

International Monetary Fund

African Department



Zimbabwe: Economic Update

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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.



Road Map

1.

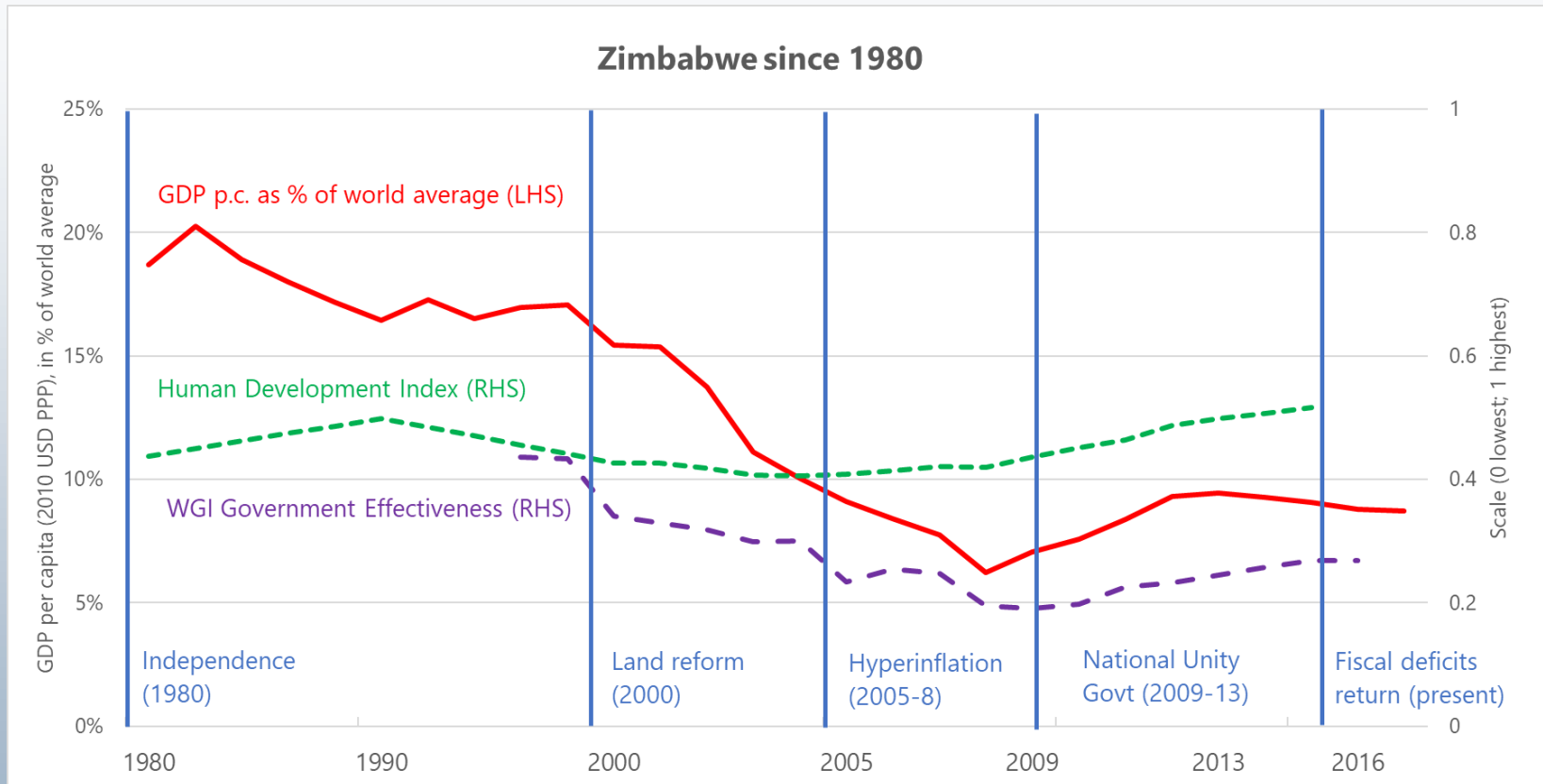
- Recent Past and Current economic situation

2.

- Fund re-engagement and Policy Options



Zimbabwe: A story of stagnation and missed opportunities...

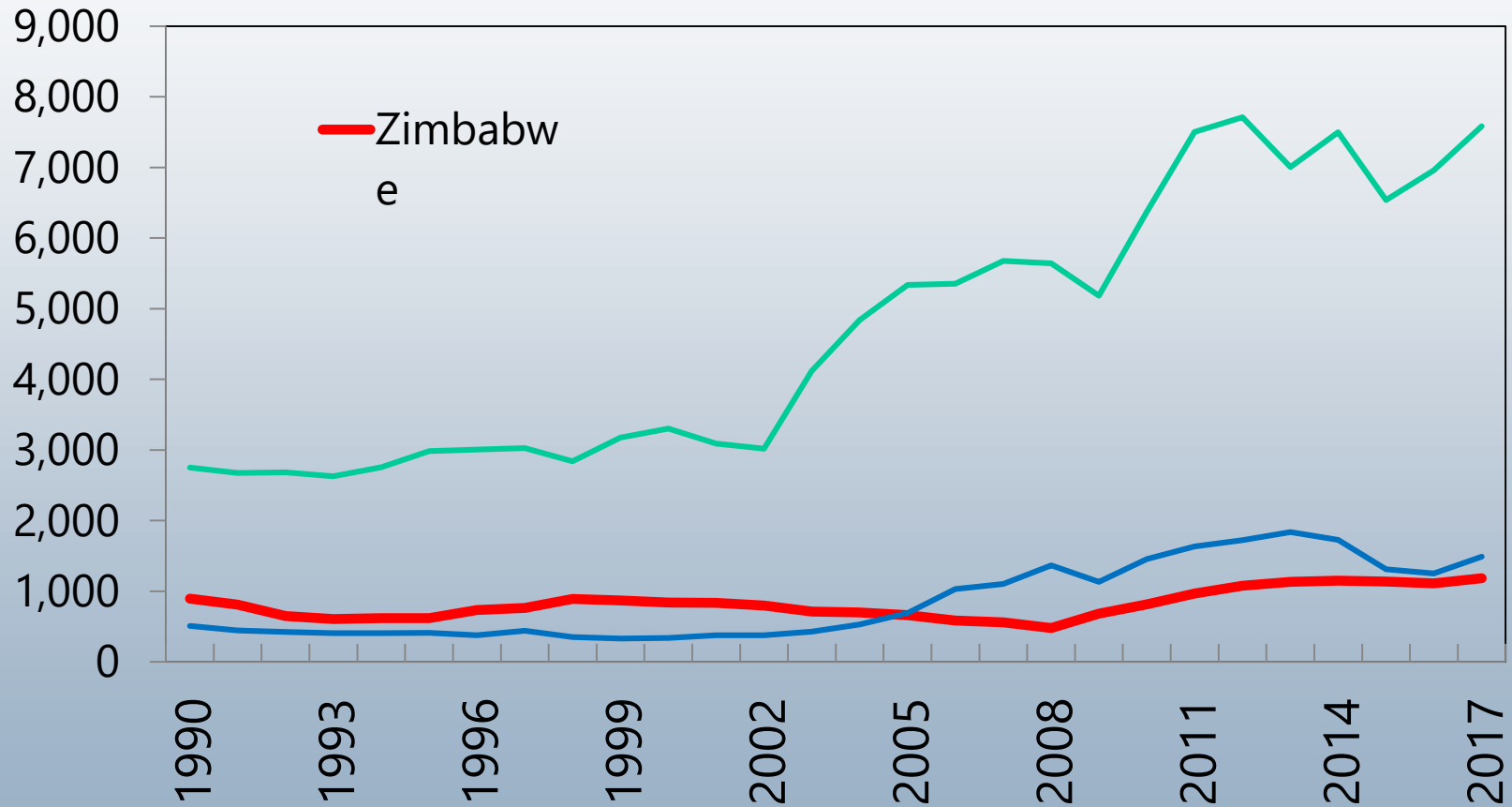


- Large productivity decline since 1980 (from 80% of US TFP to 20% in 2016)
- HDI decline between 1990-2005, as worsening health and life expectancy offset education gains
- Steady erosion in the quality of public services and institutional capacity since the late 1990s



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

GDP per Capita

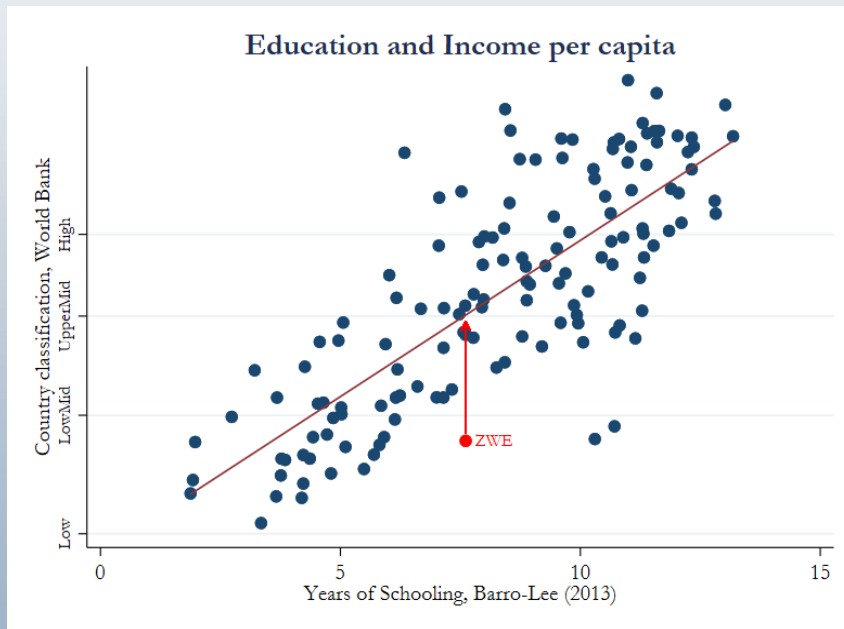




... despite large economic potential.

