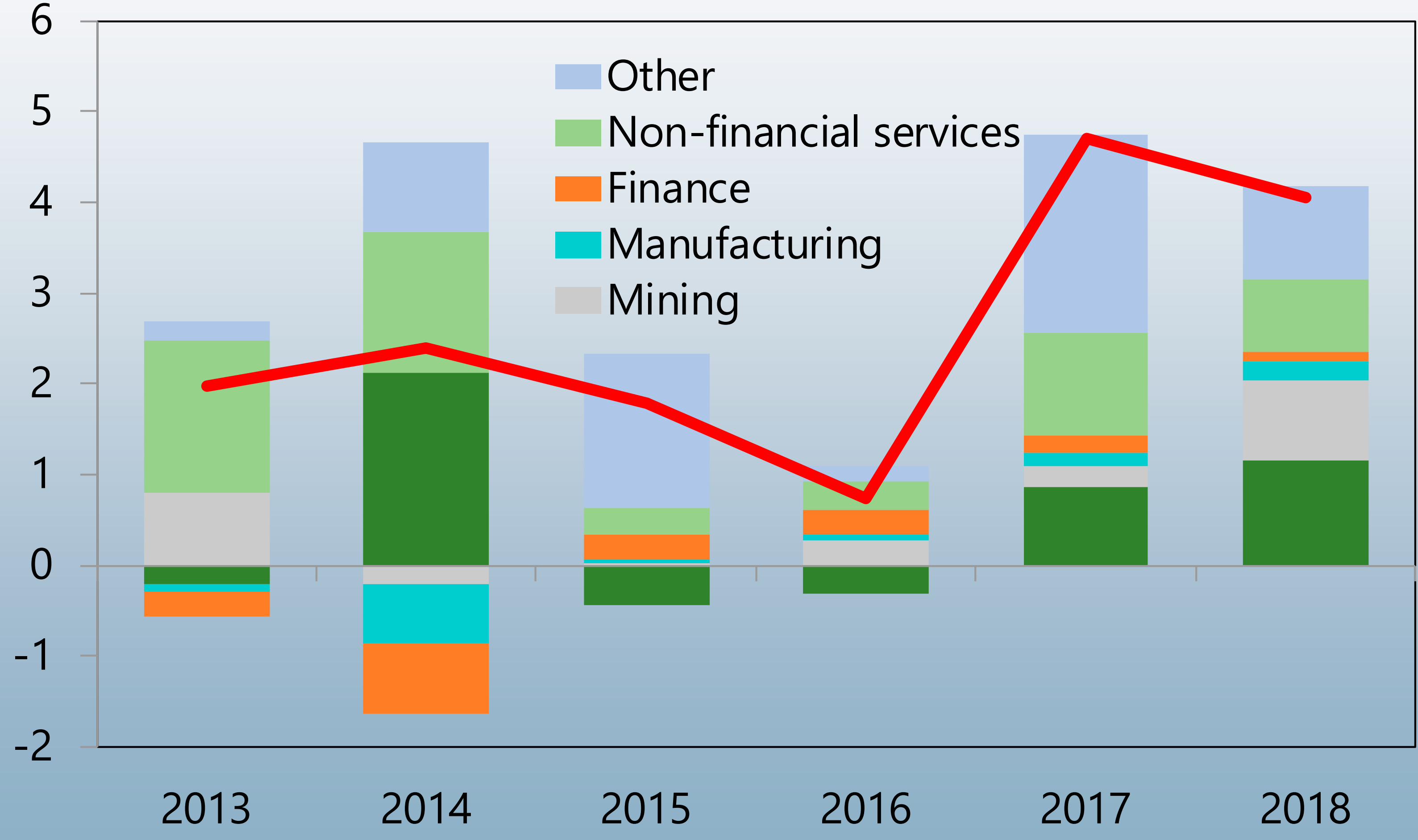
Currency challenges

- Zimbabwe needs a credible monetary regime to attract investment and also ensure financial resilience
- BUT the success of any regime requires:
  - Fiscal discipline
  - RBZ independence and no monetary financing
- Financial sector and distributional implications are important:
  - Balance sheet vulnerabilities depend on ER regime chosen

