

International Monetary Fund

African Department



“Reengagement: Where are we coming from and where are we heading?”

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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.



Outlook

- Regional Economic Outlook
- Zimbabwe Economic Outlook
- The re-engagement process
- Way forward



ECONOMIC OUTLOOK



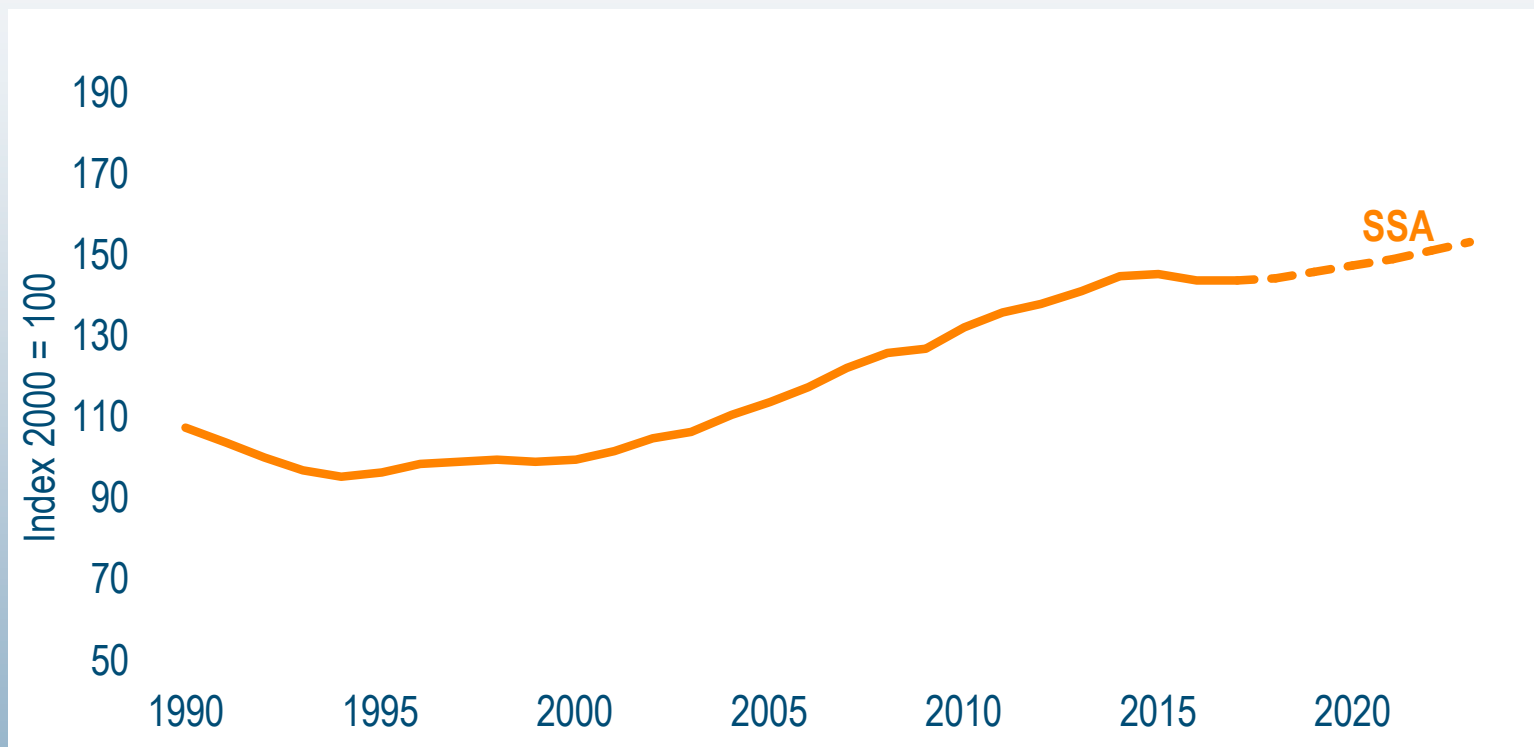
Regional Economic Outlook

- **Economic performance in sub-Saharan Africa remains bifurcated:**
 - ❖ The more diversified economies (21 out of 45) continue to grow at over 5%
 - ❖ But growth remains anemic in other more resource-dependent economies (home to 2/3 of the region's population)



Growth prospects

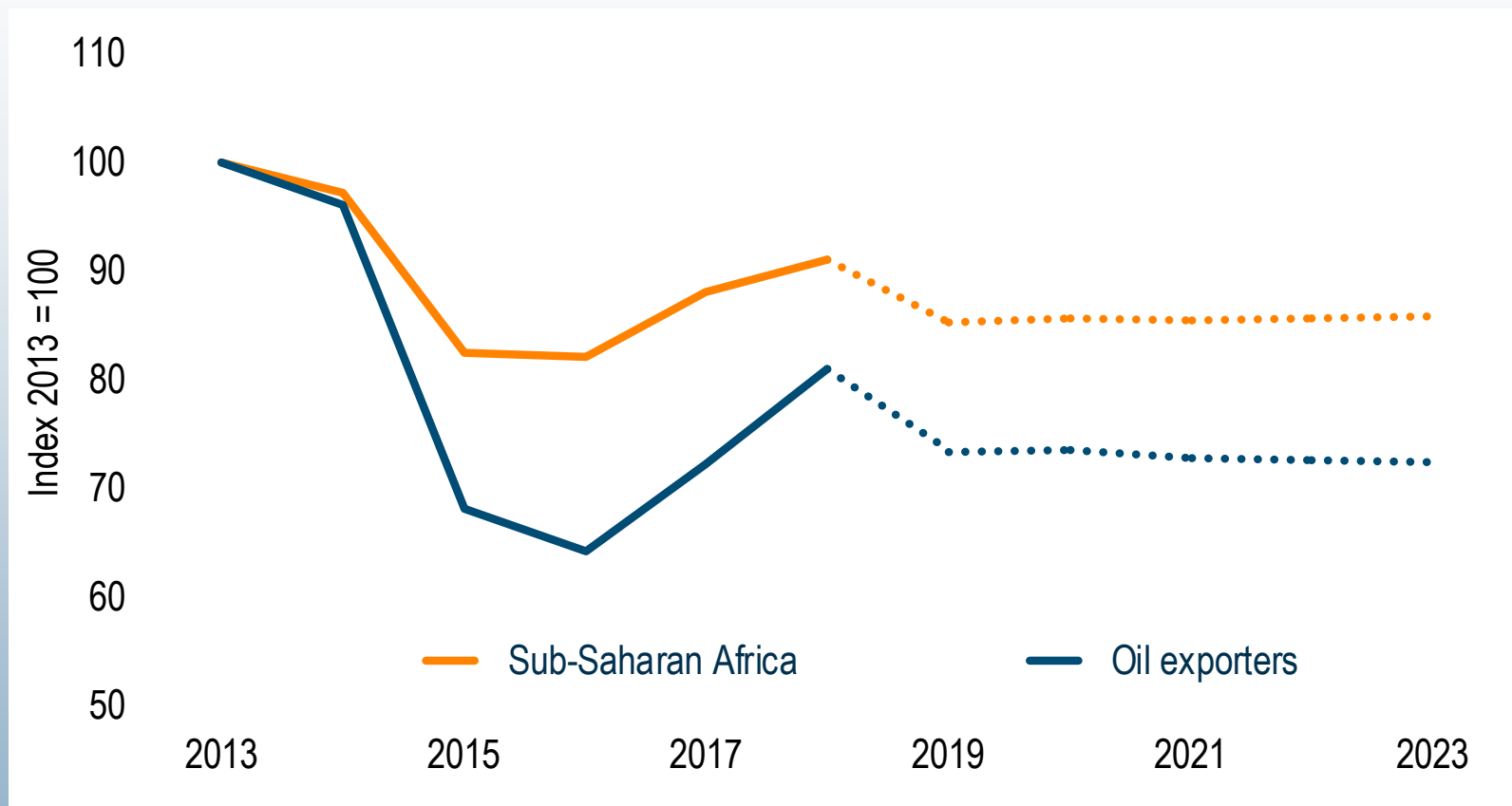
Real GDP per Capita, 1990–23



Source: IMF World Economic Outlook database.