High human capital

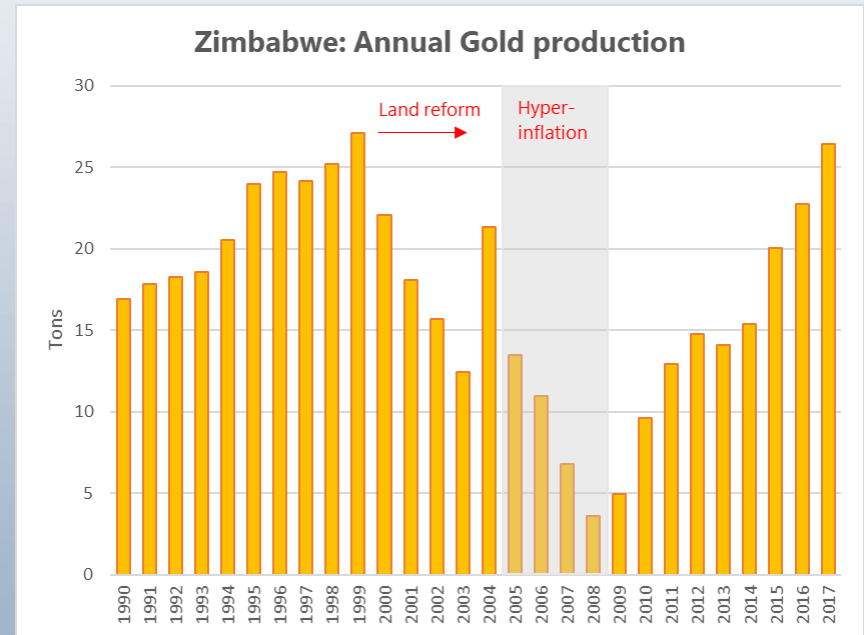
Literacy rate of 85%, in the top quintile of SSA countries



Zimbabwe's human capital stock is consistent with those observed in Upper Middle income countries

Extensive mineral wealth

Mining sector currently generates 50% of FDI and exports



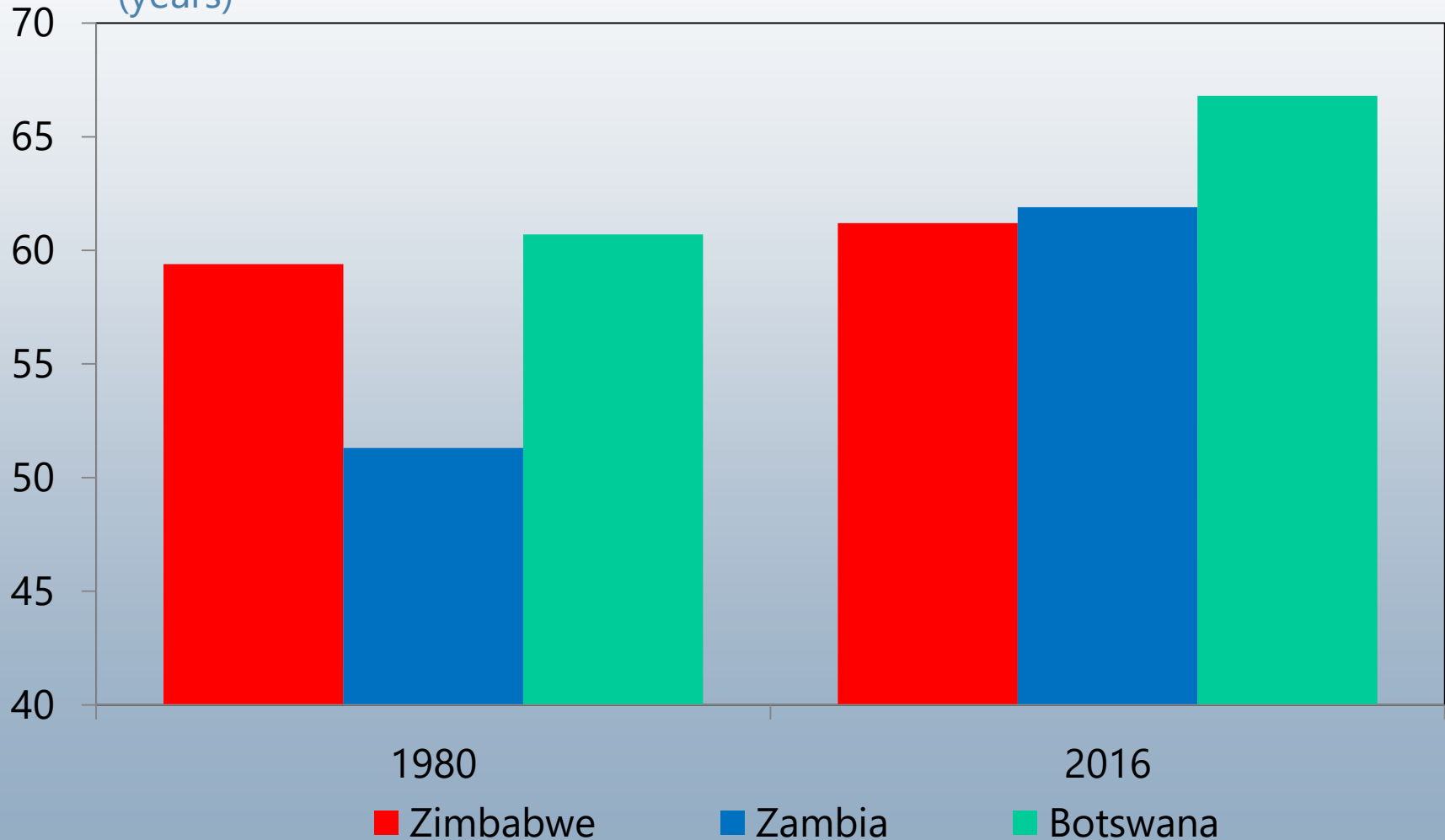
Zimbabwe has 13m tons of underground gold reserves, of which only 611 tons have been mined since 1980



Life expectancy is below that in neighboring countries.

Life Expectancy at Birth

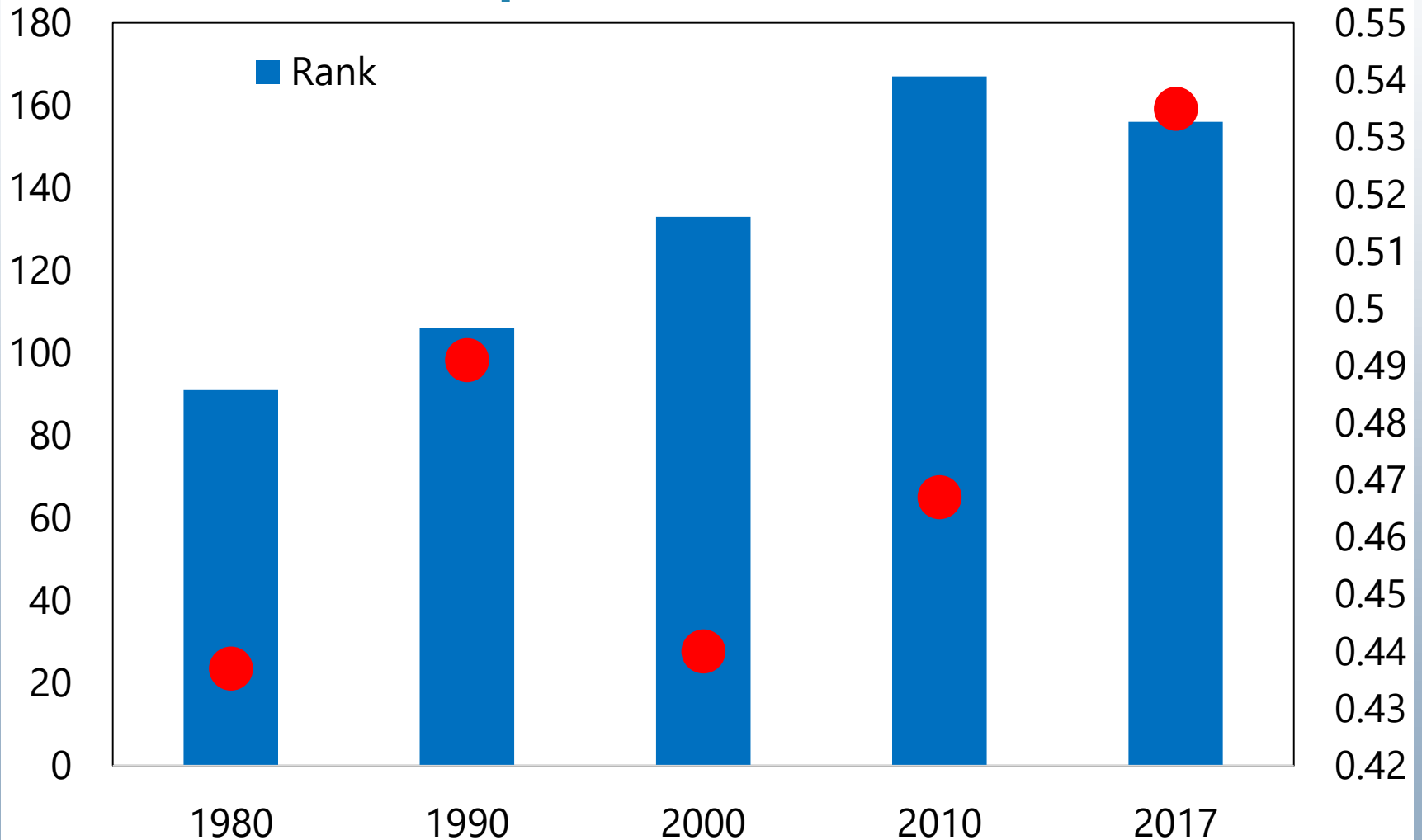
(years)





