INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/112

# ZIMBABWE

April 2022

## 2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZIMBABWE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Zimbabwe, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 21, 2022 consideration of the staff report that concluded the Article IV consultation with Zimbabwe.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 21, 2022, following discussions that took place virtually during October 21–November 16, 2021, and January 27 and 31, 2022, with the officials of Zimbabwe on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 2, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Zimbabwe.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR22/88

# IMF Executive Board Concludes 2022 Article IV Consultation with Zimbabwe

**FOR IMMEDIATE RELEASE**

**Washington, DC – March 24, 2022**: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Zimbabwe on March 21, 2022.

Zimbabwe experienced severe exogenous shocks (cyclone Idai, protracted drought, and the COVID-19 pandemic) during 2019-20, which along with policy missteps in 2019, led to a deep recession and high inflation. Real GDP contracted cumulatively by 11.7 percent during 2019-20 and inflation reached 837 percent (y/y) by July 2020. The authorities' swift response to the pandemic, including through containment measures and economic and social support, helped contain its adverse impact. Pandemic-related spending, equivalent to 2 percent of GDP, in 2020 was financed by reallocation within the budget. In 2021, such outlays represented about 1.6 percent of GDP, partially financed by the SDR allocation. In addition, expenditures were increased to bolster food security and farm inputs to vulnerable households. The Reserve Bank of Zimbabwe introduced a medium-term bank accommodation lending facility and private sector lending facility.

Real GDP rose by 6.3 percent in 2021 reflecting a bumper maize harvest, strong pickup in mining, and buoyant construction. A tighter policy stance since mid-2020 (relative to 2019) has contributed to lowering inflation to 60.7 percent (y/y) at end-2021. Fiscal policy was tightened in 2020-21, reflecting increased revenues and lowered spending. The current account balance turned into a surplus during 2019-21, reflecting favorable metals' prices, lower imports, and a surge in remittances. However, high double-digit inflation and wide parallel foreign exchange market premia have persisted. Poverty has risen and about a third of the population is at risk of food insecurity.

The output recovery that resumed in 2021 is expected to continue, albeit at a slower pace, with growth projected at about 3½ percent in 2022 and 3 percent over the medium term in line with Zimbabwe's growth potential. The authorities aim to limit the 2022 budget deficit at 1½ percent of GDP, and below 2 percent of GDP over the medium-term. At the same time, the current account surplus is expected to decline over the medium term, reflecting a pickup in imports and slowdown in remittances. The effects from the COVID-19 pandemic and protracted drought have compounded existing structural constraints and would lead to scarring on the economic outlook.

International reengagement has lagged as stakeholders seek political and economic reforms. The 2019 Staff-Monitored Program experienced significant policy slippages and elapsed without a review. Since

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

then, the authorities have made significant progress towards restoring macroeconomic stability, though the implementation of past IMF policy advice has been mixed. The authorities have developed a debt resolution strategy and started token payments to creditors in a bid to make progress on reengagement.

**Executive Board Assessment**[2]

Executive Directors welcomed the positive signs of economic recovery following two years of deep recession. Directors commended the authorities for their swift response to the COVID-19 pandemic and for stronger efforts to address macroeconomic imbalances while prioritizing social support. Noting that substantial challenges remain, including extreme poverty and longstanding structural constraints, they urged the authorities to implement the necessary reforms that would foster higher, more inclusive growth and pave the way for reengagement with the international community.

Directors agreed that fiscal policy should aim to restore macroeconomic stability and create fiscal space for priority spending. They emphasized the need to enhance revenue mobilization, including through broadening the tax base and improving tax administration and compliance. On the spending side, accelerating reforms of state-owned enterprises and enhancing fiscal controls will be critical to limit fiscal risks. Directors also encouraged the authorities to use the SDR allocation prudently and transparently.

Directors noted that Zimbabwe remains in debt distress, with large external arrears to official creditors. They welcomed the authorities' commitment to re-engage with external creditors, including by resuming token payments and preparing a debt resolution strategy. Directors encouraged further efforts to enhance debt management and transparency.

Directors recommended further monetary tightening, given the persistently high inflation. In this context, they emphasized the need to increase the operational independence of the central bank, discontinue its quasi-fiscal operations, and improve its coordination with the fiscal authorities. Concerted efforts are needed toward greater exchange rate flexibility by allowing a more transparent and market-driven price process. Directors called on the authorities to phase out exchange restrictions and multiple currency practices as soon as conditions permit.

Directors emphasized the need for continued vigilance to ensure financial stability, including by addressing remaining banking sector weaknesses. They welcomed the removal of the country from the FATF grey list and progress on strengthening the AML/CFT framework, and encouraged further efforts to address the remaining deficiencies.

Directors noted that addressing institutional weaknesses is instrumental in supporting growth and social development. They looked forward to further progress on implementing the 2020 National Anti-Corruption Strategy. Directors underscored the importance of prioritizing structural reforms to improve the business climate and build resilience to climate change.

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors encouraged the authorities to advance reforms, noting that a new Staff Monitored Program could help establish a track record of sound policies and provide further impetus to their re-engagement efforts.

## Zimbabwe: Selected Economic and Financial Indicators, 2019–23

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| | | Est. | | Proj. | |
| | *(annual percentage change, unless otherwise indicated)* | | | | |
| **Output and prices** | | | | | |
| Real GDP growth[1/] | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 |
| Nominal GDP (US$ millions) | 22,600 | 21,670 | 24,124 | 26,425 | 27,963 |
| GDP deflator | 440.5 | 569.0 | 128.5 | 68.1 | 39.8 |
| CPI (annual average) | 255.3 | 557.2 | 98.5 | 56.4 | 46.3 |
| CPI (end-of-period) | 521.1 | 348.6 | 60.7 | 55.0 | 42.0 |
| **Money and credit** | | | | | |
| Money supply (M2) | 249.4 | 481.3 | 142.4 | 77.4 | 50.6 |
| Money Base | 217.0 | 81.7 | 38.4 | 35.0 | 30.0 |
| Credit to the private sector | 173.8 | 571.8 | 158.9 | 74.3 | 40.8 |
| Credit to the central government | 40.7 | 65.5 | 115.2 | 138.7 | 112.5 |
| Money supply *(in percent of GDP)* | 18.6 | 17.0 | 17.0 | 17.3 | 18.1 |
| Credit to the private sector *(in percent of GDP)* | 5.9 | 6.3 | 6.7 | 6.7 | 6.6 |
| | *(ZWL$ per US$)* | | | | |
| **Official Exchange rate** | | | | | |
| ZWL:USD exchange rate (annual average) | 8.2 | 51.3 | 88.6 | ... | ... |
| ZWL:USD exchange rate (end-of-period) | 16.8 | 81.8 | 107.0 | ... | ... |
| | *(percent of GDP)* | | | | |
| **Central government** [2/] | | | | | |
| Revenue and grants | 12.3 | 15.4 | 17.2 | 17.0 | 17.0 |
| Expenditure and net lending | 13.5 | 14.9 | 18.7 | 18.9 | 18.8 |
| Overall balance | -1.3 | 0.5 | -1.5 | -1.9 | -1.9 |
| Primary balance | -0.9 | 0.8 | -1.1 | -1.2 | -1.2 |
| | *(US$ millions, unless otherwise indicated)* | | | | |
| **Balance of payments** | | | | | |
| Exports of goods and services | 5,267 | 5,263 | 6,448 | 6,607 | 6,818 |
| *(annual percentage change)* | 1.7 | -0.1 | 22.5 | 2.5 | 3.2 |
| Imports of goods and services | 5,398 | 5,489 | 6,771 | 7,127 | 7,588 |
| *(annual percentage change)* | -29.4 | 1.7 | 23.3 | 5.3 | 6.5 |
| Current account balance (excluding official transfers) | 920 | 1,096 | 1,170 | 866 | 413 |
| *(percent of GDP)* | 4.1 | 5.1 | 4.8 | 3.3 | 1.5 |
| Gross international reserves | 151 | 34 | 716 | 540 | 540 |
| *(months of imports of goods and services)* | 0.3 | 0.1 | 1.3 | 0.9 | 0.9 |
| **Public debt** [3/] | | | | | |
| Consolidated public sector debt | 10,415 | 14,915 | 17,855 | 18,373 | 19,031 |
| *(percent of GDP)* | 93.2 | 102.7 | 66.3 | 69.5 | 68.1 |
| Public and publicly guaranteed external debt | 9,609 | 14,485 | 17,290 | 17,468 | 17,594 |
| *(percent of GDP)* | 86.0 | 99.8 | 64.2 | 66.1 | 62.9 |
| *Of which:* Arrears | 6,406 | 10,022 | 12,722 | 12,912 | 13,102 |
| *(percent of GDP)* | 57.3 | 69.0 | 47.2 | 48.9 | 46.9 |
| PPG external debt (percent of GDP) from DSA [4/] | 87.5 | 106.6 | 86.6 | 73.8 | 70.6 |

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Debt ratios in the macroframework are based on the offical exchange rate up to 2021 and on the implied exchange rate over 2022-2026. The latter takes into account the coversion factor used in national account statistics.

3/ Includes SDR spending and financing of 1.0 percent of GDP and 0.5 percent of GDP in 2021 and 2022, respectively.

4/ DSA debt ratios differ from the ones in the macroframework due to the fact that GDP in the DSA does not take into account the conversion factor used in national account statistics (for the historical figures) and differences between avg. and e.o.p. exchange rates (for the projections).

# ZIMBABWE

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

March 2, 2022

## KEY ISSUES

**Context.** Zimbabwe experienced severe exogenous shocks (cyclone Idai, protracted drought, and the COVID-19 pandemic) during 2019-20, which along with policy missteps in 2019, led to a deep recession and high inflation. Real GDP contracted cumulatively by 11.7 percent during 2019-20 and inflation reached 837 percent (y/y) by July 2020. Reflecting good rainfall and relaxation of containment measures, real GDP rose by 6.3 percent in 2021. A tighter policy stance since mid-2020 (relative to 2019) has contributed to reducing inflation to 60.7 percent (y/y) at end-2021. However, high double-digit inflation and wide parallel foreign exchange (FX) market premia persist. The economic downturn and high inflation increased the financial system vulnerabilities. Extreme poverty has risen and about a third of the population is at risk of food insecurity. The international community seeks improvements in domestic political conditions and economic policies to initiate reengagement with Zimbabwe. The authorities have started token payments to external creditors in a bid to revive international reengagement.

**Outlook and risks.** The authorities' swift response to the pandemic, including through containment measures and economic and social support, helped contain its adverse impact. The output recovery that resumed in 2021 would continue, albeit at a slower pace, with growth projected at about 3½ percent in 2022 and 3 percent over the medium term in line with potential. While the authorities aim to limit the 2022 budget deficit at 1½ percent of GDP, nominal revenues and expenditures are underpinned by the assumptions of large price increases that deviate from the Reserve Bank of Zimbabwe's (RBZ) objective of curtailing inflationary pressures. The current account surplus would decline, reflecting imports' pickup and remittances' slowdown. Risks to the outlook are tilted to the downside. The pace of recovery depends on the COVID-19 pandemic's dynamics. Adverse climatic shocks could slow agriculture and energy production. Possible policy slippages, including in the run-up to elections, could jeopardize macroeconomic stability. Global risks relate to the effects of commodity price shocks on the external sector and inflation on domestic price pressures.

**Policies.** An overarching policy priority is to strengthen coordination between the fiscal and monetary authorities to significantly curtail currency and price pressures. To lower inflationary pressures, monetary policy should be further tightened. Greater exchange rate flexibility and elimination of FX restrictions are needed to promote external competitiveness and tackle rent-seeking. Fiscal policy should aim at containing the deficit in line with available non-inflationary financing and creating fiscal space for critical spending by mobilizing additional revenues, based on tax policy reforms, and by scaling back non-priority outlays. The RBZ's quasi-fiscal operations should be transferred to the budget to enhance transparency. Addressing banking sector weaknesses, including on the AML/CFT regime, would strengthen banks' resilience and effectiveness. Building on the government's anti-corruption strategy, greater efforts are needed to implement the recommendations of the 2020 IMF governance diagnostics report.

Approved By
**Vitaliy Kramarenko (AFR) and Anna Ilyina (SPR)**

Discussions took place virtually during October 21–November 16, 2021, and January 27 and 31, 2022. The missions met with Finance Minister Ncube; Reserve Bank of Zimbabwe Governor Mangudya; other senior government officials; and representatives of the donor community and the private sector. The staff team comprised Dhaneshwar Ghura (Head), Wayne Mitchell, Concha Verdugo-Yepes, Samuel Bonzu, Rohan Ahluwalia (all AFR), Moses Kitonga (MCM), Martina Hengge (SPR), and Carlos Caceres, Petronella Chishawa, and Beatrice Banda (IMF Resident Representative in Harare office and local staff) assisted the mission. Ms. Mannathoko (Executive Director for Zimbabwe) attended the concluding meeting. Mr. Nakunyada (OED) and World Bank staff participated in several meetings. Sandrine Ourigou (AFR) assisted from headquarters.

## CONTENTS

**CONTEXT** 5

**RECENT ECONOMIC DEVELOPMENTS** 6

**MACROECONOMIC OUTLOOK AND RISKS** 8

A. Baseline Scenario 8

B. Illustrative Active Policy Scenario (IAPS) 9

**POLICY DISCUSSIONS** 11

A. Promoting Sustainable Fiscal Policy 11

B. Monetary and Exchange Rate Policies 15

C. Debt Management 17

D. Promoting Financial Stability 18

E. Improving Governance 20

**TRANSITION TO INTERNATIONAL REENGAGEMENT** 21

**OTHER ISSUES** 21

**STAFF APPRAISAL** 22

**FIGURES**

1. Selected Economic Indicators, 2000–21 25
2. Economic Performance and Prospects, 2018–24 26
3. Fiscal Performance, 2017–21 27
4. RBZ Balance Sheets, 2017–21 28
5. Financial Sector Performance, 2016–21 29

## TABLES


1. Selected Economic Indicators, 2017–26 ____ 30
2. Balance of Payments, 2017–26 ____ 31
3a. Central Government Operations, 2017–26 (Millions of ZWL) ____ 32
3b. Central Government Operations, 2017–26 (Percent of GDP) ____ 33
4. Monetary Survey, 2017–26 ____ 34
5. Reserve Money Changes, 2017–21 ____ 35
6. Financial Soundness Indicators, 2017-21 ____ 36

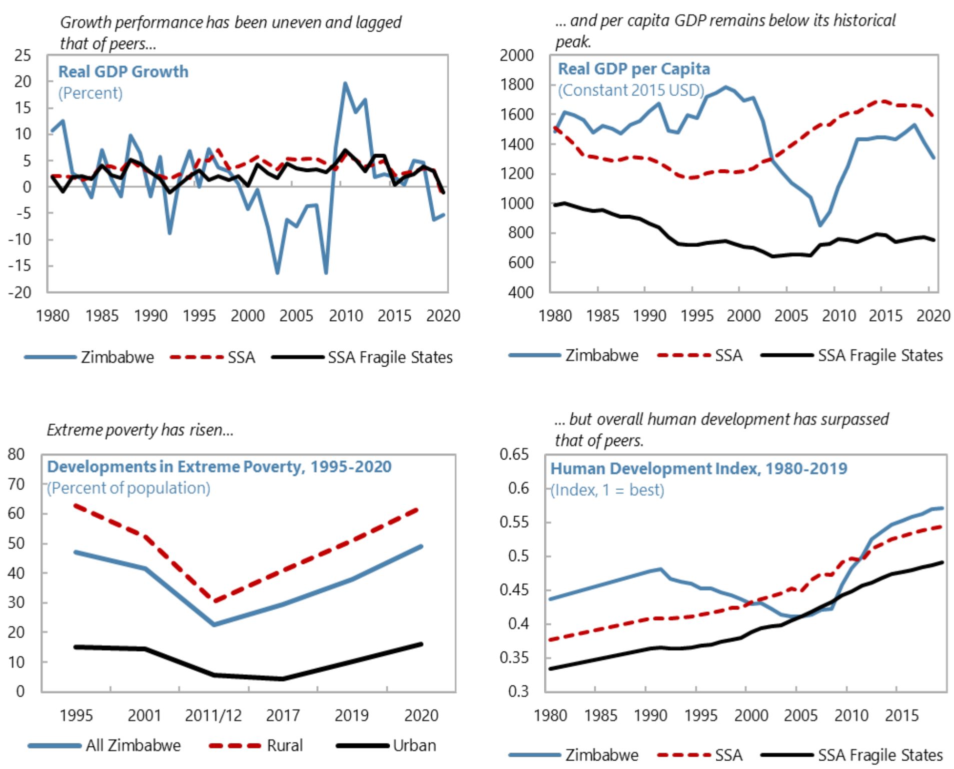

## ANNEXES


I. Growth Developments and Prospects in the Context of Fragility ____ 37
II. The COVID-19 Pandemic and Authorities' Response ____ 48
III. Recommendations of 2019 Article IV Consultation ____ 51
IV. Use of SDR Allocation ____ 54
V. Risk Assessment Matrix ____ 55
VI. National Development Strategy ____ 57
VII. Capacity Development Strategy ____ 60
VIII. Options to Increase Fiscal Space ____ 62
IX. Mining Sector ____ 66
X. External Sector Assessment ____ 70
XI. Foreign Exchange Markets and the Exchange Rate ____ 73
XII. Banking Sector Assessment ____ 76
XIII. Climate Change: Impact and Policies ____ 79
XIV. Monitoring Sustainable Development Goals ____ 81

# CONTEXT

1. **Several factors have interacted to propel fragility in Zimbabwe and undermine economic and social outcomes** (Annex I). Periods of strong growth were not sustained owing to climatic and health shocks, as well as policies that fueled economic imbalances, distorted prices, promoted rent-seeking, and weakened competitiveness. In the 2000s, a challenging land reform and an HIV/AIDs epidemic, accompanied by weak institutions, exacerbated the output decline. Per capita income lags its peak and that of sub-Saharan Africa and extreme poverty has risen sharply. On the positive side, human development has caught up with and surpasses that of peers.

**Text Figure 1. Zimbabwe: Economic and Social Indicators, 1980-2020**




Source: World Bank WDI; UNDP HDI; ZIMSTAT; IMF WEO; and IMF staff calculations.

2. **Within a severely constrained policy space, the authorities proactively responded to the COVID-19 pandemic to support the people and economy** (Annex II). Containment measures were deployed to limit infections and casualties. Pandemic-related spending, equivalent to 2 percent of GDP, in 2020 was financed by reallocation within the budget. In 2021, such outlays represented about 1.6 percent of GDP, partially financed by the SDR allocation. In addition, expenditures were increased to bolster food security and farm inputs to vulnerable households. The Reserve Bank of Zimbabwe (RBZ) introduced measures to support credit, primarily through a medium-term bank accommodation lending facility and private sector lending facility.

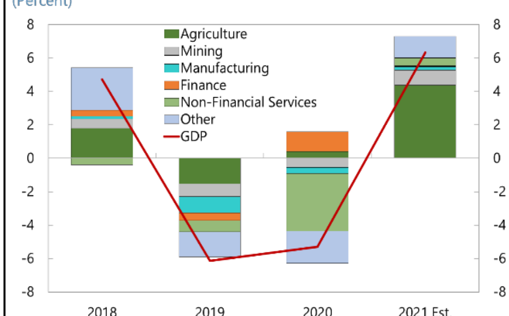
**3. International reengagement has lagged as stakeholders seek political and economic reforms:**

- The domestic political context remains complex. International observers have raised concerns about the negative implications of recent proposed legislation for the political outlook on reengagement with the international community. Presidential elections are expected in 2023.
- The 2019 Staff-Monitored Program (SMP) which experienced significant policy slippages—due primarily to quasi-fiscal operations (QFOs) that were monetized and led to a sharp currency depreciation and inflation rise—elapsed without a review. Since then, the authorities have made significant progress towards restoring macroeconomic stability, though the implementation of past IMF policy advice has been mixed (Annex III).
- With respect to prospects for international reengagement, stakeholders seek significant progress on political reforms, as well as implementation of economic reforms. Regarding the latter, the focus is on improving the conditions for inclusive growth, supported by good governance and investment in infrastructure and human capital.
- The authorities have developed a debt resolution strategy and started token payments to creditors in a bid to make progress on reengagement. The implications of the unfunded liabilities—related to "blocked funds"[1] and farmers' compensation agreements (estimated at US$5.75 billion)—recently assumed by the government, on this strategy would need further assessment.

# RECENT ECONOMIC DEVELOPMENTS

**4. Growth rebounded in 2021 following a severe contraction in the preceding two years amidst a rise in poverty.** Real GDP increased by 6.3 percent in 2021 reflecting a bumper maize harvest, strong pickup in mining, and buoyant construction. The preceding period was marked by severe shocks (cyclone Idai, protracted drought, and the COVID-19 pandemic) and policy missteps in 2019, which led to a cumulative real GDP contraction of 11.7 percent in 2019-20. Poverty has risen, and about a third of the population are at risk of food insecurity.

**Text Figure 2. Zimbabwe: Real GDP Growth by Sector, 2018-2021**
(Percent)

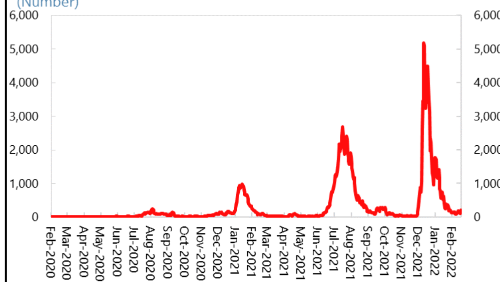



Sources: Zimbabwe Authorities and IMF staff estimates.

[1] Following the 2019 currency conversion, the authorities decided to compensate stakeholders for losses on cash flows that could not be repatriated due to FX shortages; these liabilities are known as blocked funds.

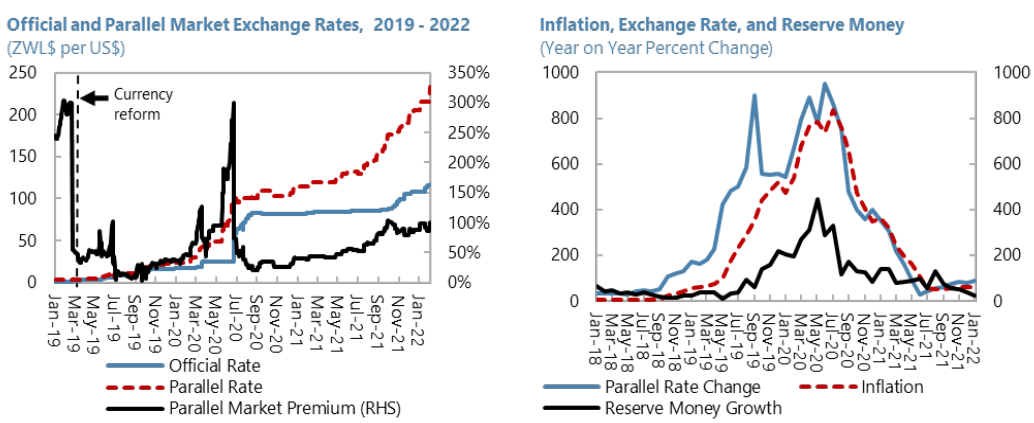
5. **Zimbabwe was impacted by successive waves of COVID-19 infections amidst progress with vaccination** (Annex II). The infection rates in the late 2021 wave surpassed the mid-July 2021 peak. The number of pandemic-related fatalities remains low, however, compared to the previous waves. By the beginning of 2022, about 28 percent of the population had obtained their first COVID-19 vaccine dose, while 22 percent had received two doses.

Text Figure 3. Zimbabwe: COVID-19 New Daily Infections, 2020-2022




6. **Despite a strong disinflationary trend through mid-2021, inflationary pressures continue.** Inflation declined to 50 percent (y/y) in August 2021 from a peak of 837 percent in July 2020, reflecting the control of the fiscal deficit and money growth, as well as the good harvest. However, it increased to 60.7 percent in December 2021, reflecting currency depreciation. The introduction of an FX auction system in June 2020 initially helped to stabilize the official exchange rate. However, the parallel market premia have increased from around 20 percent in August 2020 to about 60-90 percent by end-December 2021.

Text Figure 4. Zimbabwe: Inflation and Exchange Rates, 2018 - 2022




Source: Zimbabwe Authorities and IMF staff calculations.

7. **The current account surplus averaged an estimated 4.7 percent of GDP per year during 2019-21.** Mineral exports increased, reflecting favorable metals prices, while imports declined due to negative growth and currency depreciation, FX restrictions, and lower global oil prices. The pandemic-era surge in remittances also contributed to the surplus. Reflecting the 2021 general SDR allocation (equivalent to US$963 million), gross international reserves increased to 1.3 months of imports in 2021. As of end-2021, the authorities drew down US$281 million from the new SDR allocation for health and infrastructure outlays (Annex IV).

**8. Fiscal developments during 2019-2021 were characterized by an expenditure compression in real terms as well as increases in revenues:**

- **2019.** The sharp decline in the 2019 fiscal deficit to 1.3 percent of GDP (from 6½ percent in 2018) mainly reflected an inflation-induced employment cost compression.

- **2020.** The small fiscal surplus in 2020 reflected continued compressed employment costs accompanied by a sharp revenue increase, driven by an increase in mining revenues, with payments required in US dollars, and tax administration measures.[2]

**Text Table 1. Zimbabwe: Fiscal Indicators, 2018-21**
(Percent of GDP)

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| | | Act. | | Est. |
| Revenue and grants | 14.9 | 12.3 | 15.4 | 17.2 |
| Expenditure and net lending | 21.4 | 13.5 | 14.9 | 18.7 |
| Current expenditure | 14.1 | 7.6 | 9.0 | 13.0 |
| Of which: Employment costs | 10.7 | 3.8 | 5.4 | 6.7 |
| Capital expenditure and net lending | 7.2 | 6.0 | 6.0 | 5.7 |
| Overall balance (commitment) | -6.5 | -1.3 | 0.5 | -1.5 |

Sources: Zimbabwe authorities and IMF staff estimates.

- **2021.** Preliminary data for 2021 point to a fiscal deficit of 1½ percent of GDP. Revenues increased further, stemming primarily from improved income tax collections. Employment costs rose, and outlays were increased on social protection, agricultural sector, and vaccines. Expenditures included SDR-financed vaccines and infrastructure projects equivalent to about 1 percent of GDP (Annex IV).

# MACROECONOMIC OUTLOOK AND RISKS

*Staff presented a baseline scenario and an illustrative active policy scenario (IAPS). The baseline scenario is underpinned by current economic policies with the macroeconomic outlook constrained by structural bottlenecks and insufficient financing. The IAPS aims at fleshing out the policies and financing needs to achieve the key macroeconomic objectives underlying the authorities' National Development Strategy.*

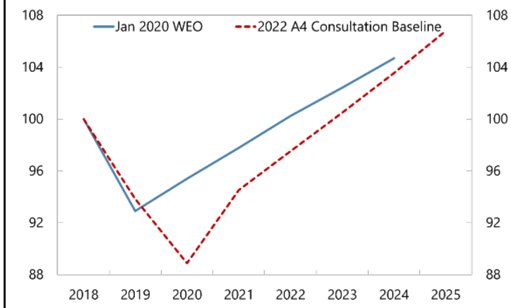
## A. Baseline Scenario

**9. The assumptions of the baseline scenario are underpinned by current policy intentions, with growth projected to revert to its low potential level**. The expenditure stance is expansive and exerts pressure on prices (Text Table 4 below). Growth prospects are constrained by the limited fiscal space and non-inflationary financing options. The RBZ continues to control base money. The large premia on the parallel FX market perpetuates rent-seeking opportunities and undermines external competitiveness. The debt overhang imposes constraints on investment and growth.

[2] These included a widening of the PAYE tax base, improved risk management operations, and the digitization of the tax payment platform.

**10. The macroeconomic outlook is expected to be constrained by structural bottlenecks and insufficient financing.** The slow pace of structural reforms constrains FDI and sustainable growth. Despite a pickup in the services sector, real GDP growth slows in 2022 to 3½ percent, and about 3 percent thereafter in line with its current potential. The current account surplus declines in view of a slowdown in remittances and imports' pickup. The effects from the COVID-19 pandemic and protracted drought have compounded existing structural constraints and lead to scarring on the economic outlook.

**Text Figure 5. Zimbabwe: Real GDP Index, 2018-2025**
(Index, 2018 = 100)




Sources: IMF WEO and IMF Staff Calculations.

**11. Risks to the outlook are tilted to the downside** (Annex V). The pace of economic recovery is dependent on the evolution of the COVID-19 pandemic. Adverse climatic shocks could slow energy and agriculture production. Possible policy slippages, including in the run-up to the 2023 elections, could jeopardize macroeconomic stability and increase financial sector vulnerabilities. Commodity price volatility could adversely affect the external position and global inflation risks could compound domestic price pressures.

## B. Illustrative Active Policy Scenario (IAPS)

**12. The key objectives of the authorities' National Development Strategy (NDS) are appropriate but need specific measures and a financing plan** (Annex VI). Objectives include sustaining macroeconomic stability, lowering poverty and inequality, and transforming institutions to enhance public sector efficiency and service delivery. Progress was made in meeting several first-year targets. Fleshing out of the specific policies and a financing plan would enhance the successful implementation of the NDS.

**13. The IAPS identifies how strengthened policies would improve the macroeconomic outlook relative to the baseline.** Key reforms relate to enhancing exchange rate flexibility; tightening monetary policy; ceasing QFOs; eliminating FX restrictions; mobilizing additional revenues; lowering subsidies and enhancing fiscal controls; strengthening financial sector stability; fighting corruption; and improving transparency. Spending would be reallocated towards social and capital outlays. Growth would increase to about 5 percent, a key target of the NDS, reflecting increases in the capital stock and productivity (Annex I).

**14. Financing gaps would emerge under staff's IAPS.** The balance-of-payments gap under the IAPS is estimated at US$3.6 billion during 2022-26 (12.9 percent of 2022 GDP). Reserve buffers would increase to above 3 months of imports but remain below the recommended 5.4 months of imports for Zimbabwe. As under the baseline, external arrears would continue to accumulate, reaching about US$13.3 billion on average during 2022-26 (from US$12.7 billion at end-2021).

Appropriate policies and successful reengagement with the international community could provide access to grants and concessional external loans to close these financing gaps.

**Text Table 2. Zimbabwe: Selected Economic Indicators for Baseline and Current - Active Scenarios, 2019–26**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Baseline | | | | | Active | | | | |
| | Est. | | | Proj. | | | | | Proj. | | | | |
| | | | | *(annual percentage change, unless otherwise indicated)* | | | | | | | | | |
| **Output and prices** | | | | | | | | | | | | | |
| Real GDP growth 1/ | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 | 3.1 | 3.1 | 3.1 | 3.8 | 4.2 | 4.7 | 5.1 | 5.2 |
| Nominal GDP *(US$ billions)* | 22.6 | 21.7 | 24.1 | 26.4 | 28.0 | 29.4 | 31.0 | 32.7 | 26.5 | 28.4 | 30.3 | 32.6 | 35.0 |
| CPI (annual average) | 255.3 | 557.2 | 98.5 | 56.4 | 46.3 | 35.5 | 23.3 | 13.9 | 40.2 | 17.4 | 12.1 | 7.5 | 5.5 |
| **Money and credit** | | | | | | | | | | | | | |
| Money supply (M2) | 249.4 | 481.3 | 142.4 | 77.4 | 50.6 | 34.8 | 23.7 | 16.1 | 56.7 | 37.7 | 26.8 | 23.1 | 19.2 |
| Money Base | 217.0 | 81.7 | 38.4 | 35.0 | 30.0 | 23.0 | 17.0 | 11.0 | 25.0 | 18.0 | 12.0 | 9.0 | 5.0 |
| Credit to the private sector *(in percent of GDP)* | 5.9 | 6.3 | 6.7 | 6.7 | 6.6 | 6.3 | 6.1 | 5.5 | 6.2 | 6.3 | 6.6 | 7.3 | 7.8 |
| | | | | *(ZWL$ per US$)* | | | | | | | | | |
| **Official Exchange rate** | | | | | | | | | | | | | |
| ZWL:USD exchange rate *(annual average)* | 8.2 | 51.3 | 88.6 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| | | | | *(percent of GDP, unless otherwise indicated)* | | | | | | | | | |
| **Central government** | | | | | | | | | | | | | |
| Revenue and grants | 12.3 | 15.4 | 17.2 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 | 17.2 | 17.5 | 18.0 | 18.3 | 18.5 |
| Expenditure and net lending | 13.5 | 14.9 | 18.7 | 18.9 | 18.8 | 18.9 | 18.9 | 18.9 | 19.5 | 20.5 | 21.6 | 22.6 | 22.8 |
| *Current Expenditure* | 7.6 | 9.0 | 13.0 | 13.9 | 13.7 | 13.7 | 13.7 | 13.7 | 13.9 | 14.2 | 14.4 | 14.6 | 14.6 |
| *Capital transfers and net lending* | 6.0 | 6.0 | 5.7 | 5.0 | 5.2 | 5.2 | 5.2 | 5.2 | 5.5 | 6.3 | 7.2 | 8.1 | 8.2 |
| Overall balance | -1.3 | 0.5 | -1.5 | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 | -2.2 | -2.9 | -3.6 | -4.3 | -4.3 |
| Financing Gap | ... | ... | ... | ... | ... | ... | ... | ... | 0.3 | 1.0 | 1.8 | 2.6 | 2.7 |
| **Balance of payments** | | | | | | | | | | | | | |
| Exports of goods and services *(growth)* | 1.7 | -0.1 | 22.5 | 2.5 | 3.2 | 3.1 | 3.0 | 3.0 | 2.5 | 4.0 | 4.2 | 4.3 | 4.3 |
| Imports of goods and services *(growth)* | -29.4 | 1.7 | 23.3 | 5.3 | 6.5 | 6.4 | 6.7 | 6.7 | 7.0 | 8.6 | 9.1 | 9.4 | 9.4 |
| Current account balance (excluding official transfers) | 4.1 | 5.1 | 4.8 | 3.3 | 1.5 | 0.6 | -0.5 | -1.6 | 2.8 | 0.7 | -0.7 | -2.2 | -3.7 |
| Gross international reserves *(import cover)* | 0.3 | 0.1 | 1.3 | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 | 1.0 | 1.4 | 2.0 | 2.7 | 3.3 |
| Financing Gap *(US$ million)* | ... | ... | ... | ... | ... | ... | ... | ... | 120.0 | 528.0 | 774.4 | 1058.7 | 1143.0 |
| Financing Gap | ... | ... | ... | ... | ... | ... | ... | ... | 0.3 | 1.5 | 2.2 | 3.0 | 3.2 |

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

## Authorities' Views

**15.** The authorities are more upbeat about growth prospects than the staff's baseline projections. They estimate growth at about 8 percent in 2021 and project the 2022 and medium-term growth at 5½ and 5 percent, respectively. The authorities indicated that staff's IAPS' medium-term growth objectives were broadly consistent with those in the NDS and that specific policies would be articulated in the annual budgets. They acknowledged that the medium-term fiscal framework in their 2022 budget fell short of policies and targets identified in their NDS, particularly regarding revenue mobilization and the rationalization of subsidies and transfers. In the context of fragility, they view the creation of policy space, without inciting reform-related protests, as a key dimension of their development agenda. The authorities appreciate the extensive IMF technical assistance (TA) that is critical for Zimbabwe's development needs (Annex VII). They view international reengagement as critical for a debt resolution and access to financial support and noted that failure to achieve this could weaken policy confidence and constrain the feasibility of critical reforms.