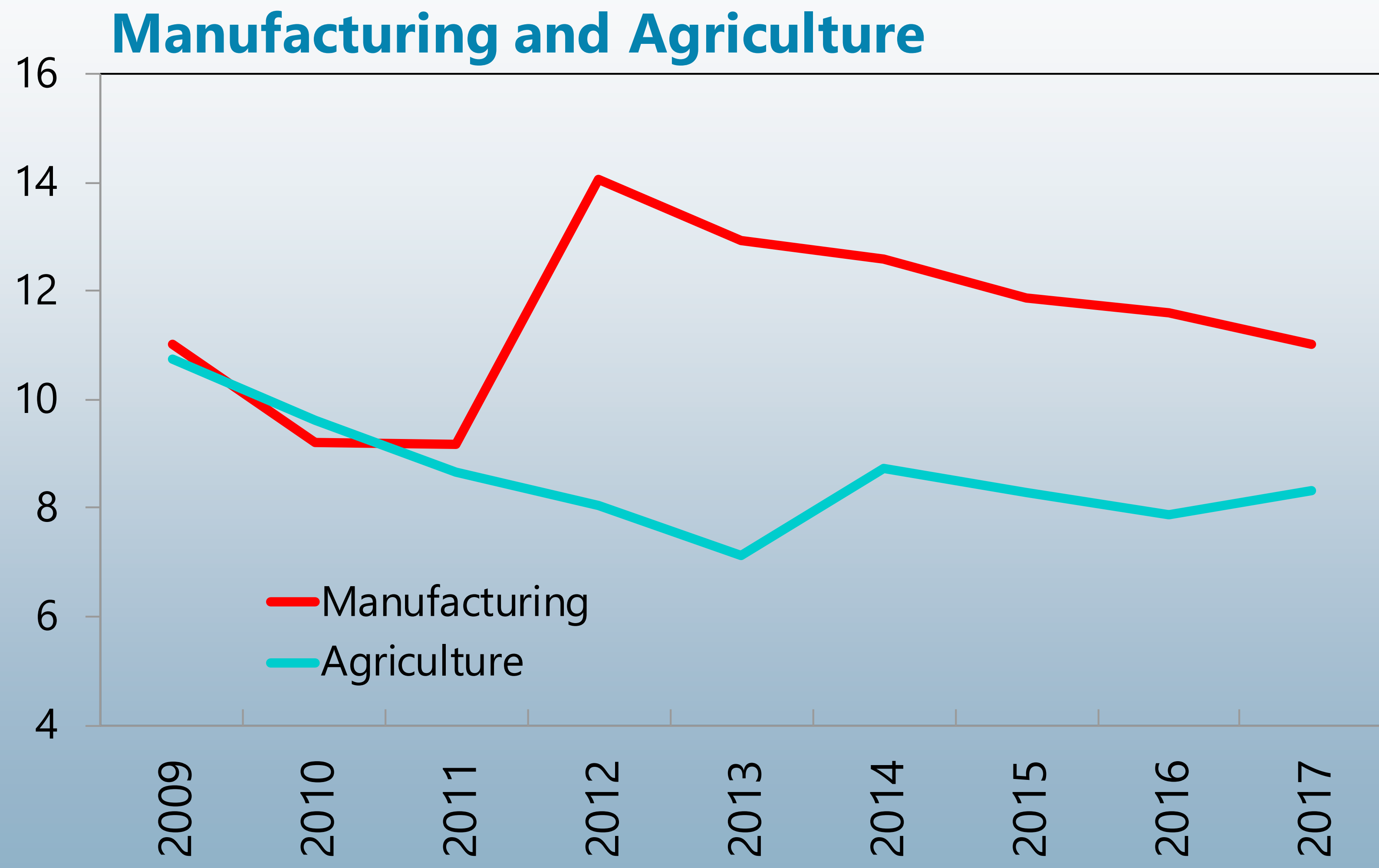
GROWTH CHALLENGE AND EXTERNAL CONSTRAINTS

Absent reforms and reengagement, growth prospects remain subdued…

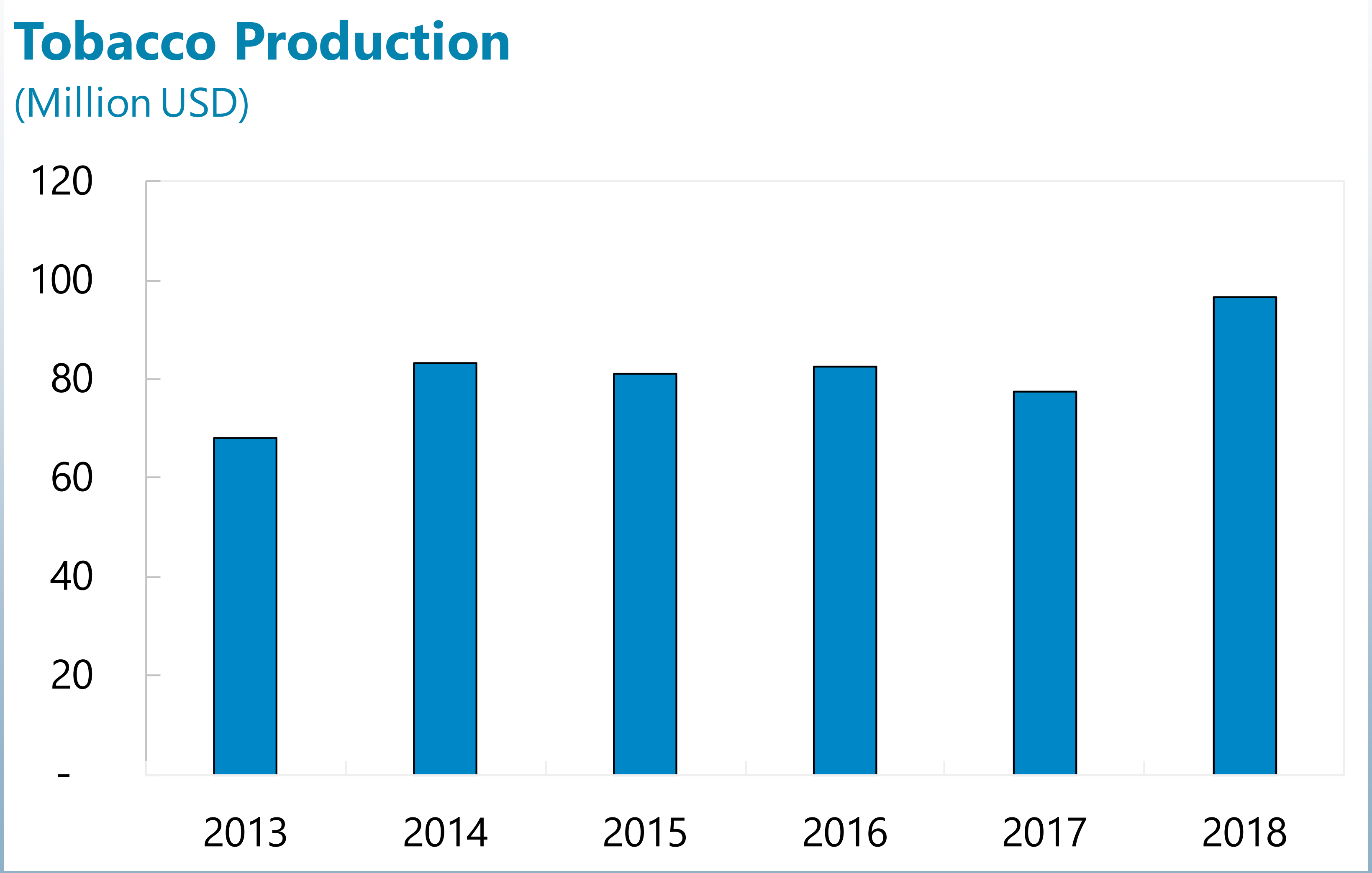
Real GDP Growth



The contribution of agriculture and manufacturing to GDP has declined.