Despite improvement in human development, Zim's ranking has worsened

Human Development Index



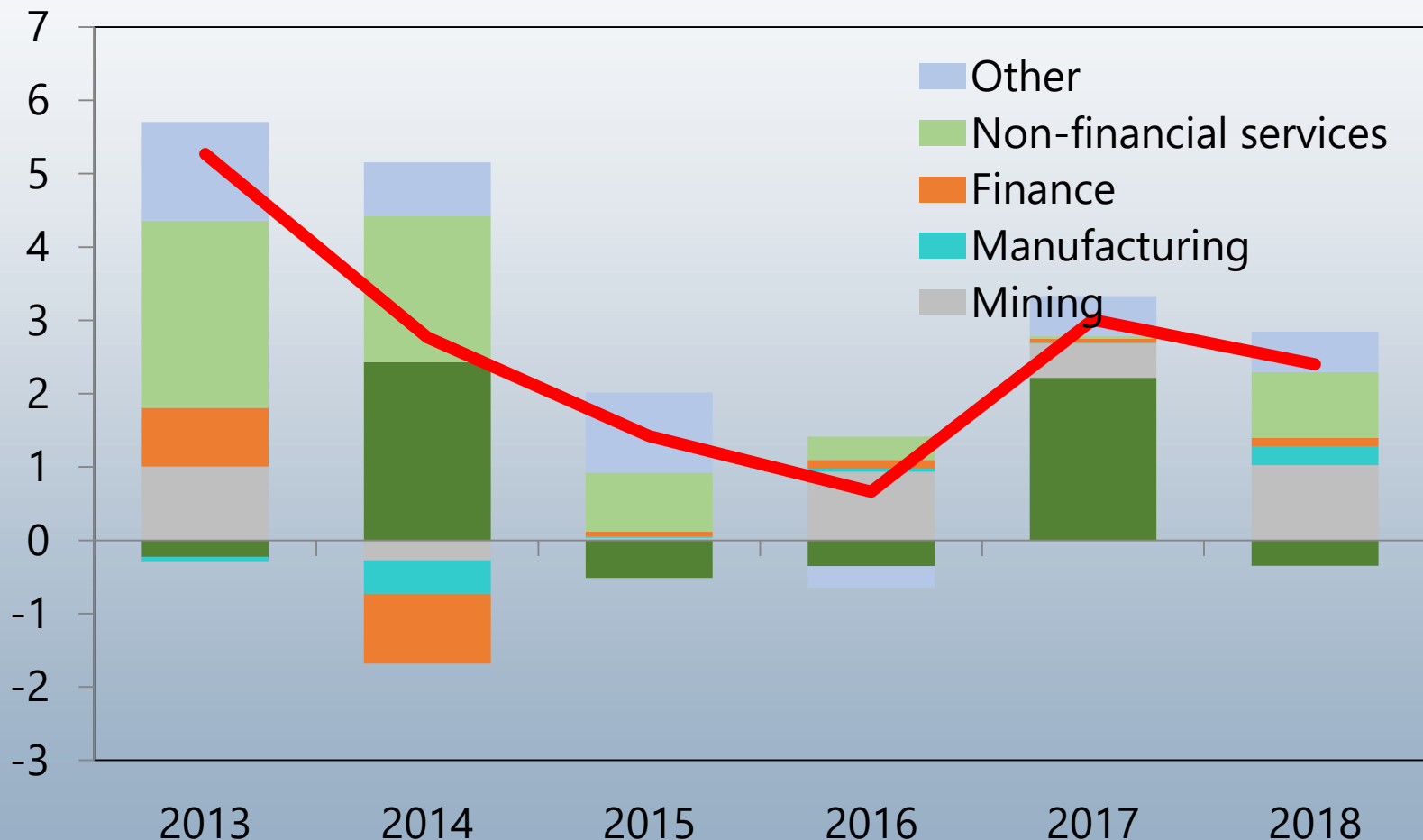


Recent Macroeconomic Development



Growth has recovered somewhat owing to strong performance in agriculture and mining (but is it developmental growth?) ...

Real GDP Growth

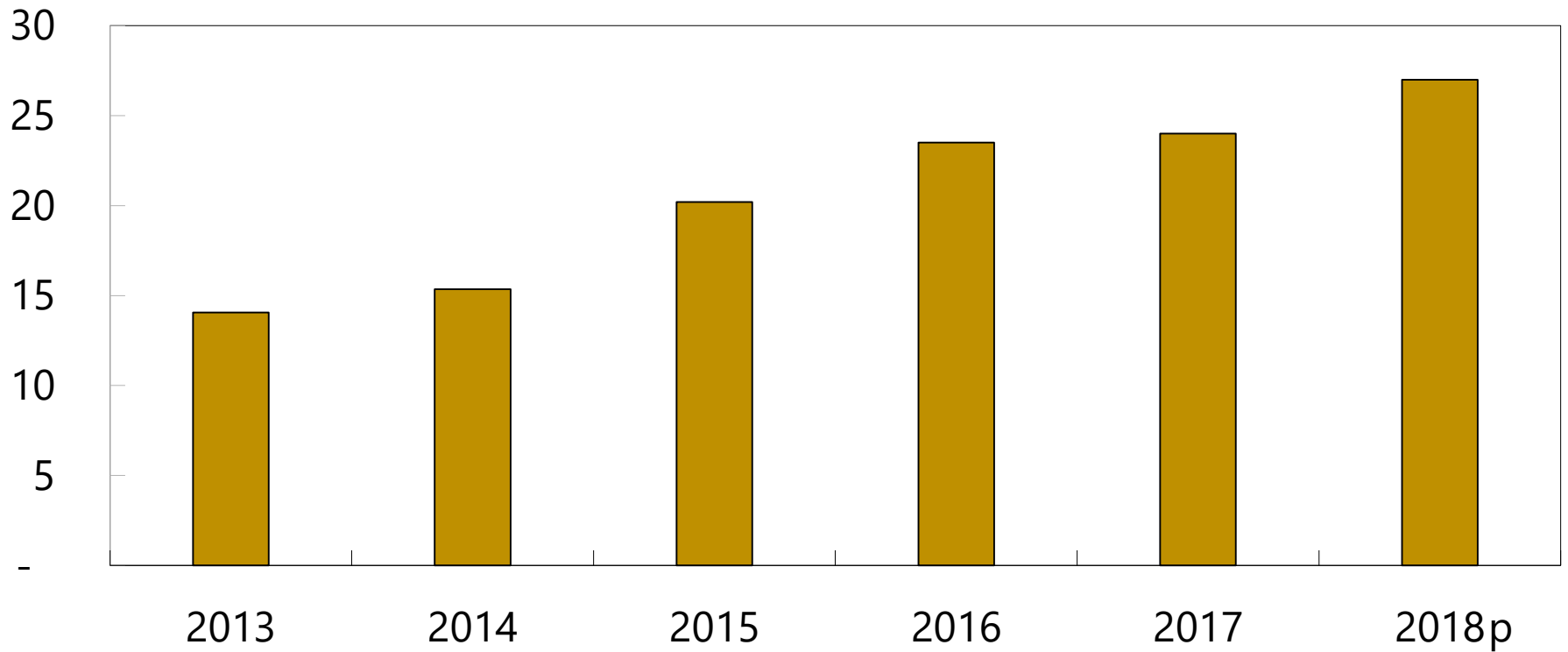




Gold production has increased...

Gold Production

(Metric tons)

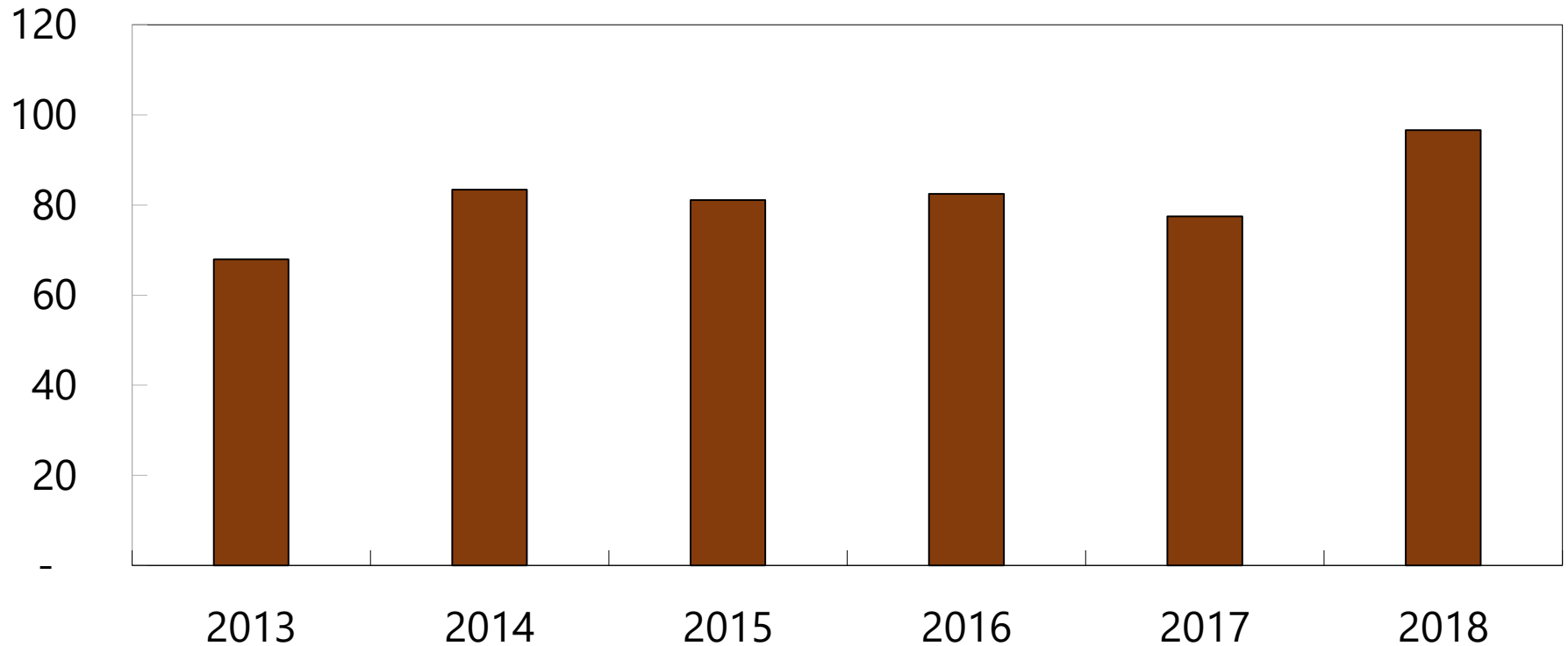




... as has tobacco ...