# POLICY DISCUSSIONS

*Discussions were focused on policies underlying the IAPS in order to achieve the government's NDS objectives. Appropriate policy reforms would help to durably restore macroeconomic stability and improve the conditions for higher and more inclusive growth. These reforms, along with successful international reengagement, would also help Zimbabwe make progress in exiting fragility.*

## A. Promoting Sustainable Fiscal Policy

### 1) Fiscal Outlook

**16. Past fiscal policy was characterized by budget balance swings.** The fiscal deficit increased sharply in the run-up to the 2018 elections, in contrast to low deficits prior to and following this period. Monetization was a primary source of deficit financing, which increased price pressures. In order to restore macroeconomic stability, the fiscal stance was tightened starting in 2019.

**Text Table 3. Zimbabwe: Fiscal Indicators, 2010-21**
(Percent of GDP)

| | 2010-15 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| | | | Act. | | | | Est. |
| Revenue and grants | 19.5 | 17.0 | 18.1 | 14.9 | 12.3 | 15.4 | 17.2 |
| Expenditure and net lending | 20.9 | 24.2 | 30.6 | 21.4 | 13.5 | 14.9 | 18.7 |
| Current expenditure | 18.3 | 19.5 | 22.5 | 14.1 | 7.6 | 9.0 | 13.0 |
| Of which: Employment costs | 13.6 | 15.7 | 16.3 | 10.7 | 3.8 | 5.4 | 6.7 |
| Capital expenditure and net lending | 3.0 | 4.7 | 8.1 | 7.2 | 6.0 | 6.0 | 5.7 |
| Overall balance (commitment) | -1.4 | -7.1 | -12.5 | -6.5 | -1.3 | 0.5 | -1.5 |
| Financing | 1.5 | 7.7 | 12.2 | 8.1 | 2.3 | 1.0 | 1.5 |
| Of which: Domestic | 1.8 | 6.6 | 12.6 | 7.8 | 2.2 | 0.8 | 0.6 |

Sources: Zimbabwe authorities and IMF staff estimates.

**17. The government's medium-term budget framework targets a fiscal deficit below 2 percent.** The budget framework projects an increase in domestic revenues of about ¾ percentage point of GDP during 2021-24. Over the same period, the wage bill and public investment are projected to increase modestly by about 0.6 and 0.7 percentage points of GDP respectively.

**18. Staff stressed that optimistic budget assumptions could result in higher deficits and jeopardize macroeconomic stability:**

- The government's 2022 budget targets a fiscal deficit of 1½ percent of GDP, consistent with commitments to the Southern African Development Community (SADC) and NDS targets. Revenue measures seek to provide income relief, simplify tax administration, and stimulate growth of productive sectors. Key proposals focus on raising the income tax threshold and modifying tax bands to adjust for inflation. The wage bill and public investment relative to GDP are projected to remain broadly unchanged. The budget also envisages an expansion of the social safety net and food security programs, including the cash transfer program to vulnerable groups, which would be partly financed by the SDR allocation (0.5 percent of GDP).

- However, the budget's nominal revenues and expenditures are underpinned by assumptions of large price increases that deviate from the RBZ objective of curtailing inflationary pressures. In case the expected revenues do not materialize, the deficit would be larger, with risks of financing by money creation, or domestic arrears, or use of SDRs.
- Staff urged the authorities to strengthen coordination between the Finance Ministry and RBZ, including on key macroeconomic targets and assumptions (e.g., base money, fiscal deficits, growth, and inflation), to significantly curtail currency and price pressures, and to identify measures to scale back non-priority spending.
- Staff stressed that the SDRs should be transparently spent in priority areas within a medium-term framework, while not substituting for much-needed reforms.

**Text Table 4. Zimbabwe: 2022 Budget**

| | 2020 | 2021 | 2022 | |
|---|---|---|---|---|
| | Act. | Est. | Budget | Staff Proj. |
| | | *(percent of GDP)* | | |
| Revenue | 15.4 | 17.2 | 16.8 | 17.0 |
| Expenditure | 14.9 | 18.7 | 18.3 | 18.9 |
| Current Expenditure | 9.0 | 13.0 | 13.3 | 13.9 |
| Employment Costs | 5.4 | 6.7 | 6.7 | 6.8 |
| Interest Payments [1/] | 0.3 | 0.4 | 0.3 | 0.7 |
| Capital Expenditure | 6.0 | 5.7 | 5.0 | 5.0 |
| Overall Balance (commitment) | 0.6 | -1.1 | -1.5 | -1.9 |
| Overall Balance (cash) | 0.6 | -1.1 | -1.5 | -1.7 |
| | *(annual percentage change, unless otherwise indicated)* | | | |
| Revenue | 696.8 | 170.4 | 71.9 | 71.8 |
| Expenditure | 598.6 | 204.6 | 71.9 | 75.6 |
| Current Expenditure | 651.2 | 252.8 | 80.2 | 85.5 |
| Employment Costs | 807.4 | 199.2 | 75.9 | 75.9 |
| Interest Payments [1/] | 338.3 | 301.1 | 14.5 | 172.9 |
| Capital Expenditure | 532.1 | 132.1 | 52.9 | 52.9 |
| *Memo:* | | | | |
| Nominal GDP (millions of ZWL) | 1,187,329 | 2,884,507 | 5,058,076 | 5,015,949 |
| *Nominal GDP growth* | 533.5 | 142.9 | 75.4 | 73.9 |

Source: Zimbabwe authorities and IMF staff calculations.
For 2022, column 1 reflects the authorities' budget projections, column 2 reflects IMF staff projections.
[1/] Staff estimates and projections are on an accrual basis while the budget reflects a cash basis.

## 2) Toward Stronger Fiscal Outcomes

**19. Under staff's *IAPS*, additional fiscal space would be created and used to raise priority spending to support higher and more inclusive growth** (Annex VIII). Revenue mobilization would need to be enhanced, and low-priority spending curtailed. Spending in health, education, and the social safety net would be increased. Capital spending for high-return projects would increase by about 2½ percentage points of GDP during 2022-26. Domestic bank and nonbank financing would be limited to less than 2 percent of GDP per year. The financing mix (grants/loans) for the residual gap under the IAPS would need to be consistent with a path to debt sustainability.

### Revenue Mobilization

**20. Revenue mobilization would be underpinned by new tax and administrative measures** (Annex VIII). Revenue collections in 2020 are about 2.3 percentage points of GDP below the estimated 75$^{th}$ percentile of revenue collections among countries in sub-Saharan Africa. Revenue mobilization efforts should aim to raise revenues by about 1½ percentage points of GDP during 2021-26. Key reforms, based on technical assistance from the Fiscal Affairs Department (FAD), should focus on:

- Base broadening by (i) streamlining and limiting VAT exemptions and zero-rating; and (ii) eliminating income tax exemptions on interest income.
- Harmonizing (i) the taxation of dividends for both listed and unlisted shares, and (ii) capital gains taxes on all realized capital gains; and expanding the capital gains tax to all capital assets.
- Enhancing tax administration and compliance by matching tax and customs data; conducting post-clearance audits; and conducting a focused-audit approach for companies.
- Updating the mining fiscal regime to make it more effective and transparent (Annex IX).[3]

### Fiscal Controls and Public Sector Management

**21. Some progress has been made in improving expenditure controls.** The automated financial management information system has been rolled out to all ministries, departments, and agencies (MDAs), though processing of payments outside the system still continues. However, the authorities need to complete the transition to a single treasury account and enforce the legal framework for enhancing accountability and publication of financial reports.

**22. Subsidy programs pose fiscal risks.** Although the input financing under the Common Agriculture Program was transferred to the banking system under a risk sharing arrangement, risks to the budget remain as the government provides an 80 percent credit default guarantee. Limited information, including on costs and beneficiaries, hampers the assessment of the effectiveness of the programs.

**23. Loss-making state-owned enterprises (SOEs) continue to pose risks to the budget** (Annex VIII). Even with fiscal support (estimated at 11 percent of GDP between 2011 and 2018) and quasi-fiscal support, SOEs are experiencing severe cash-flow problems that adversely impact their operational performance, with key utilities such as power and water, as well as rail systems experiencing frequent service delivery challenges. The government has adopted an SOE reform program, but effective implementation needs strengthening. Greater attention is needed to the preparation and disclosure of financial reports.

[3] A Fund TA mission on mining tax policy design took place in February 2022.

**24. In order to enhance public finance management and minimize SOE-related budget risks, the staff recommended:**

- Reinforcing existing enforcement mechanisms to limit spending outside the Consolidated Fund.
- Enforcing the legal requirements on (i) internal controls, and (ii) sanctions on ministries that fail to submit fiscal reports.
- Conducting a review of the agriculture input schemes and subsidies by the Auditor General or an audit firm.
- Auditing the largest SOEs to gain a fuller understanding of their financial situation.
- Publishing fiscal risk statements that include information on contingent liabilities related to SOEs, local authorities and public private partnerships.

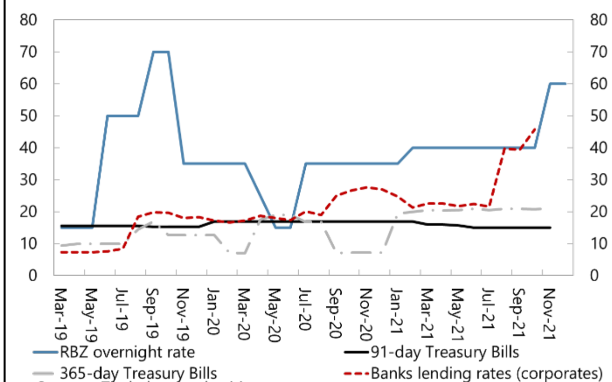
**Authorities' Views**

**25.** The authorities have committed to containing the fiscal deficit by adhering to a cash budgeting principle and non-inflationary financing. They stressed that coordination between the fiscal and monetary authorities has been reinforced. In case the 2022 projected revenues fall short, the authorities plan to cut capital project outlays, while leaving the wage bill intact. They noted that there is scope to raise more revenues by addressing VAT and corporate tax leakages, reforming the mining sector fiscal regime, and implementing the new Integrated Tax Management System. They indicated that political-economy constraints could prevent the elimination of zero-rating schemes given that earlier reform attempts were reversed following public protests. On the expenditure front, they noted that the wage bill would be guided by the SADC target, adequate remuneration, and the hiring of staff in the education and health sectors. They plan to transparently use the SDR allocation in priority areas while recognizing the tradeoffs and pursuing key reforms. They acknowledged that the COVID-19 pandemic, and capacity and financing constraints had slowed progress on the SOE and other structural reforms.

## B. Monetary and Exchange Rate Policies

**26. The RBZ relies on reserve money (RM) as a policy target.** To tighten monetary policy, in early 2021, the RBZ lowered its RM growth target from 25 percent per quarter to 20 percent and raised the overnight rate from 35 percent to 40 percent. It also raised the statutory reserve requirements from 5 to 10 percent. Against the background of an inflation pick-up, in Q4 2021, the RBZ further lowered its RM growth target to 10 percent per quarter and raised the policy rate to 60 percent. After peaking at 448 percent (y/y) in May 2020, RM growth decelerated to 38 percent by end-2021 (y/y). However, inflationary pressures have persisted. The RBZ increased transparency by publishing the minutes of its monetary policy committee, and data on base money and FX auctions.

**Text Figure 6. Zimbabwe: Domestic Interest Rates, 2019-2021**
(Percent)




Sources: Zimbabwe authorities.

**27. The RBZ's net equity position remains negative.** RBZ's external liabilities have increased significantly over the past two years, including from blocked funds[4] which, following the sharp domestic currency depreciation, led to the reevaluation of RBZ's balance sheet and a large negative net equity position.

**28. RBZ-financed quasi-fiscal operations, which triggered inflationary pressures in the past, have continued.** These operations include advances to SOEs such as the Grain Marketing Board and the Cotton Company of Zimbabwe, and subsidies to export incentive schemes and gold producers. Despite price pressures, these operations have continued.

**29. There are growing signs of an overvalued official exchange rate amidst FX restrictions, which impose large economic costs:**

- Despite the recent depreciation in the official exchange rate, significant premia remain in the parallel FX market.
- The interbank FX market is constrained to operate at the official exchange rate, which deters FX transactions and creates non-price distortions (Annex XI).
- The external sector assessment (ESA) indicates (i) an external position which was weaker than implied by fundamentals and desirable policies in 2021, and (ii) an overvalued REER by 4-23 percent based on staff's analysis of a counterfactual of higher imports in an environment without FX distortions using the elasticity from the EBA-lite model (Annex X). Staff's

[4] See footnote 1.

supplementary assessment—based on 2021 FX markets' data—suggests an official exchange rate overvaluation of about 13-27 percent (Annex XI).

- The current FX auction and surrender systems results in significant economic distortions, including:
  - A transfer subsidy to FX auction participants (2½-5¼ percent of GDP);
  - Costs to exporters on proceeds' surrender (1½-2½ percent of GDP), and to parallel FX market participants (2-8 percent of GDP).

**30. Certain exchange measures give rise to exchange restrictions and multiple currency practices (MCPs)**. Specifically, two exchange restrictions arise from the (i) rationing of FX through weekly auctions where different categories of eligible participants may submit their bids to purchase up to specified limited amounts of FX, and (ii) earmarking of FX to finance certain imports covered by letters of credit. Further, two MCPs arise from the FX auction sales at different exchange rates and use of the official exchange rate for official and FX surrender transactions, which may deviate from each other and from the market exchange rates by more than 2 percent at any given time.[5]

**31. Staff stressed the need to align the exchange rate to its fundamentals, supported by appropriately tight monetary policy.**[6] This would relieve pressures on the RBZ FX reserves and Treasury FX revenues, minimize RBZ's costly external borrowings, reduce rent-seeking opportunities, and improve competitiveness. The inflationary implications of an official exchange rate depreciation are expected to be manageable as the economy is already operating at an effective pricing that reflects the average exchange rates from the different FX markets (Annex XI). Specific recommendations relate to:

- Tightening monetary policy further to stem existing inflationary pressures, including through further increasing the policy interest rate and raising reserve requirements.
- Allowing greater flexibility in the official exchange rate through a more transparent and market-driven price discovery in the RBZ FX auctions.
- Increasing the efficiency of the interbank FX market including by removing restrictions set by the RBZ on the currency rate at which banks can transact.
- Eliminating exchange restrictions and MCPs and minimizing export surrender requirements (from 40 percent currently).[7]

---

[5] The Informational Annex provides a description of the exchange measures.

[6] The Fund provided TA on monetary and FX operations in July 2019.

[7] Various changes have been made to Zimbabwe's surrender requirement, considered a capital flow management measure (CFM), in the past two years, including; i) streamlining to a single surrender requirement across all export

(continued)

- Overhauling the RBZ Act to enhance central bank operational independence and eliminate fiscal dominance. In this context, ceasing QFOs financed by the RBZ and its subsidiaries and transferring these to the government budget would improve transparency.

- Auditing the financial accounts of RBZ subsidiaries to improve transparency.

- Enhancing the RBZ's capacity to effectively conduct monetary and exchange rate policy by resolving its large negative net equity position, including by ceasing external borrowings.

- Publishing the RBZ balance sheet and monetary aggregates no later than 4 weeks after the end of the reference month.

***Authorities' Views***

**32.** The authorities agreed with the staff's assessment of the monetary policy stance and advice. They are closely monitoring monetary and price developments. To make progress on de-dollarization, in addition to reinforcing macroeconomic stability, the authorities reiterated their plan to implement measures (e.g., raising the share of tax payments in local currency) to increase the use of the Zimbabwe dollar. They concur that the residual QFOs should be transferred to the budget. They broadly shared staff's exchange rate assessment. They took note of the need to allow further exchange rate flexibility, but stressed that, in the absence of a well-functioning interbank market, the RBZ-run FX auction system remains the most suitable mechanism to align the exchange rate with fundamentals. They argued that parallel market rates are largely driven by behavioral factors rather than economic fundamentals, and thus overshoot the equilibrium exchange rate. The authorities are not requesting Fund approval of the exchange restrictions and MCPs and indicated to staff that they plan to gradually relax them, depending on (i) economic conditions, (ii) potential impact of the relaxation of FX conditions, and (iii) market confidence.

## C. Debt Management

**33. Zimbabwe remains in debt distress (see DSA) in the context of efforts to strengthen debt management and external reengagement:**

- External public debt stood at 100 percent of GDP at end-2020 but declined to an estimated 64 percent of GDP at end-2021, reflecting the impact on the nominal GDP of the sharp parallel exchange rate depreciation.

- A new Medium-Term Debt Strategy (MTDS), under preparation, would guide future debt management operations. Also, a new framework is being used to evaluate, monitor, and manage domestic guaranteed and on-lent loans. Consistent with the provisions of the Public Debt

sectors, ii) removing the requirement on exporters to liquidate unutilized FX balances in their retention accounts, allowing them to hold such balances indefinitely and iii) implementing the Incremental Export Incentive Scheme (IEIS) which provides exemptions from the surrender requirement on incremental export proceeds. Overall, these changes have loosened the surrender requirement.

Management Act, starting in 2022, public entities and local authorities would be required to submit to Treasury information on borrowings, debt service, and overdraft facilities.

- In a bid to revive international reengagement, the authorities have prepared a debt resolution strategy to reengage with external creditors. The strategy includes plans to clear external arrears and seek debt relief under two approaches: a HIPC Initiative process; or a non-HIPC Initiative process, involving debt restructuring, and arrears' clearance via bridge financing and own resources. The specific timeline and modalities of this plan are yet to be finalized. The authorities have resumed token payments to multilateral and Paris Club creditors. Staff noted that a debt data reconciliation with creditors would be a necessary step in the authorities' plan to reach agreements with creditors on debt resolution.

***Authorities' Views***

**34.** The authorities broadly concurred with staff's assessment that Zimbabwe's overall and external public debt remain in distress and are unsustainable. The authorities are of the view that, in the absence of debt resolution, Zimbabwe would remain in debt distress. The authorities are confident that successful reengagement with the international community would help restore debt sustainability. They view the token payments to creditors as an important step in their bid to revive international reengagement.

## D. Promoting Financial Stability

**35. Financial system fragility has increased due to the economic downturn and high inflation** (Annex XII). Banks' lending capacity has been hindered by (i) an erosion of real asset values; (ii) negative real lending rates; and (iii) an increase in excess reserves at the RBZ. While banks report ample risk-weighted capital adequacy ratios and low non-performing loan (NPL) ratios, financial stability concerns arise from:

- The significant net open positions (NOPs) which stem from blocked funds.[8]
- The non-standard loan classification, with a significant proportion of the loan portfolio in the "special mention" category lacking commensurate provisioning for some banks.
- Largely illiquid long-term government bond holdings despite reported ample liquidity.

**36. Improvements in AML/CFT are key to strengthening the interbank market and correspondent banking relationships (CBRs).** Zimbabwe is on the Financial Action Task Force's (FATF) grey list owing to shortcomings in its AML/CFT assessment report. The FATF has determined that Zimbabwe has made progress on the action plan, and that an on-site assessment would be needed to verify the implementation status. Comprehensively addressing the recommendations in

[8] See footnote 1.

the FATF's action plan and the Eastern and Southern Africa Anti-Money Laundering Group's (ESAAMLG) follow-up process would be important to improving AML/CFT.

**37. The authorities have taken steps to strengthen financial supervision.** They have, with input from Fund TA, enhanced the Remote Examination Framework, and introduced a Domestic Systemically Important Bank (D-SIB) framework and cyber risk framework to mitigate risks from digitization.

**38. Progress was made in strengthening the payment systems**. The draft Payment Systems Act, which aligns with the Principles of Financial Market Infrastructure (PFMI), includes provisions relating to anti-money laundering. Further, guidance was issued on cyber security. The RBZ has mandated interoperability to reduce anti-competitive behavior. Other initiatives include allowing merchant payments and reducing transaction limits to reduce reliance on large providers.

**39. In order to strengthen financial sector stability and improve the functioning of the interbank market, the staff recommended:**

- ***AML/CFT***. Addressing banking sector weaknesses, including on AML/CFT, to improve CBR and the proper functioning of the interbank FX market.
- ***Banking supervision.*** Strengthening bank's onsite supervision, including through more frequent inspections of domestic-systematically-important banks.
- ***Loan classification***. Modifying the current classification and provisioning rules to ascertain migration between watch and non-performing category.
- ***Asset quality reviews (AQR).*** The AQRs planned for this year should examine the (i) current loan classification and provisioning framework, (ii) avail external experts to value of collateral, and (iii) valuation of fixed assets that has been flagged by auditors to ascertain potential capital adjustment needs. Potential adverse AQR findings would require resolution actions.
- ***National payment system.*** In line with their national financial inclusion strategy, the authorities should continue strengthening the (i) legal and regulatory framework for mobile payments supervision, (ii) digital financial services, and (iii) consumer protection.

***Authorities' Views***

**40.** The authorities highlighted their efforts to enhance the AML/CFT framework and improve asset quality assessment. They view their prudential loan provisioning regime as appropriate since it considers collateral values in calculating required specific provisions. They confirmed plans to include an AQR in the 2022 supervisory plan which will ascertain the quality of assets, including classification and provisioning.

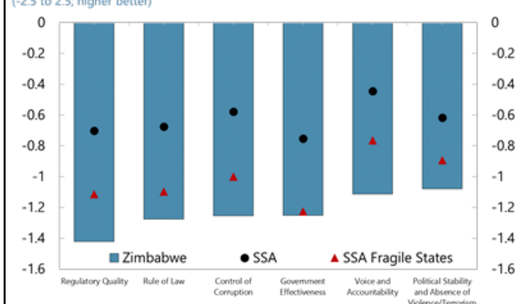
## E. Improving Governance

**41. This consultation is done against the backdrop of the IMF's technical assistance on Zimbabwe's governance and anti-corruption assessment.**[9] The latter forms the basis of staff's policy analysis and key governance-related recommendations—spanning fiscal, RBZ, and financial sector governance; SOE reform; and anti-corruption efforts and the rule of law—considering constraints from fragility.

**42. Zimbabwe's institutional weaknesses have jeopardized growth and social outcomes and contributed to fragility.** Though some progress is being made to address corruption, Zimbabwe's governance and institutional indicators lag that of peers:

- Zimbabwe lags peers on measures of regulatory quality, rule of law, and control of corruption, as well as voice and accountability and political stability. (Annex I). Prosecution against corruption is low. Zimbabwe's mining sector governance and transparency weaknesses constrain the sector's fiscal take and contributions to economic development (Annex IX).

Text Figure 7. Zimbabwe Governance and Institutional Indicators, 2020
(-2.5 to 2.5; higher better)




Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2020.
Notes: The above non-IMF indicators provide qualitative information about the indicators listed in these figures, and the accuracy of the indices can be biased by experts' views (instead of facts). They do not represent the IMF's assessment on any of these indicators.

- In July 2020, Zimbabwe adopted a National Anti-Corruption Strategy (NACS) and established a Steering Committee. The Zimbabwe Anti-Corruption Commission (ZACC) has begun implementing the priority areas of the NACS, but implementation capacity is constrained by, inter alia, funding availability. The Auditor General (AG) has conducted and transmitted to ZACC a special audit of the COVID-19 pandemic financial management and utilization of public resources. The AG is taking steps to address impediments to the publication of beneficiaries' information of successful bidders on COVID-19 procurement. The authorities have established the Financial Governance and Smart Regulation Forum (FGSRF) aimed at improving the effectiveness of regulations and improving the public transparency and accountability. Principles for a new draft whistleblower bill are being finalized

**43. Staff stressed that greater efforts are needed to enhance transparency and accountability, and tackle corruption and governance vulnerabilities by:**

- Publishing key information on procurement contracts (including the names of winning companies and beneficial owners).

- Regular publication on the use of the new SDR allocation and audit by the Auditor General.

[9] A summary of this report is provided in Annex IV of the 2019 Article IV consultation staff report for Zimbabwe.

- Preparing and publishing a time-bound action plan to address broader governance vulnerabilities identified by the IMF's 2020 governance diagnostic report.
- Introducing an asset and interest declaration regime for top public officials and finalizing the whistleblower bill, in line with international standards and best practices.
- Ensuring adequate budgetary resources to the ZACC and OAG to perform their duties.

***Authorities' Views***

**44.** The authorities broadly agreed with staff's recommendations. They aim to continue reinforcing the implementation of measures to combat corruption and plan to broaden their efforts to tackle broader array of governance vulnerabilities by strengthening the role of the FGSRF.

## TRANSITION TO INTERNATIONAL REENGAGEMENT

**45. As the authorities seek to make progress toward comprehensive debt resolution and arrears clearance, they should continue implementing reforms—which would improve the outlook and strengthen prospects for reengagement—by:**

- Significantly lowering price pressures by (i) strengthening fiscal and monetary authorities' coordination; (ii) further tightening monetary policy; (iii) implementing the 2022 budget on a cash principle, while prioritizing social outlays and eliminating non-priority spending; and (iv) avoiding off-budget outlays and transferring QFOs to the budget.
- Promoting greater exchange rate flexibility by allowing more price discovery in the RBZ FX auctions and removing RBZ restrictions on the exchange rate used on interbank FX market.
- Implementing public finance management reforms that (i) ensure that line ministries abide by their spending allocations and respect internal fiscal controls, (ii) strengthen investment management efficiency, and (iii) enhance transparency of agricultural programs, blocked funds, and SOEs' financial situation.
- Improving governance by (i) tackling AML/CFT weaknesses, (ii) publishing an action plan to tackle governance and anti-corruption vulnerabilities, and (iii) implementing an asset-declaration plan and whistleblower bill.
- Promoting data transparency by further enhancing publication of relevant statistics, including additional data on monetary and FX market auctions, to improve market confidence.

## OTHER ISSUES

**46. Capacity development** (Annex VII). Capacity development, which is central to the Fund's engagement with Zimbabwe, has focused on revenue mobilization, expenditure control, monetary and exchange rate policy, banking sector, debt management, governance, national accounts, and balance of payment statistics.

**47. Climate change** (Annex XIII). The authorities' climate change strategy—the 2021 National Determined Contribution—presents mitigation and adaptation actions. Related costs, estimated at 1.2 percent GDP in 2022, are reflected in the budget. Staff recommended completing the medium-term costings of strategic actions.

**48. Sustainable Development Goals** (Annex XIV). Progress in advancing on the SDGs has been mixed—reflecting policy missteps in 2019, climatic shocks, and the COVID-19 pandemic—and require stepped-up efforts.

**49. Data issues** (Statistical Issues Annex). The authorities' work on redenominating and rebasing the national accounts statistics, with input from IMF TA, was slowed by the pandemic; staff recommended timely completion of this effort to further improve data for economic assessment. Improvements in the balance of payments statistics would also further enhance the basis for the economic assessment. The authorities have expressed their willingness to participate in the e-GDDS.

# STAFF APPRAISAL

**50. Following large shocks and policy missteps in 2019, the authorities have begun to address the macroeconomic imbalances and responded proactively to the pandemic to save lives and livelihoods.** The government's swift response to the pandemic, including through containment measures and social and economic support, helped cushion its adverse impact. While reducing fiscal deficits and money growth, the government prioritized social and health support, including food and vaccines. Nonetheless, the economy suffered a severe contraction during 2019-20, which accompanied by a large currency depreciation and spike in inflation, took a heavy toll on output and social outcomes. While the economy started to recover in 2021, reflecting good weather and the relaxation of containment measures, and inflation declined, bold measures are needed to further rein in inflationary pressures and support strong and inclusive growth.

**51. More decisive steps are needed to durably restore macroeconomic stability and enhance social protection.** The authorities have made significant efforts in restoring macroeconomic stability. However, inflation remains in the high double digits and large parallel FX market premia persist. Against this background, the near-term macroeconomic imperatives relate to:

- ***Policy coordination.*** Stronger coordination between the Finance Ministry and RBZ on policy formulation and implementation, including on key macroeconomic targets and assumptions, would help rein in currency and price pressures. Measures to scale back non-priority outlays would be needed given risks to the revenue forecast. Achieving these objectives requires strong ownership by the authorities, which is a key lesson from the 2019 SMP implementation.

- ***Monetary policy.*** The RBZ should further tighten monetary policy to stem inflationary pressures. The RBZ Act should be overhauled to enhance central bank independence.

- ***Exchange rate.*** The current FX auction and surrender systems impose large costs on the economy, puts undue pressure on FX reserves, creates rent-seeking opportunities, and acts as a tax on exports. There is an urgent need for greater exchange rate flexibility by allowing a more transparent and market-driven price in both the official and interbank markets.

- ***Social protection.*** Extreme poverty has increased, and a large segment of the population faces food insecurity. Ensuring a minimum level of social protection will require further reprioritization of budgetary resources and engagement with the international community.

**52. Fiscal policy should be geared to restoring macroeconomic stability and creating fiscal space for priority spending to support higher and more inclusive growth.** In this regard, new tax policy and administrative measures, in line with IMF TA, would be critical to further raise the tax-GDP ratio and generate non-inflationary resources. In addition, efforts are needed to control spending, rationalize untargeted subsidies, and accelerate SOE reforms to further create fiscal space and limit fiscal risks. The RBZ-financed QFOs should be transferred to the budget to enhance fiscal transparency. Staff urges prudent and well-planned use of the SDR allocation to support priority outlays, as well as transparency on pandemic- and SDR-related spending.

**53. For Zimbabwe to emerge from its unsustainable debt and debt distress situation, substantial policy actions and support from the international community are needed.** Maintaining a consistent policy mix anchored on prudent fiscal, monetary, and exchange rate policies would be critical. Adherence to the Public Debt Management Act will facilitate better coverage and management of debt. Supporting SOE reform and management of guarantees should advance the objective of minimizing debt exposure and costs. Resolving the debt overhang and reengagement with IFIs requires comprehensive economic reforms and a significant improvement in relations with the international community. Staff notes the authorities' token payments to external creditors in a bid to revive international reengagement.

**54. Given financial sector risks and vulnerabilities, steps to improve financial stability are needed.** It is critical to address banking sector weaknesses, including on the AML/CFT regime, to improve cross-border relations and the functioning of the interbank FX market. Other key steps include strengthening onsite supervision of banks; undertaking an asset quality review; and further strengthening the national payments system.

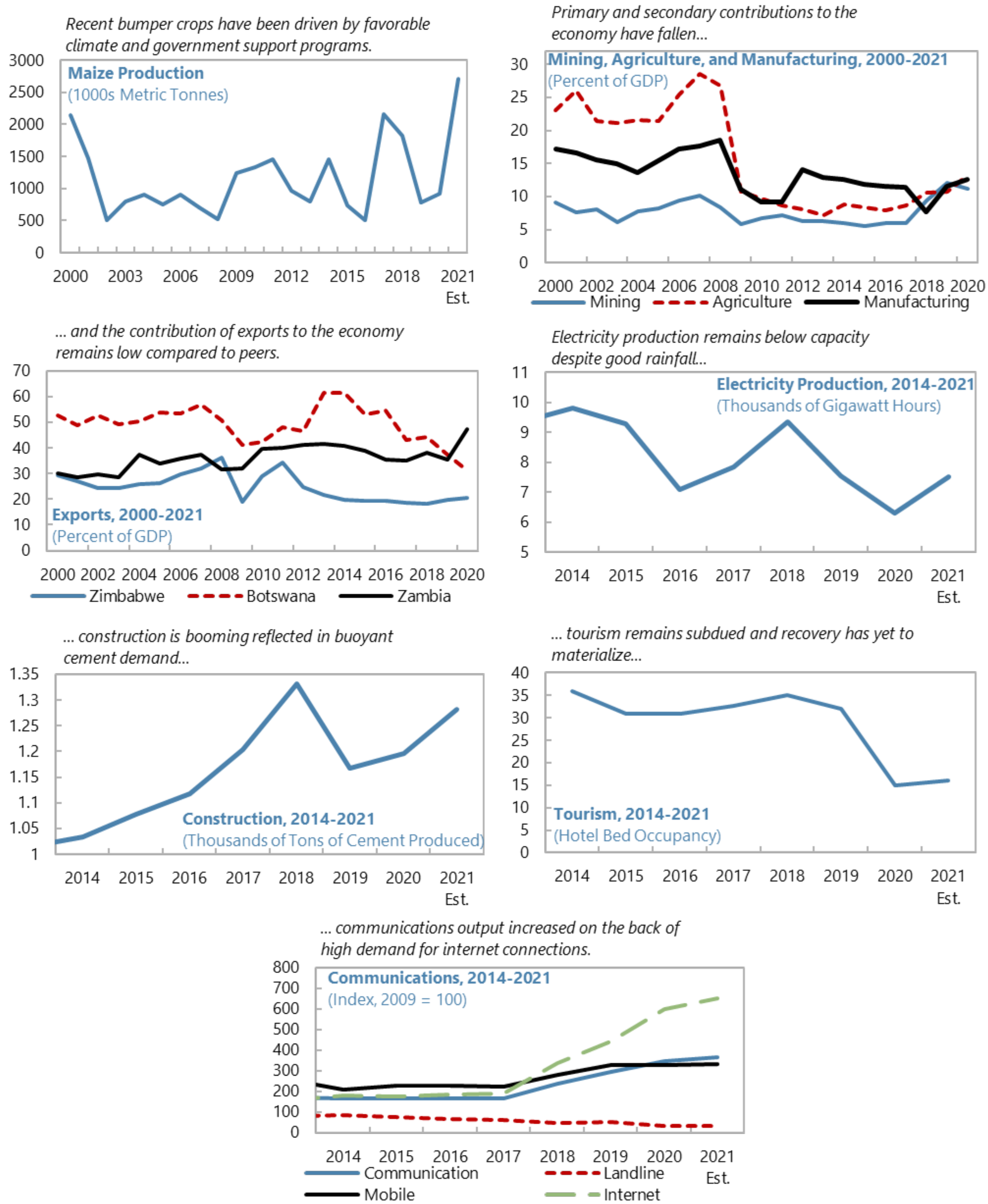
**55. Staff does not support policies that have given rise to exchange restrictions and MCPs** (¶30). Although the authorities have indicated that they plan to gradually relax them, there is presently no timetable to do so. Staff urges the authorities to articulate an exit strategy for their removal as economic conditions permit, to allow an improved functioning of the foreign exchange market.