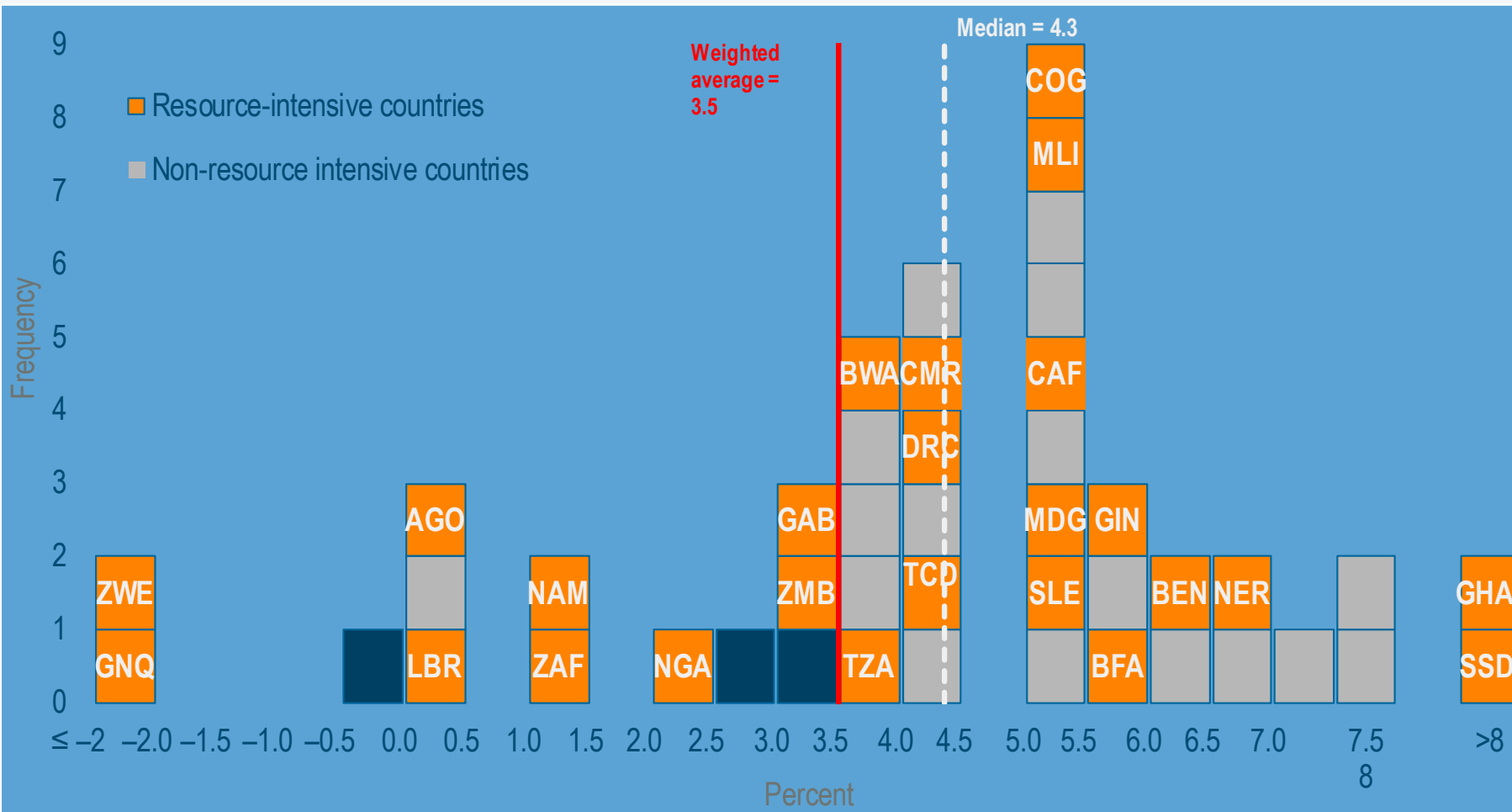
Goods terms of trades 2013 to 2023



Source: IMF World Economic Outlook database.



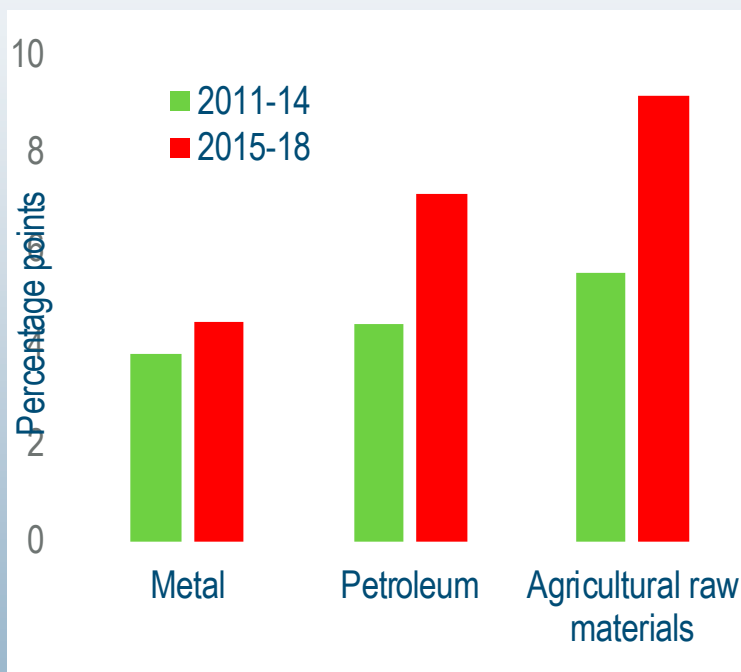
Real GDP Growth Distribution, 2019





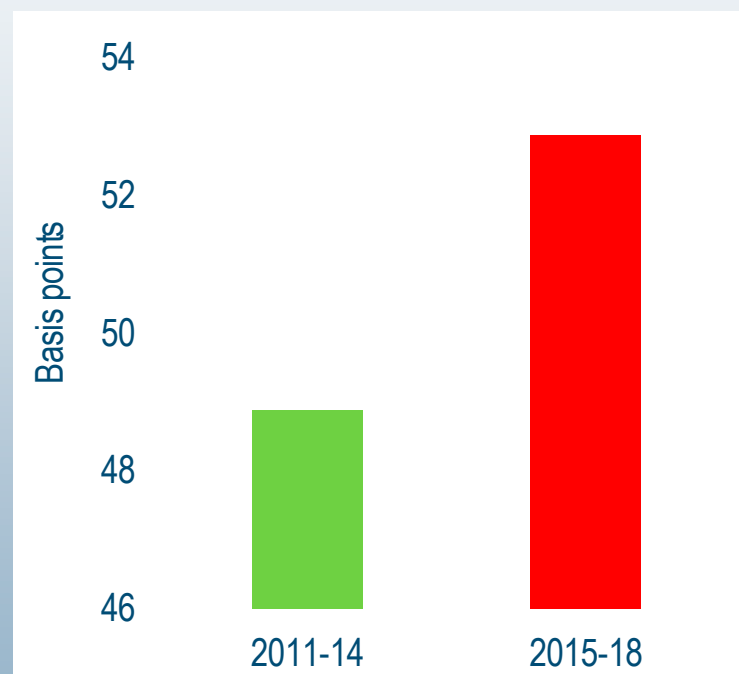
Uncertainties in the external environment pose a challenge for policymakers...