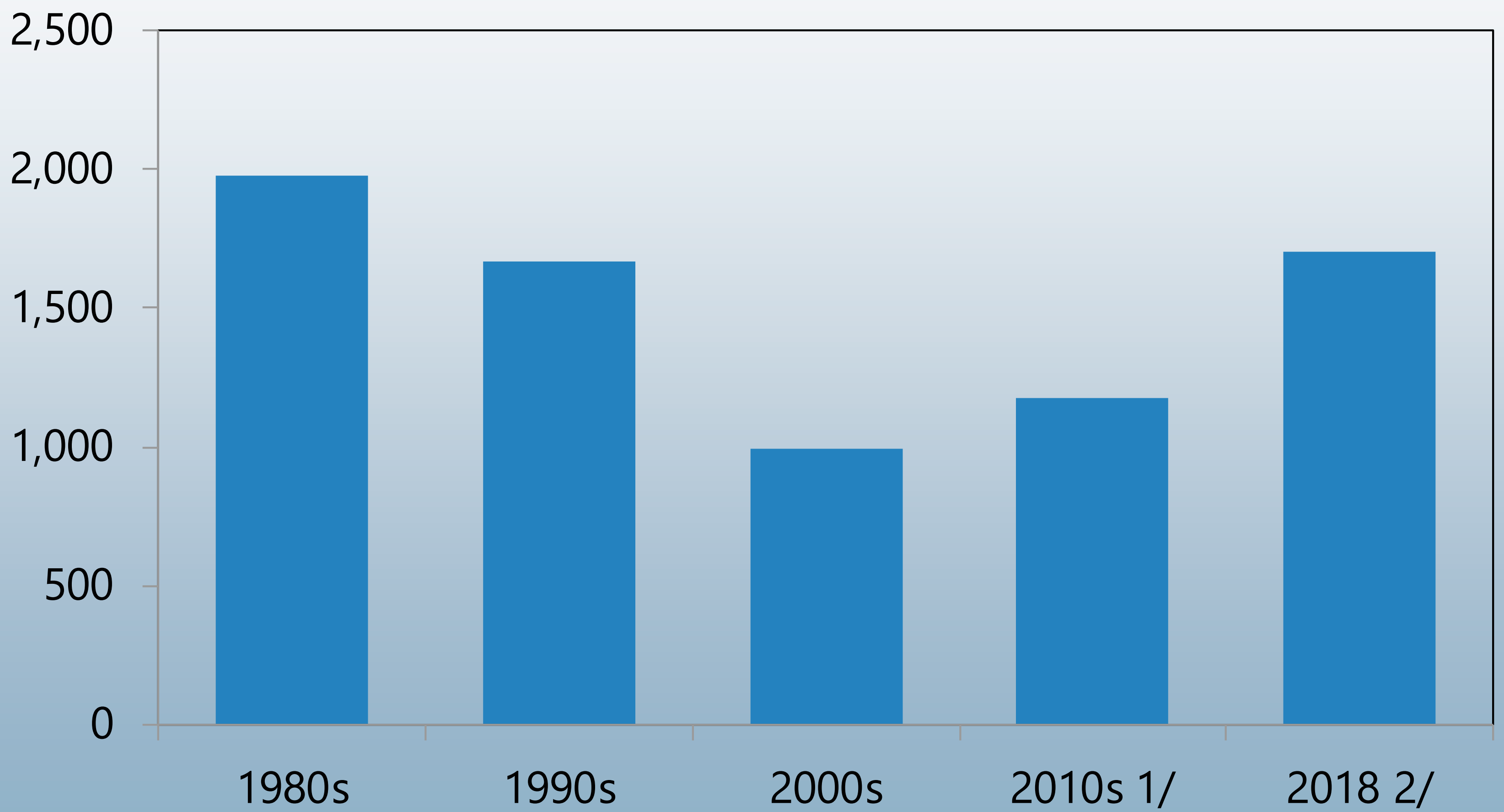


…notwithstanding the high tobacco output…



…and the boost from a bumper maize crop in 2018.

Average Maize Production by Decade

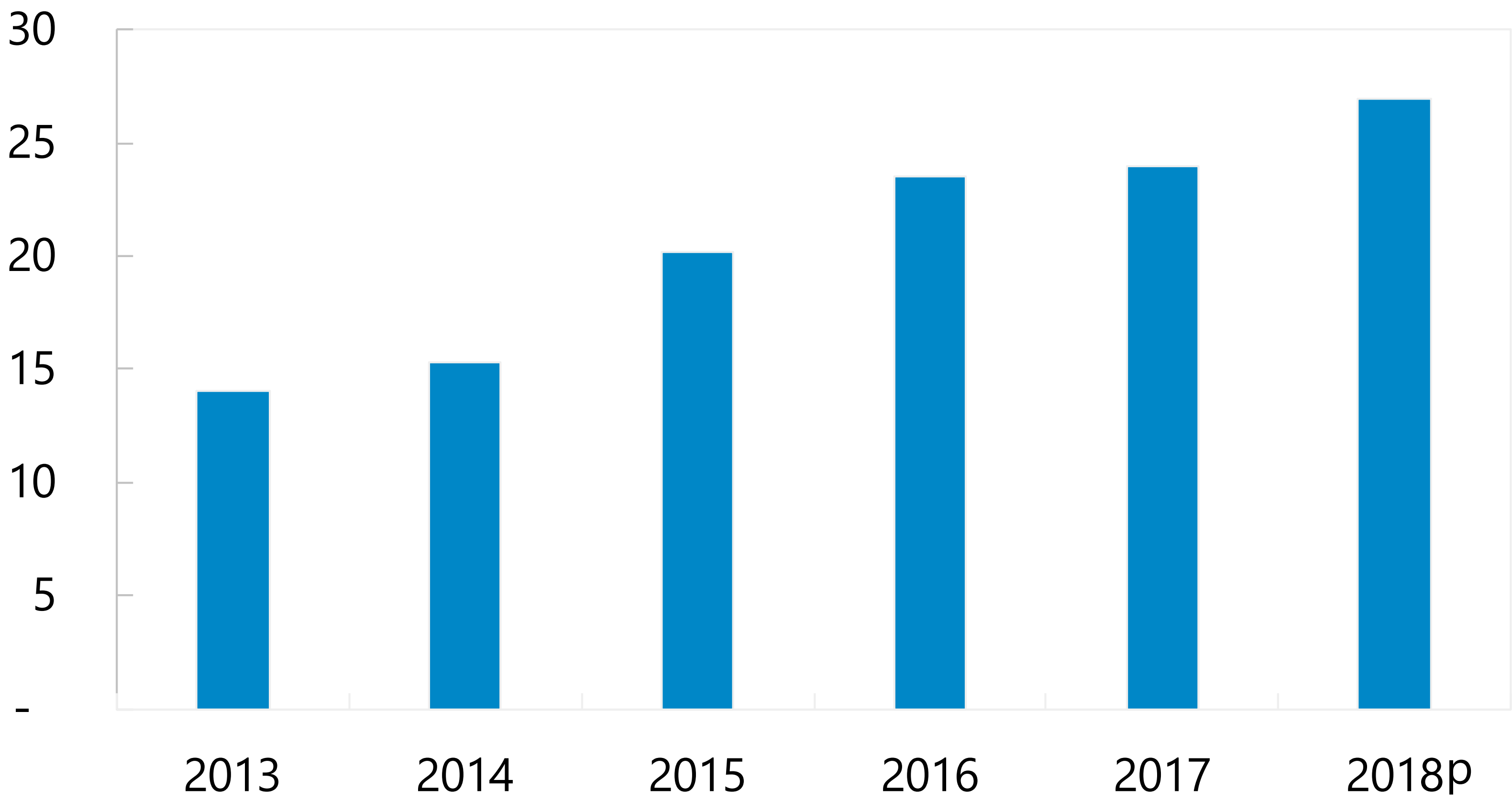


1/ Through 2017. 2/ Projection.