**56. The authorities should build on their anticorruption agenda to tackle broader governance vulnerabilities.** Progress has been made on implementing the 2020 National Anti-Corruption Strategy (NACS), but more decisive steps are needed to strengthen the effectiveness of the related agencies, accountability of public officials, and whistleblower protection. Steadfast implementation of the NACS and the 2020 IMF governance report recommendations will be a critical signal of the authorities' commitment in this regard, including to address vested interests. Allocating adequate budgetary resources to the relevant governance-related agencies would be important to perform their duties and deliver on the government's governance mandate.

**57. Strategies that help Zimbabwe achieve its NDS goals would also assist its exit from fragility.** Comprehensive policy reforms would help to durably restore macroeconomic stability and improve the conditions for higher and more inclusive growth. These reforms, along with successful international reengagement, would also help Zimbabwe make progress in exiting fragility.

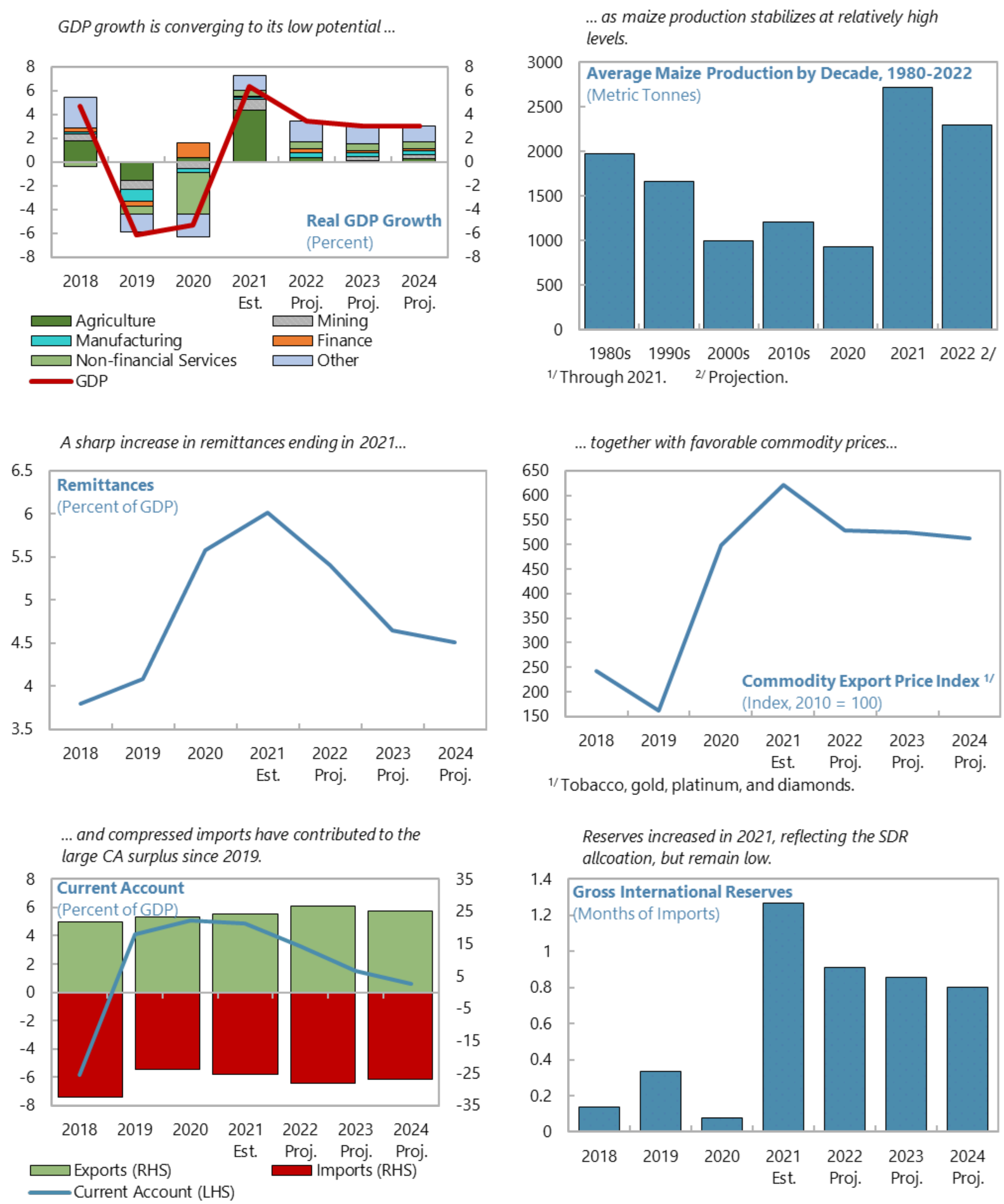
**58. Staff recommends that the next Article IV consultation with Zimbabwe be held on the standard 12-month consultation cycle**.

**Figure 1. Zimbabwe: Selected Economic Indicators, 2000–21**



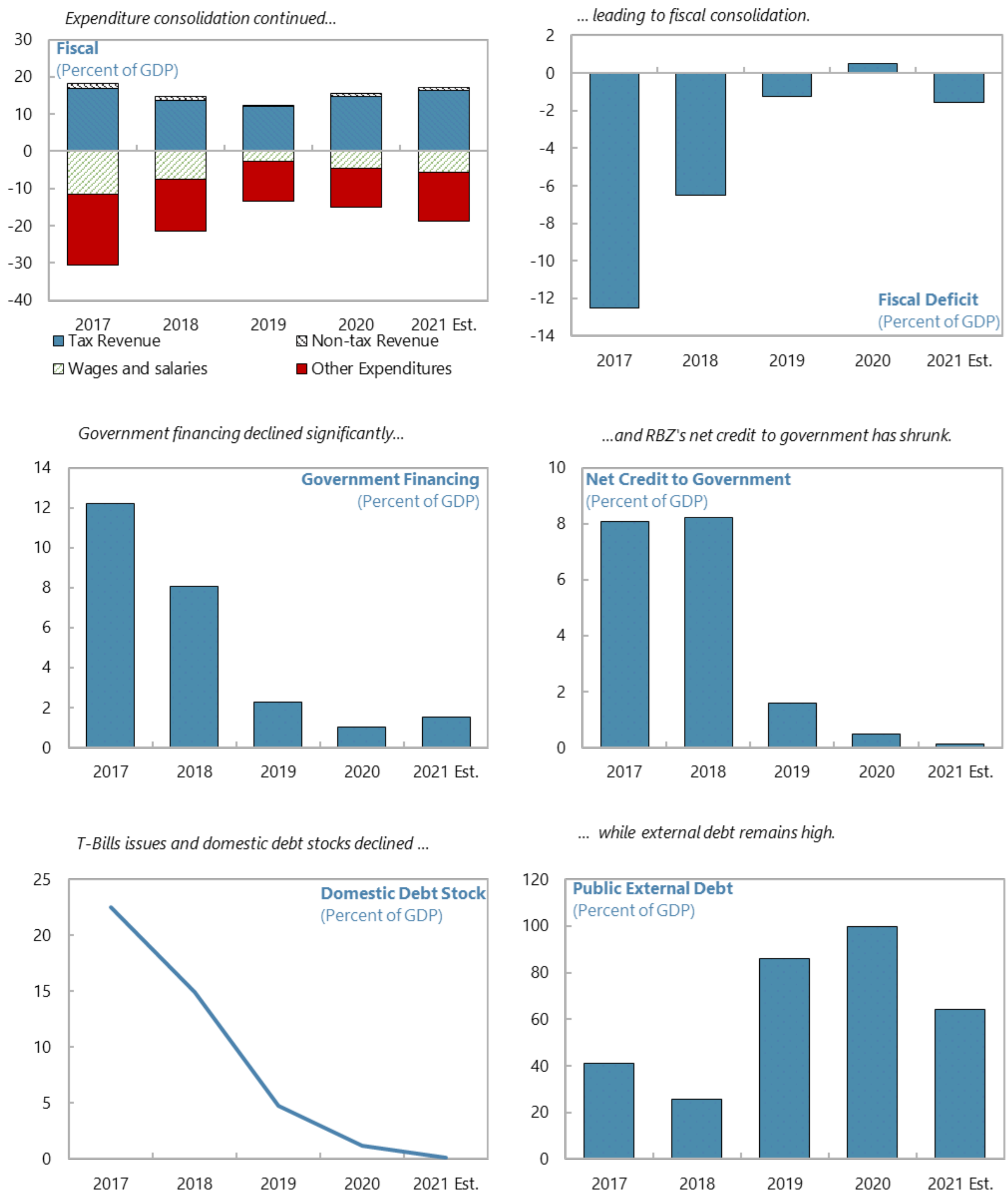

Source: World Bank WDI; International Energy Agency; Zimbabwe authorities; IMF WEO; and IMF staff calculations and projections.

**Figure 2. Zimbabwe: Economic Performance and Prospects, 2018–24**



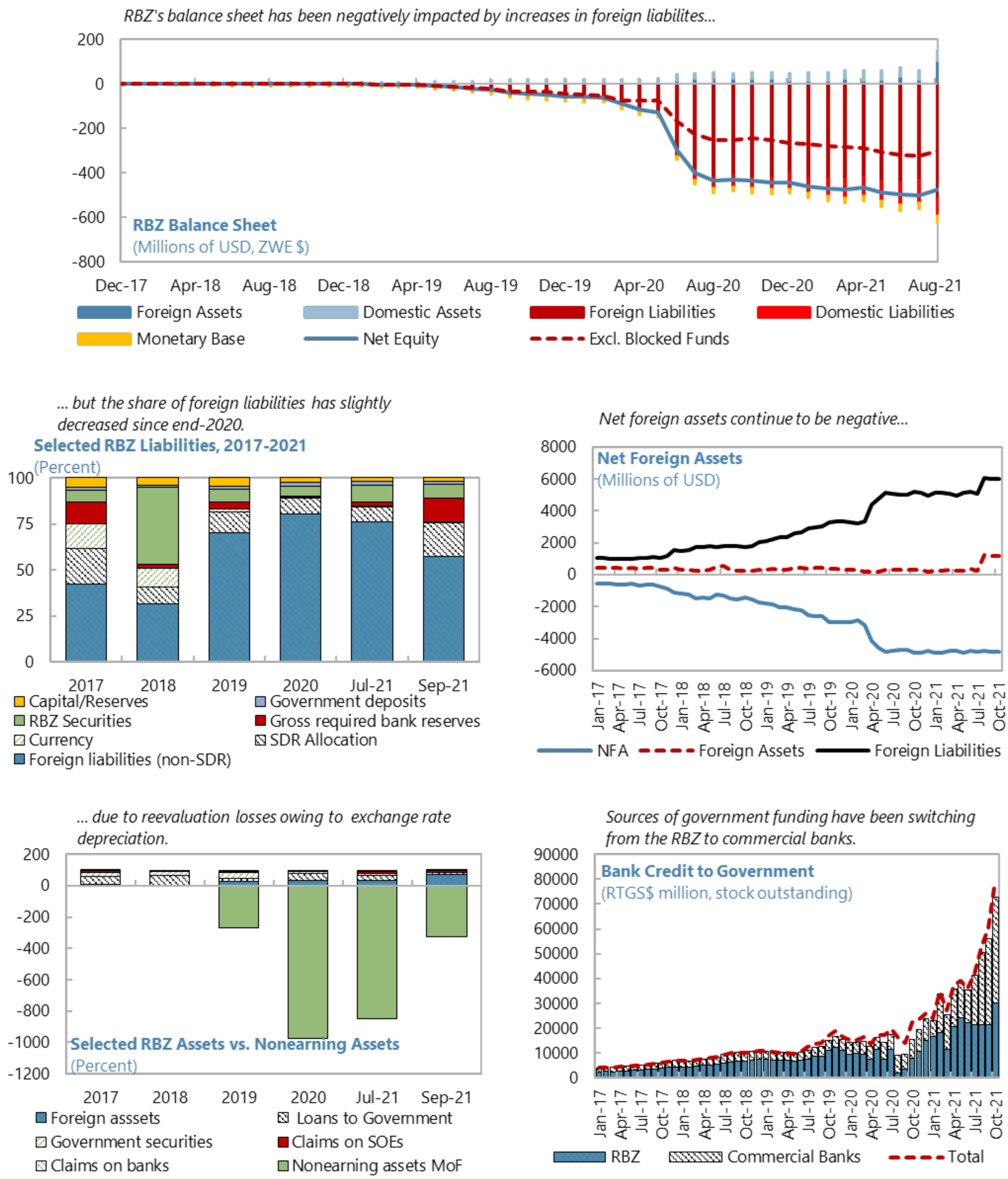

Source: Zimbabwe authorities and IMF staff calculations.

## Figure 3. Zimbabwe: Fiscal Performance, 2017–21



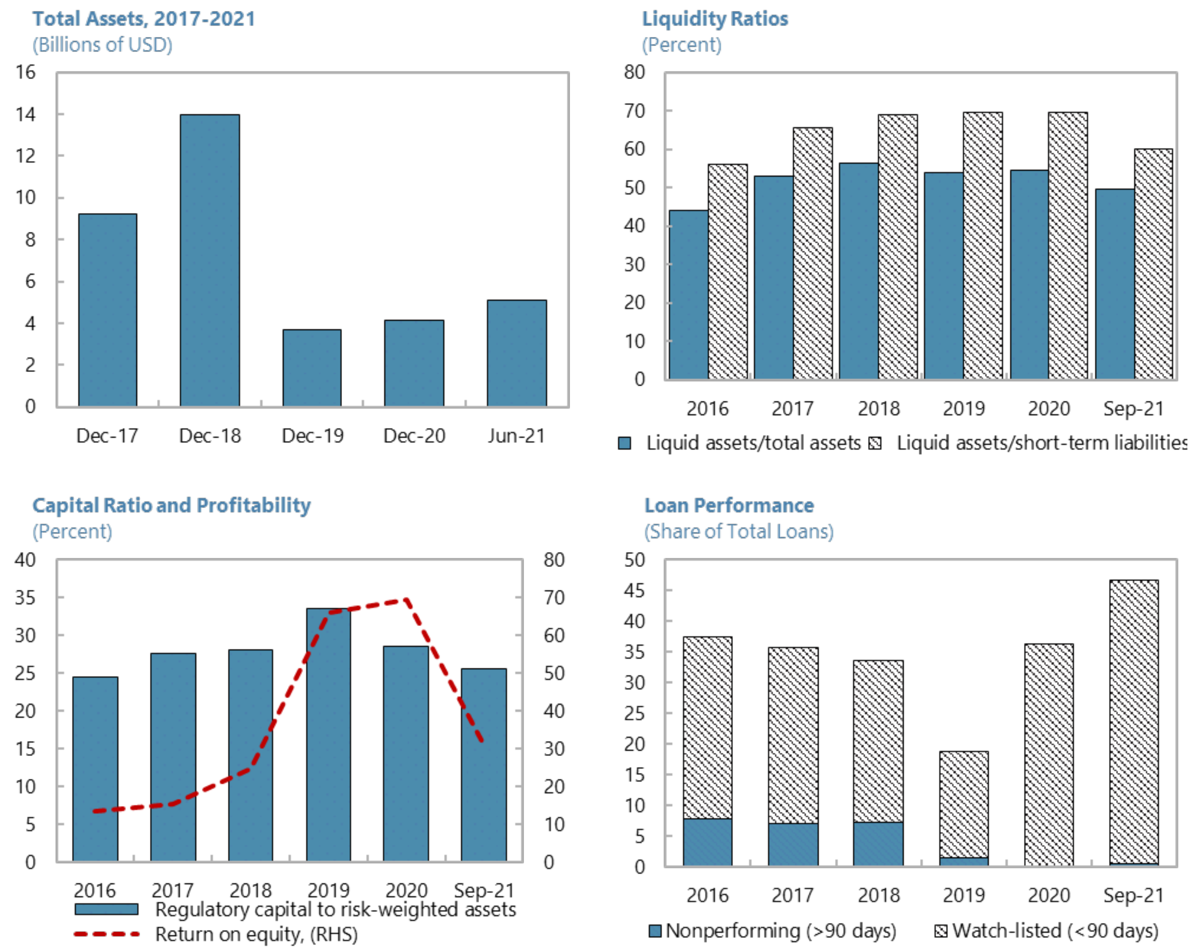

Source: Zimbabwe authorities and IMF staff calculations

## Figure 4. Zimbabwe: RBZ Balance Sheets, 2017–21




Source: Zimbabwe authorities and IMF staff calculations.

## Figure 5. Zimbabwe: Financial Sector Performance, 2016–21




Source: Zimbabwe authorities and IMF staff estimates.

## Table 1. Zimbabwe: Selected Economic Indicators, 2017–26

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Act. | | Est. | | | Proj. | | | | |
| *(annual percentage change, unless otherwise indicated)* | | | | | | | | | | |
| **Output and prices** | | | | | | | | | | |
| Real GDP growth [1] | 5.0 | 4.7 | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 | 3.1 | 3.1 | 3.1 |
| Nominal GDP (US$ millions) | 22,046 | 23,651 | 22,600 | 21,670 | 24,124 | 26,425 | 27,963 | 29,428 | 31,027 | 32,684 |
| GDP deflator | -0.9 | 65.0 | 440.5 | 569.0 | 128.5 | 68.1 | 39.8 | 24.2 | 15.1 | 9.2 |
| CPI (annual average) | 0.9 | 10.6 | 255.3 | 557.2 | 98.5 | 56.4 | 46.3 | 35.5 | 23.3 | 13.9 |
| CPI (end-of-period) | 3.4 | 42.1 | 521.1 | 348.6 | 60.7 | 55.0 | 42.0 | 30.0 | 20.0 | 11.0 |
| **Money and credit** | | | | | | | | | | |
| Money supply (M2) | 39.0 | 28.4 | 249.4 | 481.3 | 142.4 | 77.4 | 50.6 | 34.8 | 23.7 | 16.1 |
| Money Base | 81.2 | 22.1 | 217.0 | 81.7 | 38.4 | 35.0 | 30.0 | 23.0 | 17.0 | 11.0 |
| Credit to the private sector | 5.9 | 9.1 | 173.8 | 571.8 | 158.9 | 74.3 | 40.8 | 23.8 | 13.4 | 1.7 |
| Credit to the central government | 74.5 | 59.2 | 40.7 | 65.5 | 115.2 | 138.7 | 112.5 | 72.2 | 51.1 | 38.0 |
| Money supply *(in percent of GDP)* | 36.2 | 26.9 | 18.6 | 17.0 | 17.0 | 17.3 | 18.1 | 19.1 | 19.9 | 20.5 |
| Credit to the private sector *(in percent of GDP)* | 17.4 | 11.0 | 5.9 | 6.3 | 6.7 | 6.7 | 6.6 | 6.3 | 6.1 | 5.5 |
| *(ZWL$ per US$)* | | | | | | | | | | |
| **Official Exchange rate** | | | | | | | | | | |
| ZWL:USD exchange rate (annual average) | 1.0 | 1.0 | 8.2 | 51.3 | 88.6 | ... | ... | ... | ... | ... |
| ZWL:USD exchange rate (end-of-period) | 1.0 | 1.0 | 16.8 | 81.8 | 107.0 | ... | ... | ... | ... | ... |
| *(percent of GDP)* | | | | | | | | | | |
| **Central government** [2] | | | | | | | | | | |
| Revenue and grants | 18.1 | 14.9 | 12.3 | 15.4 | 17.2 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 |
| Expenditure and net lending | 30.6 | 21.4 | 13.5 | 14.9 | 18.7 | 18.9 | 18.8 | 18.9 | 18.9 | 18.9 |
| Overall balance | -12.5 | -6.5 | -1.3 | 0.5 | -1.5 | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 |
| Primary balance | -11.6 | -5.5 | -0.9 | 0.8 | -1.1 | -1.2 | -1.2 | -1.3 | -1.3 | -1.3 |
| *(US$ millions, unless otherwise indicated)* | | | | | | | | | | |
| **Balance of payments** | | | | | | | | | | |
| Exports of goods and services | 4,640 | 5,178 | 5,267 | 5,263 | 6,448 | 6,607 | 6,818 | 7,029 | 7,237 | 7,453 |
| *(annual percentage change)* | 14.3 | 11.6 | 1.7 | -0.1 | 22.5 | 2.5 | 3.2 | 3.1 | 3.0 | 3.0 |
| Imports of goods and services | 6,221 | 7,642 | 5,398 | 5,489 | 6,771 | 7,127 | 7,588 | 8,071 | 8,612 | 9,186 |
| *(annual percentage change)* | 0.5 | 22.8 | -29.4 | 1.7 | 23.3 | 5.3 | 6.5 | 6.4 | 6.7 | 6.7 |
| Current account balance (excluding official transfers) | -271 | -1,380 | 920 | 1,096 | 1,170 | 866 | 413 | 168 | -169 | -538 |
| *(percent of GDP)* | -1.2 | -5.8 | 4.1 | 5.1 | 4.8 | 3.3 | 1.5 | 0.6 | -0.5 | -1.6 |
| Gross international reserves | 293 | 87 | 151 | 34 | 716 | 540 | 540 | 540 | 540 | 540 |
| *(months of imports of goods and services)* | 0.6 | 0.1 | 0.3 | 0.1 | 1.3 | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 |
| **Public debt** [3] | | | | | | | | | | |
| Consolidated public sector debt | 15,841 | 18,842 | 10,415 | 14,915 | 17,855 | 18,373 | 19,031 | 19,841 | 20,624 | 21,370 |
| *(percent of GDP)* | 74.1 | 51.0 | 93.2 | 102.7 | 66.3 | 69.5 | 68.1 | 67.4 | 66.5 | 65.4 |
| Public and publicly guaranteed external debt | 8,829 | 9,479 | 9,609 | 14,485 | 17,290 | 17,468 | 17,594 | 17,784 | 17,974 | 18,084 |
| *(percent of GDP)* | 41.3 | 25.7 | 86.0 | 99.8 | 64.2 | 66.1 | 62.9 | 60.4 | 57.9 | 55.3 |
| *Of which:* Arrears | 5,652 | 6,205 | 6,406 | 10,022 | 12,722 | 12,912 | 13,102 | 13,280 | 13,455 | 13,628 |
| *(percent of GDP)* | 26.4 | 16.8 | 57.3 | 69.0 | 47.2 | 48.9 | 46.9 | 45.1 | 43.4 | 41.7 |
| PPG external debt (percent of GDP) from DSA [4] | 40.0 | 40.1 | 87.5 | 106.6 | 86.6 | 73.8 | 70.6 | 65.7 | 62.4 | 58.2 |

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Includes SDR spending and financing of 1.0 percent of GDP and 0.5 percent of GDP in 2021 and 2022, respectively.

3/ Debt ratios in the macroframework are based on the offical exchange rate up to 2021 and on the implied exchange rate over 2022-2026. The latter takes into account the coversion factor used in national account statistics.

4/ DSA debt ratios differ from the ones in the macroframework due to the fact that GDP in the DSA does not take into account the conversion factor used in national account statistics (for the historical figures) and differences between avg. and e.o.p. exchange rates (for the projections).

## Table 2. Zimbabwe: Balance of Payments, 2017–26

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Act. | | Est. | | | | Proj. | | |
| | *(US$ millions, unless otherwise indicated)* | | | | | | | | | |
| **Current Account** | -271 | -1,380 | 920 | 1,096 | 1,170 | 866 | 413 | 168 | -169 | -538 |
| Balance on goods | -927 | -1,938 | 174 | 212 | 204 | 51 | -348 | -607 | -939 | -1,272 |
| Exports of goods | 4,164 | 4,678 | 4,664 | 4,932 | 6,183 | 6,331 | 6,358 | 6,543 | 6,724 | 6,913 |
| Imports of goods | 5,091 | 6,616 | 4,489 | 4,720 | 5,979 | 6,279 | 6,705 | 7,150 | 7,663 | 8,184 |
| Balance on services | -654 | -526 | -306 | -438 | -527 | -571 | -422 | -435 | -437 | -461 |
| Primary income (net) | -387 | -311 | -339 | -473 | -617 | -630 | -642 | -655 | -668 | -691 |
| Secondary income (net) | 1,697 | 1,396 | 1,391 | 1,795 | 2,110 | 2,016 | 1,824 | 1,865 | 1,875 | 1,886 |
| of which: Workers' Remittances | 1,013 | 898 | 922 | 1,210 | 1,452 | 1,429 | 1,300 | 1,326 | 1,319 | 1,312 |
| **Capital Account** | 278 | 309 | 315 | 300 | 330 | 315 | 317 | 318 | 324 | 329 |
| **Financial Account** | -1,110 | -884 | 344 | 584 | 1,017 | 1,547 | 920 | 664 | 330 | -36 |
| Direct investment | -306 | -717 | -247 | -154 | -92 | -132 | -173 | -210 | -253 | -310 |
| Portfolio investment | 101 | -55 | -4 | 82 | 73 | -12 | -8 | -8 | -8 | -9 |
| Financial derivatives and employee stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investment | -905 | -112 | 595 | 656 | 1,037 | 1,692 | 1,100 | 882 | 591 | 283 |
| Currency and Deposit (net) | -219 | 82 | 693 | 347 | 622 | 277 | 329 | 312 | 100 | 106 |
| Loans (net) | -685 | -195 | -27 | 359 | 1,378 | 1,415 | 771 | 570 | 491 | 177 |
| Central bank | -499 | -77 | 24 | 266 | 75 | 218 | 8 | -63 | -10 | -11 |
| General government | -83 | -158 | -76 | -181 | -396 | -322 | -163 | -308 | -302 | -259 |
| Other sectors (NFCs, HH, NPISHs) | -104 | -48 | -58 | 190 | 1,700 | 1,519 | 926 | 941 | 804 | 447 |
| **Errors and Omissions** | 1,630 | 572 | 1,028 | 1,295 | ... | ... | ... | ... | ... | ... |
| **Overall Balance** | -513 | -759 | -137 | -484 | 482 | -366 | -190 | -178 | -175 | -173 |
| **Financing** | 513 | 759 | 137 | 484 | -482 | 366 | 190 | 178 | 175 | 173 |
| Accumulation of external arrears [1/] | 495 | 553 | 201 | 367 | 200 | 190 | 190 | 178 | 175 | 173 |
| Reserve accumulation (minus = increase) | 18 | 206 | -64 | 117 | -682 | 176 | 0 | 0 | 0 | 0 |
| **Memorandum:** | | | | | | | | | | |
| Reserve assets | 293 | 87 | 151 | 34 | 716 | 540 | 540 | 540 | 540 | 540 |
| *Months of import cover* | *0.6* | *0.1* | *0.3* | *0.1* | *1.3* | *0.9* | *0.9* | *0.8* | *0.8* | *0.7* |
| | *(percent of GDP)* | | | | | | | | | |
| Current account | -1.2 | -5.8 | 4.1 | 5.1 | 4.8 | 3.3 | 1.5 | 0.6 | -0.5 | -1.6 |
| Exports of goods and services | 21.0 | 21.9 | 23.3 | 24.3 | 26.7 | 25.0 | 24.4 | 23.9 | 23.3 | 22.8 |
| Imports of goods and services | 28.2 | 32.3 | 23.9 | 25.3 | 28.1 | 27.0 | 27.1 | 27.4 | 27.8 | 28.1 |
| | *(annual percentage change)* | | | | | | | | | |
| Exports of goods and services | 14.3 | 11.6 | 1.7 | -0.1 | 22.5 | 2.5 | 3.2 | 3.1 | 3.0 | 3.0 |
| Imports of goods and services | 0.5 | 22.8 | -29.4 | 1.7 | 23.3 | 5.3 | 6.5 | 6.4 | 6.7 | 6.7 |

Sources: Zimbabwean authorities; IMF staff estimates and projections.

[1/] Arrears accumulation in the BoP excludes farmers' compensation and blocked funds.

## Table 3a. Zimbabwe: Central Government Operations, 2017–26

(Millions of ZWL)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Act. | | | Est. | | | Proj. | | |
| **Revenue and grants** | **3,870** | **5,491** | **22,971** | **183,039** | **495,035** | **850,278** | **1,224,578** | **1,568,008** | **1,861,380** | **2,094,814** |
| Tax revenue | 3,628 | 5,000 | 22,570 | 176,499 | 474,264 | 810,186 | 1,166,837 | 1,494,073 | 1,773,612 | 1,996,039 |
| Personal income tax | 729 | 856 | 3,235 | 28,509 | 78356 | 156695 | 225673 | 288962 | 343027 | 386045 |
| Corporate income tax | 485 | 802 | 3,155 | 33,869 | 124986 | 195607 | 281714 | 360721 | 428211 | 481912 |
| Other direct taxes | 203 | 261 | 964 | 12,270 | 26317 | 48052 | 69204 | 88612 | 105192 | 118384 |
| Customs | 295 | 433 | 1,962 | 14,572 | 28228 | 44178 | 63625 | 81469 | 96712 | 108840 |
| Excise | 676 | 909 | 4,117 | 25,824 | 51736 | 85467 | 123090 | 157611 | 187099 | 210563 |
| VAT | 1,075 | 1,363 | 5,949 | 43,797 | 112,854 | 199,139 | 286,801 | 367,234 | 435,943 | 490,614 |
| Other indirect taxes | 165 | 377 | 3,189 | 17,659 | 51788 | 81050 | 116729 | 149465 | 177430 | 199681 |
| Non-tax revenue and Grants | 242 | 491 | 400 | 6,540 | 20,771 | 40,092 | 57,741 | 73,935 | 87,768 | 98,775 |
| **Expenditure and net lending** 5/ | **6,548** | **7,895** | **25,351** | **177,111** | **539,460** | **947,130** | **1,360,037** | **1,745,100** | **2,072,415** | **2,334,666** |
| Current expenditure | 4,806 | 5,220 | 14,158 | 106,364 | 375,235 | 695,964 | 987,352 | 1,267,885 | 1,503,117 | 1,693,992 |
| Employment costs | 3,495 | 3,935 | 7,119 | 64,596 | 193,261 | 340,000 | 487,295 | 623,956 | 740,697 | 837,755 |
| Pensions | 517 | 553 | 1,036 | 9,785 | 30,399 | 58,853 | 84,761 | 108,532 | 128,838 | 144,996 |
| Interest payments | 208 | 368 | 714 | 3,129 | 12,551 | 34,249 | 47,533 | 58,168 | 67,064 | 73,677 |
| Foreign | 68 | 43 | 424 | 2,802 | 11,714 | 23,835 | 32,534 | 38,963 | 44,266 | 48,020 |
| Domestic | 140 | 325 | 290 | 327 | 838 | 10,414 | 14,998 | 19,205 | 22,798 | 25,657 |
| Goods & services | 887 | 703 | 3,940 | 20,013 | 99,469 | 171,559 | 247,080 | 322,701 | 383,078 | 431,119 |
| Current transfers | 216 | 214 | 2,386 | 18,626 | 69,954 | 150,156 | 205,443 | 263,059 | 312,277 | 351,440 |
| Capital expenditure and net lending | 1,742 | 2,675 | 11,193 | 70,747 | 164,224 | 251,165 | 372,685 | 477,216 | 569,299 | 640,674 |
| Capital transfers 1/ | 1,193 | 1,735 | 8,850 | 39,625 | 59,544 | 104,317 | 183,048 | 234,383 | 281,018 | 316,260 |
| Other capital expenditure | 145 | 542 | 1,832 | 18,191 | 88,771 | 128,518 | 163,237 | 209,016 | 248,123 | 279,240 |
| Net lending | 404 | 398 | 511 | 12,931 | 15,909 | 18,331 | 26,400 | 33,817 | 40,158 | 45,175 |
| **Overall balance (commitment basis)** | **-2,678** | **-2,403** | **-2,380** | **5,928** | **-44,424** | **-96,852** | **-135,458** | **-177,092** | **-211,035** | **-239,852** |
| Primary balance (commitment basis) 2/ | -2,471 | -2,035 | -1,666 | 9,057 | -31,873 | -62,602 | -87,925 | -118,924 | -143,971 | -166,175 |
| **Overall balance (cash basis)** | **-2,735** | **-2,341** | **-2,009** | **8,116** | **-39,876** | **-86,367** | **-117,893** | **-156,408** | **-190,549** | **-221,430** |
| Primary balance (cash basis) 2/ | -2,527 | -1,959 | -1,757 | 10,563 | -29,592 | -64,202 | -90,206 | -118,924 | -143,971 | -166,175 |
| **Unidentified Financing and Fiscal Measures** | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Financing** | **2,613** | **2,984** | **4,303** | **11,968** | **44,424** | **96,852** | **135,458** | **177,092** | **211,035** | **239,852** |
| Domestic financing (net) | 2,697 | 2,880 | 4,200 | 9,081 | 18,313 | 69,590 | 134,615 | 183,603 | 223,785 | 251,640 |
| RBZ | 1,727 | 3,038 | 2,956 | 5,581 | -5,764 | 0 | 0 | 0 | 0 | 0 |
| Bank | 953 | 677 | 1,196 | 7,832 | 23,972 | 69,490 | 134,515 | 183,503 | 223,685 | 251,540 |
| Non-bank | 18 | -835 | 130 | -133 | 105 | 100 | 100 | 100 | 100 | 100 |
| Foreign financing (net) 5/ | -129 | -200 | -1017 | -7859 | -9994 | -10917 | -12802 | -21967 | -29384 | -29245 |
| Disbursements | 145 | 4 | 0 | 0 | 3,184 | 5,884 | 8,267 | 3,143 | 1,663 | 7,889 |
| Amortization | 274 | 204 | 1,017 | 7,859 | 13,178 | 16,802 | 21,069 | 25,110 | 31,047 | 37,134 |
| *of which:* Paid | 173 | 13 | 143 | 776 | 8,022 | 10,626 | 13,523 | 16,485 | 21,679 | 27,213 |
| Change in arrears 6/ | 46 | 304 | 1,120 | 10,745 | 11,168 | 9,627 | 11,364 | 15,457 | 16,634 | 17,457 |
| Domestic | -56 | 76 | -90 | 1,506 | 2,281 | -1,600 | -2,281 | 0 | 0 | 0 |
| Foreign | 102 | 228 | 1,210 | 9,240 | 8,887 | 11,227 | 13,645 | 15,457 | 16,634 | 17,457 |
| Interest | 0 | 37 | 335 | 2,157 | 3,731 | 5,051 | 6,099 | 6,832 | 7,267 | 7,535 |
| Principal 3/ | 102 | 192 | 875 | 7,083 | 5,156 | 6,176 | 7,546 | 8,625 | 9,368 | 9,921 |
| Errors and omissions 4/ | -65 | 580 | 1922 | 17896 | ... | ... | ... | ... | ... | ... |

Sources: Zimbabwean authorities; and IMF staff estimates and projections.