Volatility in Real Commodity Prices, 2011-14 and 2015-18



Sources: IMF, Commodity Price System.

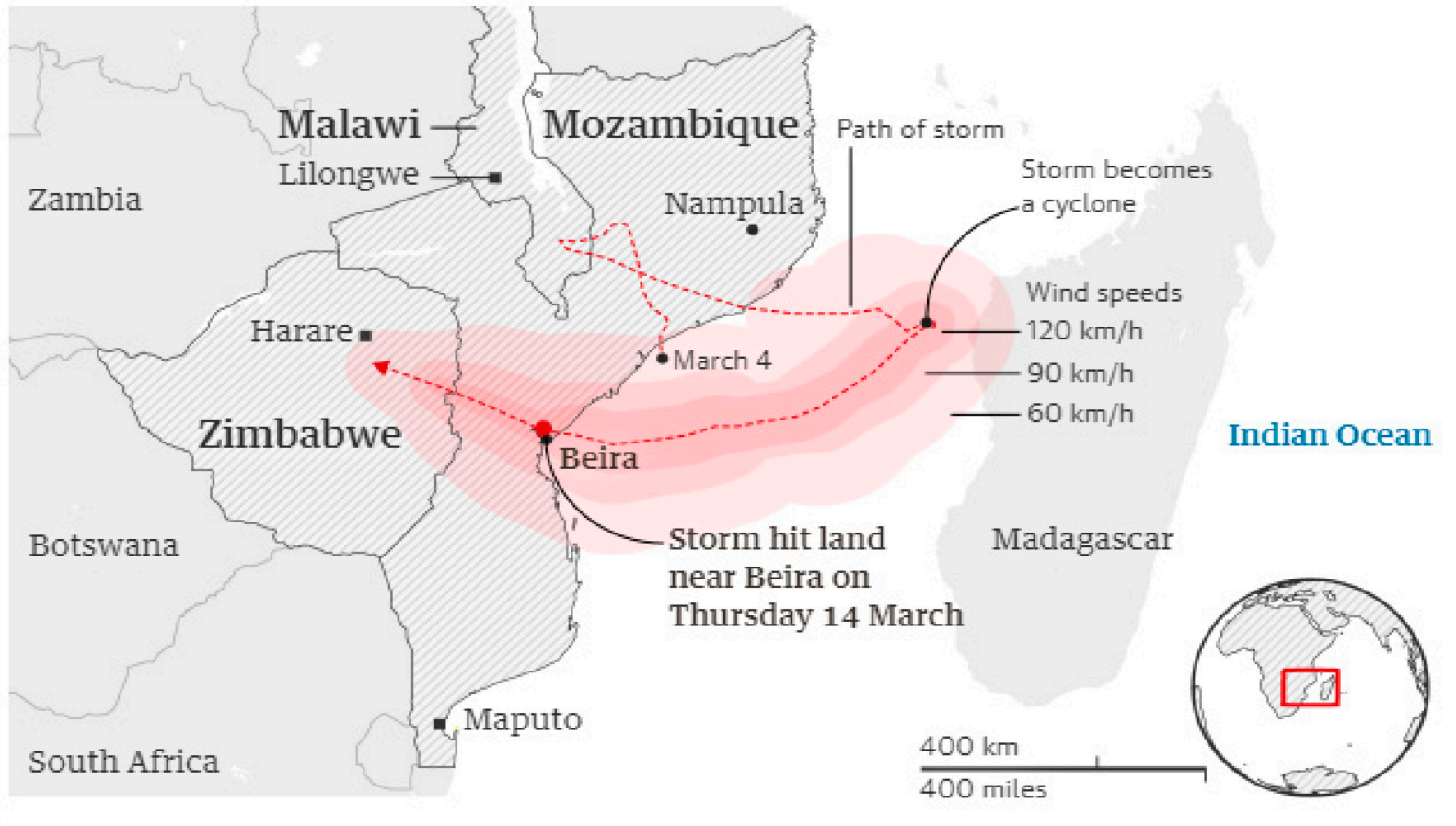
Volatility of EMBI Spreads, 2011-14 and 2015-18



Sources: Bloomberg and staff calculations.