Tobacco Production

(Million USD)

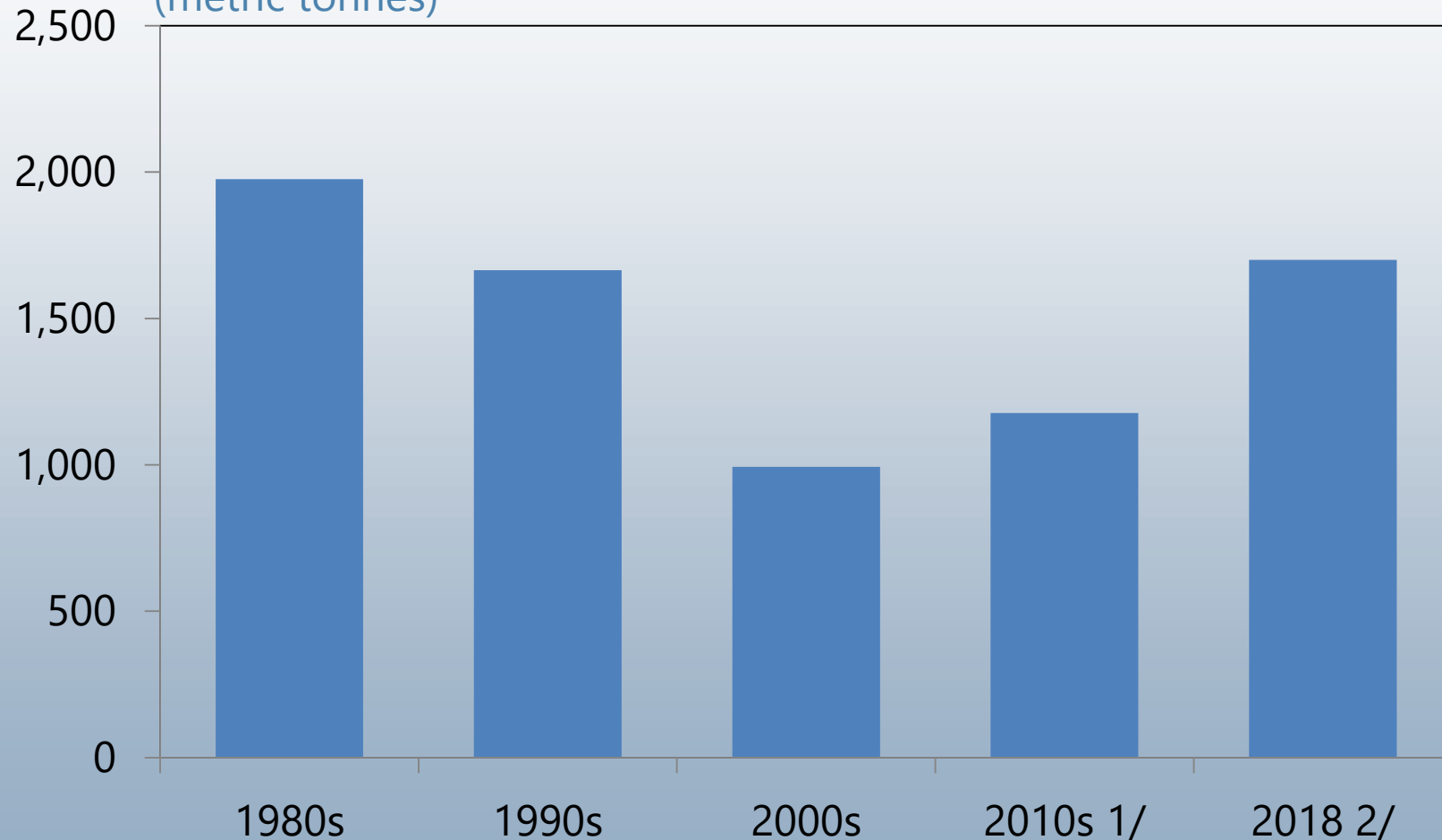




... with Maize production also improving.

Average Maize Production by Decade

(metric tonnes)



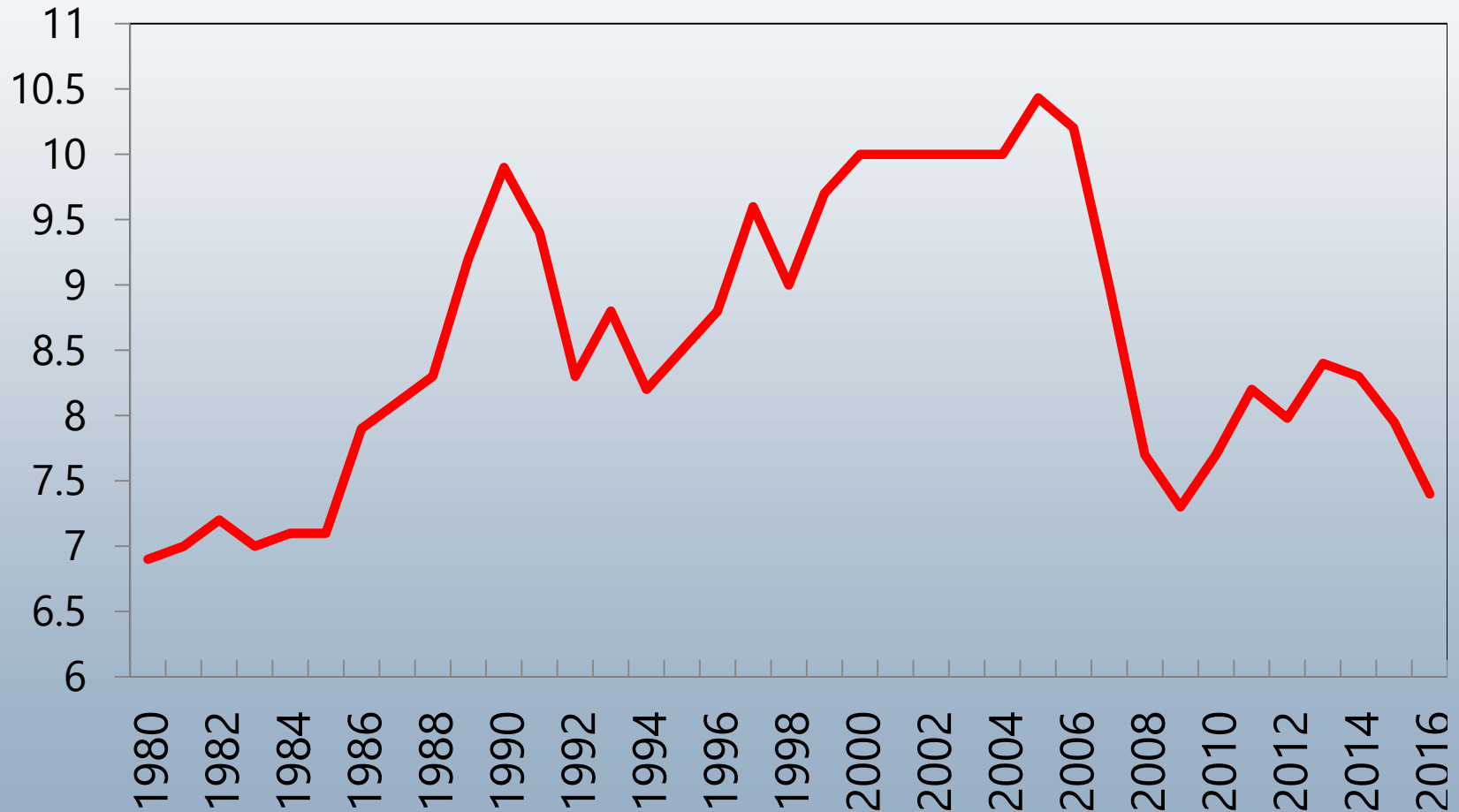
^{1/} Through 2017.

^{2/} Projection.



Electricity consumption is lower.

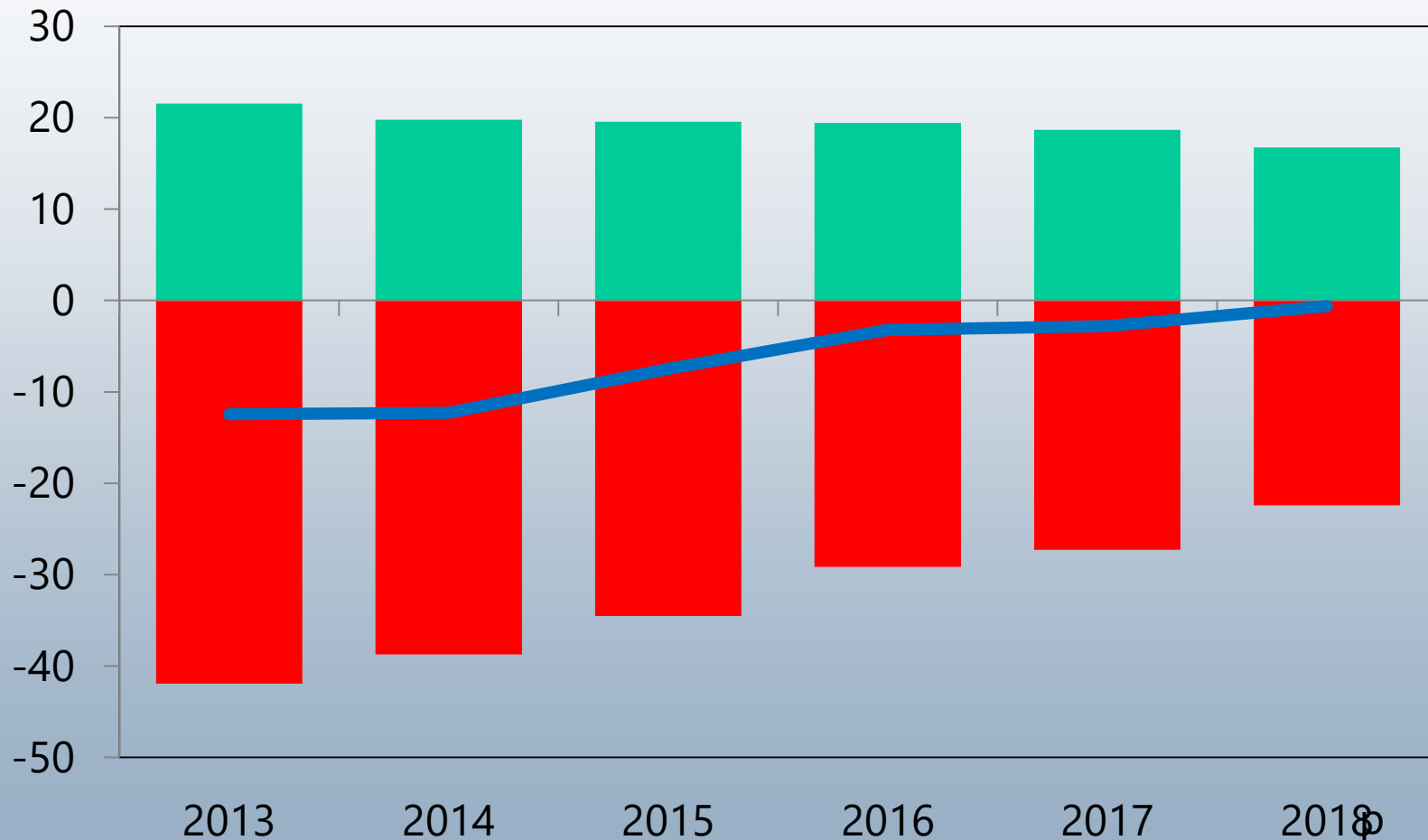
Electricity Consumption





The current account deficit has shrunk due to limited external financing ...