1/ Capital transfers historically include transfers to SOES's as well as spending related to off-budget support programs and RBZ quasi-fiscal activities for which details are unclear. Projections assume on-budget spending.

2/ The difference between the fiscal balance on a commitment and cash basis is the change in domestic and foreign interest arrears.

3/ Accumulated arrears on foreign debt do not include valuation adjustment. The stock of arrears could differ from that in the balance of payments table.

4/ A negative (positive) number means that Financing is lower (higher) than the Overall Balance on commitment basis.

5/ Includes SDR spending and financing of 1.0 percent of GDP and 0.5 percent of GDP in 2021 and 2022, respectively.

6/ Arrears accumulation excludes farmers' compensation and blocked funds.

## Table 3b. Zimbabwe: Central Government Operations, 2017–26
(Percent of GDP)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Act. | | | | Est. | Proj. | | | | |
| **Revenue and grants** | **18.1** | **14.9** | **12.3** | **15.4** | **17.2** | **17.0** | **17.0** | **17.0** | **17.0** | **17.0** |
| Tax revenue | 17.0 | 13.5 | 12.0 | 14.9 | 16.4 | 16.2 | 16.2 | 16.2 | 16.2 | 16.2 |
| Personal income tax | 3.4 | 2.3 | 1.7 | 2.4 | 2.7 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Corporate income tax | 2.3 | 2.2 | 1.7 | 2.9 | 4.3 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| Other direct taxes | 0.9 | 0.7 | 0.5 | 1.0 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Customs | 1.4 | 1.2 | 1.0 | 1.2 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Excise | 3.2 | 2.5 | 2.2 | 2.2 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| VAT | 5.0 | 3.7 | 3.2 | 3.7 | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Other indirect taxes | 0.8 | 1.0 | 1.7 | 1.5 | 1.8 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Non-tax revenue and Grants | 1.1 | 1.3 | 0.2 | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| **Total expenditure & net lending** 5/ | **30.6** | **21.4** | **13.5** | **14.9** | **18.7** | **18.9** | **18.8** | **18.9** | **18.9** | **18.9** |
| Current expenditure | 22.5 | 14.1 | 7.6 | 9.0 | 13.0 | 13.9 | 13.7 | 13.7 | 13.7 | 13.7 |
| Employment costs | 16.3 | 10.7 | 3.8 | 5.4 | 6.7 | 6.8 | 6.7 | 6.7 | 6.7 | 6.8 |
| Pensions | 2.4 | 1.5 | 0.6 | 0.8 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Interest payments | 1.0 | 1.0 | 0.4 | 0.3 | 0.4 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Foreign | 0.3 | 0.1 | 0.2 | 0.2 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Domestic | 0.7 | 0.9 | 0.2 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Goods & services | 4.1 | 1.9 | 2.1 | 1.7 | 3.4 | 3.4 | 3.4 | 3.5 | 3.5 | 3.5 |
| Current transfers | 1.0 | 0.6 | 1.3 | 1.6 | 2.4 | 3.0 | 2.8 | 2.8 | 2.8 | 2.8 |
| Capital expenditure and net lending | 8.1 | 7.2 | 6.0 | 6.0 | 5.7 | 5.0 | 5.2 | 5.2 | 5.2 | 5.2 |
| Capital transfers 1/ | 5.6 | 4.7 | 4.7 | 3.3 | 2.1 | 2.1 | 2.5 | 2.5 | 2.6 | 2.6 |
| Other capital expenditure | 0.7 | 1.5 | 1.0 | 1.5 | 3.1 | 2.6 | 2.3 | 2.3 | 2.3 | 2.3 |
| Net lending | 1.9 | 1.1 | 0.3 | 1.1 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| **Overall balance (commitment basis)** | **-12.5** | **-6.5** | **-1.3** | **0.5** | **-1.5** | **-1.9** | **-1.9** | **-1.9** | **-1.9** | **-1.9** |
| Primary balance (commitment basis) 2/ | -11.6 | -5.5 | -0.9 | 0.8 | -1.1 | -1.2 | -1.2 | -1.3 | -1.3 | -1.3 |
| **Overall balance (cash basis)** | **-12.8** | **-6.3** | **-1.1** | **0.7** | **-1.4** | **-1.7** | **-1.6** | **-1.7** | **-1.7** | **-1.8** |
| Primary balance (cash basis) 2/ | -11.8 | -5.3 | -0.9 | 0.9 | -1.0 | -1.3 | -1.2 | -1.3 | -1.3 | -1.3 |
| **Unidentified Financing and Fiscal Measures** | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| **Financing** | **12.2** | **8.1** | **2.3** | **1.0** | **1.5** | **1.9** | **1.9** | **1.9** | **1.9** | **1.9** |
| Domestic financing (net) | 12.6 | 7.8 | 2.2 | 0.8 | 0.6 | 1.4 | 1.9 | 2.0 | 2.0 | 2.0 |
| RBZ | 8.1 | 8.2 | 1.6 | 0.5 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bank | 4.5 | 1.8 | 0.6 | 0.7 | 0.8 | 1.4 | 1.9 | 2.0 | 2.0 | 2.0 |
| Non-bank | 0.1 | -2.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign financing (net) 5/ | -0.6 | -0.5 | -0.5 | -0.7 | -0.3 | -0.2 | -0.2 | -0.2 | -0.3 | -0.2 |
| Disbursements | 0.7 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 |
| Amortization | 1.3 | 0.6 | 0.5 | 0.7 | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| *Of which:* Paid | 0.8 | 0.0 | 0.1 | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Change in arrears 6/ | 0.2 | 0.8 | 0.6 | 0.9 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Domestic | -0.3 | 0.2 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign | 0.5 | 0.6 | 0.6 | 0.8 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Interest | 0.0 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Principal 3/ | 0.5 | 0.5 | 0.5 | 0.6 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Errors and omissions 4/ | -0.3 | 1.6 | 1.0 | 1.5 | ... | ... | ... | ... | ... | ... |
| *Memo:* Nominal GDP (LCU, millions) | 21,385 | 36,943 | 187,412 | 1,187,329 | 2,884,507 | 5,015,949 | 7,224,014 | 9,249,969 | 10,980,627 | 12,357,693 |

Sources: Zimbabwean authorities; and IMF staff estimates and projections.

1/ Capital transfers historically include transfers to SOES's as well as spending related to off-budget support programs and RBZ quasi-fiscal activities for which details are unclear. Projections assume on-budget spending.

2/ The difference between the fiscal balance on a commitment and cash basis is the change in domestic and foreign interest arrears.

3/ Accumulated arrears on foreign debt do not include valuation adjustment. The stock of arrears could differ from that in the balance of payments table.

4/ A negative (positive) number means that Financing is lower (higher) than the Overall Balance on commitment basis.

5/ Includes SDR spending and financing of 1.0 percent of GDP and 0.5 percent of GDP in 2021 and 2022, respectively.

6/ Arrears accumulation excludes farmers' compensation and blocked funds.

## Table 4. Zimbabwe: Monetary Survey, 2017–26

(Millions of ZWL; unless otherwise indicated)[1/]

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Act. | | | | Est. | Proj. | | | | |
| **Reserve Bank of Zimbabwe (RBZ)** | | | | | | | | | | |
| Net foreign assets | -1,126 | -1,758 | -50,286 | -392,037 | -606,896 | -797,890 | -1,021,828 | -1,285,925 | -1,593,552 | -1,899,268 |
| Net domestic assets | 3,794 | 5,016 | 60,614 | 410,799 | 632,866 | 832,950 | 1,067,405 | 1,341,985 | 1,659,142 | 1,972,073 |
| Net credit to financial corporations | -406 | -2,246 | -6,214 | -50,211 | -48,613 | -39,524 | -29,006 | -18,523 | -8,993 | -1,778 |
| Claims on central government | 3,986 | 7,025 | 11,339 | 25,694 | 25,694 | 25,694 | 25,694 | 25,694 | 25,694 | 25,694 |
| of which: Government securities | 1,479 | 2,062 | 6,828 | 6,035 | 6,035 | 6,035 | 6,035 | 6,035 | 6,035 | 6,035 |
| of which: Loans (incl. overdraft) | 2,507 | 4,962 | 4,510 | 19,658 | 19,658 | 19,658 | 19,658 | 19,658 | 19,658 | 19,658 |
| Other items, net[2/] | 214 | 237 | 55,489 | 435,317 | 655,786 | 846,780 | 1,070,718 | 1,334,815 | 1,642,442 | 1,948,157 |
| Monetary base | 2,668 | 3,258 | 10,328 | 18,762 | 25,970 | 35,059 | 45,577 | 56,060 | 65,590 | 72,805 |
| **Banks** | | | | | | | | | | |
| Net foreign assets | -201 | -119 | 9,624 | 75,266 | 216,243 | 376,031 | 541,563 | 693,443 | 823,185 | 926,420 |
| Net domestic assets | 7,649 | 9,610 | 23,589 | 127,136 | 274,582 | 495,853 | 772,170 | 1,077,238 | 1,367,525 | 1,616,398 |
| Claims on the RBZ | 2,605 | 3,970 | 14,013 | 77,259 | 81,917 | 89,466 | 98,264 | 106,542 | 114,024 | 119,581 |
| Net credit to central government | 2,332 | 3,009 | 4,123 | 7,756 | 30,903 | 100,393 | 234,908 | 418,411 | 642,096 | 893,636 |
| Credit to other public sector | 215 | 285 | 327 | 1,307 | 3,175 | 5,521 | 7,952 | 10,182 | 12,087 | 13,603 |
| Credit to private sector | 3,694 | 4,037 | 11,037 | 73,957 | 192,562 | 336,082 | 473,350 | 585,960 | 664,503 | 675,819 |
| Other items, net[2/] | -1,196 | -1,692 | -5,912 | -33,143 | -33,975 | -35,610 | -42,303 | -43,857 | -65,185 | -86,241 |
| Deposits | 7,448 | 9,491 | 33,213 | 202,401 | 490,825 | 871,884 | 1,313,734 | 1,770,681 | 2,190,710 | 2,542,818 |
| of which: FX deposits | 0 | 343 | 12,258 | 108,474 | 188,481 | 434,530 | 733,760 | 951,318 | 1,145,254 | 1,304,657 |
| **Monetary survey** | | | | | | | | | | |
| Net foreign assets | -1,328 | -1,877 | -40,662 | -316,771 | -390,653 | -421,859 | -480,265 | -592,482 | -770,367 | -972,848 |
| Net domestic assets | 9,145 | 11,887 | 75,680 | 520,366 | 884,081 | 1,297,257 | 1,798,567 | 2,368,782 | 2,967,651 | 3,522,963 |
| Net credit to central government | 6,277 | 9,992 | 14,063 | 23,277 | 50,095 | 119,585 | 254,100 | 437,603 | 661,287 | 912,828 |
| Credit to other public sector | 637 | 775 | 2,457 | 2,616 | 4,484 | 6,830 | 9,261 | 11,491 | 13,396 | 14,912 |
| Credit to private sector | 3,719 | 4,059 | 11,113 | 74,660 | 193,265 | 336,785 | 474,053 | 586,664 | 665,207 | 676,522 |
| Other Items, net[2/] | -1,490 | -2,939 | 48,047 | 419,813 | 636,237 | 834,056 | 1,061,152 | 1,333,025 | 1,627,761 | 1,918,701 |
| Broad money (M3) | 7,817 | 10,010 | 35,018 | 203,595 | 493,428 | 875,397 | 1,318,302 | 1,776,300 | 2,197,284 | 2,550,115 |
| Money (M2) | 7,749 | 9,951 | 34,774 | 202,159 | 489,938 | 869,330 | 1,309,563 | 1,765,111 | 2,184,002 | 2,535,167 |
| **Memorandum items** | | | | | *(Annual percentage change)* | | | | | |
| Credit to private sector | 5.9 | 9.1 | 173.8 | 571.8 | 158.9 | 74.3 | 40.8 | 23.8 | 13.4 | 1.7 |
| Net credit to central government | 74.5 | 59.2 | 40.7 | 65.5 | 115.2 | 138.7 | 112.5 | 72.2 | 51.1 | 38.0 |
| Monetary base | 81.2 | 22.1 | 217.0 | 81.7 | 38.4 | 35.0 | 30.0 | 23.0 | 17.0 | 11.0 |
| M2 | 39.0 | 28.4 | 249.4 | 481.3 | 142.4 | 77.4 | 50.6 | 34.8 | 23.7 | 16.1 |
| Nominal GDP growth | 4.0 | 72.8 | 407.3 | 533.5 | 142.9 | 73.9 | 44.0 | 28.0 | 18.7 | 12.5 |
| | | | | | *(Percent of GDP)* | | | | | |
| Credit to private sector | 17.4 | 11.0 | 5.9 | 6.3 | 6.7 | 6.7 | 6.6 | 6.3 | 6.1 | 5.5 |
| Monetary base | 12.5 | 8.8 | 5.5 | 1.6 | 0.9 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| M2 | 36.2 | 26.9 | 18.6 | 17.0 | 17.0 | 17.3 | 18.1 | 19.1 | 19.9 | 20.5 |

Sources: Zimbabwean authorities; and IMF staff estimates and projections.

[1/] Parity between the ZWL$ and the USD$ is assumed before 2019.

[2/] Includes valuation adjustment from currency reform.

**Table 5. Zimbabwe: Reserve Money Changes, 2017–21**
(Percent of ZWL GDP)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| | Act. | | | | Est.[1/] |
| Change in Reserve Money | 5.6 | 1.6 | 3.8 | 0.7 | 0.3 |
| Change in Net Foreign Assets (NFA) | -2.6 | -1.7 | -25.9 | -30.3 | -0.4 |
| Claims on Non Residents | 0.1 | -0.4 | 2.8 | 0.6 | 3.2 |
| Less Liabilities to Non Residents | 2.6 | 1.4 | 28.7 | 31.0 | 3.6 |
| | | | | | |
| Change in Net Domestic Assets (NDA) | 8.2 | 3.3 | 29.7 | 31.1 | 0.6 |
| Net Claims on Central Government | 8.1 | 8.2 | 1.6 | 0.4 | -0.2 |
| *Securities and Loans* | *7.7* | *8.2* | *2.3* | *1.1* | *0.0* |
| *Less Claims* | *-0.4* | *0.0* | *0.7* | *0.7* | *0.1* |
| Claims on Other Sectors | 1.3 | 0.4 | 0.9 | 0.5 | 0.4 |
| Net Claims on Other Depositary Corporation | -1.2 | -5.2 | -2.1 | -3.3 | -0.4 |
| OIN | 0.0 | 0.1 | -29.3 | -33.4 | -0.9 |
| Differences (NFA+NDA) | 5.6 | 1.6 | 3.8 | 0.7 | 0.3 |
| Reserve Money Changes - Changes (NFA+NDA) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Zimbabwe Authorities and IMF staff estimates.
[1/] Estimates until September 2021

## Table 6. Zimbabwe: Financial Soundness Indicators, 2017–21

| Financial Soundness Indicators[1/] | Dec-2017 | Dec-2018 | Dec-2019 | Dec-2020 | Sep-2021 |
|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | |
| Regulatory capital to risk-weighted assets | 27.6 | 28.1 | 33.6 | 28.5 | 25.5 |
| Percentage of banks greater or equal to 10 percent | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Percentage of banks below 10 and above 6 percent minimum | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percentage of banks below 6 percent minimum | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital to assets | 12.3 | 11.4 | 12.5 | 11.2 | 11.2 |
| **Asset Quality** | | | | | |
| Foreign exchange loans to total loans | 0.5 | 0.4 | 1.0 | 0.5 | 0.2 |
| Past-due loans to gross loans[2/] | 35.6 | 34.8 | 18.8 | 36.3 | 46.7 |
| Nonperforming loans (past due > 90 days)[3/] | 7.1 | 7.2 | 1.6 | 0.2 | 0.6 |
| Watch-listed loans (past due < 90 days)[4/] | 28.6 | 26.4 | 17.2 | 36.1 | 46.1 |
| Provisions as percent of past-due loans | 14.7 | 24.3 | 16.1 | 8.4 | 10.3 |
| **Earnings and Profitability** | | | | | |
| Net profit (before tax and extraordinary items)/net income | 121.3 | 117.9 | 131.0 | 118.8 | 126.8 |
| Return on assets | 2.6 | 3.9 | 13.7 | 11.8 | 5.4 |
| Return on equity | 15.5 | 24.7 | 66.0 | 69.3 | 30.6 |
| Expenses/income | 70.7 | 65.2 | 26.8 | 30.1 | 54.3 |
| **Liquidity** | | | | | |
| Liquid assets/total assets | 52.9 | 56.4 | 53.8 | 54.6 | 49.7 |
| Liquid assets/short-term liabilities | 65.5 | 69.1 | 69.7 | 69.6 | 59.9 |
| Loans/deposits | 49.2 | 43.9 | 36.0 | 38.8 | 45.5 |
| Liquid assets/total deposits | 77.1 | 83.0 | 95.4 | 89.6 | 74.1 |
| Foreign exchange liabilities/total liabilities | 2.0 | 2.9 | 22.5 | 36.4 | 31.6 |
| Excess Reserves to Broad Money | 16.2 | 23.2 | 21.2 | 6.9 | 3.4 |

Source: Reserve Bank of Zimbabwe.

[1/] Based on commercial banks only.

[2/] Past due loans are defined as the aggregate of special mention, substandard, doubtful, and loss loans.

[3/] Non-perfoming loans are defined as the aggregate of substandard, doubtful, and loss loans.

[4/] Watch-listed loans are the same as special mention loans.

# Annex I. Growth Developments and Prospects in the Context of Fragility[1]

*Several factors have interacted to propel fragility in Zimbabwe and undermine economic and social outcomes. A challenging land reform, along with the effects of the HIV/AIDs epidemic—which significantly lowered life expectancy—as well as overly expansionary policies, set in motion a large output decline in the 2000s. Unprecedented fiscal deficit monetization in the mid- to late-2000s led to hyperinflation and a sharp rise in poverty. A weak institutional climate—that promoted rent-seeking opportunities—compounded the adverse social and economic outcomes. The authorities' National Development Strategy (NDS) appropriately focuses on addressing the impediments to economic and social development, though more specific reforms and a financing plan would enhance its successful implementation.*

1. **The empirical literature points to an interrelated set of factors that drive fragility**.[2] These include weak institutions and corruption, economic decline, weak enforcement of contracts and property rights, and conflicts. These factors are often exacerbated by weak economic policies and exogenous (e.g., climatic and health) shocks. The drivers of fragility are closely intertwined and mutually reinforcing, making it very challenging to break out of fragility.

2. **The 2000s witnessed a large output decline in Zimbabwe, reflecting a challenging land reform, the protracted effects of the HIV/AIDs epidemic, and overly expansionary policies.** In the ten-year period through 2008, per capita real GDP declined by half (Figure 1).

- This period coincided with a challenging land reform—following a presidential decree amending the Land Acquisition Act to allow the government to assume immediate ownership of land targeted for acquisition and issue orders for owners to vacate farms—that led to the collapse of investment, productivity, and agricultural production.
- This period was also marked by a large decline in life expectancy at birth (by about 17 years from the mid-1990s to the mid-2000s), reflecting the HIV/AIDs health crisis (Figure 2).
- In the mid-2000s, overly expansionary macroeconomic policies—characterized by a sharp increase in the budget deficit and quasi-fiscal operations (QFOs)[3] financed by the Reserve Bank of Zimbabwe's (RBZ)—led to hyperinflation which compounded the decline in per capita income and growth (Figures 3, 4).

[1] Prepared with contributions from Rohan Ahluwalia.

[2] See Andrimihaja et al., 2011; Bertocchi and Guerzoni, 2010; Collier and Hoeffler, 2004; David and others, 2001; Hegre and others, 2001; Miguel and others, 2004; Murdoch, 2002; Ncube and Jones, 2013; Olusegun and others, 2021; Pritchett and de Veijer, 2010.

[3] RBZ quasi-fiscal operations included election-related expenses, transfers to parastatals, below-cost provision of equipment and fertilizers to farmers, and allocation of foreign exchange at subsidized exchange rates.

3. **The 2010s were marked by efforts to reverse the output decline which, in the latter part of the period, were constrained by climatic shocks and overly expansionary policies.** While per capita GDP increased by about 78 percent during 2008-18, it was still below its 1998 peak (Figure 1).

- Starting in the early 2010s, the government recognized the need to find a durable solution to land tenure security, though progress on this front had been slow. In July 2020, the government and former farm owners reached agreement over a global compensation for land improvements of US$3.5 billion. However, the establishment of clarity to land rights remains pending.

- The hyperinflation from the mid-2000s ended in early 2009, when Zimbabwe abandoned its domestic currency and fully dollarized. The budget deficit was cut to an average of about 2 percent of GDP per year during 2009-15 (from an average of 34 percent during 2004-08), supported by cash budgeting (Figure 4). The first few years after full dollarization were marked by economic recovery, low inflation, and a gradual reengagement with the international community. Prices stabilized, helped by fiscal discipline and a favorable external environment. Investment gradually increased in the 2010s to about 10 percent of GDP in 2019 (from 2 percent in 2005).

- A large improvement in Zimbabwe's terms-of-trade, which increased cumulatively by some 31 percent in the 2010s (Figure 5), supported the recovery. A significant improvement in life expectancy at birth by about 18 years from the mid-2000s to the late 2010s (Figure 2) is notable.

- Nonetheless, the growth momentum was weakened by climatic shocks, including severe droughts during the 2015-16 and 2019-20 seasons and a cyclone in 2019 (Figure 7). Also, a return of fiscal profligacy which saw the fiscal deficit balloon during 2016-18 in the runup to presidential elections in 2018 (Figure 4), exacerbated macroeconomic imbalances.

- Zimbabwe's potential growth, which had risen to about 4.6 percent by 2015, slowed to about 3 percent by 2019 (Figure 7).

- With a return of RBZ QFOs in 2019 which were monetized, inflation increased sharply to reach 521 percent (y/y) at end-2019 and 837 percent by July 2020 (Figure 3). Inflation has since decelerated, reflecting control of the budget deficit and base money, and the introduction of an FX auction system that initially contributed to stabilizing the official exchange rate. However, inflationary pressures continue and the gap between the official and parallel market exchange rates has increased from 20 percent in August 2020 to 60-90 percent by the end of 2021.

- The cumulative effects of the large income loss during the previous decade set in motion a sharp rise in poverty starting in the early part of the 2010s, led by rural poverty (Figure 1), On the positive side, human development, led by an improvement in the life expectancy at birth, has caught up with and surpasses that of peers.

**4. Institutional weaknesses have also played a role in driving fragility:**

- Zimbabwe scores lower than comparators on indicators of corruption, government effectiveness, regulatory quality, political stability, rule of law, and voice and accountability (Figure 8). The NDS also identifies low citizen participation in democratic and governance processes as well as high levels of corruption, the latter being a major stumbling block in the delivery of public services.

- The recent history of Zimbabwe shows that periods of overly expansionary policies were closely related to election cycles (Figure 9). With a few exceptions, fiscal deficits have generally increased sharply in the runup to elections, accompanied by large inflationary pressures.

- The NDS notes that Zimbabwe has experienced conflict and, in some instances, violent conflicts before and after independence which have negatively impacted on social cohesion within communities. In order to address the legacy issues of conflicts, the government has established the National Peace and Reconciliation Commission (NPRC). Despite some progress, Zimbabwe continues to face some challenges related to unresolved historical and current conflicts leading to polarization. The NDS envisages implementation of a strategy to improve social cohesion, including promotion of inclusive dialogue and tolerance among citizens, and strengthening citizens' engagement through establishment of Local Peace Committees.

- Governance and transparency-related weaknesses constrain the mining sector's—which accounts for about 70 percent of exports—contribution to Zimbabwe's fiscal take from the sector and economic development (Annex IX).

5. **Restoring Zimbabwe's path to sustained and inclusive growth performance will require durably establishing macroeconomic stability, investing in human and physical capital, addressing structural bottlenecks, and reengagement with the international community.**

- Durably restoring macroeconomic stability will require close policy coordination between the fiscal and monetary authorities to use their respective policy levers to lower inflationary pressures and anchor price expectations. Achieving this objective, in turn, requires strong ownership by the authorities as one of the key lessons from the 2019 SMP implementation.

- Evidence from fast growing African countries indicate that increasing productivity is crucial to sustaining strong growth.[4] Addressing structural bottlenecks would not only improve productivity but encourage private investment by enhancing returns to economic activity. In this context, improving governance and the business environment would strengthen competitiveness and facilitate sustained strong and inclusive growth.

- A growth decomposition shows that the bulk of Zimbabwe's growth pickup in the 2010s stems from improvements in the capital stock and productivity (Figure 10). The increase in capital stock followed broadly improved macroeconomic policies and conditions through the mid-2010s and the significant improvement in life expectancy at birth. These same conditions for most of the 2010s coincided with the improvement in productivity.

- Thus, enhancing human and physical capital will promote private sector development, reduce overall business costs, and enhance productivity. Zimbabwe fares better than peers on average schooling and road connectivity, but lags peers on access to electricity and safe water, as well as healthy life expectancy (Figure 11). Also, the quantity and quality of infrastructure significantly lags that of peers (Figure 12).

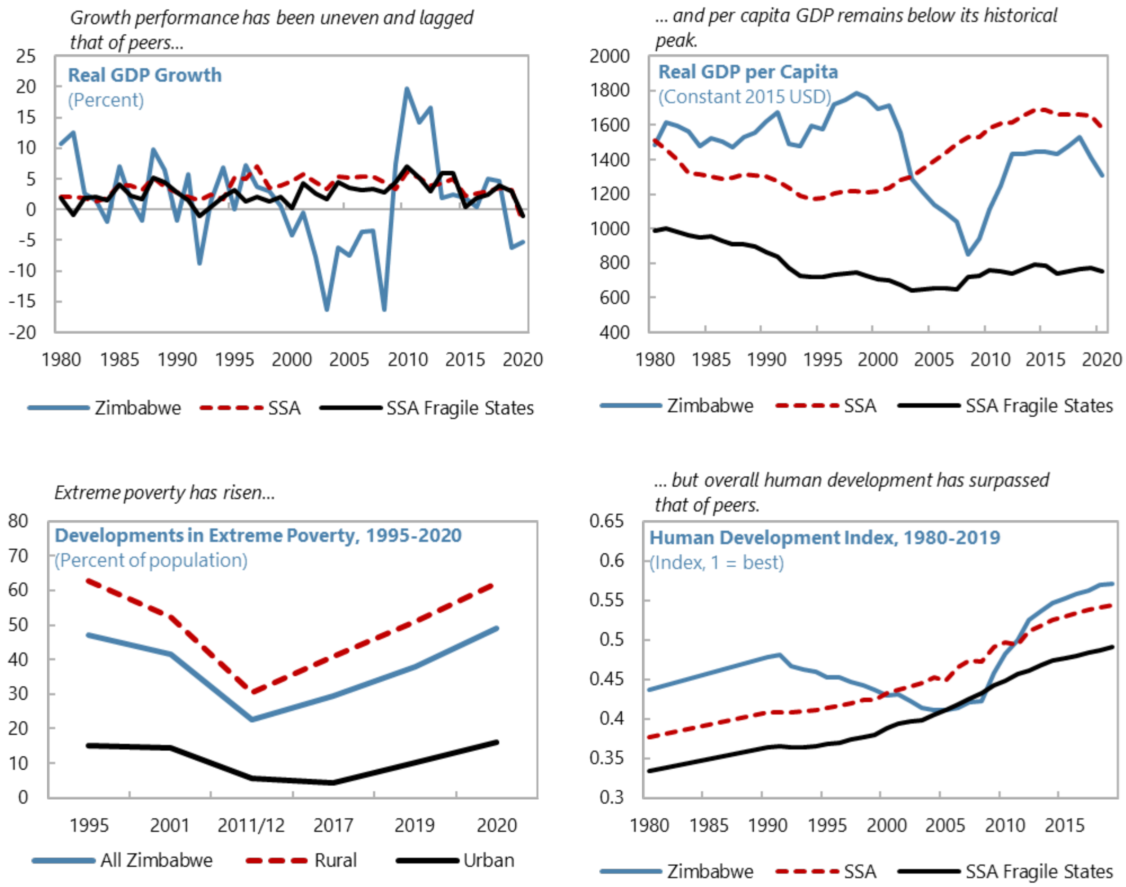
- Addressing corruption and governance vulnerabilities would strengthen the business environment and competitiveness and facilitate sustained strong and inclusive growth.

- International reengagement would be critical to resolving the debt overhang and mobilize grants and concessional loans to address Zimbabwe's development needs.

6. **The NDS' key objectives are appropriate but would benefit from specific policies and a financing plan** (Annex IV). The NDS objectives include sustaining macroeconomic stability, lowering poverty and inequality, and transforming institutions to enhance public sector efficiency and service delivery. The NDS proposes new investment, productivity enhancements, and strengthened and expanded value chains that increase production and exports in agriculture, mining, manufacturing, and tourism. While the NDS recognizes the importance of external financing, it does not provide a financing plan. Fleshing out of the specific policies and financing plan would enhance the successful implementation of the NDS.

[4] See Chapter 2 of "Regional Economic Outlook: Sub-Saharan Africa," International Monetary Fund, Washington DC, October 2013.

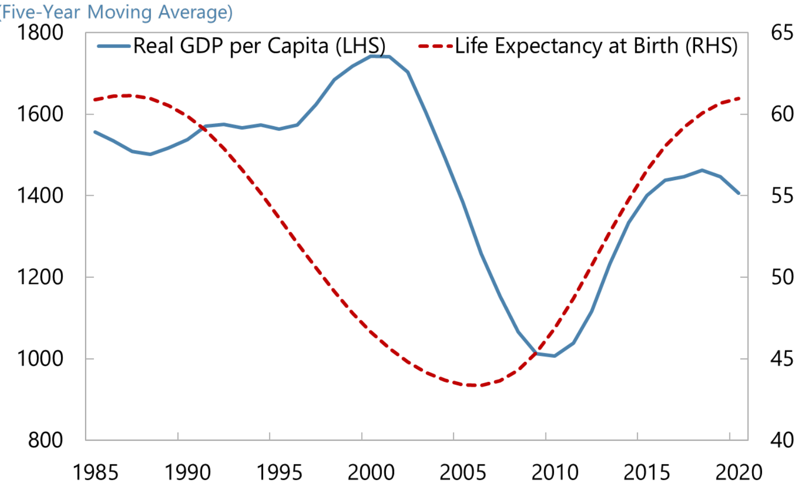
**Figure 1. Zimbabwe: Economic and Social Indicators, 1980-2020**




Source: World Bank WDI; UNDP HDI; ZIMSTAT; IMF WEO; and IMF staff calculations.