Climate shocks threaten the outlook for a number of southern African countries

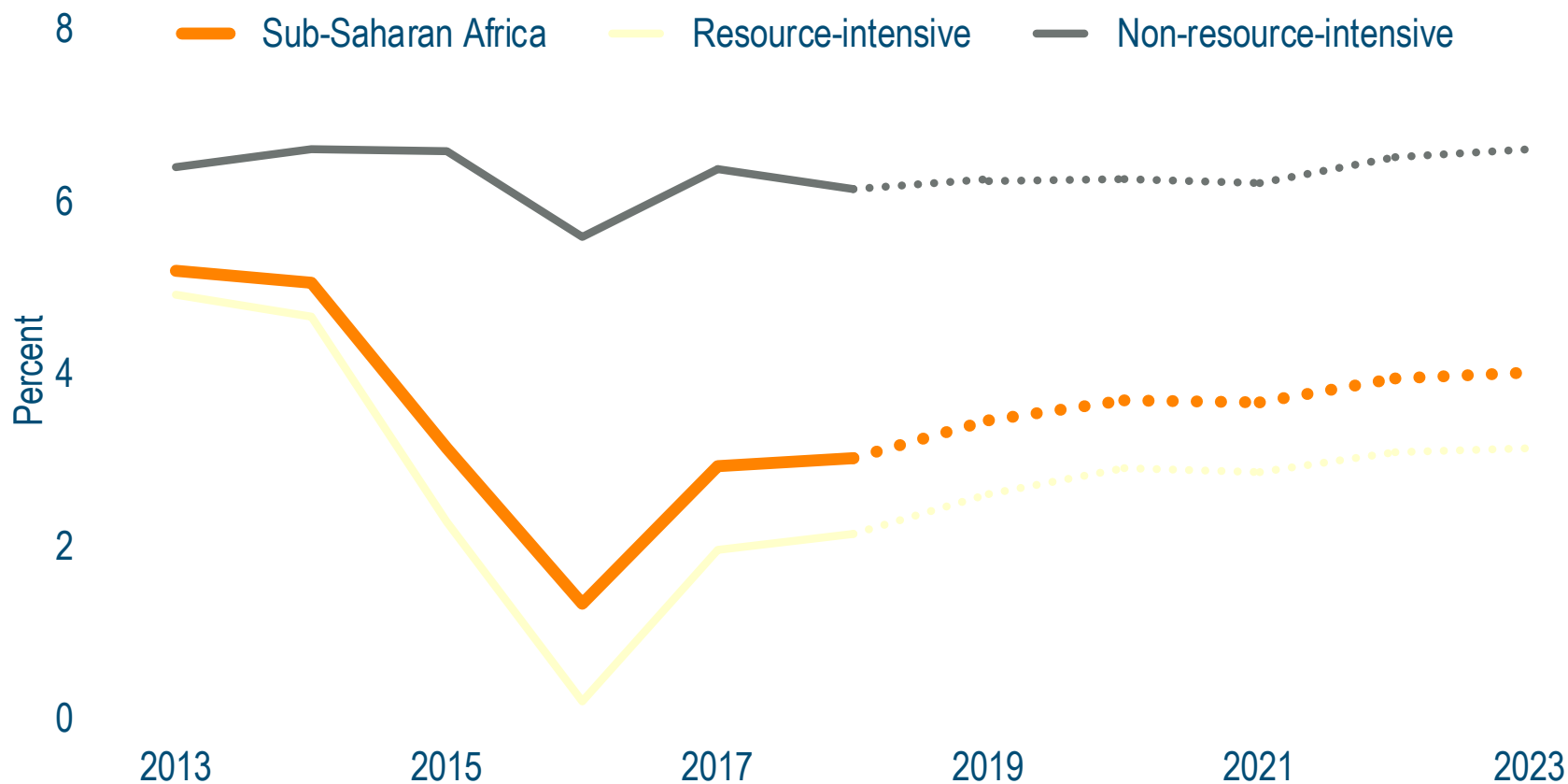


Source: Guardian graphic; Global Disaster Alert and Coordination System.



On current policies, the recovery beyond 2019 looks set to be marginal

Real GDP Growth, 2013-23

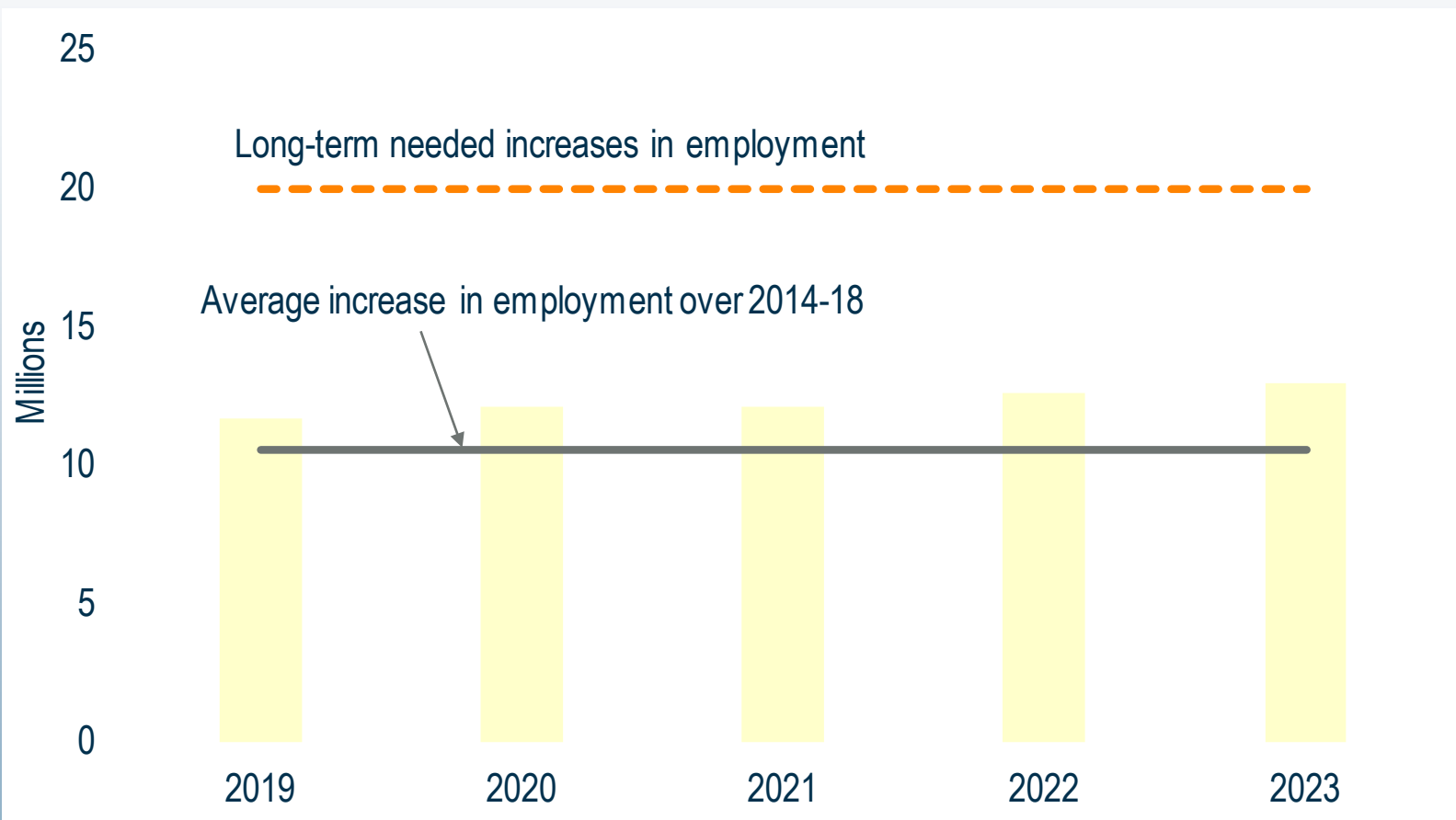


Source: IMF World Economic Outlook database.



...and would not be enough to create much needed jobs in many countries

Change in Employment, 2019-23



Sources: United Nations, International Labour Organization; and IMF staff estimates.



What could be done?

- **Should the current complex and less-supportive external environment worsen:**
 - ❖ Where growth remains strong, continue building buffers
 - ❖ Elsewhere, calibrate policies to support growth where financing and debt considerations allow
- **Reforms needed to manage development spending needs and create jobs:**
 - ❖ Improve tax revenue collections, public financial management, and spending efficiency
 - ❖ Facilitate greater private investment
 - ❖ Raise productivity, including by promoting diversification and export competitiveness
 - ❖ Reduce non-tariff barriers and promote intra-regional trade



Zimbabwe: Economic outlook

- Economic outcomes in 2019 have been worse than anticipated
- Growth is now projected to contract by at least -5 percent in 2019, compared to -2.1 percent under the SMP
- Reflecting the deep effects of economic shocks
 - ❖ The impact of deep fiscal adjustment
 - ❖ A general lack of confidence from past economic mis-management
 - ❖ The authorities' inability to access external financing
 - ❖ This is essential to smooth the impacts of the fiscal adjustment, Cyclone Idai and the drought affecting Southern Africa



Some estimates...