Current Account

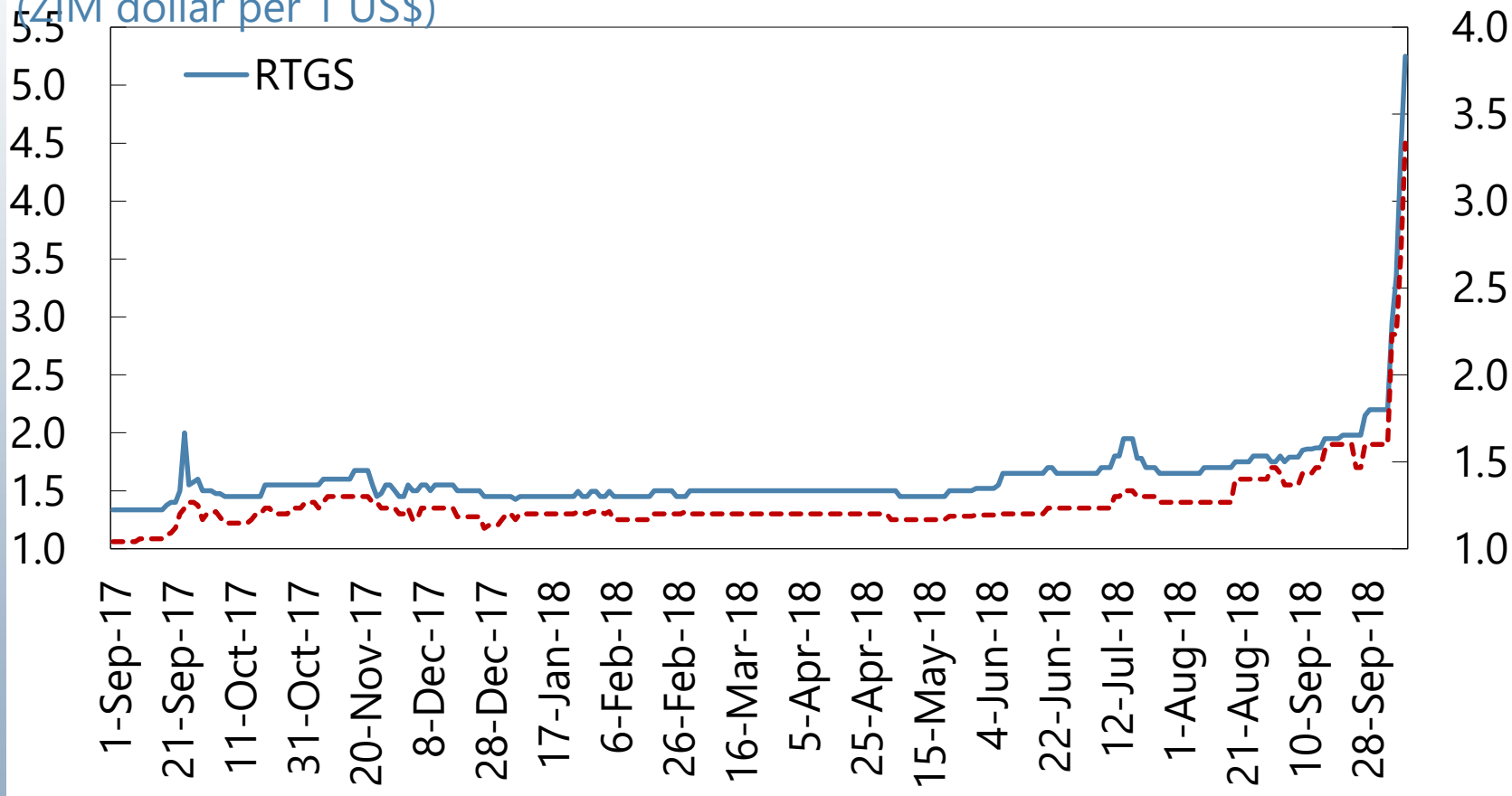




The parallel market exchange has been very volatile recently...

Zimbabwe: Parallel Market Exchange Rate

(ZIM dollar per 1 US\$)

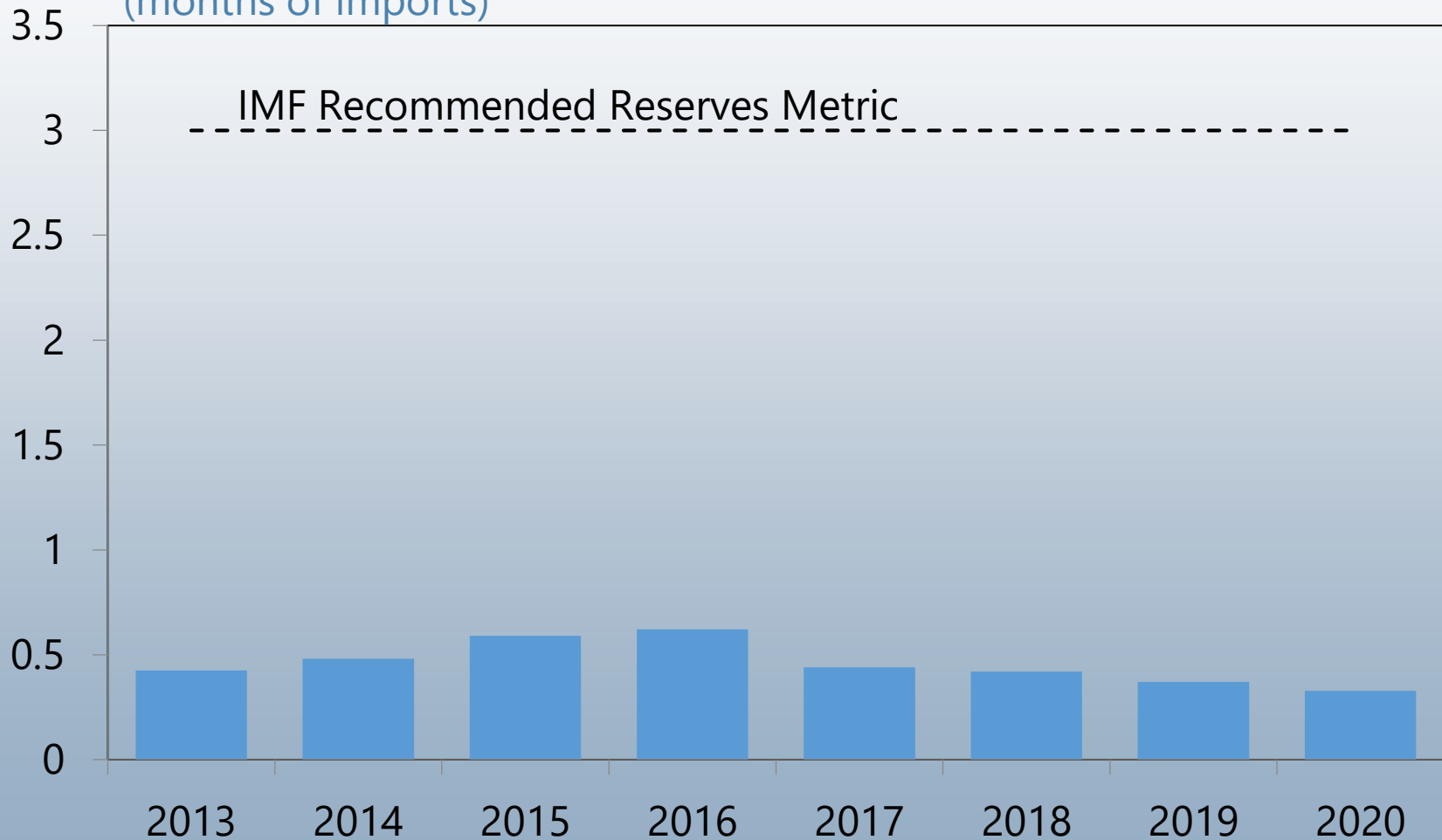




...reflecting policy uncertainty amid a very low level of international reserves.