**Figure 2. Zimbabwe: Real GDP per Capita and Life Expectancy at Birth, 1985-2020**

(Five-Year Moving Average)




Sources: IMF WEO, World Development Indicators, and IMF Staff Calculations

**Figure 3. Zimbabwe: Real GDP Growth and Inflation, 1990-2020**

(Five-Year Moving Average; Inflation in Log Scale)

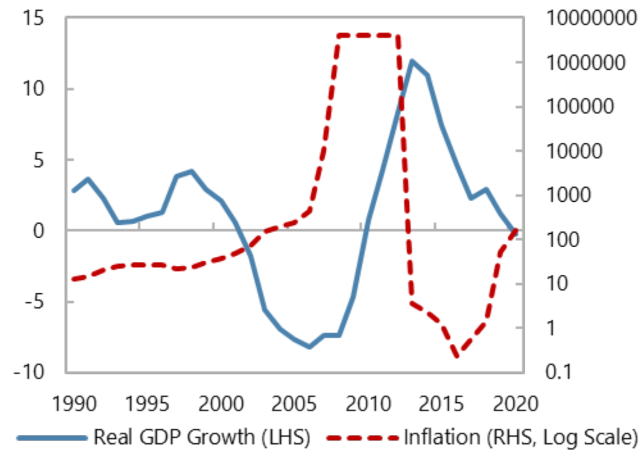
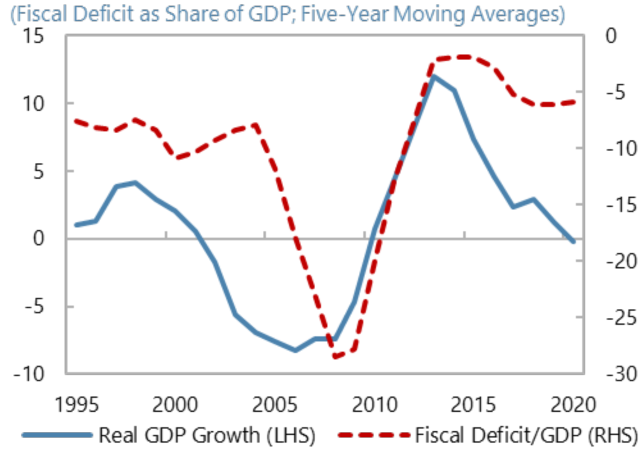


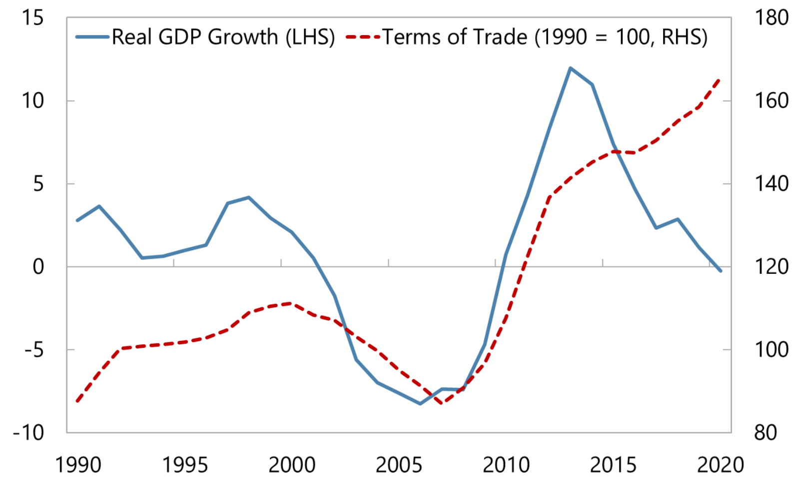

**Figure 4. Zimbabwe: Real GDP Growth and Fiscal Deficit, 1995-2020**

(Fiscal Deficit as Share of GDP; Five-Year Moving Averages)



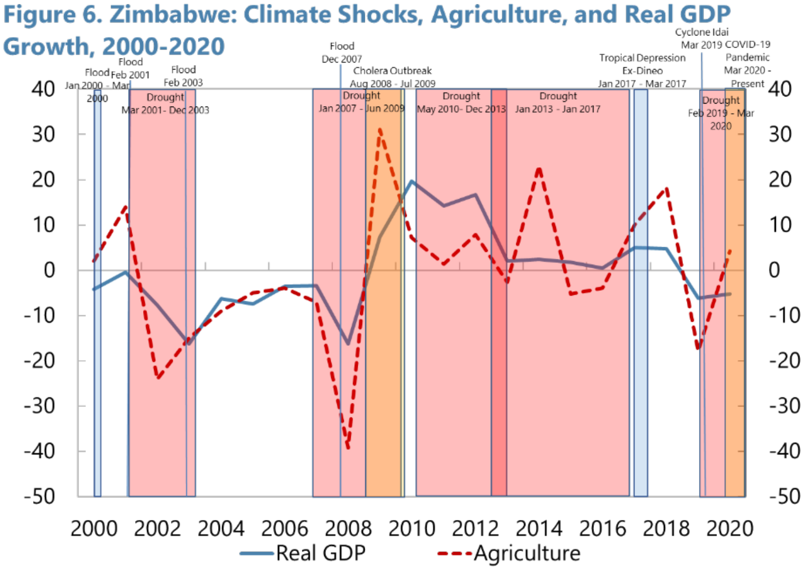

Source: IMF WEO and IMF Staff Calculations

**Figure 5. Zimbabwe: Real GDP Growth and Terms of Trade, 1990-2020**
(Five-Year Moving Average)



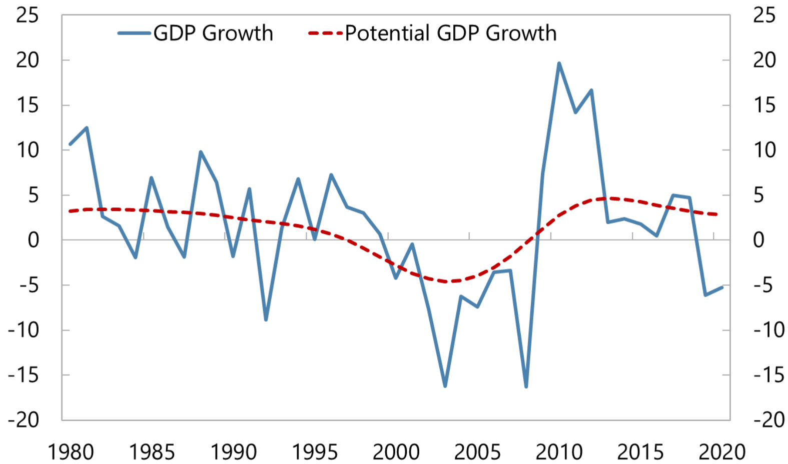

Sources: IMF WEO and IMF Staff Calculations.

**Figure 6. Zimbabwe: Climate Shocks, Agriculture, and Real GDP Growth, 2000-2020**



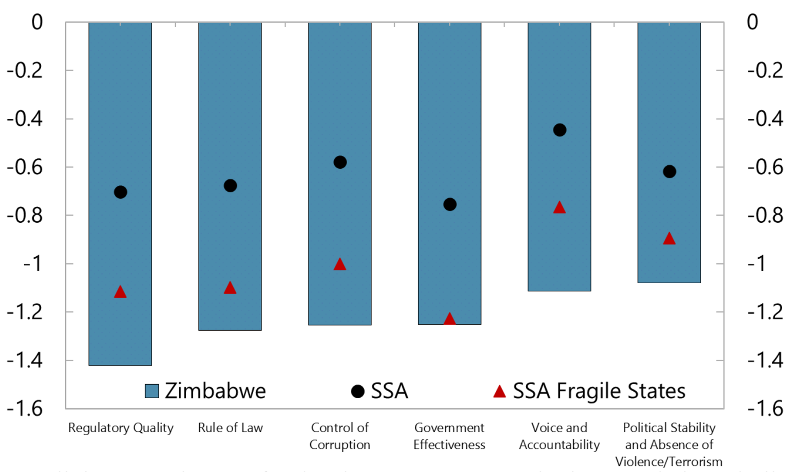

Sources: EM-DAT; IMF WEO; and IMF Staff Calculations.

**Figure 7. Zimbabwe: Actual and Potential Real GDP Growth,1980-2020**
(Percent Change over Previous Year)



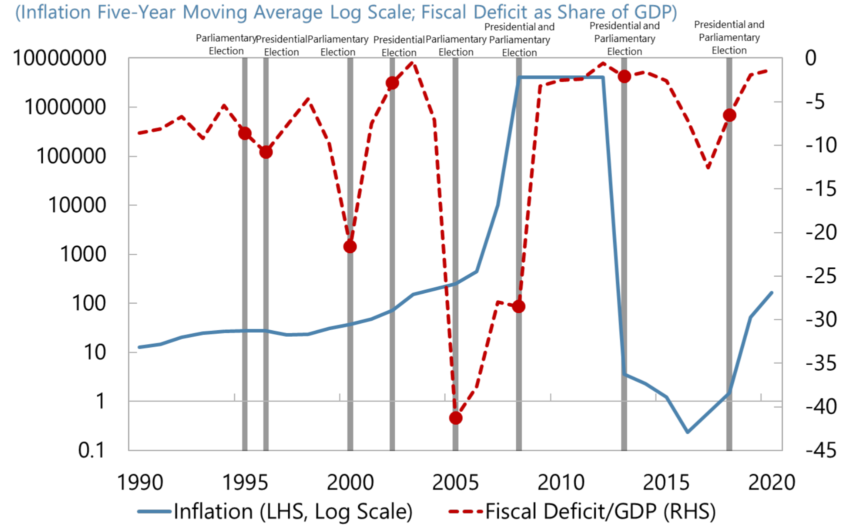

Sources: Penn World Tables; IMF WEO; and IMF Staff Calculations.
Notes: Potential GDP is estimated using the Hodrick-Prescott filter.

**Figure 8: Governance and Institutional Indicators, 2020**
(-2.5 to 2.5; higher better)



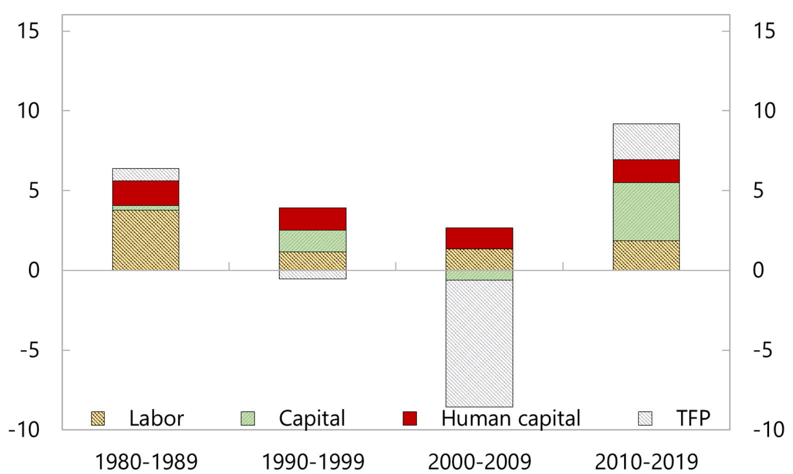

Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2020.
Notes: The above non-IMF indicators provide qualitative information about the indicators listed in these figures, and the accuracy of the indices can be biased by experts' views (instead of facts). They do not represent the IMF's assessment on any of these indicators.

**Figure 9. Zimbabwe: Inflation, Deficits, and Elections, 1990-2020**
(Inflation Five-Year Moving Average Log Scale; Fiscal Deficit as Share of GDP)




Sources: Zimbabwe Authorities and IMF staff calculations.

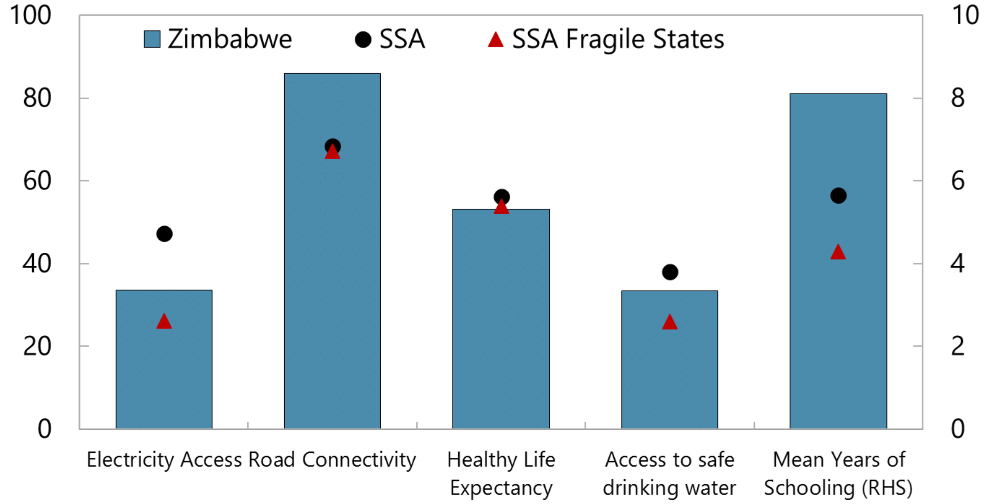
**Figure 10. Zimbabwe: Growth Accounting, 1980-2019**
(Percent)




Sources: IMF WEO, Penn World Tables, and IMF Staff Calculations

## Figure 11. Zimbabwe: Measures of Infrastructure Access

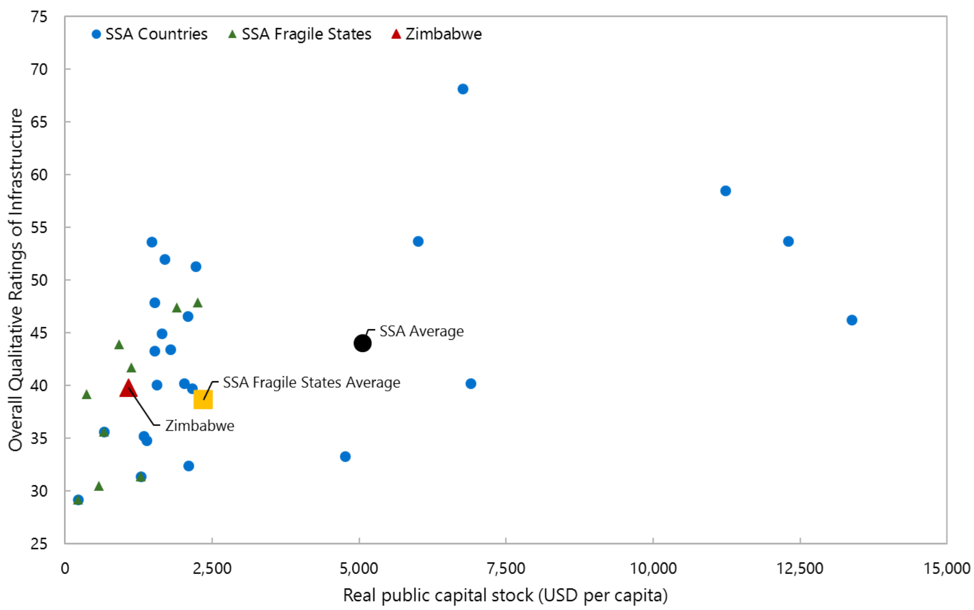
(Most Recent Year)




*Units vary to fit scale. Left hand axis: Electricity access is measured as percent of population with access to electricity; Road connectivity as score out of 100 on the Road Connectivity Index; Healthy life expectancy as the number of years a newborn can expect to live in good health; and Access to safe drinking water as 100 minus the risk-weighted percentage of population exposed to unsafe drinking water. Right hand axis Mean years of schooling is measured as average number of completed years of education of a country's population aged 25 years and older.
Sources: World Economic Forum Global Competitveness Indicators 2019; and IMF staff calculations.

## Figure 12. Zimbabwe: Overall Qualitative Ratings of Infrastructure

(Index value 0 = worst 100 = best)




Sources: World Economic Forum Global Competitiveness Indicators 2019; IMF Investment and Capital Stock Dataset 2019; IMF WEO; and IMF staff calculations.

# References


Andrimihaja, Noro Aina, Matthias Cinyabuguma, and Shantayanan Devarajan, 2011, "Avoiding the Fragility Trap in Africa," Policy Research Working Paper No. 5884 (Washington, D.C: The World Bank).

Bertocchi, Graziella, and Davide Guerzoni, 2010, “The Fragile Definition of State Fragility,” IZA Discussion Paper No. 4817 (Modena: University of Modena).

Collier, Paul, and A. Hoeffler, 2004, “Grief and Grievance in Civil War”, Oxford Economic Papers, Vol. 56, pp. 563–595.

David, Antonio C., Fabiano Rodriguez Bastos, and Marshall Mills, 2011, “Post-Conflict Recovery: Institutions, Aid, or Luck?” IMF Working Paper 11/149 (Washington, D.C. : International Monetary Fund).

Hegre, Havard, Tanja Ellingsen, Scott Gates, and Nils Petters Gleditsch, 2001, “Towards a Democratic Civil Peace? Democracy, Political Change, and Civil War, 1816–1992,” American Political Science Review, Vol. 95, Nr. 1, pp. 16–33.

Miguel, Edward, Shanker Satyanath, and Ernest Sergenti, 2004, “Economic Shocks and Civil Conflict: An Instrumental Variables Approach,” Journal of Political Economy, Vol. 112, No. 4, pp. 725–53.

Murdoch, James C.; and Todd Sandler, 2002, “Economic Growth, Civil Wars, and Spatial Spillovers,” Journal of Conflict Resolution Vol. 46, No. 1, pp. 91–110.

Ncube, Mthuli and Basil Jones, 2013, “Drivers and Dynamics of Fragility in Africa,” Chief Economist Complex, AEB Volume 4, Issue 5, African Development Bank.

Olusegun Akanbi, Nikolay Gueorguiev, Jiro Honda, Paulomi Mehta, Kenji Moriyama, Keyra Primus, and Mouhamadou Sy, 2021, “Avoid a Fall or Fly Again: Turning Points of State Fragility,” IMF Working Paper, WP/21/133 (Washington, D.C. : International Monetary Fund).

Pritchett, Lant; and Frauke de Veijer, 2011, “Fragile States: Stuck in a Capability Trap?” World Bank Development Report 2011, Background Paper, (Washington, D.C.: The World Bank Group).

## Annex II. The COVID-19 Pandemic and Authorities' Response[1]

**1. Zimbabwe has faced multiple waves of COVID-19 infections since the pandemic started.** Current infections rates are trending down rapidly, although this follows a relatively high peak recorded in mid-December (45 per 100k people) which surpassed the previous peak (22 per 100k people) recorded in mid-July 2021. The Omicron variant was largely present among those infected in the last wave. On the positive side, the number of pandemic-related fatalities remains relatively low compared to previous waves.

**2. The authorities have taken swift actions to contain the pandemic.** Lockdowns measures were introduced swiftly in the face of rising infections, and a strong vaccination effort continues:

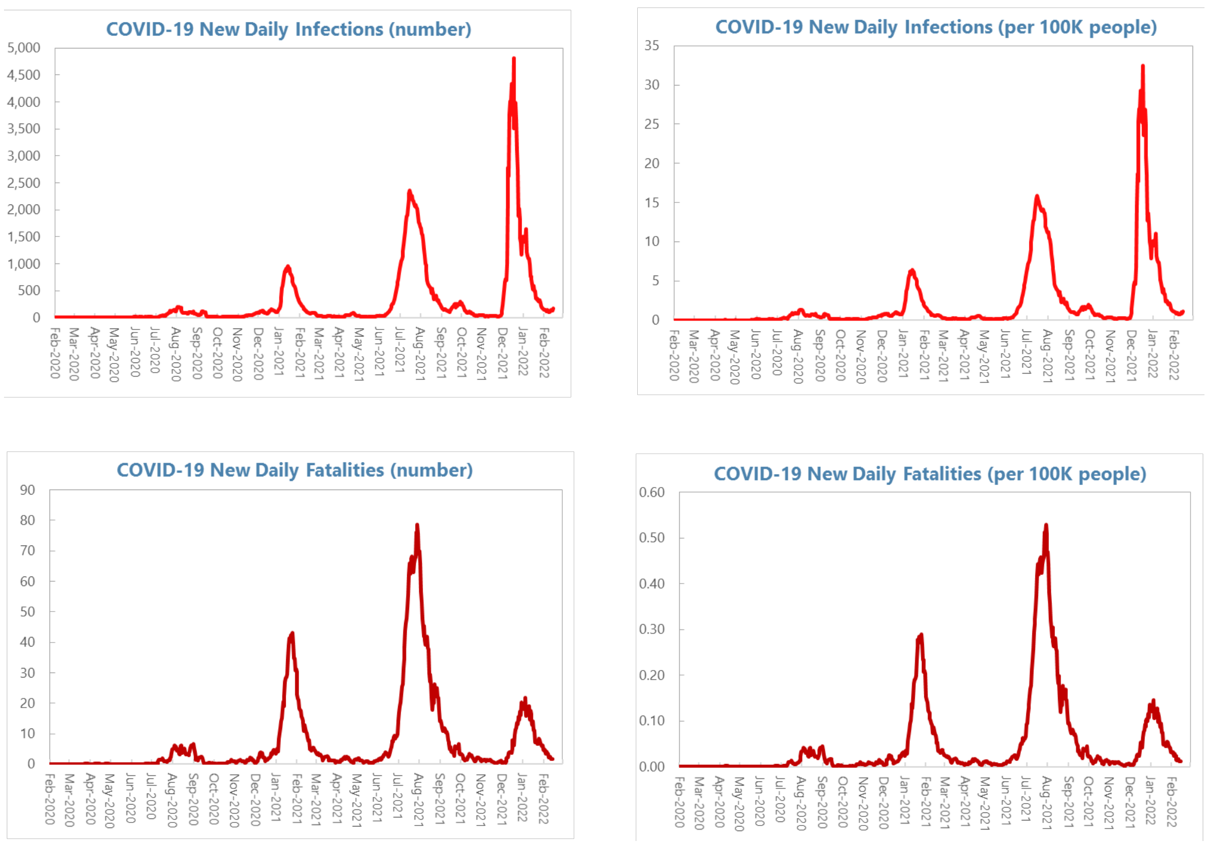
- Spearheaded by the National COVID-19 Response Taskforce, two full lockdowns were implemented since March 2020, which were subsequently adjusted based on infection severity (Annex Figure 3.2). Following a relaxation of lockdown measures in early-September 2021—with all schools open and non-essential workplaces operating at 50 percent capacity—containment measures were tightened again in December 2021 in response to the Omicron variant and high infection numbers. These measures have since been eased.

- In February 2021, the authorities launched an ambitious vaccination program, targeting 60 percent of the population (about 8 million people). Zimbabwe remains ahead of regional peers in terms of mass vaccinations, with over 3 million fully vaccinated people (about 22 percent of the entire population) by early 2021, while over 4 million (28 percent) have received the first dose.

**3. To support the economy, the authorities implemented fiscal measures.** These measures were aimed at: (i) supporting agriculture, mining, tourism, SMEs, and arts; (ii) expanding the social safety net and food grants; (iii) setting up a health sector support fund; and (iv) scaling up investments in social and economic infrastructure in cyclone Idai-affected communities. This included the equivalent of 0.5 percent of GDP for the vaccination program from own resources, as well as vaccine donations from China, India, and Russia. Additional support was provided through the food security program, which included wheat farming and maize procurement, and the Pfumvudza program to support vulnerable households with farming inputs. Cash transfers were deployed to assist over 300,000 labor-constrained and food-poor households.

[1]Prepared by Carlos Caceres and Petronella Chishawa.

**Figure 1. Zimbabwe: COVID-19 Infections and Fatalities**




Sources: Johns Hopkins University, Haver Analytics, and IMF staff estimates.

**4. The previous freeze on government hiring was lifted for the health sector, resulting in a 20 percent increase in personnel.** The authorities introduced a risk allowance for the health sector in April 2020 and a civil-service wide COVID-19 risk allowance for the period June-December 2020. Companies were allowed to extend the payment of corporate taxes (waiving interest and penalties), while duties and taxes on various goods and services related to COVID-19 were suspended to facilitate speedy procurement of essential goods and services. In support of the tourism sector, the authorities exempted VAT on domestic tourist accommodation and exempted VAT on visitor services. The authorities also waived duty on the importation of relief goods.

**5. The RBZ introduced measures to support credit and stabilize the FX markets.** To assist the private sector, the RBZ introduced a medium-term bank accommodation lending facility (equivalent to 0.4 percent of GDP) at 10 percent per annum and increased the private sector lending facility from ZW$1 billion to ZW$2.5 billion—although some of these measures were subsequently rolled back in February 2021, on the back of rising speculative borrowing. The RBZ revised the FX auction priority list to improve allocation efficiency in light of COVID-19 pandemic-related needs.

**6. Despite these support measures, economic activity fell sharply, with sectors such as education, non-food manufacturing, transport, and tourism hardest hit by the pandemic.** Certain sectors such as mining, agriculture, ICT and telecommunications, health, and food stuffs manufacturing, were classified as essential services—and were allowed to operate during the lockdowns—and have remained resilient throughout the crisis. However, 500,000 people have lost their jobs due to the pandemic and extreme poverty rose.

# Annex III. Recommendations of 2019 Article IV Consultation

| Policies | 2019 Article IV Recommendations | Progress since the 2019 Article IV Consultations |
|---|---|---|
| **Fiscal Policy** | Contain spending on inefficient subsidies and transfers, bolster effective social transfers, prioritize capital spending. | Significant fiscal consolidation occurred in 2019 and 2020 relative to budget estimates, with a small surplus in 2020 reflecting spending restraint including on agriculture subsidies, in favor of vaccines and related medical supplies. |
| | Remove gold incentives and incorporate off-budget subsidies in the budget to improve transparency | Gold incentives were removed from the budget. Gold sales to Fidelity Printers were incentivized by (i) reducing the surrender requirements by gold exporters, and (ii) setting the price at marginally above market price. RBZ quasi-fiscal operations have yet to be transferred to the budget. |
| | Minimize the assumption of private losses related to currency reform | A Debt Assumption Bill, providing legal basis for the assumption of these liabilities, was approved by Parliament in December 2021, though the Bill did not have as an objective to minimize these liabilities. |
| | Reform of domestic fixed income securities market | Majority of debt issued is short term. Treasury bill auction is being held on a weekly basis for transparency and price discovery. Private placements continue. Authorities requested CD from the IMF for FY 2021/22. |
| **Monetary and Exchange Rate Policies** | Operationalize the reserve money targeting regime | The RBZ operationalized the reserve money targeting framework beginning January 2020. The reserve money target was initially set at 25 percent per quarter, throughout 2020. This was tightened to 22.5 percent in the first half of 2021; and further to 10 percent for quarter 3 and quarter 4, 2021. Other instruments used are Non-Negotiable Certificates of Deposit (NNCDs); OMO Savings Bills; Savings Bond; and statutory reserve requirements. |
| | Central bank should eliminate direct lending to subsidiaries and quasi-fiscal operations (QFOs) | Lending and QFOs have continued. |
| | Liberalization of FX controls toward the market clearing rate:<br>i. Develop a schedule for the removal of allocations via the priority list.<br>ii. Allow exporters to sell more of the surrender requirement.<br>iii. Remove restrictions on the rate at which banks can transact in the market.<br>iv. Eliminate, as soon as possible, restrictions on current account transactions. | Partial progress was made but additional steps are required to the liberalization of FX controls toward a market clearing rate:<br>i. The priority list was replaced with two different categories of eligible auction participants to which different auction allocation caps apply. In addition, requirements on FX deposits and invoices, among others, apply for participation in the auction.<br>ii. The surrender requirement is still in place, currently at 40 percent.<br>iii. Banks must transact at the official exchange rate, determined in the auction system.<br>iv. Targeted allocation under the auction system limits the availability of FX for payments and current international transactions. |
| | Enhanced disclosure by the RBZ | The RBZ communicates the auction results every week. Circulars are issued to communicate procedural changes in the |

| Policies | 2019 Article IV Recommendations | Progress since the 2019 Article IV Consultations |
|---|---|---|
| **Monetary and Exchange Rate Policies** | | operationalization of the auction. The MPC Communique continues to be published after every meeting. In 2020, the lag in the publication of monetary statistics—balance sheet information - were reduced to the 4-week maximum. Publication lags were longer in 2021. |
| | Remove the application of the prior date's interbank rate when allocating FX for imports and purchasing FX from exporters | The applicable rate for FX allocations is the exchange rate determined in the auction system. RBZ is gradually refining the auction system to improve its operational efficiency and ensure bids are allocated in a timely manner. |
| **Financial Sector Reforms** | Conduct Asset Quality Reviews | Thematic Asset quality reviews were scheduled for 2020 but were constrained by the advent of the COVID -19 pandemic.<br>The RBZ developed a Remote Onsite Examination Framework following TA from AFRITAC South in April 2021.<br>The RBZ now conducts remote examinations. Asset quality reviews will be prioritized in the annual Supervisory Plan for 2022. |
| | Strategy to address capital shortfalls in banks | Banking institutions have built adequate capital buffers and set aside adequate provisions to absorb any additional provisioning requirements. Banks have also strengthened their credit risk management systems. A few options are available to ensure compliance with minimum capital requirements including:<br>• Capital demand.<br>• Cease and desist orders<br>Suspension of payment of dividends and bonuses, restriction of business expansion etc. |
| | Finalize legal reforms to strengthen the prompt corrective actions and bank resolution regimes | A Committee comprising representatives from the RBZ, the Deposit Protection Corporation (DPC) and the Ministry of Finance was constituted. Amendments to enhance the legal framework for bank resolution have been drafted and discussed with the DPC. Consolidated proposals are expected to be submitted to the Ministry of Finance within 2021. |
| | Strengthen legal and regulatory requirements to support banks supervision and enhance crises preparedness | The RBZ has met and discussed the proposals with the Deposit Protection Corporation. Consolidated proposals are expected to be submitted to Ministry of Finance within 2021. |
| | Strengthen the legal and supervisory framework for electronic payment and settlement systems | The RBZ issued banking regulations in mid-2020 on mobile money interoperability. It designated a national switch to achieve full mobile money wallet to wallet interoperability and settlement. Further, the RBZ issued two separate guidelines in 2021 on cyber security and anti-money laundering and counter financing of terrorism covering digital payment services. |
| | Advance efforts to increase the effectiveness of the AML/CFT framework | New promulgations as well as amendments were made to the national legal framework to address existing deficiencies as well as to enhance compliance and supervision for AML/CFT, such as the insertion of Beneficial Ownership matters in the new companies Act. Further, parallel programs on outreach and awareness have been implemented by the National Task Force across FIs and DNFBPs to close gaps of risk identification and mitigation. |

| Policies | 2019 Article IV Recommendations | Progress since the 2019 Article IV Consultations |
|---|---|---|
| **Financial Sector Reforms** | Rationalize fiscal agricultural support program | No cost benefit analysis of agricultural support program has been undertaken. However, the government:<br>• Has transformed the financing mechanism for the National Enhanced Agriculture Productivity Scheme (NEAPS)—also known as Command Agriculture Special Program for Import Substitution—from direct government support to private sector-led financing through commercial banks on a risk-sharing model with government providing guarantees.<br>Provides resources in the national budget under social safety nets to vulnerable farmers, including cotton farmers which was previously funded through the RBZ quasi -fiscal operations. |
| **Structural Polices** | Combat corruption and improve governance. Based on IMF's 2020 TA report on Zimbabwe's Governance and Anti-Corruption Assessment, publish assessment of governance vulnerabilities | The government has improved the capacity of independent commissions (e.g., ZACC) with office space, tools of trade with the aim to capacitate them to execute their mandates.<br>The National Anti-Corruption Strategy and Action Plan (2020-2024) are now in place. However, there is not a comprehensive strategy to address governance vulnerabilities identified in the 2020 IMF governance diagnostic report.<br>The Zimbabwe Anti-Corruption Commission (ZACC) now has anti-corruption whistle-blowing application and a toll-free number.<br><br>Drafting of the whistle-blowing protection bill is underway, and the principles have been agreed.<br><br>Senior Public officials are required to declare assets under the PECGA. The authorities have planned a workshop with UNODC to start drafting the principles of a more comprehensive Asset Declaration Act and according to best practices.<br><br>Parliamentarians are also required to declare their assets.<br><br>Not done |
| | Improve the management of SOEs | Limited progress in the reform framework to make viable 46 SOEs and parastatals, and the privatization/divestiture of 5 key SOEs. 4 (Allied Insurance, Surface-Wilmar Investments, Zimbabwe Grain Bag and Ginhole Investments) of those earmarked for privatization were completed. Turnaround strategies for 10 entities were done with 7 being funded by AfDB and 3 by EU. |
| | Provide clarity to land rights | Not done |

# Annex IV. Use of SDR Allocation

1. Zimbabwe's SDR allocation in August 2021 was SDR677.4 million (US$960 million). In November 2021, the government submitted its proposed use of the SDR allocation to parliament as part of its 2022 Budget Appropriations Bill. Upon approval, the government must report and account to parliament during mid-year and annual reviews on the usage of SDR funds.

2. The SDR allocation plan foresees that US$280 million (29.2 percent) will be retained as foreign reserves and US$222 million (23.2 percent) will be kept in a contingency fund to mitigate against the COVID-19 pandemic and other exogenous shocks. Over the 3-year period 2021-23, US$212 million (22.1 percent) will be spent to support projects in the health, education, and vulnerable groups. Of this amount, US$71 million was spent in the procurement of vaccines in 2021. Another US$164 million (17.1 percent) will be spent on infrastructure projects from 2022. The remainder will be deployed in 2022 for a Horticultural Revolving Fund and a Retooling Fund supporting SMEs in the agriculture and manufacturing sector.