Macroeconomic Indicators	2018	2019	2019
(Annual % change, unless otherwise indicated)		SMP	Proj.
Real GDP Growth	3.4	-2.1	-5.4
CPI (end of period)	42.1	49.6	119.1
CPI (annual average)	10.6	80.8	129.4
Nominal GDP (RTGS billions)	42.8	70.3	82.5



Sectors are heavily impacted

- ◆ The agriculture sector is expected to contract by at least 15 percent
 - ❖ drought has crippled agriculture, with maize production—cut by about a half
 - ❖ tobacco underperformed



Sectors are heavily impacted (Con't)

- ◆ Low rainfall has curtailed hydroelectricity generation
 - ❖ Power is rationed nationwide, with outages reaching 18 hours a day in Harare
 - ❖ Importation of electricity from South Africa and Mozambique has stalled due to a lack of FX or access to external financing
 - ❖ Equipment is outdated at most power stations
- ◆ Mining is expected to contract by 10 percent
 - ❖ as FX shortages, pricing anomalies from the issuance of the new currency, and electricity outages affect output



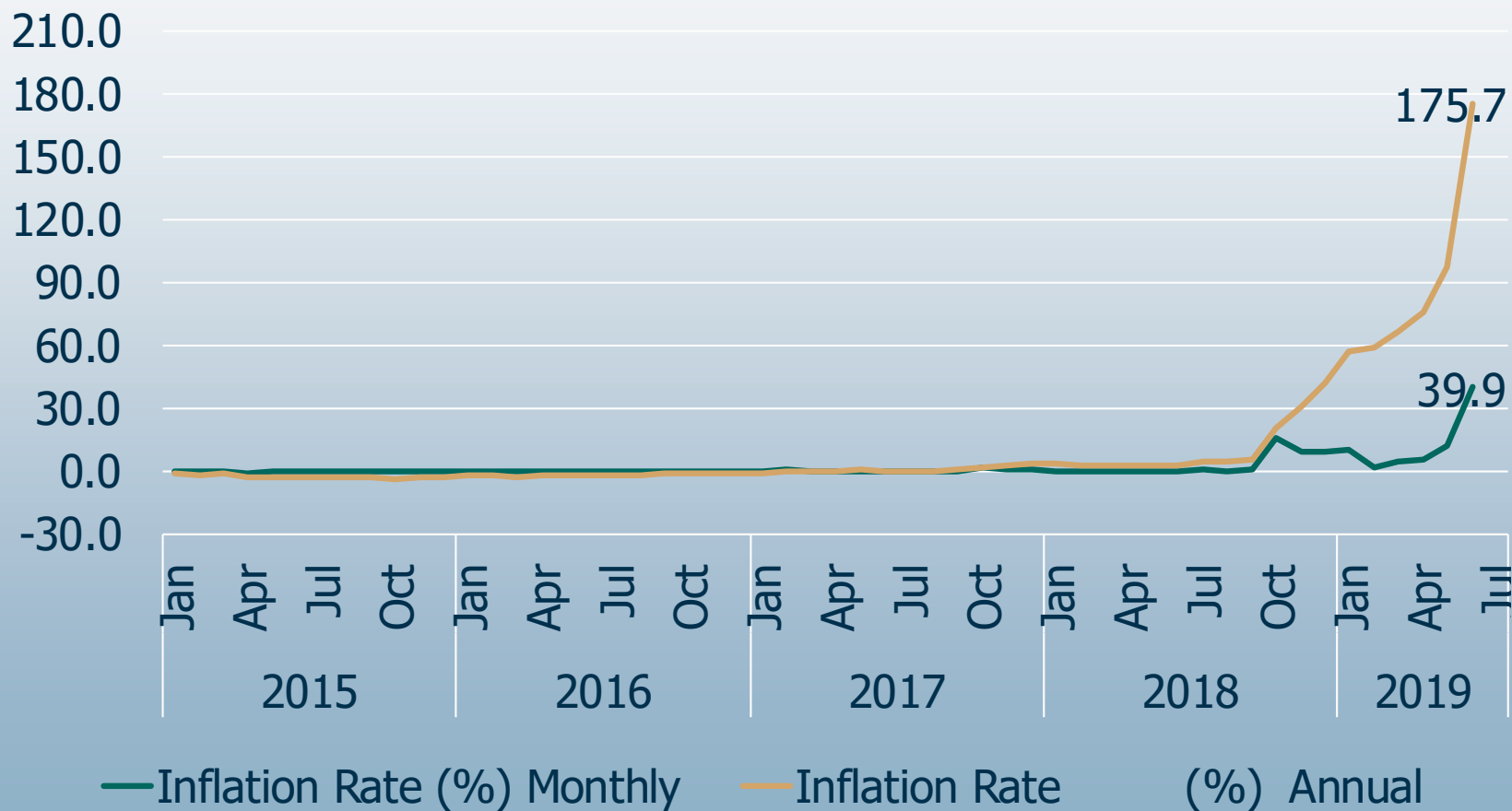
Lack of confidence

- a weak communication strategy
- haphazard implementation of policies,
- opaque transactions,
- distortions caused by multiple exchange rates, and a refusal to move quickly to a market determined exchange rate have exhausted all the country's external buffers
- initial hesitancy in moving to a market-determined exchange rate, has fueled inflation.
- Inflation reached 175 percent (y-o-y) in June, from 5 percent at end-2018 reflecting the continued depreciation of the exchange rate
- The elongated impasse - major stakeholders remain in a 'wait and see' mode



Inflation is rising...

ZWE Inflation





The risks of a humanitarian crisis are rising

- ❖ Cyclone Idai has left 270,000 people in need of emergency humanitarian assistance
- ❖ Drought and cyclone combined has affected 5.3 million people
- ❖ Urban and rural poverty is rising
 - ❖ 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



2019 policy priorities

- ❖ reduce the fiscal deficit to restore public debt sustainability
- ❖ protect investment in infrastructure
- ❖ prioritize social spending, including reconstruction and humanitarian support to respond to the drought and cyclone Idai
- ❖ stop monetary accommodation of the fiscal deficit to stabilize inflation
- ❖ Implement FX reforms to maintain financial stability and improve market functioning
- ❖ advance public financial management reforms



Staff Monitored Program

- **The SMP is anchored on the policies laid out in the authorities' TSP and supports the reform agenda:**

- ❖ Assist the authorities to implement and monitor the key policies outlined in their TSP
- ❖ 2019 budget halts central bank financing of the budget
- ❖ The program would help Zimbabwe build a track record of sound economic policies towards normalizing relations with external creditors
- ❖ Safeguard and protect the most vulnerable



SMP main objectives:

- (i) **reduce the fiscal deficit** to restore macroeconomic stability, while maintaining investment in infrastructure and priority social spending;
- (ii) **stop monetary accommodation** of the fiscal deficit to stabilize inflation and the exchange rate;
- (iii) **increase financial sector stability** by implementing financial sector reforms and tightening the regulatory framework;
- (iv) **address governance and corruption vulnerabilities**; and
- (v) **advance the structural reform agenda**, including in Public Financial Management (PFM) and revenue administration, as well as State-Owned Enterprise Reform.



Risks to the outlook

- **Risks remain tilted to the downside and include factors both within and outside the authorities' control:**
 - ❖ social and political resistance to reform
 - ❖ policy slippages (e.g. currency reform), or interference by vested interests,
 - ❖ spending pressures, particularly on wages, social support, subsidies to SOEs and agriculture, and financial sector bailouts could jeopardize fiscal goals.
 - ❖ the envisaged deep fiscal adjustment needs to be carefully implemented to avoid a too a heavy toll on vulnerable portions of the population



Risks to the outlook (Cont.)