Gross International Reserves

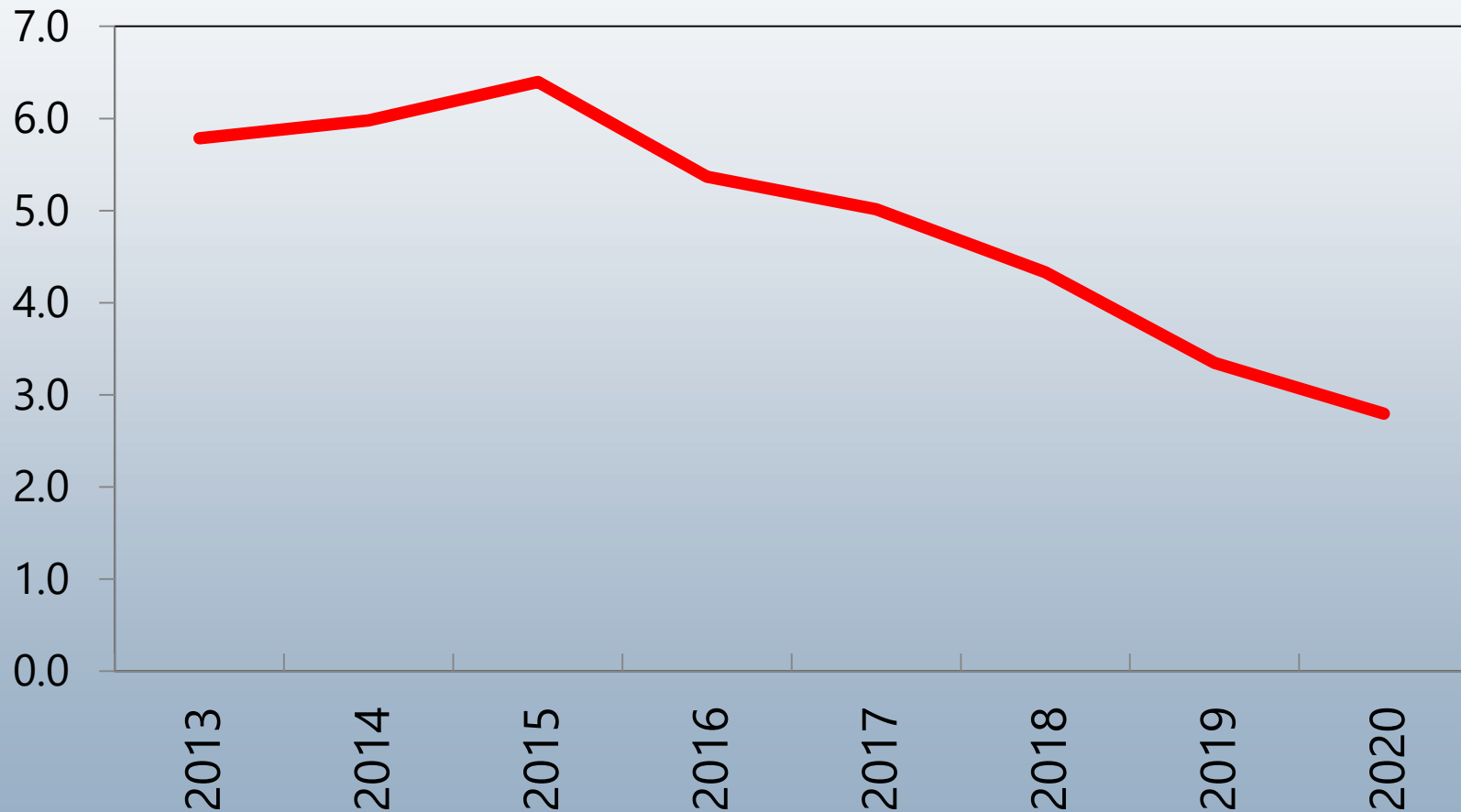
(months of imports)





Remittances are declining...

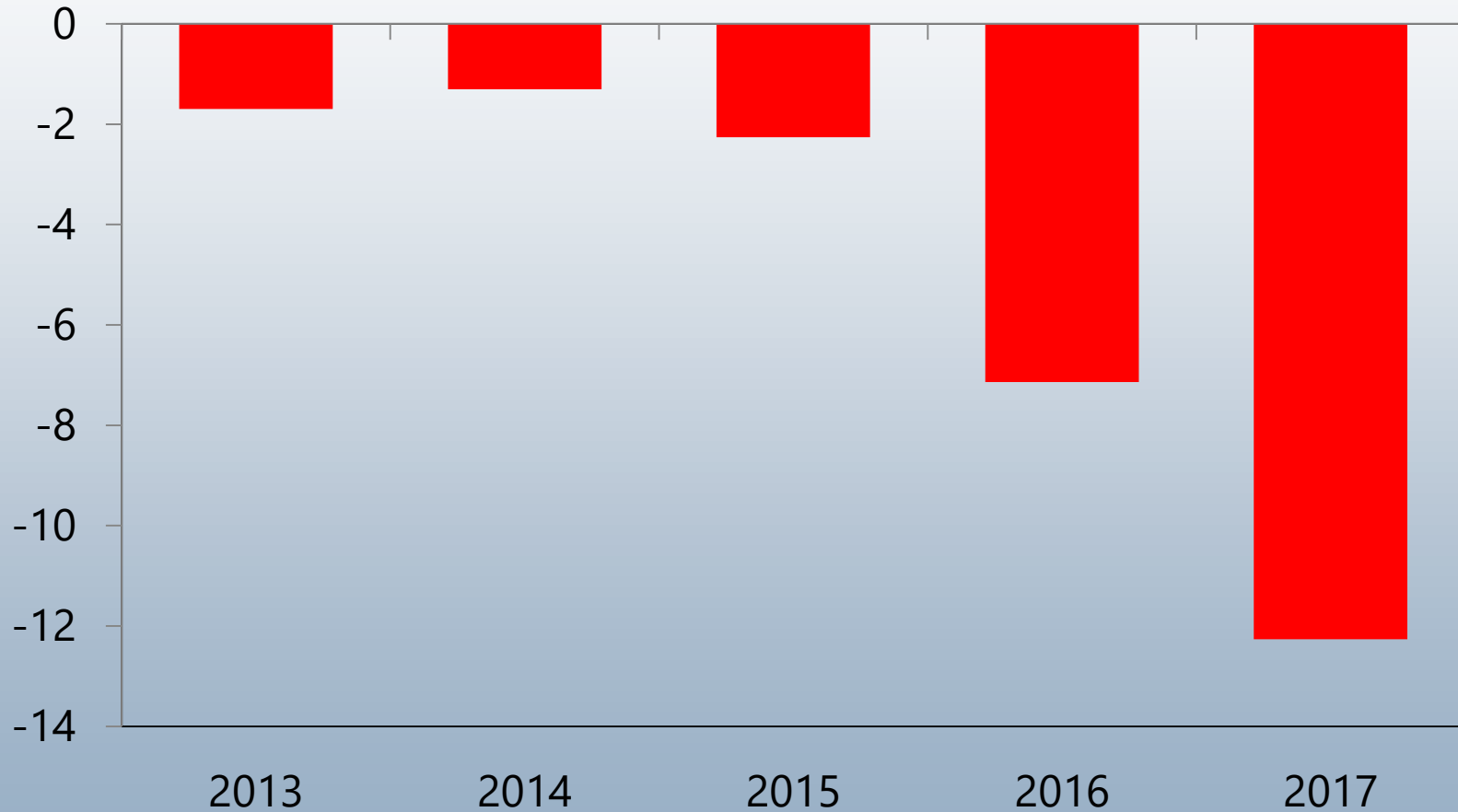
Remittances





Fiscal deficits continue to widen...

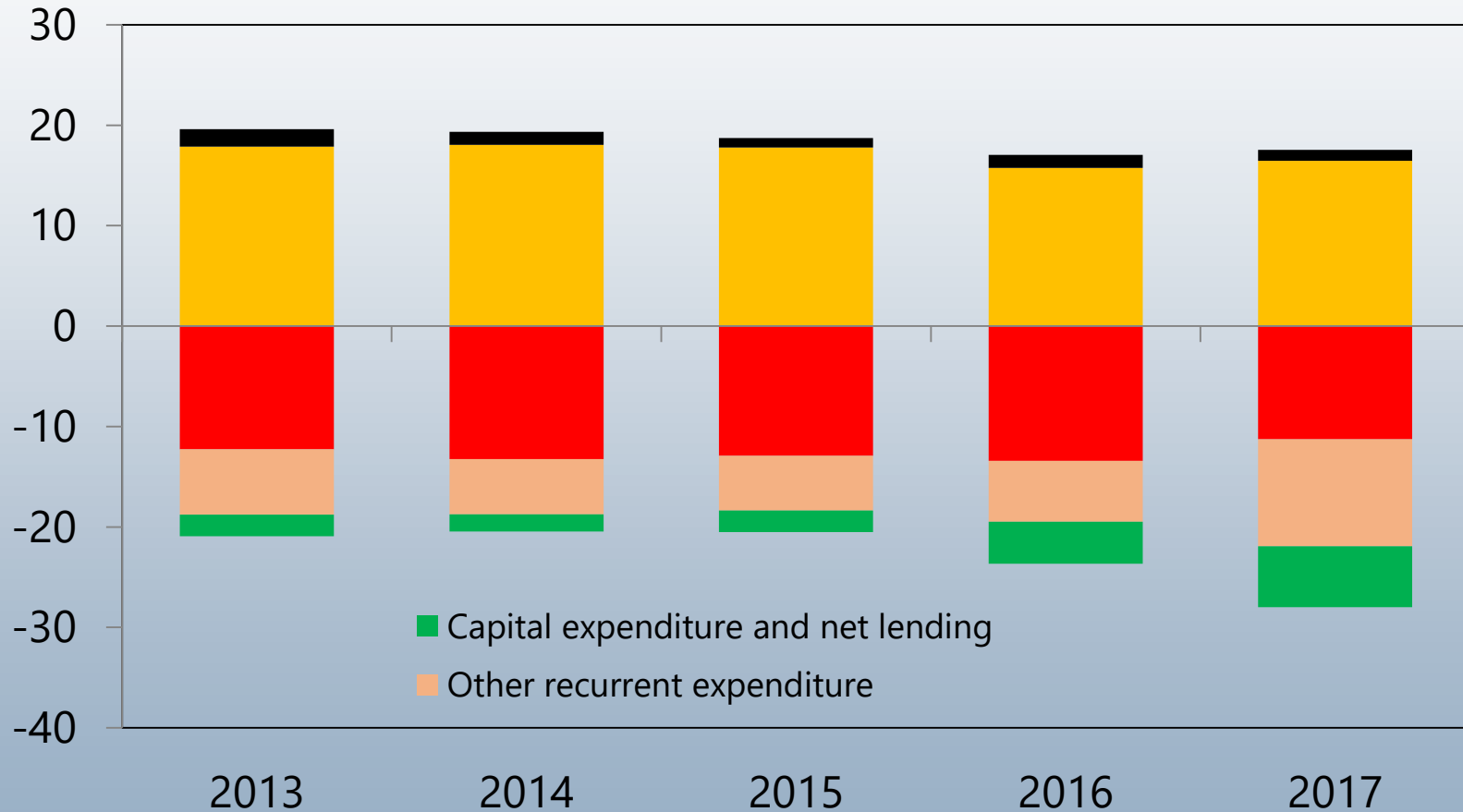
Fiscal Deficit





due to increasing subsidies to agriculture and SOEs, higher current spending, and declining revenues...