**Table 1. Zimbabwe: Proposed Utilization of SDR Allocation**

| Priority Area | Allocation (US$ million) | Distribution (percent) |
|---|---|---|
| **1. Investments in social sectors** | **212** | **22.1** |
| Support to Covid-19 vaccination programs | *77* | *8.0* |
| Construction of health infrastructure in regions with extreme poverty (NMS) | *35* | *3.7* |
| Support for health consumables and equipment | *10* | *1.0* |
| Construction of education infrastructure in regions with extreme poverty | *10* | *1.0* |
| Agriculture Productive Social Protection Scheme | *80* | *8.4* |
| **2. Agriculture support** | **50** | **5.2** |
| Export revolving fund for agriculture targeting floriculture, blueberries, and macadamia | 30 | 3.1 |
| Small holder farmer irrigation schemes | 20 | 2.1 |
| **3. Industry Support -** Retooling/revolving fund for new equipment and replacement for the value chains | **30** | **3.1** |
| Cotton | *10* | *1.0* |
| Leather | *10* | *1.0* |
| Pharmaceuticals | *5* | *0.5* |
| Other Agro-processing | *5* | *0.5* |
| **4. Infrastructure Development** | **164** | **17.1** |
| Transport Sector – Harare Beitbridge Road, Masvingo Road Interchange Development Project (Mbudzi) and Emergency Road Rehabilitation Program | 144 | 15.0 |
| Housing Development | 10 | 1.0 |
| Gold Centers | 10 | 1.0 |
| **5. Contingency Fund** | **222** | **23.2** |
| **6. International Reserves** | **280** | **29.2** |
| **TOTAL** | **958** | **100** |
| | | |

Source: Ministry of Finance and Economic Development

# Annex V. Risk Assessment Matrix[1]

| Source of Risks | Likelihood/ Time Horizon | Expected Impact on Economy | Policy Response |
|---|---|---|---|
| **Potential Domestic Shocks** | | | |
| **Failure to address exchange rate disequilibria** | **High/Short to Medium Term** | **High.** Increases in the parallel market premia will continue to cause price distortions and undermine consumer and business confidence and operations, negatively impacting productivity and growth. | Adopt a more transparent and market-driven price discovery FX auction system supported by a tight monetary policy stance. Remove regulatory and quantitative FX restrictions. |
| **Fiscal policy slippages** | **High/Short to Medium Term** | **High.** Significant fiscal expansion and increased off-budget quasi-fiscal operations (QFOs) and domestic arrears accumulation in the run-up to the 2023 elections could threaten price and financial sector stability. | Continue to contain current spending, improve revenue collection, and increase the efficiency of public spending. Reduce the footprint of the government in the economy by leveraging the private sector. Cease QFOs financed by the RBZ and its subsidiaries and transfer these to the government budget. |
| **Stalled reengagement from failure to advance political and economic reforms** | **Medium/Short to Medium Term** | **High.** Delays in advancing political and economic reforms and garner the support of the international community would maintain the status quo, exacerbating the economic imbalances and further worsening policy confidence. | Advance political and economic reforms to gain support of the international community and pave the way for the external arrears' clearance, debt relief and budget support. This would unlock financing from IFIs and help restore access to international financial markets. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

| Source of Risks | Likelihood/ Time Horizon | Expected Impact on Economy | Policy Response |
|---|---|---|---|
| **Conjunctural shocks, scenarios, and structural risks** | | | |
| **Natural disasters related to climate change** | **Medium/Short to Medium Term** | **High.** The agricultural sector, which is a main contributor to growth and employment, is rainfed and highly susceptible to rainfall. Hydropower provides much of electricity generation. | Create fiscal space for grain imports to support the most vulnerable population. Rationalize agricultural support schemes to support long-term growth and resilience. Adopt climate change mitigation and adaptation measures. |
| **Outbreaks of lethal and highly contagious Covid-19 variants lead to** | **Medium/Short to Medium Term** | **High**. As already witnessed in 2020, another round of containment measures would lead to another bout of severe | Seek humanitarian support, create fiscal space to finance health-related expenditures including vaccinations and |
| **subpar/volatile growth, with increased divergence across countries.** | | recession, further increase extreme, and exacerbate humanitarian suffering. | support the most vulnerable population. Reengage with the international community to access much needed financial support. Monitor banks' risk management to ascertain prudent loan classification. |
| **Rising and volatile food and energy prices** | **Medium/Short to Medium Term** | **Low.** Metals' prices increase would benefit Zimbabwe's trade, though price volatility would disrupt trade. Oil price increases would adversely affect the current account and domestic fuel prices. | Renew efforts to implement structural reforms to improve the business climate and reduce the cost of doing business, to increase productivity and strengthen competitiveness. |

# Annex VI. National Development Strategy[2]

**1.** The government's 2021-25 National Development Strategy (NDS) is the successor to the Transitional Stabilization Program (TSP) which ended in 2020. The TSP had a focus on macroeconomic stabilization during 2018-20, institutional reforms to support economic growth and human development, and governance reforms to tackle corruption and strengthen the rule of law. The NDS is intended to build on the TSP by entrenching macroeconomic stability, necessary for economic growth and development, reducing poverty and inequality and transforming institutions to enhance public sector efficiency and service delivery.

**2.** The priorities in the NDS reflect the broad consensus of wide stakeholder support from development agencies, the private sector and civil society to achieve the main objective of Vision 2030, which is to reach upper middle-income status by 2030. These priorities are aligned with the Sustainable Development Goals (SDGs).

**3.** The NDS emphasizes the need for bold, fast, and transformative measures to achieve Vision 2030 led by the government in concert with other stakeholders that (a) focuses on creating the enabling environment for growth through the development and capacitation of key national institutions, (b) leverages the country's competitive advantages particularly regarding resource endowments, and (c) commits to good corporate governance. It recognizes that international reengagement is a missing component but indicates that eventually this will occur and yield positive results. The key NDS objectives are to:

- Strengthen macroeconomic stability, characterized by low and stable inflation, as well as exchange rate stability.
- Achieve and sustain inclusive and equitable real GDP growth.
- Promote new enterprise development, employment, and job creation.
- Strengthen social infrastructure and social safety nets.
- Ensure sustainable environmental protection and resilience.
- Promote good governance and corporate social investment; and
- Modernize the economy through use of ICT and digital technology.

**4.** These objectives are appropriate and consistent with best practice. The government intends to link the NDS to the national budgets within a 3-year medium-term program budgeting framework that will support programs, projects and interventions that contribute to the objectives

[2] Prepared by Wayne Mitchell.

and targets defined in the NDS. The NDS acknowledges that success in achieving its objectives will depend on the following main imperatives:

- Improving global recovery from the COVID-19 pandemic, and local economic recovery on the back of firming international mineral prices and agriculture recovery.

- Consolidating macroeconomic stability by anchoring exchange rate and inflation through prudent fiscal and monetary management.

- Implementing an Integrated Results Based Management (IRBM) system, which links national priorities, key results areas, targets, key performance indicators and expected outcomes, facilitates monitoring and evaluation of progress as well as adjustments to the strategy; and

- Implementing comprehensive public sector transformation to stimulate a culture of high performance, quality service delivery, measurement, goal clarity, continuous improvement, and accountability across the public sector.

- Promoting production and productivity through implementation of policies that makes it easy for businesses to operate, strengthening property rights, upholding the rule of law, and combating corruption.

**Macroeconomic Framework**

***Real Sector***

**5.** The NDS anticipates an average real growth of 5.6 percent over the medium term from increased production and exports in agriculture, mining, manufacturing, and tourism that reflects new investment, productivity-enhancing measures, and strengthened and expanded value chains in these sectors. This will be supported by government interventions to accelerate policy implementation and reforms that strengthen macroeconomic stability and increase infrastructure investment. Structural reforms to improve the business environment, facilitate respect of property rights, ensure rule of law, increase access to financing and combat corruption are expected to unlock much needed private investment.

***Fiscal Policy***

**6.** Priorities include maintaining a sustainable fiscal balance, restoring budget credibility, and re-orienting the national budget towards humanitarian and developmental goals. Specifically, fiscal targets include:

- Maintaining average fiscal deficit of not more than 3 percent of GDP in line with SADC macroeconomic convergence target.

- Gradual increase in the development budget from the current 3.8 percent to 6 percent of GDP by 2025.

- Reducing the wage bill as percentage of revenue from 47 percent in 2020 to 40 percent in 2025; and
- Non-accumulation of domestic arrears.

**7.** The NDS' objectives to increase revenue collections and efficiency through streamlining tax incentives, widening the tax bases and strengthening tax administration are consistent with Fund advice. So too are the objectives to strengthen expenditure management and efficiency, particularly the subsidy policy to agriculture, stricter adherence to budget commitments, SOE and parastatal reforms, and improved fiscal transparency.

***Public Debt***

**8.** The NDS focuses on reducing public debt to below the 70 percent GDP target, consistent with the Public Debt Management Act, and having no recourse to central bank borrowing is consistent with broader policies to achieve macroeconomic stability. It acknowledges the importance of reengaging with the international community to clear external debt arrears, obtain debt relief and to access new lines of credit critical to the achievement of Vision 2030 goals.

***Public Infrastructure Investment***

**9.** The NDS describes an ambitious agenda to help maintain and repair existing infrastructure and equipment, completing on-going and stalled projects, attracting FDI in infrastructure, and up-scaling private sector investment in the provision of public infrastructure.

## Monetary Policy

**10.** A key objective is to reduce inflation to single digits over the medium-term in line with the SADC Macroeconomic Convergence Target, and to align reserve money growth to levels consistent with low and stable inflation, as well as exchange rate stability; and eliminate quasi-fiscal operations. In this context, the robust implementation of a monetary targeting regime to control the monetary base and anchor exchange rate and inflation expectations would be crucial.

**11.** Reforms at the RBZ are key to enhancing the effectiveness of monetary policy and governance framework. The NDS places emphasis on the amendments to the Reserve Bank of Zimbabwe (RBZ) Act to limit borrowing by Government from the RBZ.

## Governance

**12.** The NDS includes references to the future implementation of key strategies in overall transparency of accounting and reporting, oversight roles of various institutions, and accountability. It would be important to prepare a reform strategy that covers the wide range of actionable and time-bound governance measures and coordinates the activities and scope of multiple agencies dealing with anti-corruption enforcement, that also lays out how the reforms will be monitored, and the results assessed.

# Annex VII. Capacity Development Strategy[1]

*The Zimbabwean authorities see technical assistance from the IMF as important for supporting their economic and social policies. As such, the Fund's capacity development program, including related technical assistance delivery, is a key component of the Fund's support to Zimbabwe.*

## Context

**1.** The Fund has a comprehensive capacity development (CD) program with Zimbabwe. Following the clearance by Zimbabwe of its PRGT arrears to the Fund, the IMF Executive Board removed on November 14, 2016, all remedial measures, including limitations on the provision of CD. The focus of CD has been on PFM reform, tax policy, debt management, revenue administration, monetary policy framework, financial supervision, macroeconomic statistics (BOP, GDP, CPI, government finance statistics (GFS) and public sector debt statistics (PSDS)), debt management, financial management, and governance.

## Capacity Development Priorities

**2.** The focus of CD in the near term will be in the areas that improve revenue mobilization and PFM, protect financial sector stability, and support the new monetary policy framework that reduces inflation and stabilizes the currency. To this end, targeted areas include tax policy reforms aimed at improving revenue mobilization and efficiency; PFM and expenditure reforms aimed at strengthening expenditure management, budget preparation and execution, and fiscal reporting; enhancing tax and customs administration; further developing the domestic debt market and debt management framework; strengthening financial stability, financial supervision and crisis management frameworks; fiscal forecasting; and training for supervisors.

**3.** Fund's CD to Zimbabwe is coordinated across Fund departments and with outside partners. The Fund's African Department coordinates with the Fund CD departments as well as development partners on the priorities and sequencing for capacity development to strengthen traction and to minimize duplication and cost.

**4. CD priorities include**

| **Priorities** | **Objectives** |
|---|---|
| Tax Policy | Improve the fiscal regime for the mining/extractive industry; rationalize tax exemptions; and improve taxation of e-commerce. |
| Revenue administration | Modernize the revenue administration to improve its efficiency and effectiveness by expanding taxpayer segmentation and strengthening audit and risk management capacity. |
| Public financial management | Strengthen budgeting, reporting, fiscal forecasting, cash management and fiscal oversight including oversight of SOEs. |

[1] Prepared by Wayne Mitchell.

| Priorities | Objectives |
|---|---|
| Monetary policy framework and FX market reform | Support the design and operationalization of the monetary policy framework and the introduction of FX market reforms to deliver macroeconomic stability, low inflation, and a stable exchange rate. |
| Financial Supervision and Crisis Management | Enhance the assessment of emerging sources of risks and develop a crisis mitigation framework to address them in a timely manner to contain the overall impact on the financial sector. |
| Governance, anti-corruption strategy and AML/CFT | Support the development of time-bound action plan to implement recommendations of the IMF's 2020 governance diagnostic report, including, those related to legislation on whistleblower legislation and witness protection, an asset and interest declaration regime, and a risk-based approach to AML/CFT supervision. Support the enhancement of capacities for criminal financial investigations. |
| Macroeconomic statistics | Improve balance of payments, monetary, national accounts, and public debt statistics to enhance macroeconomic analysis and policy design. |
| Debt management | Deepen the domestic fixed income market and improve capacity for managing and evaluating contingent liabilities. |

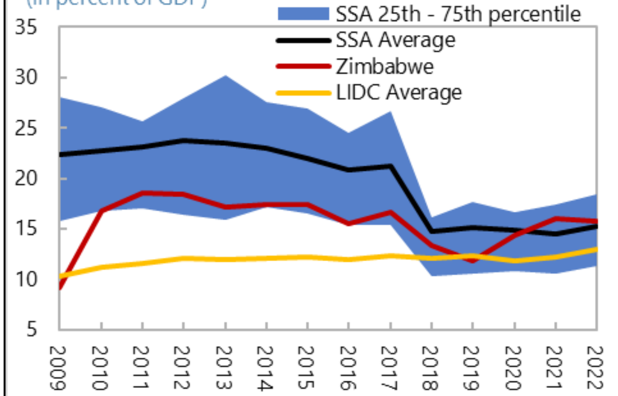
# Annex VIII. Options to Increase Fiscal Space[1]

*Domestic revenue mobilization and expenditure savings are critical to creating sustainable fiscal space to increase social support, and human and physical capital. This note identifies (i) tax policy and administrative measures to increase revenue collection and improve the tax system efficiency and equity, and (ii) public financial management reforms of the state-owned enterprises, and agriculture sector support mechanisms that would enhance their efficiency and lower costs.*

## Domestic Revenue Mobilization

**1. In comparison with other countries in sub-Saharan Africa (SSA), there is scope for Zimbabwe to raise additional revenues.** Zimbabwe's tax-to-GDP ratio has grown in recent years to 15 ½ percent of GDP in 2020, which is 3.3 percentage points of GDP below the estimated tax frontier in 2018 (see May 2018 SSA REO, Chapter 2) and 2.3 percent of GDP below the estimated 75th percentile of revenue collections among SSA countries in 2020.[3] Non-tax revenue, on the other hand, has declined to 0.6 percent of GDP which is less than a ¼ of the SSA average between 1995-2016.

**Figure 1. Zimbabwe: Revenue Comparison, 2009-2022**
(in percent of GDP)




Sources: IMF WEO and IMF staff calculations.

**The reform of Zimbabwe's tax system could rest on four pillars**

**2. Simplification:** An overly complex tax regime prevents a clear public understanding of the system, causes uncertainty in compliance and administration as well as in understanding its economic impact. Streamlining the system will help to identify areas to improve collection. In support of this objective, the IMF's 2017 Capacity Development (CD) Report on *Tax Policy to Address Revenue Shortfalls* recommended:

- Harmonizing (a) taxation of dividends at 15 percent on both listed and unlisted shares and (b) capital gains taxes to all assets (acquired after February 1, 2009) on realized capital gains at the standard capital income tax rate of 15 percent.

- Replacing the Special Initial Allowance with standard depreciation schedules organized into a modest number of different asset classes substantially narrowing income tax exemption for all the categories of interest currently exempt and company taxes.

[1] Prepared by Wayne Mitchell with contributions from Samuel Bonzu.

[3] This reflects the pre-COVID situation as tax performance in most SSA countries declined in 2020.

- Simplifying the fiscal regime for mining as it is difficult to evaluate and make it more transparent. All mining fiscal terms should be established in the Income Tax Act or other laws under the responsibility of the Ministry of Finance. In the short term, no new or renewed special mining leases should be granted.

**3. Base broadening:** Base broadening by streamlining and limiting exemptions will improve collection efficiency and has the potential to increase fairness. In the last two budgets the authorities introduced additional tax incentives to encourage domestic production and exports. Annual tax expenditure reports would provide estimates of the cost of tax expenditures and whether the exemptions meet a social cost-benefit test. The latter would facilitate reforms to the design of incentives offered to investors and address the existing stock of tax exemptions causing a drain on public finances.

**4.** Base broadening efforts of the VAT regime and other taxes will benefit from the adoption of the following measures:

- Limit zero rating to exports and repeal all zero-rating of domestic supplies;
- Subject fuels to VAT and provide an exempt lifeline to VAT on electricity;
- Repeal all subjective VAT exemptions and zero rating;
- Eliminate the exemptions of Specific Assets from the capital gains tax, other than the exemption for primary residence
- Introducing VAT on e-Commerce; and
- In the medium to long-term term extend VAT to fee-based financial services.

**5. Improved administration and compliance:** The government relied on improved administrative capacity to increase revenue mobilization during the pandemic. Digitalization has helped to broaden the tax base and provided tools to increase compliance. Recent CD reports indicate scope for further revenue mobilization through improved compliance: matching tax and customs data on a regular basis and conducting post clearance audits; and a focused audit approach for companies with data-matching anomalies. Also, with a view to enhancing tax compliance, the practice of exempting entities (including government ministries and parastatals, and charities) from filing tax returns should be ceased. In addition, the introduction of a new Integrated Tax Administration System (ITAS) should be swiftly adopted to provide a holistic view of taxpayers across all aspects of tax administration and improve operational efficiency.

## Enhancing Fiscal Controls and Public Sector Management

**6. Strengthening the public financial management (PFM) system and making better use of expenditure controls will improve efficiency and lower costs**. Many transactions occur outside the PFM system despite provisions of the PFM Act and related Treasury Instructions resulting in the accumulation of arrears and extra-budgetary expenditures that risk budget sustainability. Addressing these deficiencies and enhancing transparency and accountability would provide opportunities for better fiscal outcomes including the redirecting of saving towards social spending and infrastructure. The containment of government financial support to state-owned enterprises (SOEs) and the rationalization of subsidies for the agricultural sector, are two critical policy areas that could alleviate pressures on the budget.

7. **SOEs and parastatals are facing financial difficulties—with mounting losses and negative equity—which raise fiscal risks.** [4] The sector accumulated losses of about 5 percent of GDP between 2011 and 2018.[5] Some of the major firms are insolvent, others are experiencing acute cash flow and foreign exchange shortages, and most are struggling to meet their obligations, both in terms of debt and payments to suppliers. The government has propped up SOEs through cash transfers, equity injections, debt assumptions, and loans worth an estimated 11 percent of GDP. Even with fiscal and quasi-fiscal support, SOEs are experiencing severe cash-flow problems that have begun to adversely impact operational performance, with key utilities such as power and water, as well as rail systems experiencing frequent service delivery failures. Budgetary support to the Grain Marketing Board equivalent to 2 percent of GDP also underscores the need to strengthen its operations and minimize recourse to the budget.

**Table 1. Zimbabwe: Estimates of Budgetary Support to SOEs in the Agriculture Sector**
(US$ millions, nominal)

| | 2017 | 2018 | 2019 | 2020 | 2021[1/] |
|---|---|---|---|---|---|
| Grain Marketing Board | 686.0 | 473.3 | 548.1 | 279.5 | 649.1 |
| Agriculture Rural Development Agency | ... | ... | ... | 1.7 | ... |
| Agribank | ... | 10.0 | 10.4 | 1.2 | 3.4 |
| Agriculture Marketing Authourity | ... | 82.8 | ... | ... | ... |
| Cotton Company | ... | ... | ... | 11.1 | 5.7 |
| **TOTAL** | **686.0** | **566.1** | **558.5** | **293.5** | **658.2** |

Source: Zimbabwe Authorities.

[1/] Data through September 2021

8. **The government's SOE reform agenda prioritizes** recapitalization through partial privatization; reconfiguration and re-orientation; corporate governance reforms; provision of services at viable prices; and amalgamation of some entities into existing government departments.

[4] Documented in 2020 CD report on *Strengthening Fiscal Risk Management and Oversight of State-Owned Enterprises*.

[5] The figures do not include the RBZ's subsidiaries and a few smaller SOEs whose financial statements were not available. These gaps represent major governance vulnerabilities.

- There has been some progress with partial privatization of a few SOEs.[6]

- Progress with partial privatization of larger SOEs and parastatals[7] and mergers[8] has been slow.

9. **The lack of resources to fund transaction costs is a major impediment to privatization**.[9] Addressing macroeconomic stability concerns including the exchange rate environment as well enhancing the governance and business climate should encourage investor interest. The availability of financial statements would promote transparency.

10. **The reorientation and rationalization of agricultural support programs, along with legal and policy reforms to address the above structural weaknesses, could re-invigorate the sector** (outlined in IMF Zimbabwe Country Report No. 20/82). Recommendations to improve the efficacy of these programs and reduce costs include:

- Adoption of a clear, formula-based determination of the procurement price, based on futures prices in US dollars.

- Reducing cross-commodity subsidy distortions so that production incentives to farmers are not grossly different across different crops.

- Free sales by farmers of their produce where they get the best price and not be bound to sell to the Grain marketing Board.

- Shifting spending to supportive public goods such as agricultural research, extension, and animal disease control.

11. **Further private sector participation with limited budget exposure should be encouraged.** The Command Agriculture Program (CAP) input financing scheme was transferred to the banking system in the 2019/20 agriculture season and renamed the National Enhanced Agriculture Productivity Scheme (NEAPS). The government's exposure under NEAPS is via bank loan credit guarantees. Measures to overcome sector constraints arising from land tenure insecurity, including collateralization, and inadequate investment in rural infrastructure would help improve productivity at lower long-term costs.

[6] People's Own Savings Bank, Infrastructural Development Bank of Zimbabwe, Petrotrade, Willovale Motor Industries & Deven, and Silo Foods Industries.

[7] For example, NetOne & TelOne, Zimbabwe Posts, and Zimbabwe United Passenger Company.

[8] For example, Zimbabwe National Research Education Network, Africom & Powertel, Broadcasting Authority of Zimbabwe, and Postal & Telecommunications Regulatory Authority.

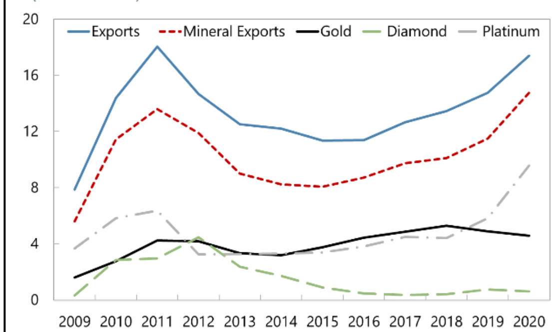
[9] Some donor agencies such as the AfDB and IFC are providing financial and technical support to transactional services.

# Annex IX. Mining Sector[1]

*The National Development Strategy (NDS) ascribes a key role to the mining sector in Zimbabwe's economic development. This note discusses: (i) structural impediments to revenue performance; (ii) weaknesses in the legal and institutional framework, and (iii) reforms to raise mining sector revenues and increase transparency.*

1. **The mining sector is the main contributor to Zimbabwe's exports** (Figure 1, Table 1). Zimbabwe's mining sector produces a mix of products, from base metals to high-value minerals, such as diamonds, gold, and platinum. In 2020, the mining sector export earnings accounted for about 14 percent of GDP. Gold, platinum, and diamonds contributed approximately 74 percent of total exports. (Figure 1).

**Figure 1. Zimbabwe: Mineral Exports, 2009-20**
(Percent of GDP)




Sources: Zimbabwe authorities and IMF staff estimates and projections.

2. **Mining sector revenue collection is below potential.** Zimbabwe collects revenues from the mining industry through a combination of royalties, corporate income tax, and dividends.[2] Royalties' payments are below their theoretical rates.[3] The maximum royalty rates are as follows: gold at 5 percent of exports; platinum at 2.5 percent; and diamond at 10 percent. During 2014-20, the actual collections of royalties averaged (as a percent of exports) 3.3 percent for gold, 1.3 percent for platinum, and 14.5 percent for diamonds. Overall, the mining sector revenue-GDP ratio in Zimbabwe of 1.2 percent during 2014-20, was below that for countries in sub-Saharan Africa which averaged 2 percent during 2009-19.[4]

**Table 1. Zimbabwe: Total Mining Revenues, 2014–21**
(Percent of GDP)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|
| | | | | Act. | | | | Est. |
| **Revenues by Metal** | | | | | | | | |
| Gold | 0.2 | 0.3 | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| Platinum | 0.6 | 0.1 | 0.1 | 0.5 | 0.5 | 0.9 | 1.8 | 2.4 |
| Diamonds | 0.7 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Minerals | 0.1 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| **Mining Revenues** | 1.7 | 0.5 | 0.4 | 1.0 | 1.1 | 1.4 | 2.3 | 3.0 |

Sources: Zimbabwe authorities and IMF staff estimates and projections.

[1] Prepared by Concha Verdugo-Yepes with contributions from Wayne Mitchell and Rohan Ahluwalia.

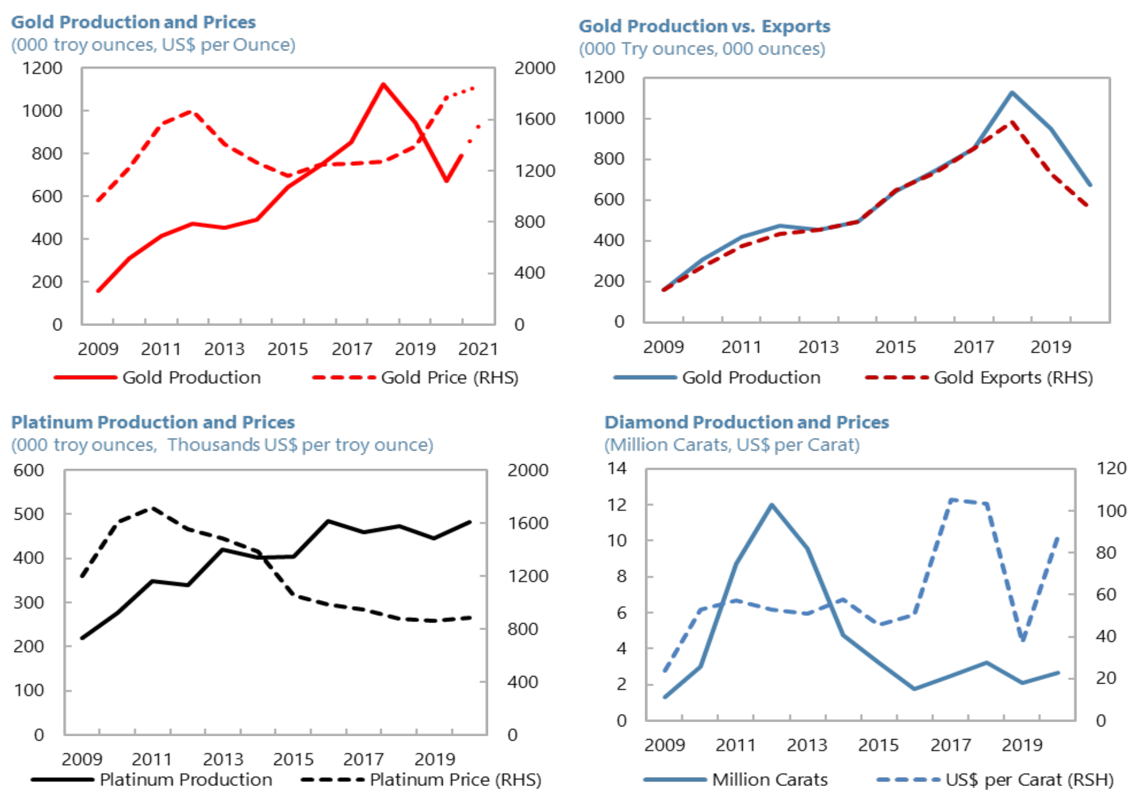
[2] The government has a non-controlling ownership stake in some mines.

[3] The royalty rates are determined in Finance Act s.37. There have been amendments since the publication of the Act. For gold, the royalty was changed in 2019 with a dual rate structure linked to commodity price level. For gold prices above US$1,200/oz, a flat rate of 5 percent applies; for prices below this level, a rate of 3 percent applies. For small-scale miners the royalty rate was reduced to 2 percent from 3 percent. For platinum, the royalty rate was reduced to 2.5 percent from the previous rate of 10 percent. For diamonds, the royalty rate was reduced to 10 percent in 2019 from the previous rate of 15 percent.

[4] IMF (2021), Tax Avoidance in Sub-Saharan Africa's Mining Sector; page 9.

**3. Mining sector performance has been adversely affected by price disincentives and exogenous factors.** The gold and diamond sector benefited from high international prices in 2019-20 but gold production and revenues declined in 2020 and the first half of 2021 while diamond and platinum production remained flat (Figure 2). Foreign currency surrender requirements are a constraint for mineral exporters, particularly at times when the parallel market exchange rate diverged greatly from the official rate, a factor that may also generate incentives for smuggling. Other constraints to mining sector potential include (i) uncertain mining ownership rights; (ii) levy of marketing fees; (iii) unreliable and costly electricity; and (iv) financing costs. Although the price of gold rose during the COVID-19 pandemic, gold output fell by nearly a third in 2020. Observers argue that smaller producers diverted gold to private dealers in third countries given that the price paid by the Fidelity Printers and Refiners (FPR), Zimbabwe's official gold buyer is considered unfavorable. More recently gold production has been adversely affected by the COVID-19 related containment measures and labor shortages.

**Figure 2. Zimbabwe: Mineral Production and Prices, 2009-20**




Sources: Zimbabwe authorities and IMF staff estimates and projections.

**4. An inadequate mining sector legal and institutional framework contributes to governance vulnerabilities.** The 2019 IMF Article IV consultation staff report for Zimbabwe noted substantial governance vulnerabilities in the mining sector, including a lack of scrutiny of agreements with investors (including fiscal concessions) and undue discretion in the award of mining licenses.[5]According to a report by Zimbabwe's Anti-Corruption Commission (ZACC) in the mining sector,[6] corruption vulnerabilities stem from, inter alia: (i) deficiencies and delays in mining license and approvals processes; (ii) double allocation of mining claims; (iii) outdated mining sector regulation and Mining Act (1964); (iv) lack of whistleblower protection, and abuse of office by politically exposed persons; (v) concealed identity of owner and applicants; (vi) secrecy in mining contracts; (vii) transfer pricing; and (viii) and lack of political will to strengthen the governance of the mining sector.

**5. To tackle smuggling, the government, through the RBZ, introduced in 2021 an export incentive scheme:**

- Gold producers who deliver gold quantities above the average monthly deliveries are entitled to a retention level of 80 percent in the incremental portion of the gold delivered to FPR. Those companies listed on the Victoria Falls Stock Exchange are entitled to a 100 percent retention level of the incremental exports.

- Small-scale gold producers who receive their payment for gold delivered to FPR through bank accounts are entitled to a 5 percent incentive.

- Government levied a lower rate of royalty of 3 percent on small-scale gold producers whose output does not exceed 0.5 kg per month.

- Royalty rates for large-scale miners is currently set a 5 percent if the price of gold is above US$1,200, and 3 percent if prices are lower than US$,1200.

**6. Enhancing transparency.** Adherence to the principles of and participation in the Extractive Industry Transparency Initiative (EITI) would enhance transparency and accountability in mineral resource governance. Rent-seeking opportunities in the mining sector would be minimized by amendments to existing mining laws to promote transparency in the mining licensing application and approval processes, and cease awarding special deals in the mining sector. In order to enhance transparency in the mining sector, legislation is needed to (i) empower communities and local authorities to participate in mining contracts negotiations, (ii) publish resource contracts, and (iii) incentivize publication of mining production by company production. The Whistleblower Bill, once approved, could be an effective tool to reduce corruption in the sector.

[5] See 2019 IMF Article IV Report, page 52. See also, The Auditor General's Report for the financial year end 2018 on State Enterprises and Parastatals, Zimbabwe Mining Development Corporation (2015-2017).

[6] Makochenkawa, A (2020), *The Impact of Corruption in Zimbabwe's Mining Sector*. Report Submitted to the Zimbabwe Anti-Corruption Commission (ZACC).

# References

Government of Zimbabwe, The Auditor General's Report for the financial year end- 2018 on State Enterprises and Parastatals, Zimbabwe Mining Development Corporation (2015-17).

International Crisis Group (2020), *All that Glitters in not Gold: Turmoil in Zimbabwe' s Mining Sector. Africa Report num. 294.*

IMF (2021), Tax Avoidance in Sub-Saharan Africa's Mining Sector; page 6.

Makochenkawa, A (2020), *The Impact of Corruption in Zimbabwe's Mining Sector*. Report Submitted to the Zimbabwe Anti-Corruption Commission (ZACC).

Murombo, T (2021), *The Extractive Industries Transparency Initiative (EITI) in Zimbabwe: An Appraisal of Prospects and Challenges*. (2021) Journal of Energy and Natural Resources Law.

Sibanda, Mukasiri (2021), Descripting Illicit Trade Gold in Zimbabwe. South Africa Resource Watch.

# Annex X. External Sector Assessment[1]

***Overall Assessment:*** *The external position of Zimbabwe in 2021 was weaker than the level implied by fundamentals and desirable policies, reflecting FX distortions together with the exceptionally low level of reserves and external debt distress. The assessment is subject to a high degree of uncertainty given the large distortions of the external sector from quantitative and regulatory FX restrictions, and lack of full-year data for 2021. The large current account surplus is projected to gradually decline over the medium term, reflecting projected growth. External imbalances are projected to persist under the baseline scenario.*

***Potential Policy Responses:*** *Restoring debt sustainability and strengthening policies are essential for regaining external stability. Reengagement with the international community is key to initiating discussion on debt treatment. Greater exchange rate flexibility should be allowed, minimizing existing restrictions within the current FX auction system, thereby promoting market-based price discovery in the exchange rate. Promoting a favorable environment for the interbank market to play a larger role in the FX market remains key. Stabilizing inflation through tight policies is important for restoring and maintaining market confidence. In addition, structural reforms to strengthen the governance and business climate could help unlock private capital flows.*

**Current Account**

**Background.** Zimbabwe registered a current account (CA) surplus of an estimated 4.8 percent of GDP in 2021, primarily reflecting a large increase in remittances (estimated at about 20 percent above their 2020 levels) during the pandemic, strong exports amid high commodity prices, and the continuation of the import compression due to the expenditure switching effect from the 2019 currency reform and the Reserve Bank of Zimbabwe's FX restrictions.[2] The CA surplus is expected to decline to 3.2 percent of GDP in 2022, reflecting rising imports as the economy continues to recover. Nevertheless, the projected CA surplus remains well above the deficits registered prior to 2019.

**Assessment.** The cyclically adjusted 2021 CA per EBA-lite calculations was 2.4 percent of GDP. After correcting for the COVID-19 shock and natural disasters, the adjusted CA comes down to 1.9 percent of GDP. The EBA-lite regression estimated norm is 1.2 percent of GDP, suggesting a gap of 0.7 percent of GDP. The unusually large CA surplus averaging an estimated 4.7 percent over 2019-2021 significantly deviates from the large CA deficits recorded in the past (about 6 percent on average over 2014-2018). Staff assesses that the model does not fully capture some country-specific factors, including the impact of quantitative and regulatory FX restrictions on imports (see FX Intervention and Reserves Level section) and exceptionally low levels of reserves as well as debt distress.

[1] Prepared by Martina Hengge.

[2] Imports averaged 33 percent of GDP over 2014-2018 and declined to 24 percent in 2019. Despite a gradual recovery in 2020 and 2021, imports remain considerably below historical levels.