● Factors beyond the authorities control include:

- ❖ a worse-than-envisaged agricultural season,
- ❖ exacerbating risks of poverty and social discontent, and
- ❖ a slow recovery in confidence that delays a resumption of economic activity, particularly in export industries like mining.
- ❖ the outlook also does not factor in a significant macroeconomic impact from Cyclone Idai, and the power cuts going forward



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



Performance under the SMP

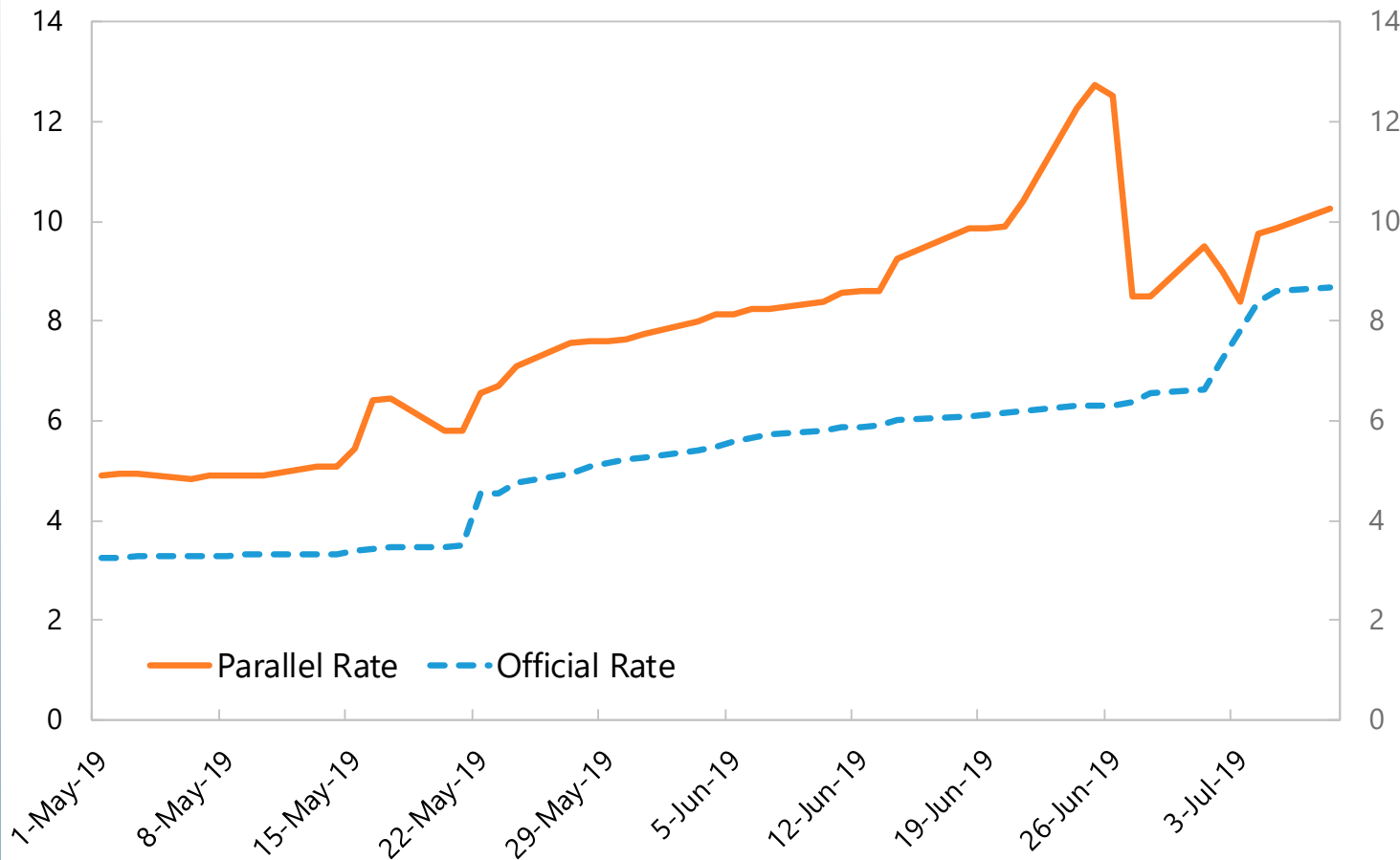
- ◆ fiscal and monetary restraint
 - the fiscal stance is tighter than targeted under the SMP, with the authorities running a surplus through May, compared to a deficit target of 4 percent of GDP for the year
- ◆ in early July the RBZ undertook additional steps to liberalize the currency - in the last three weeks the parallel market premiums are narrowing
- ◆ government domestic debt is declining from \$ bln to \$ bln
- ◆ Government borrowing from the Reserve Bank of Zimbabwe has stopped
- ◆ The authorities have started to address the implicit subsidies that was threatening their fiscal position – electricity, fuel



After a rapid depreciation, the exchange rate is largely stabilized over the past weeks...

Zimbabwe: Official and Parallel Market Exchange Rates

(ZWL\$ per US\$)