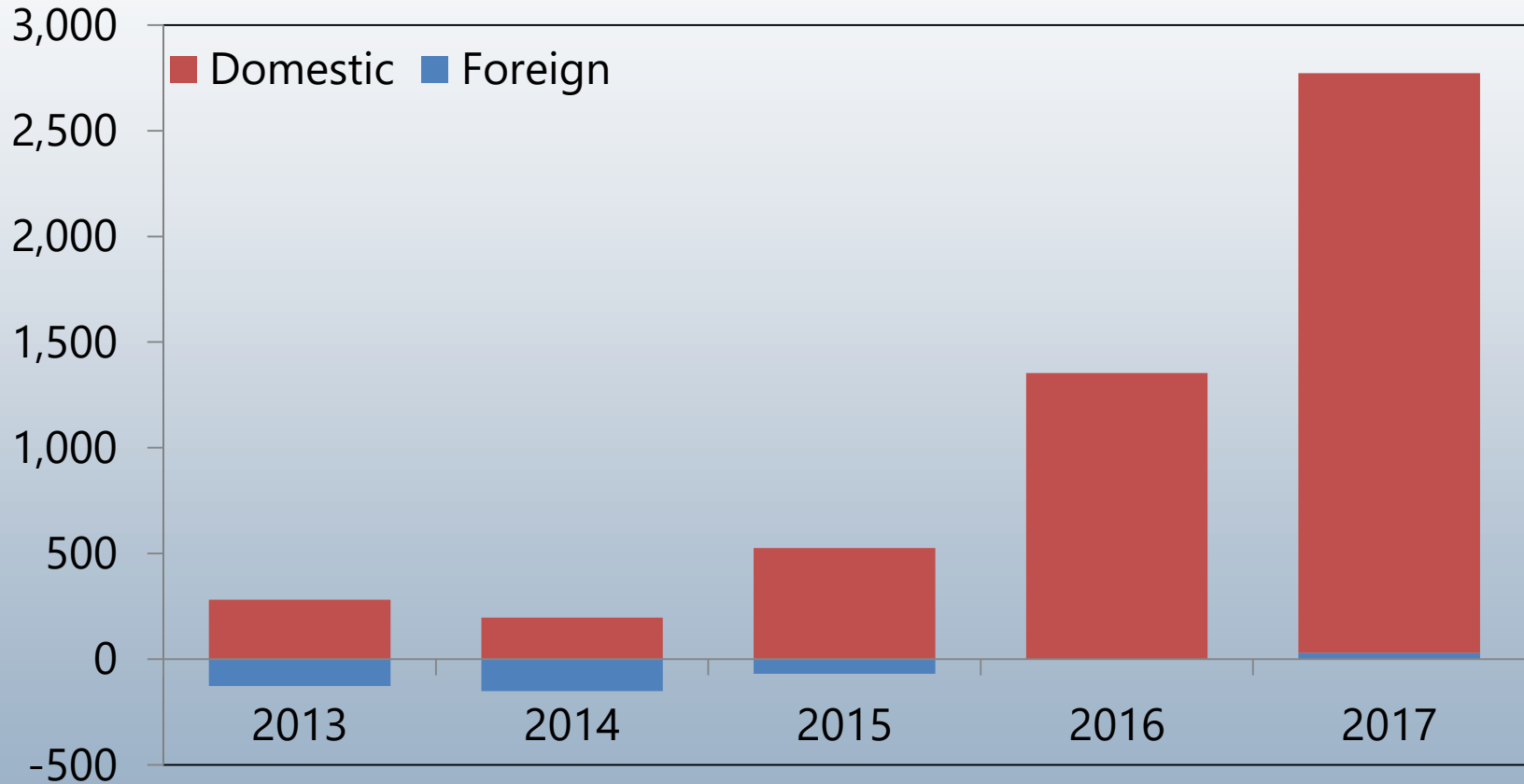
Fiscal





...domestic debt is increasing...

Government Financing

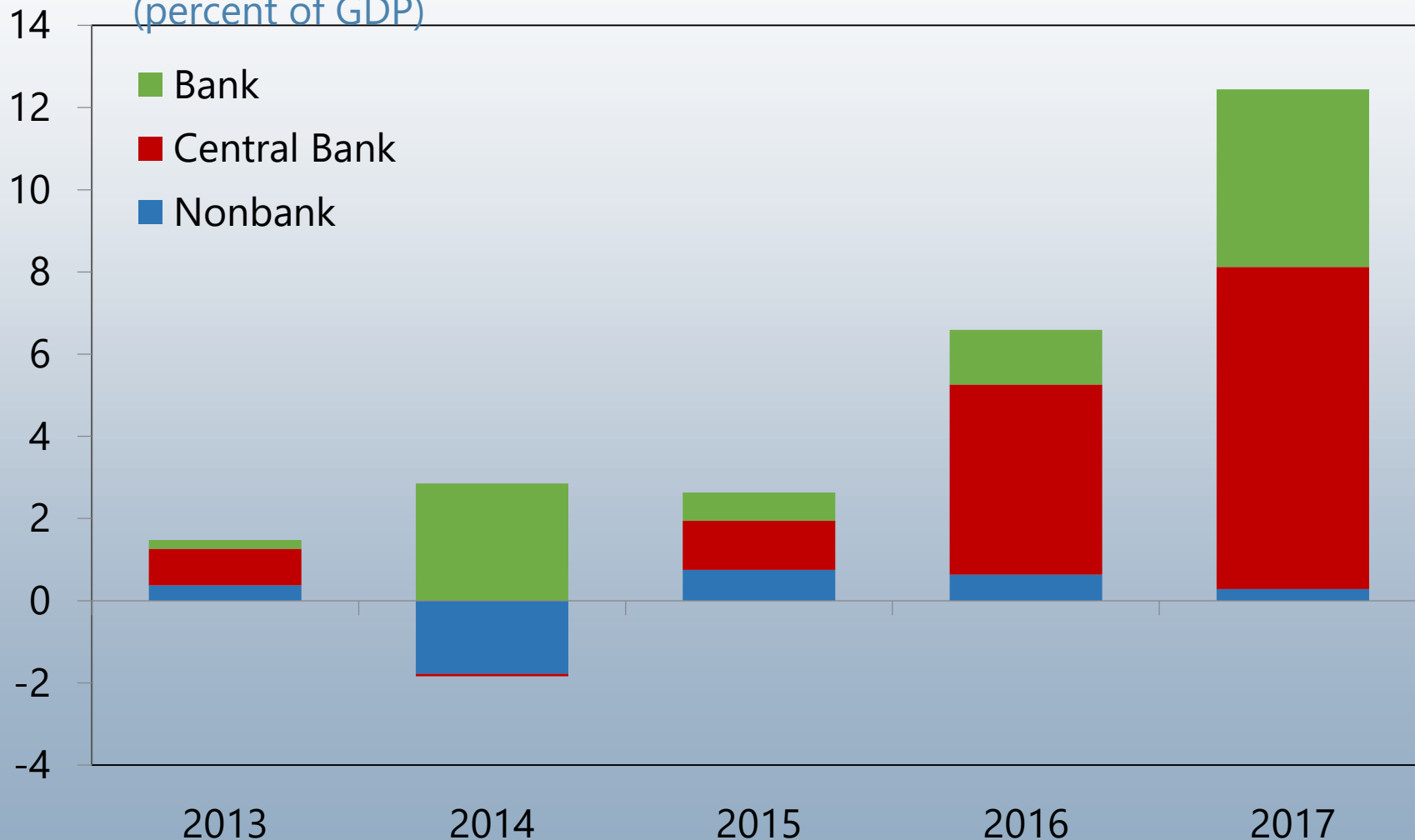




...with a lion share from Central Bank and Banks...

Domestic Financing

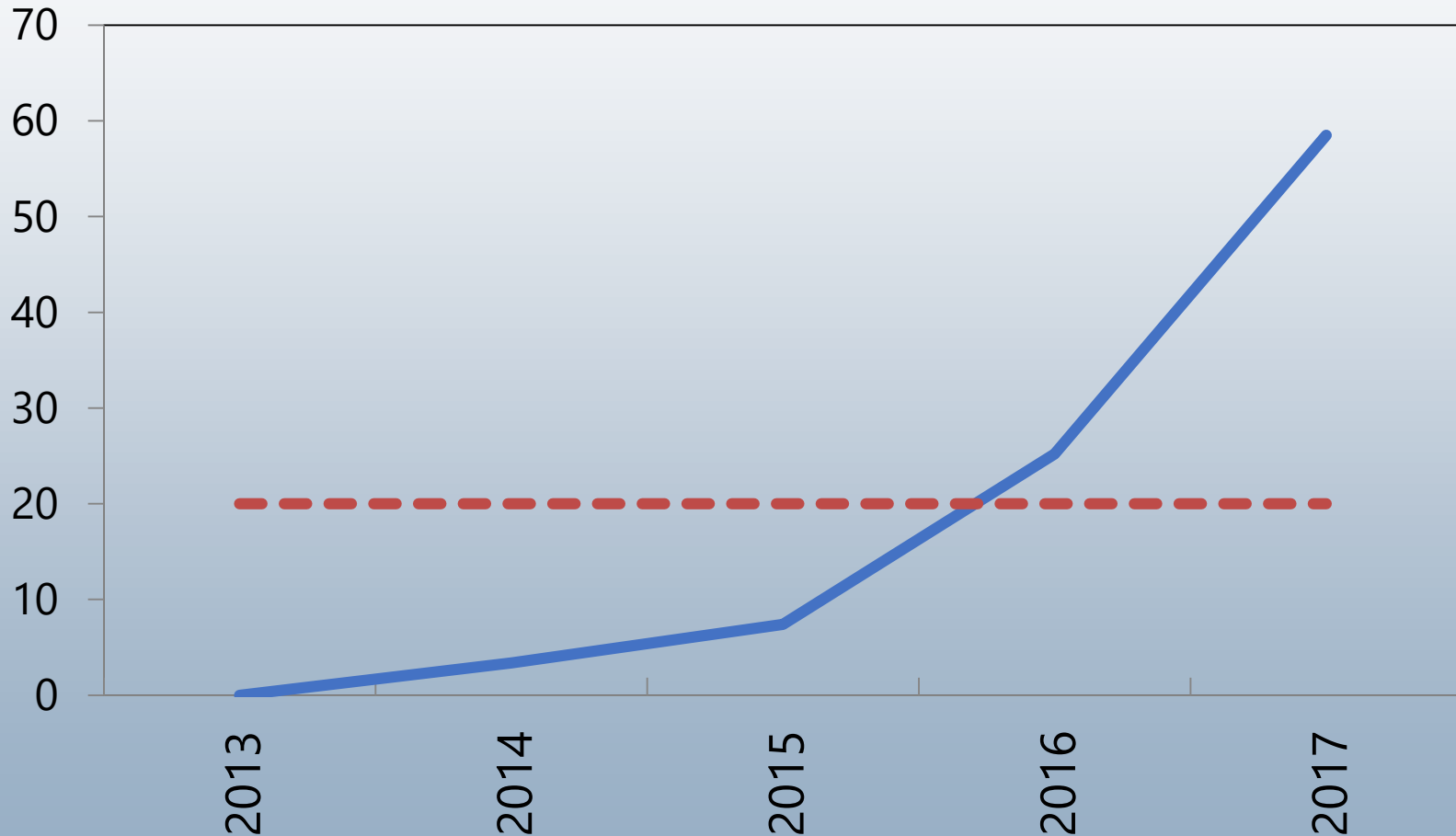
(percent of GDP)





RBZ Financing is increasing...