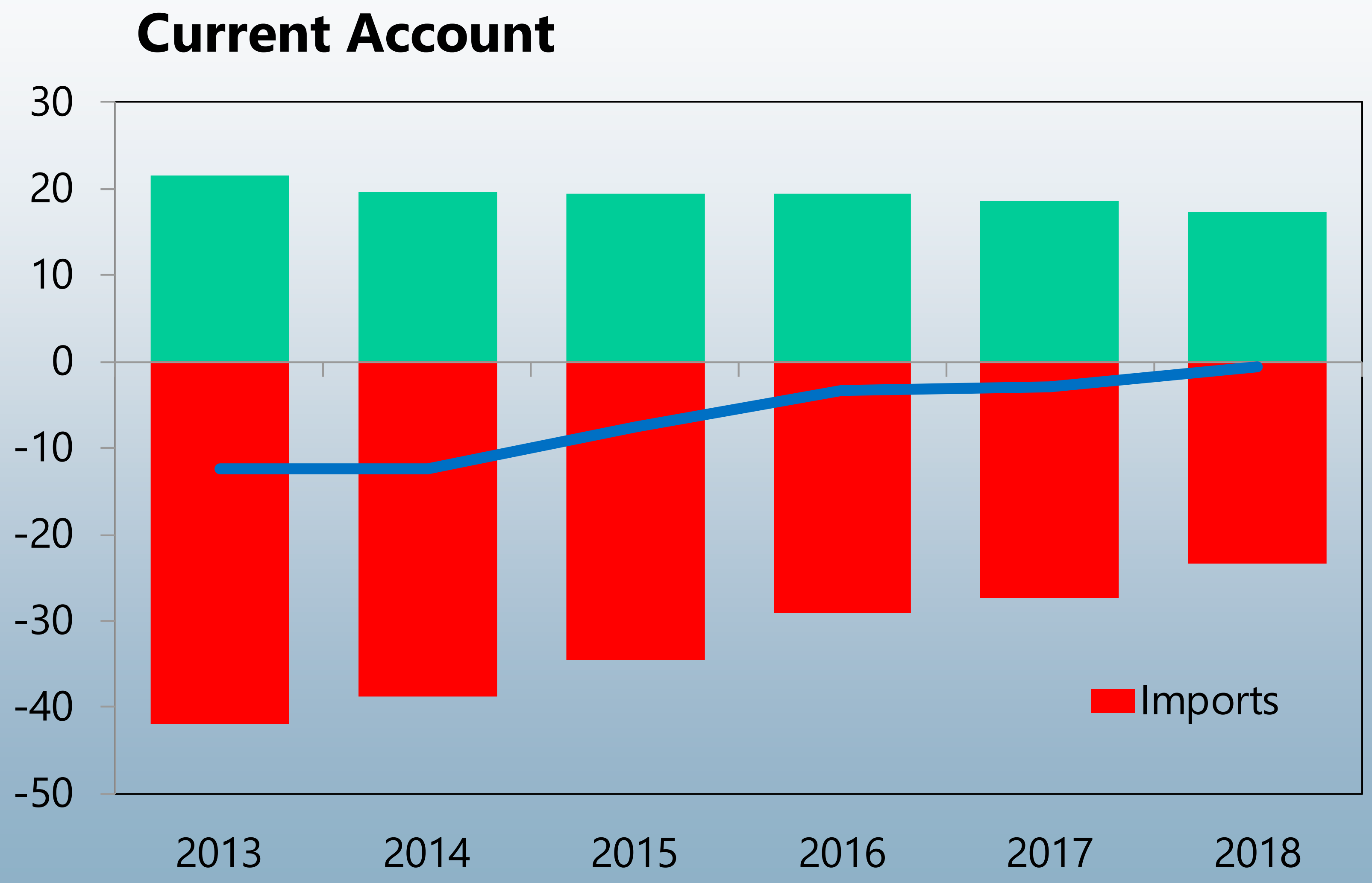
...and increasing gold production...

Gold Production

(Metric tons)