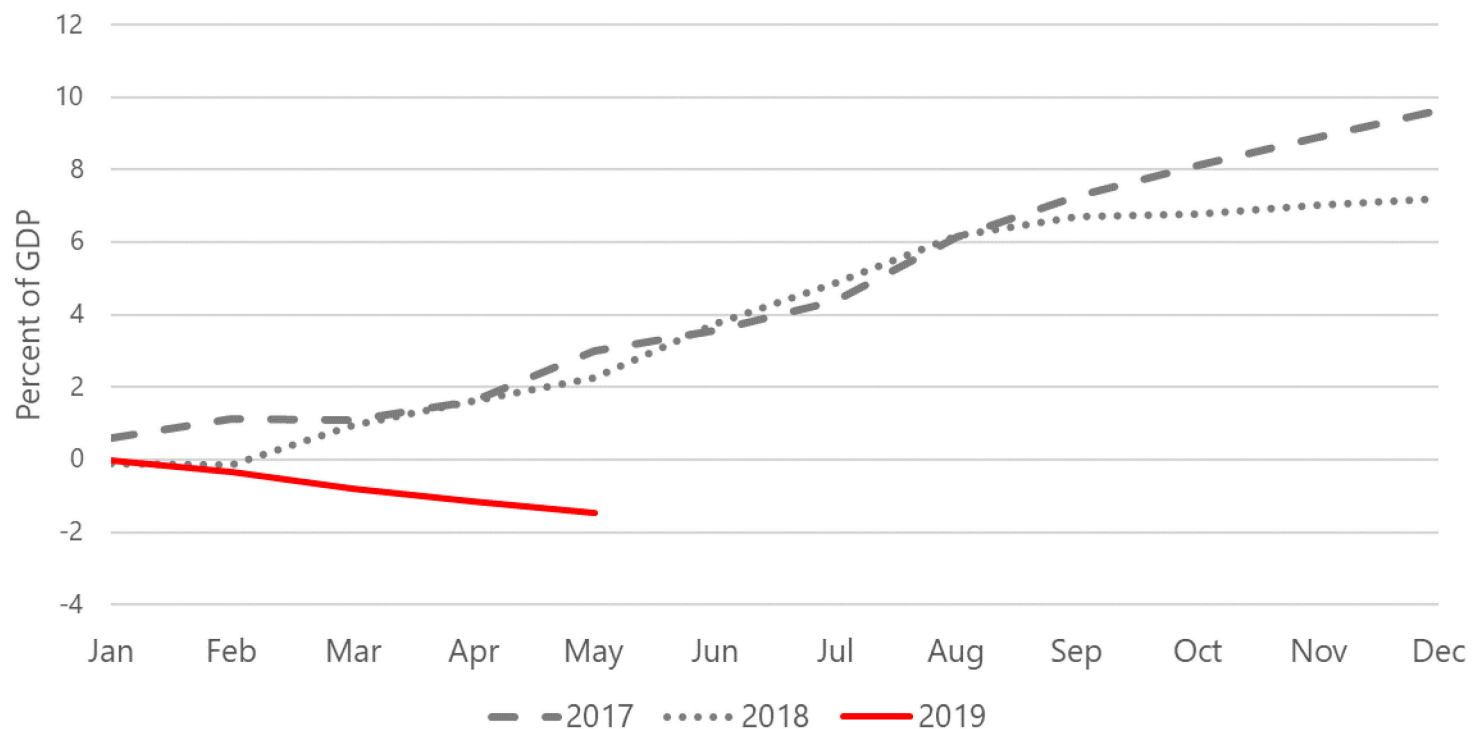




An overall budget surplus so far...

Zimbabwe: Central government overall deficit

(percent of GDP, below-the-line)

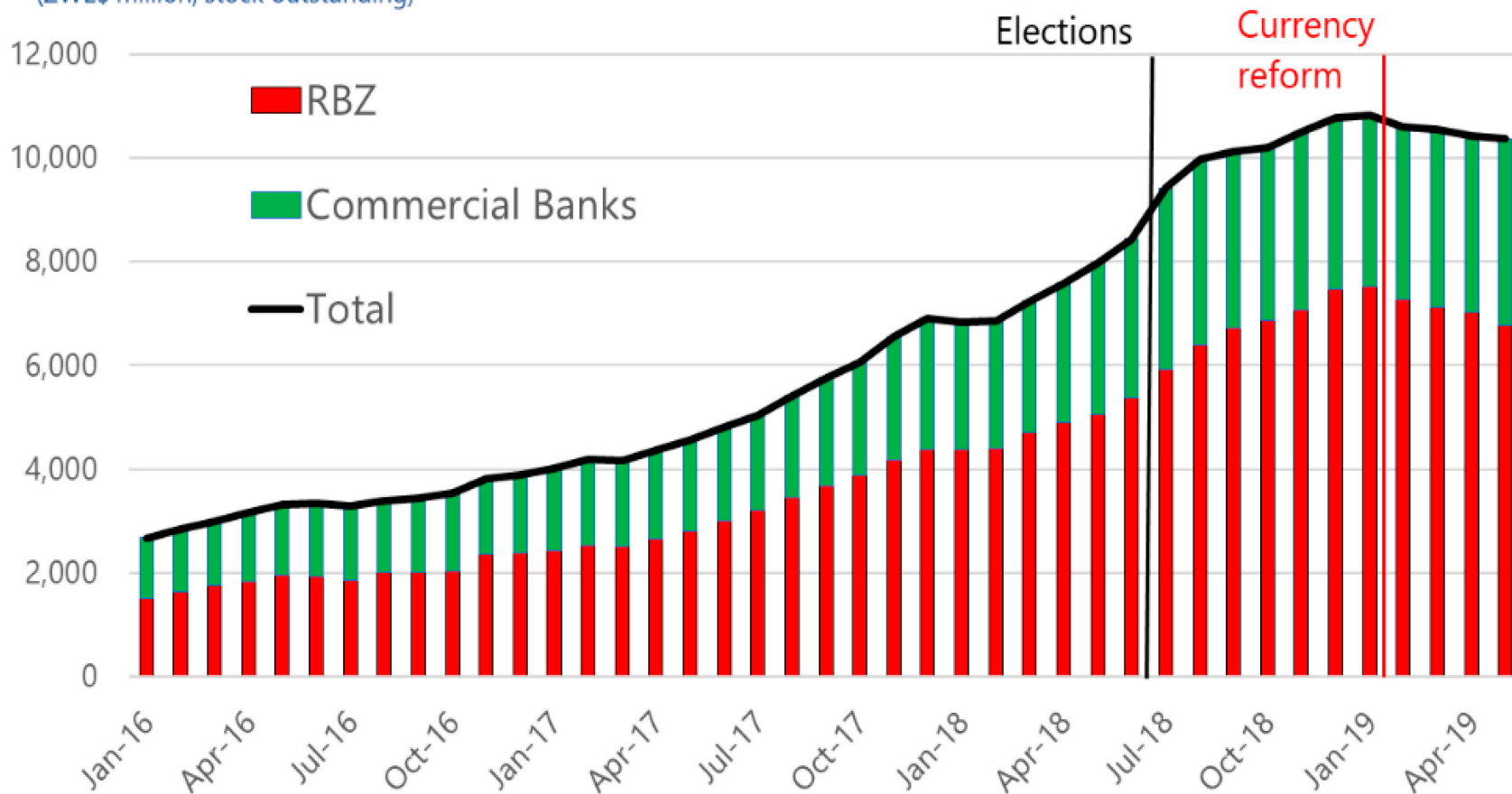




Public domestic debt is declining, and central bank financing stopped...

Zimbabwe: Bank Credit to Government

(ZWE\$ million, stock outstanding)