RBZ Overdraft and Loans

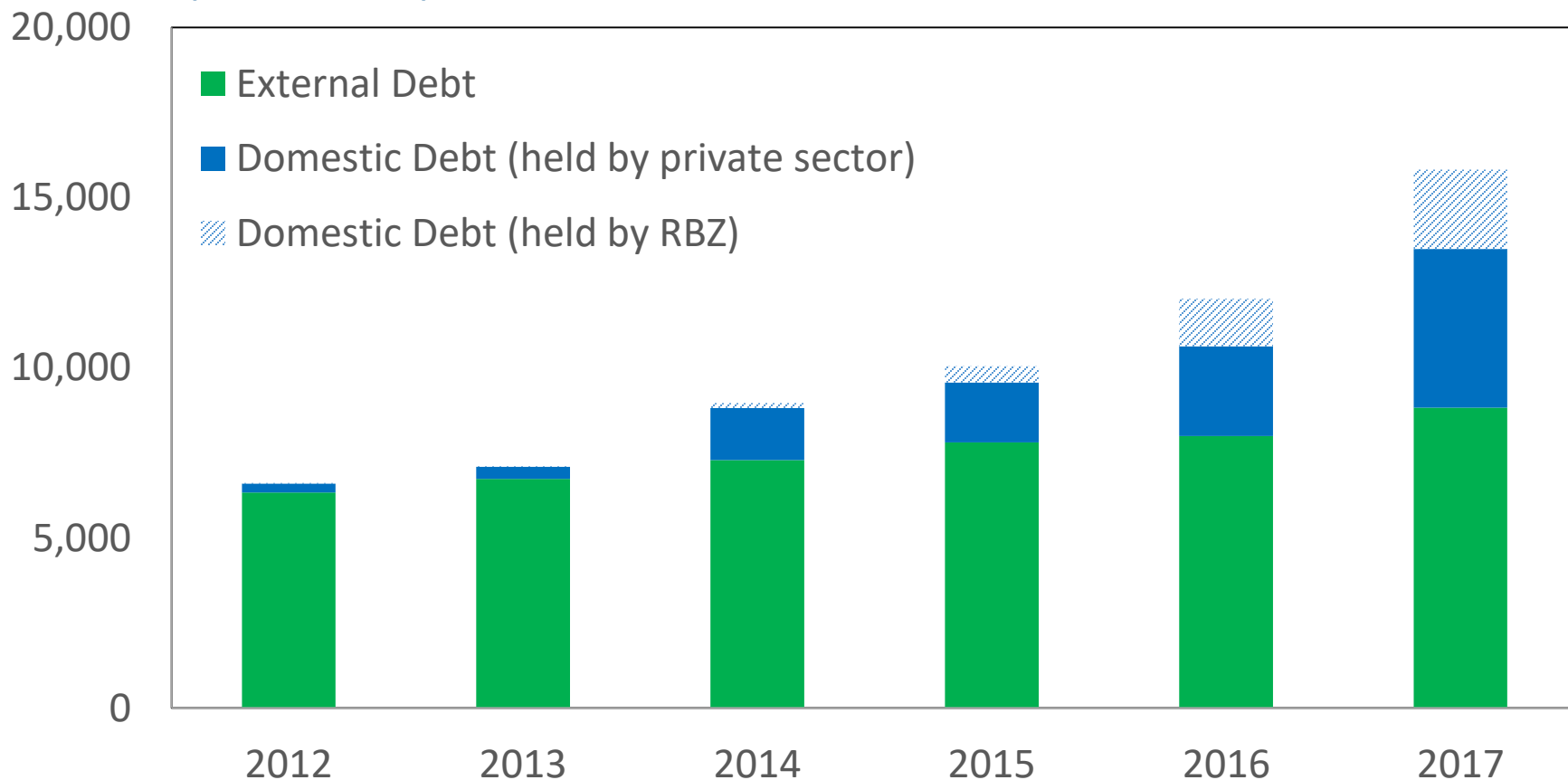




...resulting in higher domestic debt.

Domestic and External Public Debt

(USD million)

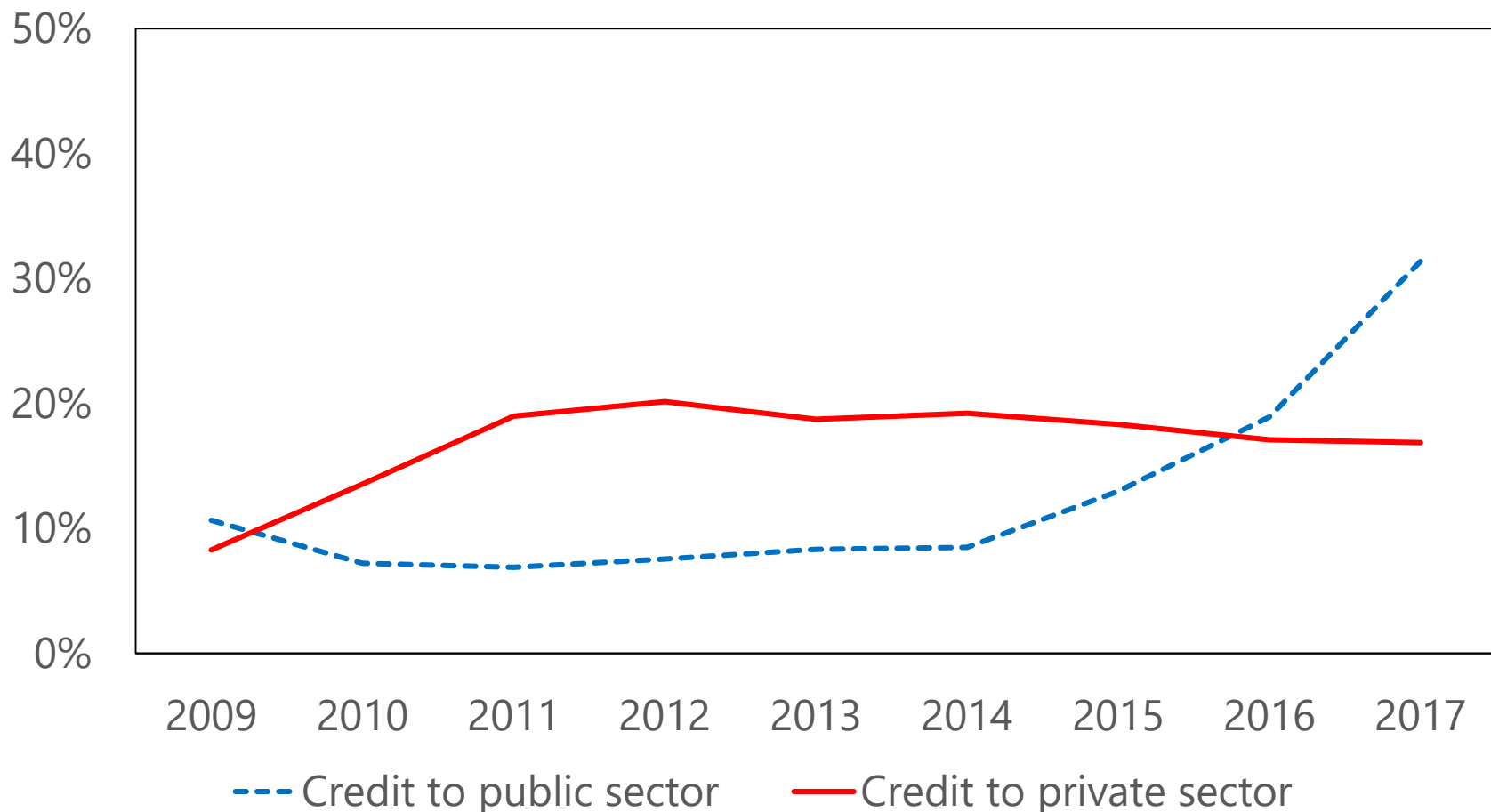




The private sector is being crowded out...

Credit to public and private sectors

(percent of GDP)





Past and Fund issues of Fund re- engagement



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

A. Continue TA and policy advice

- ◆ Article IV (past due)
- ◆ Upcoming TA
 - MCM: FSSR (2nd round in October), FSAP (planning stage)
 - FAD: TADAT
 - AFRITAC: revenue administration, Basel III, ...

B. Consider access to Fund resources

- ◆ Zimbabwe is PRGT-eligible and is facing a BoP pressure
 - Needs US \$0.6-1.0 billion to shore up credibility of a new FX regime
 - Quota is SDR 706.8m (approx. US \$1 billion)



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



Monetary regime: issues

- Credible monetary regime is crucial for investment and financial resilience
- Success of any regime requires:
 - ◆ **Fiscal discipline**
 - ◆ RBZ independence and limited monetary financing
- Financial sector and distributional implications are important:
 - ◆ Balance sheet vulnerabilities depend on ER regime chosen
 - ◆ If a new, devalued currency is introduced, then asset / liabilities may need to be converted at different rates



Monetary regime: options

Regime	Pros	Cons	Implementation risks
Return to full dollarization	Low inflation No currency risk	Loss of seigniorage No LOLR, independent MP	USD peg is not optimal Rebuilding reserves requires large internal devaluation
(Hard) Peg <ul style="list-style-type: none"> • Join MMA • Currency board • Crawling peg 	Clear nominal anchor (credibility) Stable inflation If pegged to Rand: <ul style="list-style-type: none"> • Minimize REER volatility • Trade integration MMA/SACU 	No independent MP No LOLR (currency board)	Choice of anchor currency Choice of optimal peg level Low reserves
(Managed) Float	Market-determined ER Independent MP	ER volatility Weak MP transmission	No track record Choice of monetary anchor



Thank you