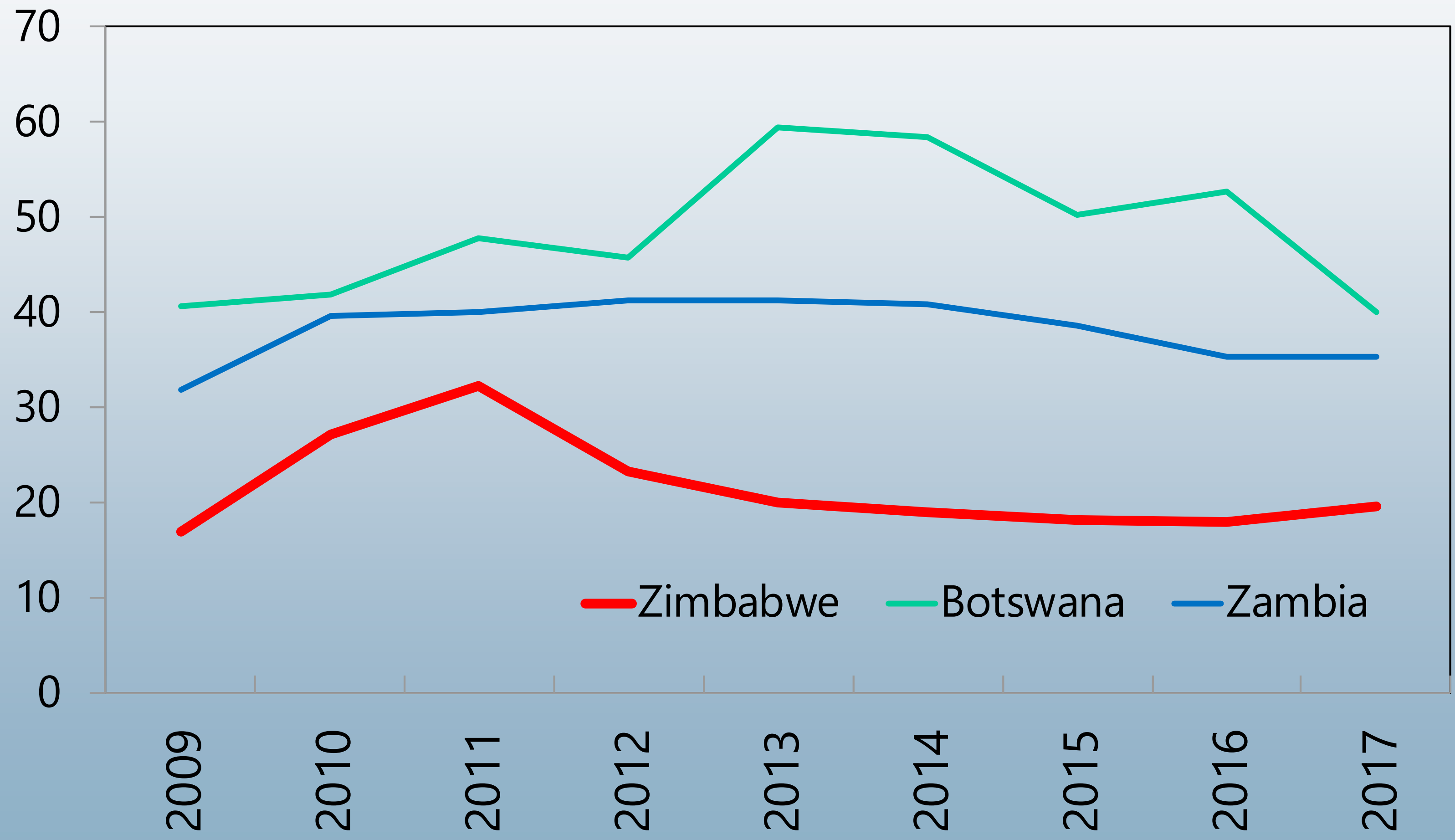


The current account has shrunk due to limited external financing …



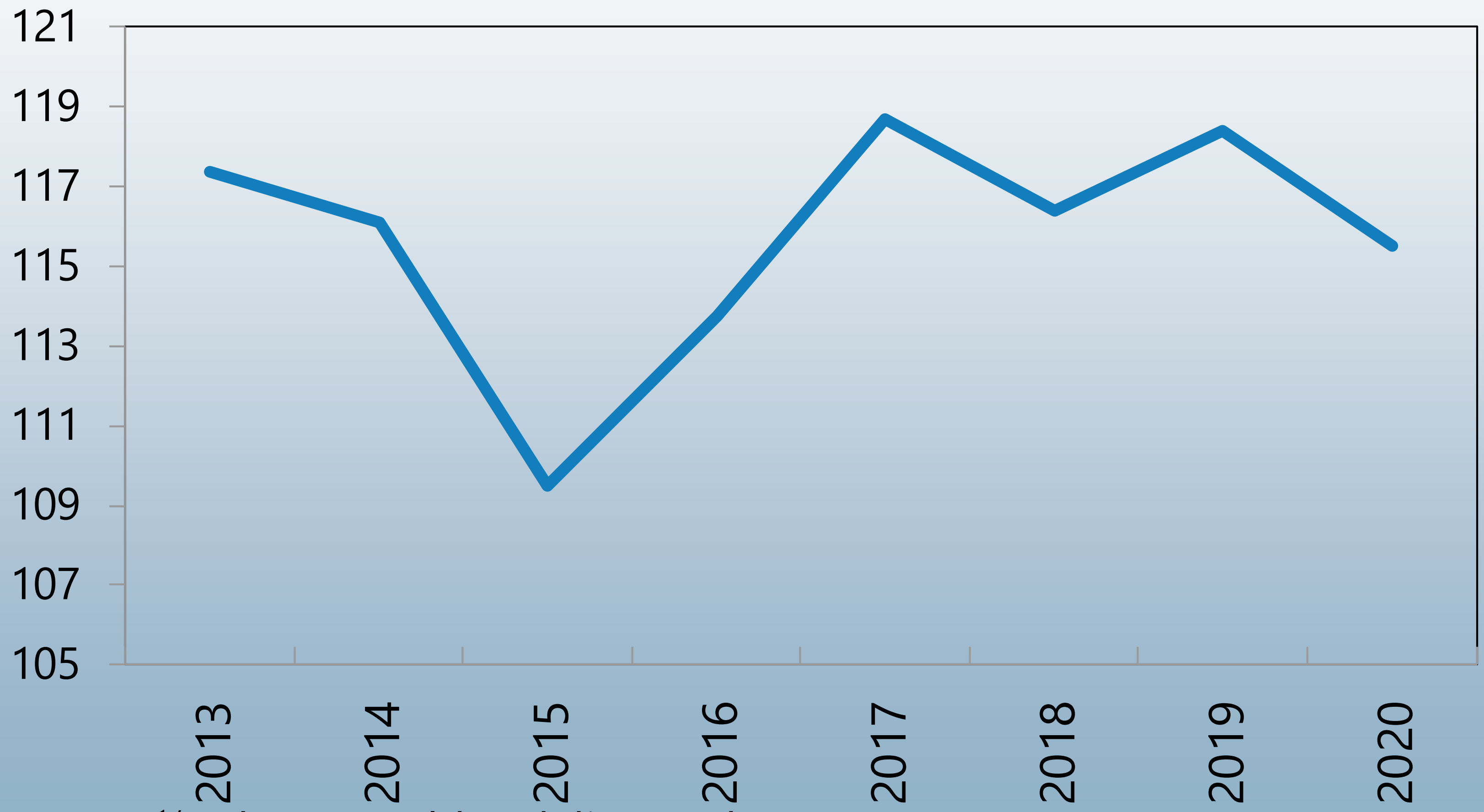
Export performance has been weak.

Exports



… driven by deteriorating export prices in some instances.