**Zimbabwe: Model Estimates for 2021 (in percent of GDP)**

| | CA model |
|---|---|
| **CA-Actual** | **4.8** |
| Cyclical contributions (from model) (-) | 2.4 |
| COVID-19 adjustor (+) 1/ | -0.6 |
| Additional temporary/statistical factors (+) | 0.0 |
| Natural disasters and conflicts (-) | -0.1 |
| **Adjusted CA** | **1.9** |
| **CA Norm** (from model) 2/ | **1.2** |
| Adjustments to the norm (+) | 0.0 |
| **Adjusted CA Norm** | **1.2** |
| **CA Gap** | **0.7** |
| o/w Relative policy gap | 2.9 |
| Elasticity | -0.18 |
| **REER Gap (in percent)** | **-4.1** |

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on remittances (-0.6 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

**Real Exchange Rate**

**Background.** The REER appreciated by 11 percent at end-2021 relative to end-2020. End-of-period inflation declined to 61 percent at end-2021 (from 349 percent at end-2020) and the ZWL$ depreciated by 32 percent against the US$. Parallel market exchange rates depreciated by 79-86 percent.

**Assessment.** A few factors suggest that the REER is overvalued, including quantitative and regulatory FX restrictions (see FX Intervention and Reserves Level section) which push unmet FX demand into the parallel market. The large premium on the parallel market exchange rate, among other factors, reflects excess demand in the official FX market from growing imports as well as a confidence premium.[3] Based on staff's analysis, the import-to-GDP ratio could be about 1½-5 percentage points higher in the absence of FX market distortions. Using the elasticity from the EBA-lite model, this implies an overvaluation of 4-23 percent. In addition, staff's supplementary assessment based on FX market segments in Zimbabwe (Annex XI) suggests an overvaluation in the range of 13-27 percent, which is in line with the range quoted by local market analysts. The model-based CA gap implies a REER gap of -4.1 percent. Overall, staff assesses the REER to be overvalued in the range of 13-23 percent, with the wide range reflecting the large uncertainty surrounding such assessment.

[3] There are several indications of a large confidence premium, including large FX deposits in the domestic banking system and anecdotal evidence of US dollar cash hoarding by firms and households.

| External Assets and Liabilities |
| --- |
| **Background.** External debt has increased from 25.7 percent at end-2018 (the cut-off point in the last DSA) to an estimated 64.2 percent of GDP at end-2021. In addition, Zimbabwe has large and long-standing arrears to external creditors. |
| **Assessment.** Zimbabwe is classified as in debt distress with unsustainable external debt. |
| **Financial Account** |
| **Background.** The financial account is estimated to have continued to exhibit net outflows in 2021. Non-debt creating inflows, notably FDI, were subdued amid uncertainties about the political and economic environment. Portfolio flows recorded an estimated net outflow. Capital controls and exchange control measures continued to disincentivize investment in Zimbabwe. Some capital account measures—aimed at preventing further reserve losses—constitute capital flow management measures (CFMs) under the Fund's Institutional View. Outflow measures comprise approval requirements for capital account transfers, surrender requirements (tightened from 30 percent to 40 percent in January 2021), and cash withdrawal and related measures (eased in May 2000; easing reversed in February 2021). Inflow measures relate to limits on foreign investments and limits on external borrowing.<br><br>**Assessment.** Staff encourages the prudent liberalization of the financial account and removal of FX control measures as economic conditions permit. A comprehensive package of macroeconomic, financial, and structural policies should be pursued to allow for the relaxation of CFMs. |
| **FX Intervention and Reserves Level** |
| **Background.** The exchange rate regime is classified as *de jure* floating and *de fact*o stabilized. FX control measures include (i) two categories of eligible auction participants that receive FX allocations with different caps and (ii) a surrender requirement of FX at 40 percent of export receipts. International reserves have increased due to the 2021 general SDR allocation equivalent to US$963 million but continued to be below adequate levels. Gross international reserves are estimated at US$716 million at end-2021, covering about 1.3 month of imports, up from 0.1 months at end-2020.<br><br>**Assessment.** FX market distortions gives rise to a large premium between the official and parallel market exchange rates. Exchange control measures are inadequate to address these distortions. Foreign reserves were much lower than both the 3-months of imports rule-of-thumb and the model-based benchmark from the IMF template for assessing reserve adequacy in low-income countries, which suggests 5.4 months of imports as the adequate level for Zimbabwe. |

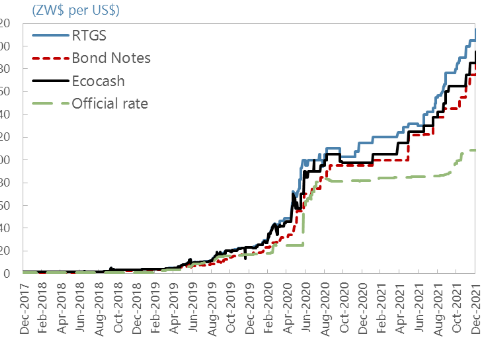
# Annex XI. Foreign Exchange Markets and the Exchange Rate[1] [2]

**Background and Recent Developments**

1. **The RBZ auction system was introduced in June 2020 to provide FX liquidity and stabilize the exchange rate.** The RBZ auction, whose model operated as a "Dutch auction" (common price) system, initially managed to provide much needed FX liquidity, clearing the allocated amounts within a week or so, and to stabilize the exchange rate.

2. **FX allocations through the auction do not meet overall demand, putting pressure on parallel market rates.** Since it was introduced, the RBZ auction has provided about US$2½ billion. The various parallel market exchange rates have continuously depreciated,[3] with the gap relative to the official rate widening to about 60-90 percent by end-2021, from around 20-25 percent a year earlier (Figure 1). Regular FX backlogs have been reported (in the order of US$150-200 million), and companies whose allocated FX has not been disbursed have to look for alternative sources of FX. Existing administrative measures—including the Statutory Instrument 127 (SI-127) of June 2021, with penalty provisions to curtail arbitrage between the official and parallel market exchange rates—fuel FX precautionary savings and compound the depreciation of parallel rates.

Figure 1. Zimbabwe: Exchange Rate Markets, 2017-2021
(ZW$ per US$)

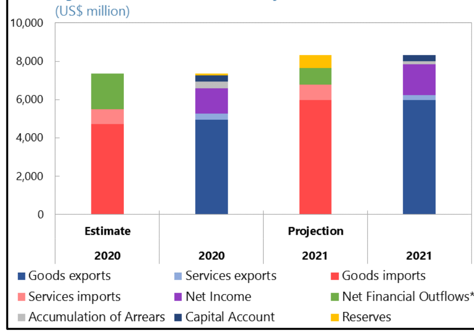



**Functioning and Challenges of the FX market**

### *Landscape of the FX markets: a BOP perspective*

3. **Zimbabwe recorded a current account surplus in 2020 generating enough FX to cover the country's import bill.** Total exports (goods and services) in 2020 amounted to almost US$5.3 billion, while total imports amounted to a comparable sum (US$5.5 billion), resulting in a narrow trade deficit (Figure 2). Adding net income—most notably remittance inflows (about US$1.2 billion in 2020)—the current account recorded a significant surplus of around US$1.1 billion (5 percent of GDP), matched by commensurate net financial account outflows. A similar FX surplus is estimated for 2021.

Figure 2. Zimbabwe: Balance of Payments, 2020-2021
(US$ million)




[1] Prepared by Martina Hengge.

[2] Using data as of end-2021.

[3] Different parallel market rates arise depending on the domestic currency 'medium' onto which the US dollar is converted to, including RTGS ('electronic' currency), bond notes ('physical' notes), Ecocash (mobile payment platform). FX transactions at a rate different from the official rate (beyond a small margin for fees and commissions) are illegal, and several measures have been taken by the authorities against these transactions.

**4. Total gross FX demand is estimated in the order of US$7½ billion per annum**. Observed gross FX demand comprises total imports of goods and services (US$5½-6½ billion) and other financial account outflows (about US$1-1½ billion). Once the estimated value of imports related to exporters themselves—paid directly in US dollars using part of their un-surrendered FX (estimated at about US$2-2½ billion per year)[4]—are considered, the remaining net demand for FX amounts to about US$5-5½ billion per annum.

### *FX markets*

**5. Zimbabwe's FX demand is covered via three broad FX markets**. The vast majority of FX demand is provided through the following systems, which operate under different exchange rates:

- *RBZ auction system*: the auction allocates around US$2 billion per year at the official rate (around ZW$109 per US dollar at end-2021) to approved companies in specific sectors through a prioritization scheme—composed of approved companies classified as "primary users" and "secondary users".[5]

- *Interbank and client-to-client FX market*: the interbank market relates to all formal FX transactions between individuals or companies in Zimbabwe settled through the banking system. These transactions usually involve two or more (non-financial) parties and one bank. Owing in part to fears of losing corresponding banking relationships, the bank-to-bank FX market transactions is thin. FX transactions through the banking system are to be booked at the official exchange rate. Given the price difference between the official and parallel market rates, there is little incentive for holders of FX to sell it at the official rate, and additional 'netting' are used by companies to compensate the seller for providing FX at the official exchange rate.[6] This market is estimated to provide FX to the economy in the range US$2-2¼ billion per year.

- *Parallel FX markets:* all other FX transactions (about US$¾-1½ billion) take place in the parallel markets, at rates significantly higher than the official exchange rate (Figure 1). There is a genuine demand for FX—to pay for legitimate import of goods and services—from economic agents that do not have access to FX through formal markets. Illegal trade and smuggling activities also represent part of the demand for FX, in *cash*, which is obtained through parallel markets.

### *Implications for the market-clearing exchange rate*

**6. Based on the relative market shares, staff estimates a market-clearing exchange rate of about 13-27 percent higher than the official rate.** Based on net FX needs related to import

---

[4] Exporting companies surrender 40 percent of their export receipts to the RBZ (and receive ZW$ in exchange for these, valued at the official exchange rate). Similarly, companies with domestic sales denominated in US dollars are required to surrender 20 percent of their FX receipts.

[5] The RBZ auction is made of two components: the "main auction", which constitutes the bulk of the FX allocation, and the "SME auction", to provide FX to smaller companies in approved sectors.

[6] The clearing market price on this type of FX transactions is reported to be in the range ZW$120-130 per US dollar at end-2021.

demand and net FX saving flows, combined, in the order of about US$5-5½ billion per year as mentioned earlier, the effective (weighted-average) market-clearing exchange rate in the economy was around ZW$123-138 per US dollar (13-27 percent deviation from the official rate) at end-2021.

### *Inflation considerations*

**7. The inflationary implications of an official exchange rate depreciation to anchor it to its equilibrium rate would be minimal.** One of the considerations for maintaining the official exchange rate at the current level is the potential risk that a significant depreciation would translate into higher inflation. In aggregate terms, the overall economy is already operating with an average pricing in line with an effective exchange rate in the range of ZW$123-138 per US dollar. The removal of the exchange rate misalignment would help anchor market expectations and reduce any speculative demand. Any remaining risks to inflation could be further mitigated with an effective FX policy communication strategy, complemented—if needed—with tighter monetary policy.

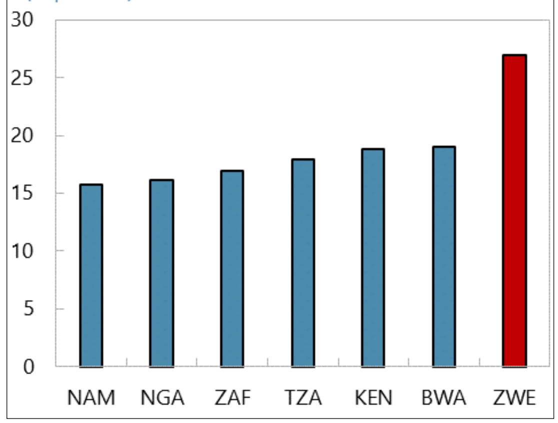
### *Economic distortions and costs*

**8. The current exchange rate regime exerts important distortions and costs to the economy.** The provision of FX through the RBZ auction, at a rate lower than the effective market-clearing rate, represents a subsidy for those companies that have access to this facility. This group is benefiting from a subsidy transfer of about ZW$25-60 billion (about 2½-5¼ percent of 2020 GDP) per year. At the other end of the spectrum, the parallel markets operate at a much higher rate than they would under a unified exchange rate system. The cost to this group is about ZW$20-90 billion per year (2-8 percent of GDP) assuming an effective parallel market rate of about ZW$188 per US dollar, with the remaining relatively small cost (capped at about ½ percent of GDP) accruing to those operating on the interbank market at a de facto rate broadly in line with the fair-value rate. Owing to the 40 percent surrender requirement, exporters are subject to direct costs of about 5½-8½ percent of their export value (about 1½-2½ percent of GDP).

# Annex XII. Banking Sector Assessment[1] [2]

**1. While the banking sector reports ample regulatory capital, banks' large unresolved net open positions (NOP) could erode the buffers.** The regulatory and tier I capital to risk weighted assets are about 27 and 22 percent, respectively. Since the reintroduction of the local currency in 2019, much of the growth of the capital base has been attributed to retained earnings from revaluation of foreign currency and fixed assets. Risks to bank capitalization include the unresolved NOP related to blocked funds[3], which pose financial stability risks.

**Figure 1. Zimbabwe: Regulatory Capital, 2021**
(in percent)




**2. While asset quality indicators have improved, non-standard loan classification and provisioning could delay loss recognition.** The non-performing loan (NPL) ratio has declined from 1.8 in Dec 2019 to 0.6 percent in June 2021. The decline is attributed to several factors, including (i) the non-standard loan classification whereby a significant amount of loans for some banks are in the special mention (watch) category which could result in delaying the recognition of loss; (ii) increased revenues by corporates; (iii) revaluation of foreign currency loans; and (iv) banks' limited lending activities.

**Figure 2. Zimbabwe: NPLs, 2018-2021**
(Percent of Total Loans)

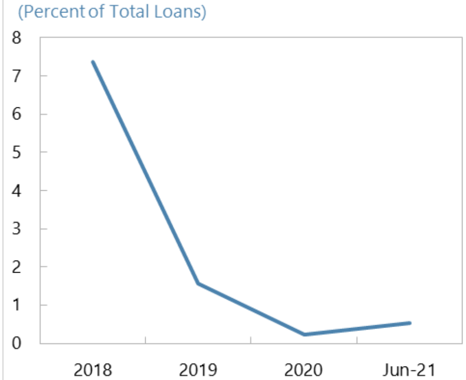
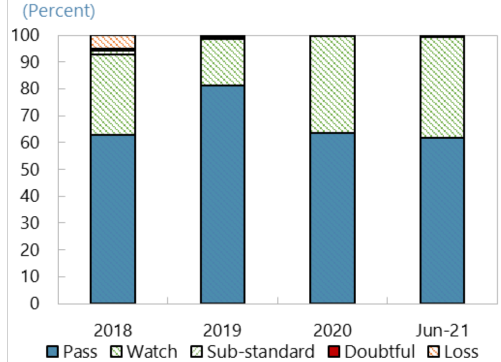



**Figure 3. Zimbabwe: Loan Classification, 2018-2021**
(Percent)




---

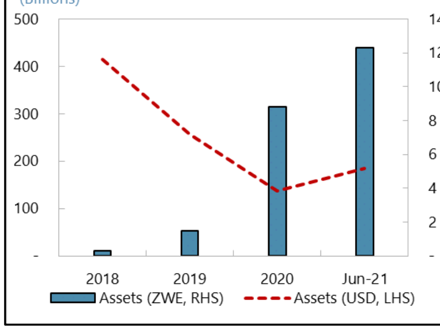
[1] Prepared by Moses Kitonga.

[2] Zimbabwe financial system comprises 13 commercial banks, 5 building societies, and 1 savings bank. Other financial institutions include insurance companies, pension funds, microfinance institutions, Savings and Credit Cooperative Organizations, and mobile payment operators. As of end-December 2020, the total assets of the financial system and banking sectors were respectively equivalent to about 72 percent and 18 percent of GDP.

[3] See footnote 1 in staff report.

**3. Legacy net open positions (NOP) present additional risks to bank capital and financial stability.** The RBZ commitment to assume banks' FX risk related to legacy NOPs has not been fully resolved. The authorities are currently working with banks to resolve this debt. Delays in resolving this debt could have financial stability implications for the banking sector as some of the negative positions are larger than the capital base for some banks.

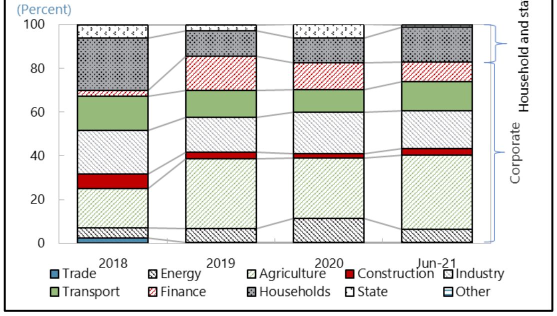
Figure 4. Zimbabwe: Banking Sector Assets, 2018-2021
(Billions)




**4. Reflecting high inflation, banks' assets have declined in real terms.** More recently, there has been modest increase in banks' real assets. The banking system assets shrunk in real terms following the reintroduction of the local currency and the ensuing local currency sharp depreciation and rise in inflation. To mitigate against asset erosion, banks increased investment in real property. Further, foreign currency assets held by banks were also revalued in local currency as the currency depreciated. As a result, the business models for banks shifted from interest income to non-interest sources of income, including revaluations. More recently, there has been modest increase in banks' real assets.

**5. Lending is skewed towards the corporate sector.** Loan-to-deposit and loan-to-asset ratios are 39 and 25 percent respectively. There was a significant shift starting in September 2019 in the composition of banking loan book. Agriculture lending grew from 6 percent to 23 percent by December 2020 while consumer loans decreased from 31 percent to 15 percent.

Figure 5. Zimbabwe: Loan Distribution - Lines of Business, 2018-2021
(Percent)




**6. Banks have adapted their business models to a changing operating environment.** Banks have remained profitable and reported return-on-equity (ROE) and return-on-assets (ROA) of 19.7 and 2.9 percent as of end-June 2021. At the height of the high inflation, banks' main source of income temporarily shifted to "other non-interest income" which accounted for 85 percent of gross income. Much of this income was from revaluation of physical assets and foreign exchange (FX) assets.[4] As inflation declined during 2021, there has been a notable shift to traditional sources of income – interest income and fees and commission.

**7. The shift to non-interest sources of income was also due to the real negative interest rate environment.** While inflation has been on a downward trend, average lending rates have remained below inflation since the reintroduction of the local currency. Lending rates range between 25 to 50 percent. Corporate clients receive slightly better terms than individual clients.

[4] The authorities introduced Statutory Instrument (SI) 85 that allowed FX deposit. Since then, FX deposits in the banking sector have grown markedly and represent 42 percent of all commercial bank deposits. When other deposit taking institutions are added, the deposit base is over 50 percent of all deposits.

**8. The operating expenses for banks have increased markedly as they respond to digitization efforts and the subsequent risks**. The COVID-19 pandemic led banks to expand their online activities, enhancing their digital footprints and expanding the number of online services including lending activities. They have also improved their IT platforms and related cyber security frameworks. These efforts account for the large part of the operating expenses.

**Figure 6. Zimbabwe: Bank Income, 2018-2021**
(Percent)

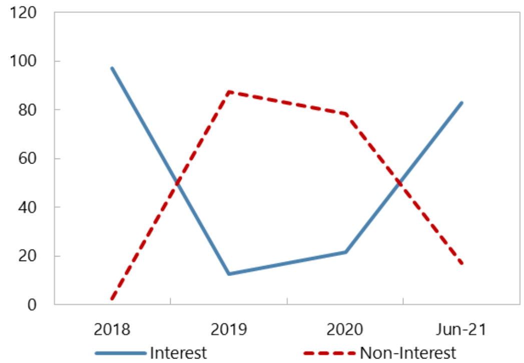
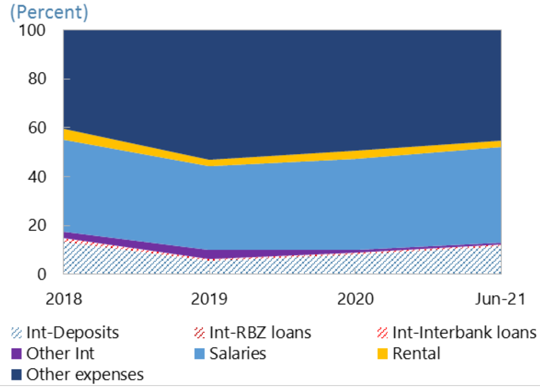



**Figure 7. Zimbabwe: Expenses, 2018-2021**
(Percent)




**9. Liquidity ratios for Zimbabwe banks are high, reflecting banks conservative lending and store of value considerations.** The average prudential ratio (liquid assets to short term liabilities) for the banking sector is about 67 percent. Liquid asset to total asset ratio is about 55 percent. Following the introduction of Statutory Instrument 85 in March 2020 effectively allowing a dual currency regime, deposits in US dollars in the commercial banking sector increased. However, given banks conservative lending strategy much of the liquid assets are held in nostro accounts and as excess reserves at the RBZ.

# Annex XIII. Climate Change: Impact and Policies[1]

**1. Climate change poses a challenge to Zimbabwe's socioeconomic development.** Over the past two decades Zimbabwe has experienced the increased intensity of severe weather events, particularly droughts, heat waves, extreme storms associated with widespread hail and flash flooding, and related health challenges. Climate events adversely affect the primarily rain-fed agricultural sector (which employs nearly 70 percent of the population), hydroelectricity supply, physical infrastructure, and service delivery. The poor are disproportionately affected—faced with rising food costs, malnutrition, reduced employment, illnesses—as they generally live in the most vulnerable areas.

**2. Climate projections suggest acceleration in the frequency and severity of climate events.** Mean annual temperatures could increase by 1 to 1.5°C by 2040 from a 1986-2005 baseline and could potentially exceed 2.7°C by 2050, depending on the actual global emissions pathway.[2] Droughts would increase in frequency and intensity. Global warming by 1.5°–2°C could lead to a 40-80 percent reduction in present maize, millet, and sorghum cropping areas in Africa (World Bank 2013). While there is less certainty about estimates of future rainfall events, some models project average rainfall to decline by approximately 10 percent with significant regional differences, inducing shorter rainy seasons and shifts in the timing of their onset and cessation. Hydroelectric power generation (which supplied about 60 percent of electricity needs in 2012) could drop significantly.

**3. Zimbabwe has adopted sectoral strategies to reduce climate-related vulnerabilities since establishing its National Determined Contribution in 2015.** These include the (i) National Climate Change Response Strategy (2015), (ii) National Climate Policy (2016), (iii) Third National Communication to the United Nations Framework Convention on Climate Change (UNFCC, 2017), and (iv) several sector and thematic policies and plans including on gender and youth. These policy and strategy documents are inputs into the updated 2021 Revised Nationally Determined Contribution (RNDC), which presents mitigation measures and adaptation actions to address climate change impacts that are aligned with the strategic priorities and sequencing of polices in the National Development Strategy 1 (2021 to 2025).

**4. Zimbabwe is focusing on four priority adaptation measures in the RNDC.** These aim at reducing climate sensitivities, increasing adaptive capacities, and reducing direct or indirect exposure to climate-related hazards (Table 1). Ongoing development of the revised National Adaption Plan (RNAP), expected in 2022, could result in a more expansive list of costed adaptation measures.

---

[1] Prepared by Wayne Mitchell and Petronella Chishawa.

[2] Coupled Model Inter-comparison Project Phase 5 (CMIP5) models utilized within the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change (IPCC) provide projections of future temperature and precipitation. Zimbabwe: Climate Risk Country Profile - World Bank, 2021

| Table 1. Zimbabwe: Priority Adaptation Measures | |
|---|---|
| **Measure** | **Benefit** |
| Develop, implement and scale-up climate smart agriculture solutions and strengthen the resilience of agricultural value chains and markets. | • Facilitate sustainable use of resources, such as water and soil in the long-term and reduce sensitivity of water, energy, waste, and biodiversity sector to climate change and variability<br>• Reduce sensitivity to climate change by expanding the use of climate-resilient breeds of crops and livestock<br>• Increase adaptive capacity efficiency of agricultural production |
| Enhance early warning and climate-related disaster risk reduction systems (including information management systems). | • Prevent, prepare, coordinate, and/or manage the consequences climate-related events |
| Ensure the incorporation of climate-resilient infrastructure, design, and implementation. | • Reduce the climate sensitivities of the economy and the population that are reliant on infrastructure<br>• Reduce the climate sensitivity of the energy sector and energy supply |
| Develop and promote resilient water resources management. | • Increase adaptive capacity to better manage water resources, reduce sensitivity, and increase the availability of water |
| Source: Revised Nationally Determined Contribution (2021) | |

5. **Zimbabwe has pledged to take actions on mitigation** (Table 2). It has committed to a 40 percent reduction in per capita emissions by 2030. In the RNDC, it has pledged to increase its mitigation contribution from 33-40 percent reduction in per capita GHG emissions contingent on external financial and technical support. Seventeen mitigation actions and related costs and co-benefits are included in the RNDC based on agreed selection criteria including their mitigation potential, indicative implementation timeline and plans, and alignment with national development goals and targets.

| Table 2. Zimbabwe: Priority Adaptation Measures | |
|---|---|
| **Measure** | **Benefit** |
| Develop, implement and scale-up climate smart agriculture solutions and strengthen the resilience of agricultural value chains and markets. | • Facilitate sustainable use of resources, such as water and soil in the long-term and reduce sensitivity of water, energy, waste, and biodiversity sector to climate change and variability<br>• Reduce sensitivity to climate change by expanding the use of climate-resilient breeds of crops and livestock<br>• Increase adaptive capacity efficiency of agricultural production |
| Enhance early warning and climate-related disaster risk reduction systems (including information management systems). | • Prevent, prepare, coordinate, and/or manage the consequences climate-related events |
| Ensure the incorporation of climate-resilient infrastructure, design, and implementation. | • Reduce the climate sensitivities of the economy and the population that are reliant on infrastructure<br>• Reduce the climate sensitivity of the energy sector and energy supply |
| Develop and promote resilient water resources management. | • Increase adaptive capacity to better manage water resources, reduce sensitivity, and increase the availability of water |
| Source: Revised Nationally Determined Contribution (2021) | |

# Annex XIV. Monitoring Sustainable Development Goals

| Goals | Selected Indicator | Latest Observation | | Baseline |
|---|---|---|---|---|
| | | Indicator | Year | |
| End Poverty | Proportion of population living below the international food poverty line (%) | 65 | 2020 | 16.2 - 2011/12 |
| End Hunger | Prevalence of under nourishment (%) or stunting in children under five increased | 29.4 | 2020 | 27 - 2015 |
| Good Health and Well-being | Maternal Mortality Ratio (per 100,000) | 462 | 2019 | 651 deaths per 100,000 - 2015 |
| Inclusive and Equitable Education | Participation rate in organized learning Primary net attendance rate (%) | 81 | 2019 | 91 -2015 |
| Gender Equality | Proportion of seats held by women in local government or the National Assembly (%) | 13.3 (local government) and 31 (National Assembly) | 2021 | 32.6 - 2017 |
| Clean Water and Sanitation | Proportion of population using safely managed drinking water services (%) | 77.3 | 2020 | 76.3 - 2015 |
| Sustainable and Modern Energy | Household access to electricity (%) | 55.3 | 2019 | 34 - 2015 |
| Sustainable Growth and Decent Work | Annual growth rate of real GDP per capita (%) | -0.08 | 2020 | -1.8 - 2015 |
| Infrastructure, Industrialization, and Innovation | Manufacturing employment as a percentage of total employment (%) | 7.5 | 2019 | - |
| Reduced Inequalities within and among countries | Gini coefficient | 0.435 | 2017 | 43.2 - 2016 |
| Inclusive Cities and Communities | Proportion of urban population living in inadequate housing | 0.33 | 2019 | - |
| Climate Change Action | Number of deaths attributed to disasters (per 100,000) or | 45 | 2017 | - |
| Conserve and sustainably use of oceans, seas and marine resources | Improving fisheries management and utilization - quantity of fish farmed | 12 000T | 2020 | - |
| Peace, Justice and Strong Institutions | Children under 5 with birth registered | 48.7 | 2019 | 44 -2015 |
| Global Partnerships for Sustainable Development | Internet subscribers per 100 inhabitants – Internet penetration rate | 59.1 | 2020 | 16 |

INTERNATIONAL MONETARY FUND

# ZIMBABWE

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 2, 2022


Prepared By

The IMF's African Department
(In Consultation with other Departments and the World Bank)


## CONTENTS


FUND RELATIONS 2

JOINT MANAGERIAL ACTION PLAN 6

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS 7

STATISTICAL ISSUES 8

# FUND RELATIONS

(As of January 31, 2022)

**I. Membership Status:** Joined: September 29, 1980; Article VIII

| **II. General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 706.80 | 100.00 |
| IMF's Holdings of Currency (Holdings Rate) | 706.47 | 99.95 |
| Reserve Tranche Position | 0.33 | 0.05 |
| **III. SDR Department** | **SDR Million** | **%Allocation** |
| Net cumulative allocation | 1,016.02 | 100.00 |
| Holdings | 478.51 | 47.10 |

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | Aug 02, 1999 | Oct 01, 2000 | 141.36 | 24.74 |
| Stand-By | Jun 01, 1998 | Jun 30, 1999 | 130.65 | 39.20 |
| ECF[1/] | Sep 11, 1992 | Sep 10, 1995 | 200.60 | 151.90 |

[1/] Formerly PRGF

**VI. Overdue Obligations and Projected Payments to Fund [2/]**
**(SDR Million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 |
| Principal | | | | | |
| Charges/Interest | 0.47 | 0.51 | 0.51 | 0.51 | 0.51 |
| **Total** | 0.47 | 0.51 | 0.51 | 0.51 | 0.51 |

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Implementation of HIPC Initiative:** Not Applicable

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable
**IX. Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

**Lifting of Remedial Measures following clearance of arrears to the PRGT:**

On October 20, 2016, Zimbabwe fully settled its overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT) using its SDR holdings. Zimbabwe had been in continuous arrears to the PRGT since February 2001. As of the day of repayment, Zimbabwe's arrears to the PRGT amounted to SDR 78.3 million, which comprised overdue PRGT principal of SDR 61.7 million,and total interest obligations of SDR 16.6 million (covering overdue interest and interest accrued through October 20, 2016 on overdue principal and interest amounts). The repayment of SDR 78.3 million has been applied towards the PRGT's Reserve Account.

Effective November 14, 2016, the Executive Board of the International Monetary Fund (IMF) approved the removal of the remedial measures applied to Zimbabwe. These measures had been in place because of Zimbabwe's overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT). These remedial measures related to: (i) the declaration of noncooperation with the IMF(see Press Release No. 02/28); (ii) the suspension of technical assistance (which had already been partially lifted, see Press Release No. 09/152 and Press Release No. 12/405); and (iii) the removal of Zimbabwe from the list of PRGT-eligible countries (see Press Release No. 01/40).

Zimbabwe is now current on all its financial obligations to the IMF. Its eligibility to the PRGT has also been restored.

**Exchange Arrangement**

On February 20, 2019, Zimbabwe introduced a new domestic currency—named the Real Time Gross Settlement (RTGS) dollar—and adopted a de jure floating exchange rate arrangement, previously a "no separate legal tender" arrangement. The Reserve Bank of Zimbabwe (RBZ) denominated legally, through Statutory Instrument (SI) 33 of 2019, the existing RTGS balances, bond notes and coins in circulation as RTGS dollars making them part of the multi-currency system in Zimbabwe. The RTGS dollar was renamed as the Zimbabwean dollar (ZWL$) in June 2019. The de facto exchange rate arrangement was reclassified to stabilized from other managed, effective September 16, 2020.

The authorities have adopted new exchange measures since mid-2020. In June 2020, the authorities introduced a Foreign Exchange Auction Trading System under which auctions are conducted once a week by the RBZ to sell foreign exchange (FX) to eligible market participants.[1] Each market participant may only bid for up to a specified amount of FX in each auction, and large and primary producers are eligible to bid for higher FX amounts.[2] The authorities no longer require commercial banks to sell FX in accordance with a priority list previously in place. However, market participants have reported that successful bids from the auctions may not necessarily be the highest bids, and FX amounts those successful bidders may get would depend on whether such bidders come from the prioritized industries. The authorities also stopped allocating FX directly to businesses, but continue to earmark their the annual, revolving $150 million credit facility at the Afreximbank to finance letters of credit for critical imports.[3]

[1] Supply for the FX auction largely comes from 40 percent of FX earnings that exporters are required to surrender to the authorities. Exporters may retain the remaining 60 percent of FX earnings for their own uses, including paying for domestic suppliers and selling to commercial banks.

[2] FX purchased from the auctions may not be used for settling outstanding or overdue amounts in respect of goods already received or services already rendered unless the authorized dealer received prior approval from the RBZ for such use. In addition, these FX resources may not be used for making advance payments more than 60 days from the delivery of goods or services.

[3] In the context of the 2020 Article IV consultation, the requirement of FX prioritization and direct FX allocation were found to have given rise to exchange restrictions and MCPs.

Several exchange rates are in effect for FX spot transactions in the official markets. Exchange rates applicable to successful bids with each auction may spread beyond a two percent range. The weighted average exchange rate of the successful bids will be the official rate for the week following the auction date. The official rate is used for official transactions (i.e., between the RBZ and the government agencies)
and for the RBZ to purchase FX from exporters under FX surrender requirements. The RBZ may also sell FX to exchange bureaus every Wednesday at the official rate plus a 1.5 percent margin. For FX market transactions, commercial banks may buy or sell FX within the +/- 5 percent band of the official rate, and exchange bureaus may buy or sell FX within the +/- 10 percent band plus the 1.5 percent margin around this official rate.

The authorities' measures have given rise to several exchange restrictions and multiple currency practices (MCPs), inconsistent with Article VIII, Section 2(a), and Section 3, in particular: [4]

a. The rationing of FX sales through weekly RBZ auctions and earmarking of FX to finance letters of credit for certain imports constitute exchange restrictions as these measures limit the availability and use of FX for payments and transfers for current international transactions.[5]
b. The RBZ's sale of FX to successful bidders during weekly auctions at exchange rates that may differ by more than two percent from each other and from exchange rates being used for official transactions, transactions to fulfill the FX surrender requirement or market transactions constitute a multiple currency practice (MCP).
c. The use of the official rate for official transactions and transactions made to fulfill the surrender requirement, while this rate may be different by more than two percent from the market exchange rate also constitutes another MCP.