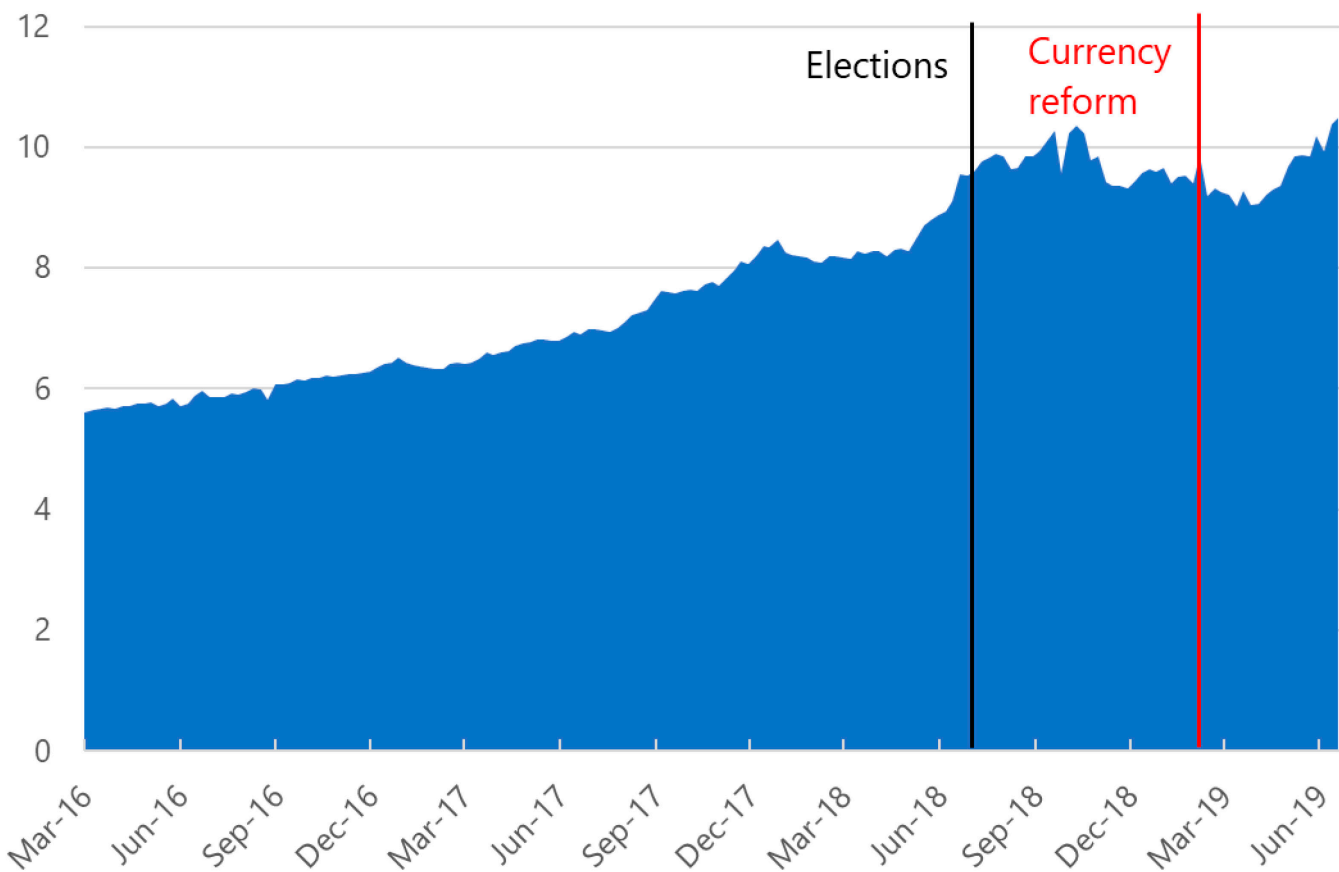




The local currency money supply remains stable...

Zimbabwe: Domestic currency bank deposits

(\$ZWE billions)

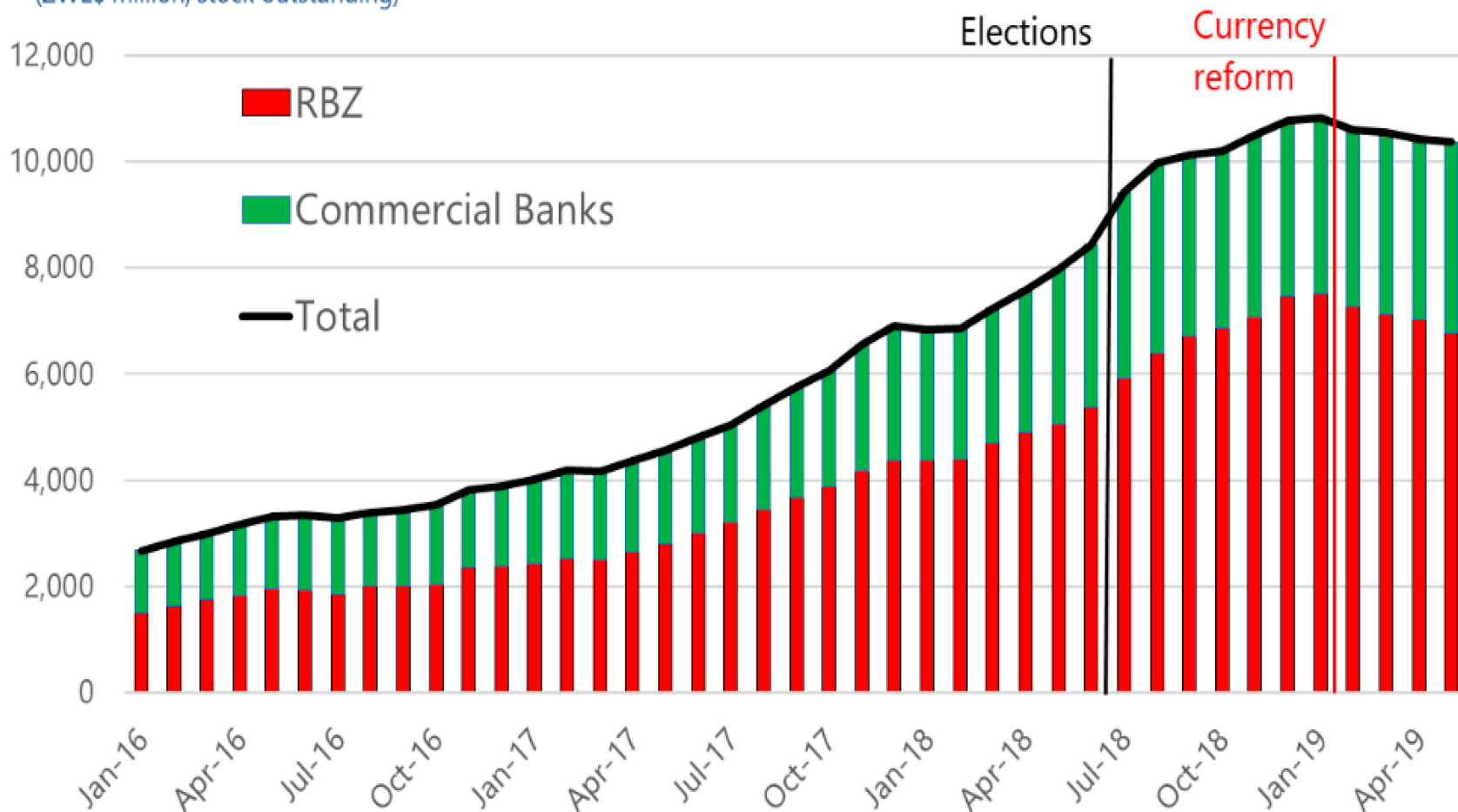




(Cont.)

Zimbabwe: Bank Credit to Government

(ZWE\$ million, stock outstanding)





Fund relations

- The Fund continues to support Zimbabwe's capacity building in:
 - ❖ Debt management, public financial management, and government financial statistics
 - ❖ Monetary policy frameworks & operations
 - ❖ Revenue mobilization and administration
 - ❖ Financial oversight and bank supervision



Full cooperation – Reengagement

- Reengagement with the international community and restoring debt sustainability are important priorities of the Zimbabwean authorities, which the IMF supports
- These priorities require strong economic reforms that address existing imbalances, as outlined in the SMP



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

Imbalances need to be addressed

- ◆ Coherent monetary policy and fiscal frameworks;
 - Fiscal adjustment - contain growth in monetary aggregates
 - stopping monetary financing - stabilize the exchange rate
 - removing exchange restrictions- orderly operation of payment systems
- ◆ build credibility - improve communication and policy consistency
- ◆ bring inflation under control
- ◆ restart investment and growth
- ◆ stop contracting collateralized loans – a commitment under the SMP
- ◆ continue to address the untargeted subsidies– maize, urban water supply, toll fees



Thank you