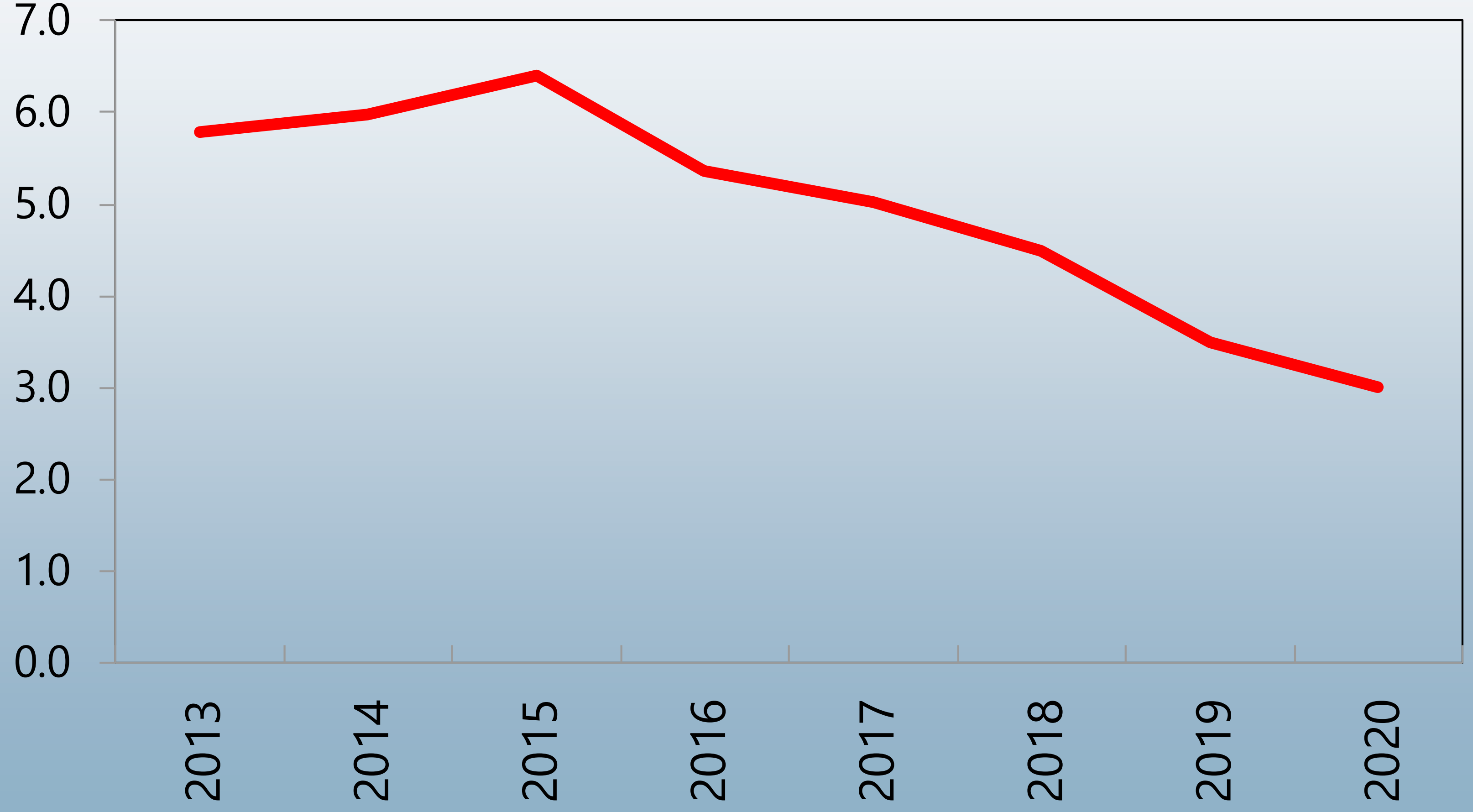
Commodity Export Price Index [1/]



[1/] Tobacco, gold and diamonds.

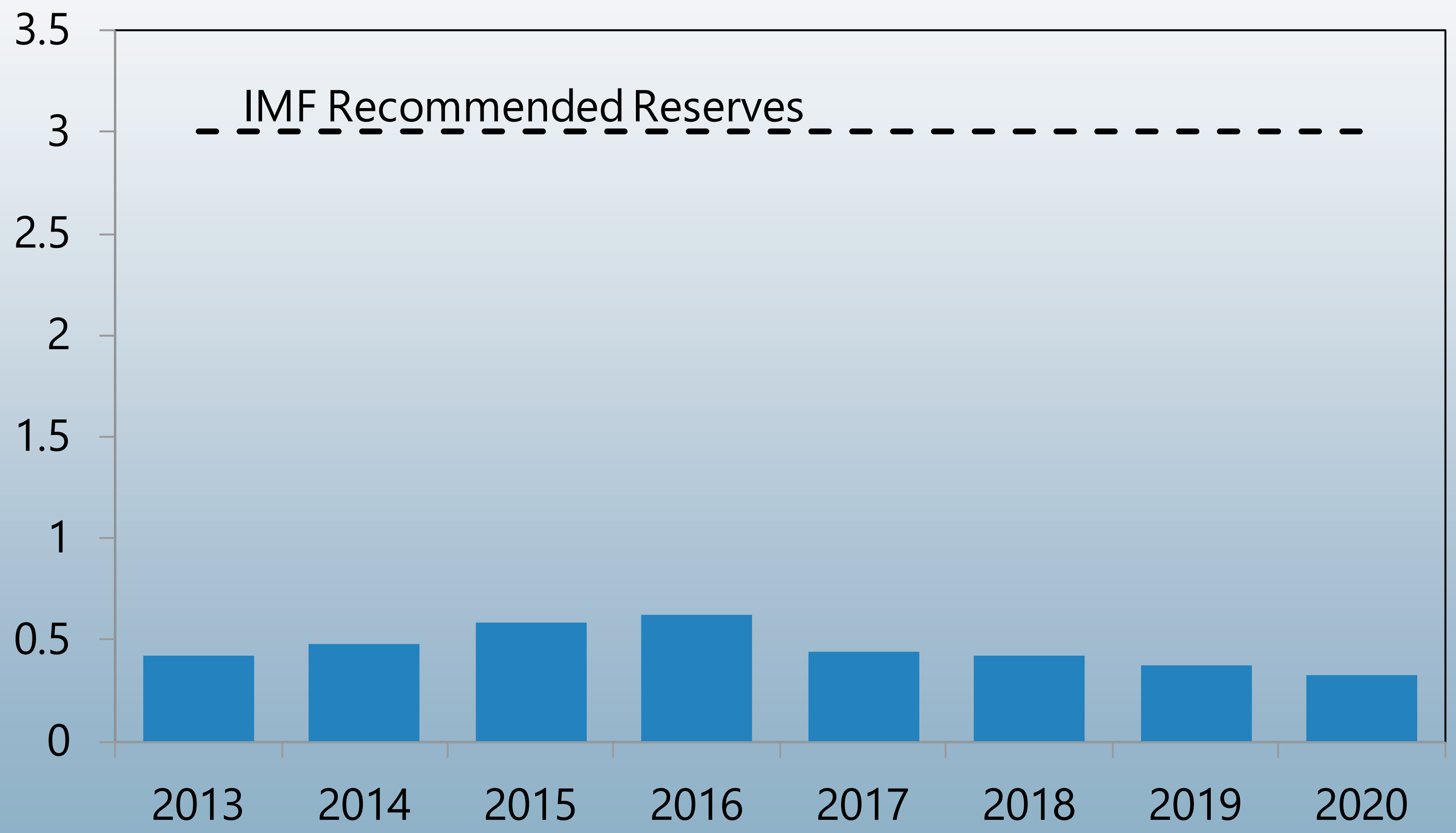
Remittances have been declining…

Remittances



And very low level of international reserves amid policy uncertainty…

Gross International Reserves



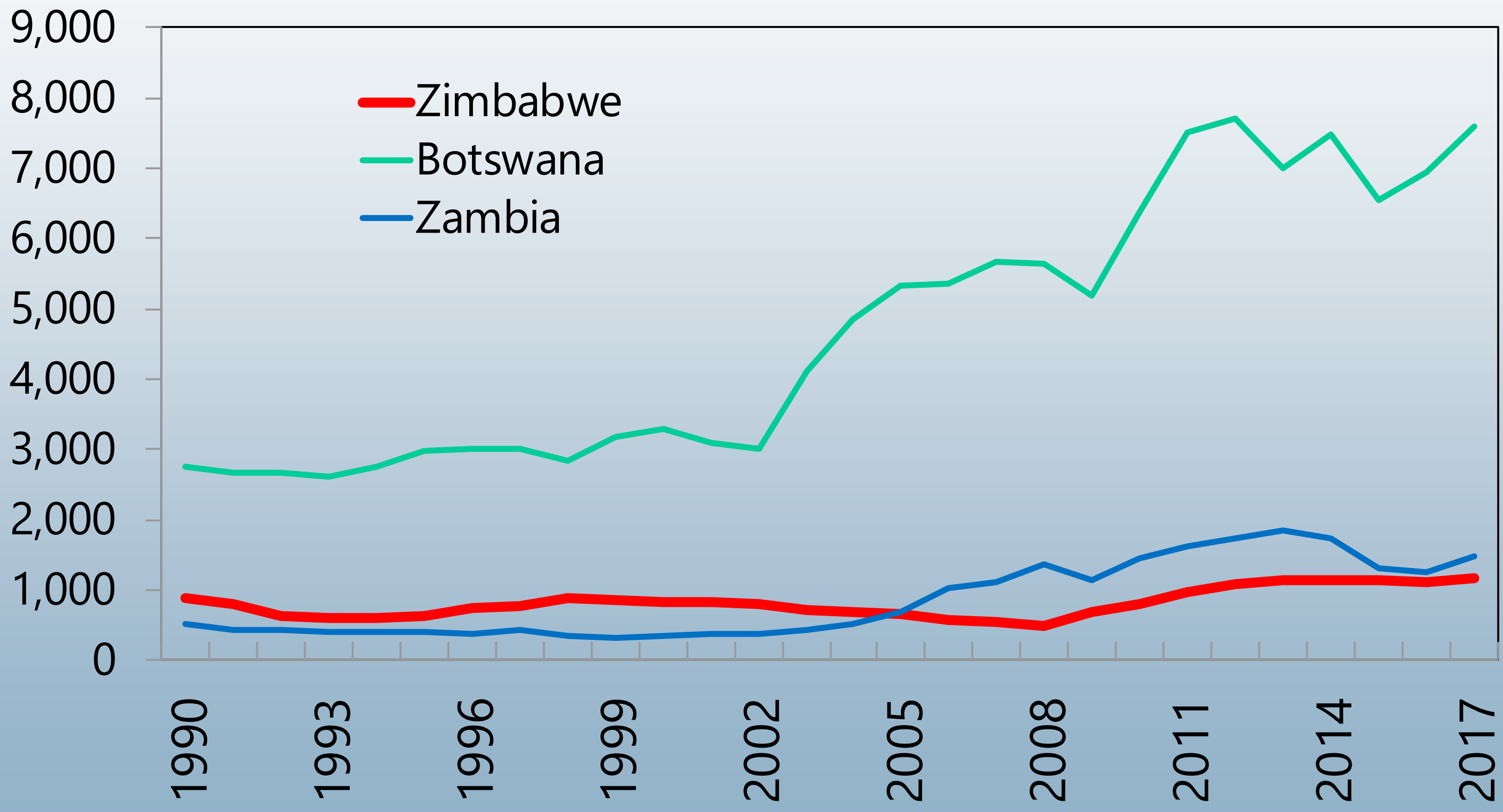
Structural reforms

- Reduce public sector foot print in the economy
- Address the surrender requirements– they now act as a tax to exporters
- Address competitiveness issues
- Governance Reforms
- SOEs reform

EVOLUTION OF SOCIAL INDICATORS

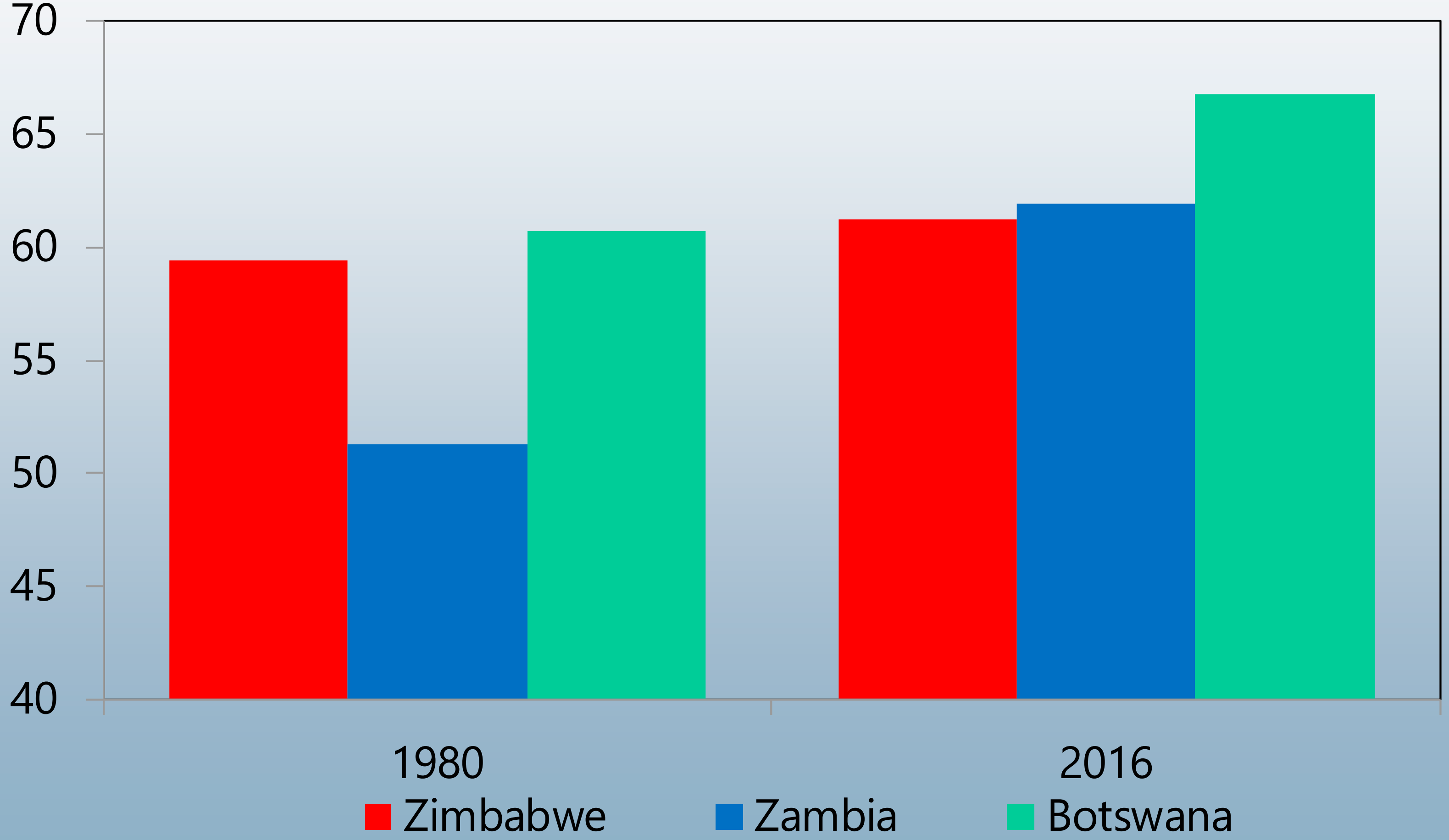
GDP per capita has shrunk by a third since the 1980s …

GDP per Capita

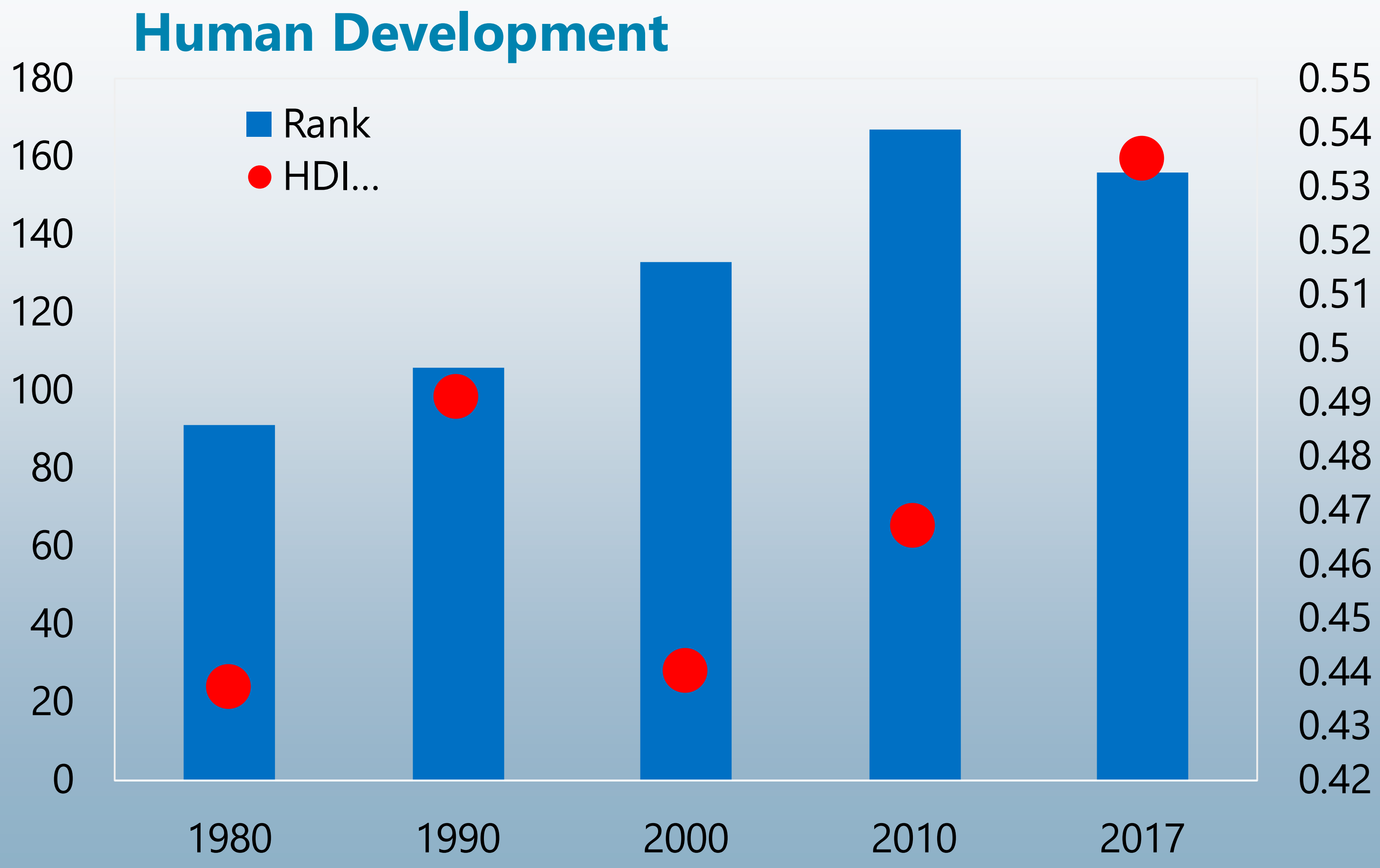


Life expectancy is below that in neighboring countries.

Life Expectancy at Birth



Notwithstanding the improvement in human development, Zimbabwe’s ranking has deteriorated



Risks associated with reform process

- Delays in implementing the needed fiscal consolidation measures, without which it is not possible to stabilize prices and restore confidence in the economy
- Weak agricultural growth and food insecurity from the adverse impact of the anticipated El Niño
- A long delay in clearing external arrears and reengagement with the international community, jeopardizing growth prospects and debt sustainability;
- Global trade tensions.

Transitional Stabilization Program (TSP)

- 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.

Staff Monitored Program

- **The program would be a translation of the TSP in concrete and measurable reform:**
  - Assist the authorities to implement and monitor the key policies outlined in their TSP
  - The program would help Zimbabwe build a track record of sound economic policies towards normalizing relations with external creditors
  - 2019 budget would need to halt central bank financing of the budget

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

Road Map

Road Map

- Fund engagement
- Policy priorities

Fund engagement: options

Option	Pros	Cons
SMP	• potential to control fiscal slippages while advancing structural reforms • facilitate debt restructuring	• May have limited appeal to authorities • does not address urgent financial need
SMP + RCF	• build credibility while providing emergency financial assistance	• no ex-post conditionality and weak track record of authorities mean catalytic role could be minimal • available financing is small compared to needs
ECF	• create space for fiscal and monetary adjustment • catalytic role	• weak track record • reduced int'l support for a financial program, including at the Board

Reforms to address macroeconomic imbalances

- Near-term
  - Resolve policy uncertainty (policy pronouncements)
  - Initiate fiscal consolidation (concentrate more on the expenditure side)
  - Limit monetary financing
  - Decide on monetary policy framework
  - Improve on investment laws
  - Agree arrears clearance plan with IFIs
  - Agree debt treatment plan with official creditors
- Medium-term
  - Rebuild reserves
  - Implement new monetary policy framework
  - Reduce infrastructure gap
  - Enhance agricultural productivity
  - Adopt structural reforms for private-sector led growth
  - Adopt fiscal rules to manage commodity price volatility

Thank you