Zimbabwe has also a longstanding exchange restriction subject to IMF jurisdiction arising from unsettled balances under an inoperative bilateral payment agreement with Malaysia.

## Article IV Consultations

Zimbabwe is on the standard 12–month consultation cycle. The Executive Board discussed the staff report for the 2019 Article IV consultation on February 24, 2020.

[4] Zimbabwe's FX regulatory system continues to be subject to frequent changes, and staff is closely monitoring the situation, including through outreach to market participants.
[5] Staff is conducting further assessment to confirm whether the authorities apply any form of prioritization in allocating FX to successful bidders in the weekly auctions, which would also constitute an exchange restriction.

**Technical Assistance** (since fiscal year 2020, as of December 2021)

| Lead Department | Technical Assistance Area | Mission Purpose | Date of Delivery |
|---|---|---|---|
| FAD | Customs Administration | AFS:Data matching to improve tax compliance (Phase 2) | Dec-21 |
| | | AFS: Coordinated Border Management (Phase II) | Oct-21 |
| | | AFS: Review legal framework for excise administration and reform | Sep-21 |
| | | AFS: Enhance capacity for post clearance audits in customs administration | May-21 |
| | | AFS: Coordinated Border Management (Phase II) | Apr-21 |
| | | AFS: Data Matching to improve tax compliance | Mar-21 |
| | | AFS: Authorized Economic Operator Program: | Feb-21 |
| | | AFS: Risk Management & Intelligence | Jan-21 |
| | | AFS: Coordinated Border Management | Dec-20 |
| | | AFS: Post Clearance Audit | Aug-20 |
| | | AFS: Customs Valuation | Jul-20 |
| | | AFS:Building capacity on Risk Management and Intelligence | Jun-20 |
| | Public Financial Management | Fiscal Reporting | Dec-21 |
| | | Fiscal risks management and preparation of fiscal risk statements | Oct-21 |
| | | Fiscal risks and macro fiscal forecasts | Aug-21 |
| | | PFM law and institutions | Apr-21 |
| | | Budget Preparation - baseline costing | Feb-21 |
| | | SOE fiscal risk management | Oct-20 |
| | | Fiscal Stress Testing | Jun-20 |
| | | AFS Fiscal risks | May-20 |
| | Tax Administration | AFS:Data matching to improve tax compliance (Phase 2) | Dec-21 |
| | | AFS:Strengthen risk management and intelligence | Nov-21 |
| | | AFS: Improve compliance levels in VAT administration via e-fiscal devices | Oct-21 |
| | | AFS: Strengthen tax debt management | Aug-21 |
| | | AFS: Reform management | May-21 |
| | | AFS: Strategic Management | Jan-21 |
| | | AFS: Strategic Management | Nov-20 |
| | | AFS: Strengthening Audit Capacity | Oct-20 |
| | | AFS: Strategic Management | Sep-20 |
| | | AFS: Follow up on Audit of Telecoms | Aug-20 |
| | Tax and Customs Administration | TIN Transition ICT and Registration | Apr-21 |
| | | Reform management | Mar-21 |
| | | ICT Implementation Plan | Jan-21 |
| | | Compliance Risk Management | Dec-20 |
| MCM | Debt Reporting | Legal and institutional framework for debt management - Multi Country Workshop | Nov-21 |
| | | Fundamentals of Debt Reporting - Multi Country Workshop | May-21 |
| | Bank Supervision & Regulations | Enhance capacity for offsite financial risk analysis | Oct-21 |
| | | AFS: Remote Examination Framework | Apr-21 |
| | | Zimbabwe FSSR Follow Up: Basel III Implementation | Nov-20 |
| STA | National Accounts Statistics | AFS: National Accounts review 2019-2020 GDP estimates | Sep-21 |
| | | AFS: National Accounts review 2020 GDP estimates | Jun-21 |
| | | Assist in rebasing national accounts statistics for 2019 | Aug-21 |
| | | AFS: National Accounts COVID | Jul-20 |
| | Money and Banking Statistics | Monetary and Financial Statistics | Mar-21 |
| | Public Sector Debt Statistics | Public Sector Debt Statistics | Apr-21 |

# JOINT MANAGERIAL ACTION PLAN

(As of December 2021)

| Title | Products | Delivery Date |
|---|---|---|
| World Bank work program in next 12 months | **Technical Assistance**<br>• Productivity and Jobs Country Economic Memorandum<br>• Debt management and transparency<br>• Private sector recovery, including of tourism<br>• Financial inclusion<br>• Program-based budgeting<br>• PFM strategy<br>• Sustainable land management practices for enhanced biodiversity and climate resilience<br>• Public Investment Management<br>• Energy Sector – solar PV pipeline, priority investments, national electrification analysis<br>• Transport spatial data analysis including urban mobility and road safety<br>• Human Resources for Health<br>• Education Sector – Human Capital Review<br>• Social Protection and Safety Nets – safety net delivery systems including roll-out of the beneficiary registry and MIS<br>• Implementation of Climate-Smart Agriculture Investment Plan<br>• Poverty Monitoring and Analysis, including distributional impacts of the pandemic<br><br>**Grant financing**<br>• Health Sector Development Support Project<br>• Covid-19 Emergency Response Project<br>• Zimbabwe Idai Recovery Project<br>• Support to Zimbabwe Recovery and Resilience | Ongoing, all |
| World Bank provides to IMF | • Updates on policy reform work: impact of drought and other climatic shocks, assessment of social assistance and basic public service delivery needs, improving the business climate, efficiency, and effectiveness of agriculture spending; PFM and procurement.<br>• Timing, scope, and conclusions of Bank's missions<br>• Update on arrears clearance | Continuous |
| IMF provides to World Bank | • Updates on medium-term macroeconomic framework<br>• Updates on economic discussions<br>• Updates on policy reform work: PFM, tax and financial sector reforms, national accounts, governance<br>• Timing, scope, and conclusions of missions | Continuous |
| Joint products in next 12 months | • DSA for 2022 Article IV consultation | February 2022 |

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: https://financesapp.worldbank.org/en/countries/Zimbabwe
- African Development Bank: https://www.afdb.org/en/countries/southern-africa/zimbabwe

# STATISTICAL ISSUES

As of January 31, 2022

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General:** Data provision has some shortcomings but is broadly adequate for surveillance. Despite the resource constraints, ZIMSTAT usually produces sufficient data to users and largely complies with international standards, but the reintroduction of the Zimbabwe dollar has caused some inevitable delays inthe publication of national account statistics that the authorities, with external support, have an action plan to remedy. |
| **National Accounts:** ZIMSTAT has made progress in following the 2008 *System of National Accounts (SNA)* guidelines. It intends to expand the scope of national accounts statistics including through the compilation of quarterly national accounts. Staff resources remain insufficient to achieve these objectives.<br><br>ZIMSTAT is under a heavy workload, and it continues to work, with the assistance of IMF and World Bank, to redenominate and rebase its national accounts statistics. Redenominating national accounts from the US dollar back to the reintroduced Zimbabwe dollar and rebasing to a more recent year will require extensive resources and additional data, particularly for outturns from 2019 that will be essential as the first year of ZWL$-based transaction data. This has not been completed mainly due to capacity constraints during the pandemic and data inaccuracies.<br><br>Zimbabwe is also making important strides in improving the timeliness of its data and is expanding its available data to include more real time indicators. Currently it is working on quarterly GDP statistics. The authorities are undertaking the Poverty, Income, Consumption and Expenditure Survey (PICES) 2017. The survey will provide data on income distribution, consumption level, private consumption, and living conditions of the population, CPI weights, production account of agriculture and poverty mapping. |
| **Price Statistics:** CPI compilation methods are generally of good quality. A recent IMF TA mission reviewed CPI methods and sampling techniques and noted the challenges of developing price statistics in a multi-currency and high inflation environment. In 2019, ZIMSTAT rebased their CPI (Feb 2019 = 100) and updated the CPI weights and basket. A TA mission to assist with the producer price index for agriculture noted areas for improvement. |
| **Government Finance Statistics:** The Ministry of Finance and Economic Development (MoFED) collects data on revenue, expenditure, and financing for the budgetary central government (BCG). These are published on amonthly basis on its website in the consolidated financial statements and budget outturns, along with the Treasury Quarterly Bulletin. The MoFED reports annual Government Finance Statistics (GFS) consistent with the Government Finance Statistics Manual (GFSM) 2014 to the IMF's Statistics Department (STA)—latest data reported was 2018. However, data dissemination is limited to transactions and does not include expenditure by Classification of Functions of Government (COFOG) or stock positions in financial assets and liabilities. While data for the BCG have improved, efforts are required to improve the timeliness, frequency, and coverage of GFS. |

| |
|---|
| **Monetary and Financial Statistics (MFS):** The RBZ began reporting MFS to the Fund using the Standardized Report Forms (SRFs) in late 2015. With technical assistance from STA, the data were approvedfor publication in *International Financial Statistics (IFS)* in May 2018. Consultations are ongoing with STA onclassifications of certain line items, particularly the distinction between national currency and foreign currency denominated assets and liabilities following the end of the multi-currency regime. Zimbabwe doesnot currently compile data for Other Financial Corporations (OFCs), which are a significant part of the country's financial system. Zimbabwe is in the process of compiling OFC data following the 2021 TA mission on the subject.<br><br>The RBZ reports data on several indicators of the Financial Access Survey (FAS) including the two indicators(commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). |
| **Financial sector surveillance:** Zimbabwe does not currently report Financial Soundness Indicators (FSIs) to the Fund for dissemination on the Fund's external website. The RBZ is advanced in the compilation of the FSIs but needs to finalize the action plan related to the submission of the FSI data and metadata to the IMF for external dissemination. |
| **External Sector Statistics:** The RBZ migrated from the *Balance of Payments Manual*, fourth edition, (*BPM4*) to the *Balance of Payments and International Investment Position*, sixth edition, (*BPM6*) in December 2016 and has since submitted only balance of payments data to STA in accordance with *BPM6*)—latest data reported was 2020. The RBZ does not report International Investment Position (IIP), coordinated direct investment survey (CDIS), and coordinatedportfolio investment survey data (CPIS) data to the IMF. the RBZ does not report quarterly external sector data (QEDS) to the Work Bank debt database. In the data reported, there remain gaps particularly on the financial accounts, especially reinvested earnings and trade credit.<br><br>In the past, the RBZ has received technical assistance (TA) from the IMF and the UK's Department for International Development (DFID)'s Enhanced Data Dissemination Initiative 2 (EDDI-2), Project Module 1 aimed at strengthening compilation of external sector statistics (ESS). The most recent ESS TA assisted the authorities on approaches to increase the response rate to the quarterly Foreign Private Capital survey for direct investment data and in developing a preliminary database on IIP. A TA mission is planned for April 2022.<br><br>The RBZ has made progress on the compilation of IIP with the assistance of the IMF under EDDI-2. There is however missing stock data on FDI and portfolio investments, which hinders the preparation of a full IIP statement that meets publishable standards. The missing information will be obtained from the Foreign Private Capital Survey. However, the survey has been paused due to the COVID-19 pandemic. |
| **II. Data Standards and Quality** |
| Zimbabwe participates in the Enhanced General Data Dissemination System (e-GDDS) but has not established a National Summary Data Page (data portal for the dissemination of official data under the e-GDDS). The e-GDDS metadata on the IMF DSBB site were last updated in May 2013.<br>No data ROSC is available. |

## Table 1. Zimbabwe: Common Indicators Required for Surveillance

(As of January 31, 2022)

| | Date of latest observation | Date received | Frequency of data[1] | Frequency of reporting[1] | Frequency of publication[1] |
|---|---|---|---|---|---|
| Exchange rates[2] | Jan. 31, 2022 | Jan. 31, 2022 | D | D | D |
| International reserve assets and reserve liabilities of the monetary authorities[3] | Sep. 2021 | Nov. 2021 | M | M | M |
| Reserve/base money | Dec. 2021 | Jan. 2022 | M | M | M |
| Broad money | Sep. 2021 | Nov. 2021 | M | M | M |
| Central bank balance sheet | Sep. 2021 | Nov. 2021 | M | M | M |
| Consolidated balance sheet of the banking system | Sep. 2021 | Nov. 2021 | M | M | M |
| Interest rates[4] | Sep. 2021 | Nov. 2021 | M | M | M |
| Consumer price index | Jan. 2022 | Jan. 2022 | M | M | M |
| Revenue, expenditure, balance, and composition of financing[5]—General government[6] | NA | NA | NA | NA | NA |
| Revenue, expenditure, balance, and composition of financing[5]—Central government | Sep. 2021 | Nov. 2021 | M | M | M |
| Stocks of central government and central government-guaranteed debt[7] | Jul. 2021 | Nov. 2021 | Q | I | A |
| External current account balance | Q3 2021 | Nov. 2021 | A | I | I |
| External capital and financial account | Q3 2021 | Nov. 2021 | Q | I | I |
| Exports and imports of goods | Q3 2021 | Nov. 2021 | M | I | I |
| GDP/GNP | 2020 | Oct. 2021 | A | A | A |
| Gross external debt | Sep. 2021 | Nov. 2021 | A | I | I |
| International investment position | NA | NA | NA | NA | NA |

1 Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

2 The Zimbabwe dollar is no longer traded against foreign currencies on the exchange market.

3 Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-termliabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

4 Both market-based and officially determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

5 Foreign, domestic bank, and domestic nonbank financing.

6 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) andstate and local governments.

7 Including currency and maturity composition.

INTERNATIONAL MONETARY FUND

# ZIMBABWE

March 2, 2022

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved by
**Vitaliy Kramarenko and Anna Ilyina (IMF) and Marcello Estevão and Asad Alam (IDA)**

The Debt Sustainability Analysis (DSA) has been prepared jointly by the staff of the International Monetary Fund (IMF) and International Development Association (IDA), in consultation with the authorities, using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

| | |
|---|---|
| **Risk of external debt distress** | In debt distress |
| **Overall risk of debt distress** | In debt distress |
| **Granularity in the risk rating** | Unsustainable |
| **Application of judgement** | No |

*Zimbabwe is classified as "in debt distress", with unsustainable public and publicly guaranteed (PPG) external and total debt and large external arrears.[1] External and total public debt breach the thresholds in both the baseline and shock scenarios. Moreover, Zimbabwe has large and longstanding external arrears to IFIs and official creditors. Domestic debt declined as a share of GDP since the introduction of the ZWL$ in 2019 due to high levels of inflation. Restoring debt sustainability requires the continuous implementation of prudent fiscal policy, cessation of quasi-fiscal activities that have led to debt increases, structural and governance reforms to set growth on a sustainable path, as well as reaching agreement with creditors on a comprehensive treatment of Zimbabwe's external debt and arrears. The authorities broadly concurred with staff's assessment in the DSA and were confident that the envisaged reengagement with the international community would help restore debt sustainability.*

[1] Based on the October 2021 WEO and the World Bank's 2020 CPIA, Zimbabwe's Composite Indicator (CI) index is calculated at 2.03, indicating that the county's debt-carrying capacity is 'weak', which is the same classification as under the previous DSA.

# BACKGROUND ON DEBT

1. **Zimbabwe's external public debt has increased since the last published DSA (2019 Article IV).** While the fiscal deficit has declined over 2019-2020, increased debt at end-2020 reflects primarily the Reserve Bank of Zimbabwe's (RBZ) borrowing, part of which was used for quasi-fiscal activities, and new unfunded liabilities from a farmers' compensation agreement (see below).[2] Domestic debt declined in real terms[3] and as a percentage of GDP reflecting a sharp rise in inflation since the introduction of the ZWL$ in 2019. External debt is dominated by official creditors—both bilateral and multilateral—with the bulk of debt in arrears. Text Table 1 provides an overview of debt outstanding and disbursed (DoD) and accumulated arrears at end-2020.[4] In 2021, the central government received disbursements for several external loans from bilateral and multilateral creditors, mainly for infrastructure projects.[5]

**Text Table 1. Zimbabwe: Public and Publicly Guaranteed Debt[1/]**

| | DOD | Arrears 2/ | Total | % of GDP 3/ |
|---|---|---|---|---|
| | *US$ million; as of end-2020* | | | |
| | *US$ million* | | | |
| **External Debt** | **4,463** | **10,022** | **14,485** | **106.6** |
| Bilateral Creditors | 1,462 | 4,363 | 5,824 | 42.9 |
| Paris Club | 152 | 3,630 | 3,782 | 27.8 |
| Non Paris Club 4/ | 1,310 | 732 | 2,042 | 15.0 |
| Multilateral Creditors | 2,096 | 2,409 | 4,506 | 33.2 |
| World Bank | 182 | 1,342 | 1,525 | 11.2 |
| African Development Bank | 30 | 699 | 729 | 5.4 |
| European Investment Bank | 16 | 339 | 356 | 2.6 |
| Afreximbank | 1,276 | 0 | 1,276 | 9.4 |
| Others | 591 | 29 | 621 | 4.6 |
| Commercial Creditors | 905 | 0 | 905 | 6.7 |
| Farmers' compensation 5/ | - | 3,250 | 3,250 | 23.9 |
| | *ZWL$ million; as of end-2020* | | | |
| **Domestic Debt 6/** | **33,555** | **1,600** | **35,155** | **3.2** |
| Government Bonds | 13,897 | - | 13,897 | 1.3 |
| RBZ Loans | 19,658 | - | 19,658 | 1.8 |
| Domestic Arrears | - | 1,600 | 1,600 | 0.1 |

Source: Zimbabwean authorities and IMF staff calculations.

1/ As reported by the Zimbabwean authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as in the DSA.

2/ In the authorities accounting, arrears are calculated as a cumulative flow of missed payments (principal and interest) and penalties on outstanding debt. The remaining debt on loans in arrears is treated as performing and enters in column "DOD" above. When a new payment comes due and is missed, the "performing debt stock" (which includes outstanding amounts of loans that are not being serviced) is reduced by the principal and the cumulative flow of arrears is increased by the amount of principal, interest and penalties.

3/ Percent of 2020 nominal GDP in ZWL$ based on the DSA, which does not take into account the conversion factor applied to national account statistics.

4/ Includes US$299 mn assumed by the MoF from the RBZ. Full reconciliation between RBZ and MoF debt is ongoing and might lower this position.

5/ In the absence of financing and detailed information about the residency of the holders of the farmers' compensation claims, US$3.25 billion is tentatively recorded as external arrears for the purposes of this analysis. As the classification of debt into domestic and external is based on the residency principle, this categorization will be reviewed once detailed information becomes available.

6/ Domestic debt is unconsolidated domestic debt of the central government.

[2] In this DSA, external debt is defined on a residency basis.

[3] Inflation stood at 349 percent (y/y) at end-2020.

[4] As per standard practice, the DSA is undertaken on the basis of the official exchange rate, which reflects the cost of accessing foreign exchange by the government. This generates a discrepancy between debt-to-GDP ratios (and ratios of some other variables to GDP) in the DSA and the rest of the macroeconomic framework because the latter is based on national accounts statistics. National accounts statistics use a conversion factor to convert US$ GDP to ZWL$ GDP taking into account developments in both the official and parallel market exchange rates given that the deflator is heavily influenced by both. The conversion factor is not reflected in the DSA which calculates ZWL$ GDP by multiplying US$ GDP with the official exchange rate.

[5] The creditors for these loans are BADEA, China Exim Bank, IFAD, India Exim Bank, Kuwait, and OFID.

**2. A Global Compensation Deed between former farm owners and the government has created a large unfunded liability.** In the early 2000s, a challenging process was triggered on land reform with the issuance of a presidential decree to amend the Land Acquisition Act and allow the government to assume immediate ownership of land targeted for acquisition and issue orders for owners to vacate farms. Starting in the early 2010s, the government recognized the need to find a durable solution to land tenure security, though progress on this front had been slow. In July 2020, the government and former farm owners reached agreement over a global compensation for land improvements of US$3.5 billion. The agreement envisaged a 50 percent down payment within 12 months and full payment over a period of 48 months thereafter. Subsequently, the government deferred the down payment for one year, until end-July 2022. The government paid US$0.25 billion towards the compensation by providing shares in a mining company to displaced farmers. The remainder of the compensation—about US$3.25 billion—remains unfunded. Securing financing for the compensation is constrained by Zimbabwe's lack of market access. In April 2021, the government appointed a financial advisory firm to identify possible financing instruments and funding options and expects a report on financing options by mid-2022. In the absence of financing, the unfunded US$-denominated liabilities from the farmers' compensation agreement have been incorporated under external arrears as of end-2020 for the purpose of the DSA.[6]

**3. Another unfunded liability arises from commitments by the RBZ to fully compensate some stakeholders for losses relating to currency reform.** Following the currency conversion in early 2019, the RBZ announced that it would compensate stakeholders for losses on cash flows generated in Zimbabwe that could not be repatriated due to FX shortages, currently estimated at US$2.5 billion. The transfer of these losses—known as "blocked funds" or "legacy debt"—from the RBZ and the private sector to the central government was approved by Parliament in December 2021. The government intends to settle these liabilities through the issuance of long-term US dollar-denominated government bonds. In the absence of an agreed repayment schedule and financing, US$2.5 bn of central government obligations stemming from blocked funds is treated as external arrears for the purposes of the DSA as of end-2021.[7] Bank and Fund staff have recommended engaging an external audit firm to validate the blocked funds transferred to the central government.

**4. Zimbabwe has protracted arrears on external debt to bilateral and multilateral creditors, which have cut off access to official financing.** The authorities have expressed a renewed commitment to reengagement with the international community and have resumed token payments to IFIs and Paris Club creditors in 2021.

---

[6] In the absence of financing and detailed information about the residency of the holders of the farmers' compensation claims, the full amount of US$3.25 billion is tentatively recorded as external arrears for the purposes of this analysis. As the classification of debt into domestic and external is based on the residency principle, this categorization will be reviewed once detailed information becomes available.

[7] The farmers' compensation and blocked funds were included as a customized scenario in the 2019 Article IV DSA.

# PUBLIC DEBT COVERAGE

5. **Public debt coverage includes external and domestic obligations of the central government, central bank, and some state-owned enterprises (SOEs)** (Text Table 2).[8] The authorities are improving the monitoring of SOEs' balance sheets, incomes, and debt levels though data availability remains limited. IMF technical assistance (TA) recommended that more comprehensive data are needed for guarantees extended by the government to other public sector entities, and that the authorities revive a tracking system of 'from whom-to-whom' to get a database that would facilitate clearing intra-government cross public sector institution arrears. However, progress has been limited due to the COVID-19-related restrictions and lockdown. In 2019, led by the State Enterprises Restructuring Agency (SERA), the government adopted a policy for a broad overhaul of the SOE sector, including privatizations, mergers, and requiring a standardized set of reporting from all SOEs to the Ministry of Finance and Accountant General. While domestic arrears[9] of the central government to non-governmental entities are small (ZWL$1,600 million; 0.1 percent of GDP), this does not reflect a comprehensive review of all domestic non-governmental arrears (e.g., it excludes accounts payable) and, more importantly, significant cross-debts within the public sector.

6. **The DSA includes a combined contingent liability stress test aimed at capturing the public sector's exposure to SOEs, PPPs, and a financial market shock.** In particular, the stress test incorporates the following shocks (Text Table 2):

- 5.9 percent of GDP to reflect limited data availability on the coverage of domestic SOE debt and external arrears to foreign electricity providers;
- 4.1 percent of GDP to capture Public Private Partnerships (PPP);
- 5 percent of GDP for a financial market shock.

The DSA assumes that 60 percent of the additional financing needs resulting from the stress test is met with external medium-and long-term borrowing whereas the remainder is met with domestic borrowing.

[8] The authorities confirmed that their debt statistics cover SOE guaranteed external debt and that SOEs do not have non-guaranteed external debt (except for external payment arrears to electricity providers which are included in contingent liabilities). Coverage of SOE domestic debt remains incomplete. The authorities are in the process of gathering further information and plan to widen domestic debt coverage by end-2022.
[9] Included in the baseline.

**Text Table 2. Zimbabwe: Public Debt Coverage**

**Public debt coverage**

| | Subsectors of the public sector | Sub-sectors covered |
|---|---|---|
| 1 | Central government | X |
| 2 | State and local government | |
| 3 | Other elements in the general government | |
| 4 | o/w: Social security fund | |
| 5 | o/w: Extra budgetary funds (EBFs) | |
| 6 | Guarantees (to other entities in the public and private sector, including to SOEs) | X |
| 7 | Central bank (borrowed on behalf of the government) | X |
| 8 | Non-guaranteed SOE debt | X |

**Public debt coverage and the magnitude of the contingent liability tailored stress test**

| | | | | |
|---|---|---|---|---|
| 1 | **The country's coverage of public debt** | The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt | | |
| | | **Default** | | **Used for the analysis** |
| 2 | Other elements of the general government not captured in 1. | 0 | percent of GDP | 0.0 |
| 3 | SoE's debt (guaranteed and not guaranteed by the government) 1/ | 2 | percent of GDP | 5.9 |
| 4 | PPP | 35 | percent of PPP stock | 4.1 |
| 5 | Financial market (the default value of 5 percent of GDP is the minimum value) | 5 | percent of GDP | 5.0 |
| | Total (2+3+4+5) (in percent of GDP) | | | 15.0 |

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

# BACKGROUND ON MACROECONOMIC FORECASTS

7. **Exceptionally large changes to the macroeconomic environment since the last DSA, including the adoption of the ZWL$, a sharp increase in inflation, and a severe recession in 2019-20, led to sizeable revisions of several assumptions underpinning the DSA** (Text Table 3)**.** Changes to growth projections are driven by the impact of the pandemic and subsequent recovery. The current account turned from a projected deficit in the previous DSA to a surplus in the current macroeconomic framework due to a severe import compression reflecting multiple factors, including FX restrictions by the RBZ and the significant income decline reflecting both a sharp currency depreciation and large economic recession. Also, remittances rose sharply during the pandemic. Differences in revenues and grants between previous and current projections primarily reflect the significantly higher inflation and changes to national accounts statistics. The revenue ratios shown in the current DSA are also higher than the ones reported in the accompanying IMF Article IV report (see memorandum item in Text Table 3) due to the use of a different conversion factor to convert US$ GDP to ZWL$ GDP, as explained in footnote 4.

8. **It is unclear how the ongoing work to update the national accounts statistics would alter Zimbabwe's outlook.** In view of the introduction of the Zimbabwe dollar by the authorities in 2019, the statistical agency (ZIMSTAT) needs to recompile national accounts statistics in the new local currency. ZIMSTAT is making progress on the work of rebasing and redenominating its national accounts statistics. Once completed, a revised set of historical national accounts statistics would be produced. The IMF and World Bank have provided extensive TA to support ZIMSTAT in its work. In the interim, the authorities and staff continue to collaborate on a set of mutually discussed historical national accounts statistics

**Text Table 3. Zimbabwe: Selected Macroeconomic Assumptions**

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|
| Real GDP (growth) | | | | | | | | | |
| Current DSA | 4.7 | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 | 3.1 | 3.1 | 3.1 |
| Previous DSA (Feb 2020) | 3.5 | -8.3 | 0.8 | 2.5 | 2.5 | 2.2 | 2.2 | 2.2 | 2.2 |
| Revenues and grants (percent of GDP) | | | | | | | | | |
| Current DSA | 23.2 | 12.5 | 16.5 | 23.2 | 25.3 | 27.1 | 26.8 | 25.6 | 24.1 |
| Previous DSA (Feb 2020) | 8.7 | 11.9 | 11.3 | 10.7 | 10.6 | 10.7 | 10.4 | | |
| Non-interest current account (percent of GDP) | | | | | | | | | |
| Current DSA | -5.3 | 4.5 | 5.2 | 6.3 | 4.7 | 2.7 | 1.7 | 0.5 | -0.7 |
| Previous DSA (Feb 2020) | -5.0 | 1.2 | -0.4 | -0.7 | -0.6 | -1.6 | -1.5 | | |
| Exports of goods and services (growth) | | | | | | | | | |
| Current DSA | 11.6 | 1.7 | -0.1 | 22.5 | 2.5 | 3.2 | 3.1 | 3.0 | 3.0 |
| Previous DSA (Feb 2020) | 12.1 | -12.6 | 8.7 | 3.5 | 4.5 | 6.0 | 6.0 | | |
| Memorandum item | | | | | | | | | |
| Revenues and grants (percent of GDP) as reported in the accompanying IMF Artivle IV report | 14.9 | 12.3 | 15.4 | 17.2 | 17.0 | 17.0 | 17.0 | 17.0 | 17.0 |

Source: Zimbabwean authorities and IMF staff estimates.

**9. The economy contracted sharply during 2019-20, but a strong rebound resumed in 2021 amid the gradual disinflation.** Real GDP declined by a cumulative 11.7 percent during 2019-20, reflecting the COVID-19 pandemic, Cyclone Idai, a protracted severe drought, and policy missteps in 2019. While the 2019 Staff Monitored Program elapsed without a review due to policy slippages, a tighter policy stance since mid-2020 (relative to 2019) has contributed to reducing inflation. The relaxation of COVID-19 restrictions, strong vaccination effort, and progress in implementing the National Development Strategy (NDS) are supporting a strong economic rebound. Real GDP is estimated to have grown by 6.3 percent in 2021, reflecting a bumper harvest, improved capacity utilization of industry, and a strong resumption of construction. Inflation which had declined to 50 percent (y/y) by August 2021 (from 838 percent in July 2020) rose again to about 61 percent by end-2021, reflecting continued currency pressures. The RBZ further tightened monetary policy in October 2021 in an effort to ease price pressures.

**10. Investment and growth will remain sluggish over the medium term with growth converging to its potential.** The baseline (Text Table 4) projects real GDP growth at 3½ percent in 2022 and about 3 percent per year over the medium term in line with its potential. Key constraints to faster growth include structural bottlenecks, limited fiscal space to boost priority spending to enhance human and physical capital, and the debt overhang. In addition, delays in the official exchange rate catching up with fundamentals, along with a weak business climate and governance, adversely affect competitiveness. Over the long term, as implementation of the NDS bears fruit, domestic and foreign investment are expected to gradually strengthen, supporting a steady growth path. The current account balance is likely to gradually turn into deficit as imports pick up and remittances gradually decline to their pre-pandemic level. In light of domestic and external financing constraints under the baseline, the fiscal balance is projected to remain moderate in the long term.

**11. Reserves' coverage increased in 2021, reflecting the general SDR allocation equivalent to US$963 million (4.4 percent of 2020 GDP) to Zimbabwe.** As of end-2021, the authorities used US$244 million (out of a US$281 million drawdown) for investments in health and social protection as well as infrastructure developments. Further drawdowns of US$176 million are planned in 2022 for investment in health and social protection, infrastructure development, and support of the agricultural and industrial sectors. The baseline scenario assumes that the remainder of the SDR allocation remains in FX reserves. The DSA incorporates the planned drawdowns and the associated interest rate payments.

**Text Table 4. Zimbabwe: Macroeconomic Framework, 2019-26**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|
| Real GDP growth (%) | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 | 3.1 | 3.1 | 3.1 |
| Inflation, average (%) | 255.3 | 557.2 | 98.5 | 56.4 | 46.3 | 35.5 | 23.3 | 13.9 |
| Inflation, e.o.p. (%) | 521.1 | 348.6 | 60.7 | 55.0 | 42.0 | 30.0 | 20.0 | 11.0 |
| Overall fiscal balance (% of GDP) | -1.3 | 0.5 | -1.5 | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 |
| Current acccount (% of GDP) | 4.1 | 5.1 | 4.8 | 3.3 | 1.5 | 0.6 | -0.5 | -1.6 |
| FDI (% of GDP) | 1.1 | 0.7 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 |
| Reserves (months of imports) | 0.3 | 0.1 | 1.3 | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 |

Source: Zimbabwean authorities; IMF staff estimates.

**12. The baseline scenario assumes that the authorities will continue to access some external borrowing.** Financing assumptions reflect the RBZ's continued ability to borrow from Afreximbank, although at elevated interest rates, and government borrowing from non-Paris Club creditors**.** In the absence of international reengagement and debt relief, required financing as per the DSA may not be expected to be fully met.

**13. Risks to the baseline scenario are tilted to the downside.** The pace of economic recovery is dependent on the evolution of the COVID-19 pandemic. Climate-related events, such as drought or flooding, could lower production. Policy slippages (e.g., expanding inefficient agricultural support programs[10], bail out of SOEs, and increased quasi-fiscal spending) including in the run-up to the 2023 elections, could exacerbate debt sustainability concerns. Commodity price volatility would adversely affect the external position and global inflation risks could compound domestic price pressures. There are also uncertainties over the pace of inflation deceleration and the timeline on updated official national accounts statistics. An upside potential includes a successful resolution to Zimbabwe's unsustainable debt situation that would be followed by normalization of international reengagement and a more favorable investment-growth path.

**14. The realism and forecast error tools highlight the assumptions of delayed progress on arrears clearance, debt resolution, limited access to external finance, and low investment** (Figures 1 and 2). The low implied fiscal multiplier in the baseline arises as the model does not capture adequately the effects of the recovery from exogenous shocks in 2019 and 2020 (a cyclone, a

[10] Government support to agriculture, including quasi-fiscal operations, led to macroeconomic dislocations in the past, contributing to higher fiscal deficits and public debt. The financing model has been changed since 2019 with government providing agriculture input support to vulnerable households and bank guarantees to commercial farmers. While the new financing model reduced direct budget support, actual allocations to agriculture have often exceeded the budgeted amounts.

protracted drought, and the COVID-19 pandemic). The rebound in 2021 is driven by a bumper harvest and recovery from the pandemic. Differences in debt-to-GDP ratios between the current and the previous DSA, reflect changes to key macroeconomic series, notably GDP and the exchange rate, as well as additional arrears accumulation due to the transfer of blocked funds and the farmers' compensation.

# COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

15. **Zimbabwe's current debt-carrying capacity is classified as 'weak' according to the methodology employed in the revised DSF Framework (2017).** The country's Composite Indicator (CI)[11] index is 2.03. The relevant indicative debt thresholds for this category are shown in Text Table 5.

**Text Table 5. Zimbabwe: Composite Indicator and Sustainability Thresholds**

Debt carrying capacity and thresholds

| | |
|---|---|
| Country | Zimbabwe |
| Country Code | 698 |
| Debt Carrying Capacity | Weak |

| Final | Classification based on current vintage | Classification based on the previous vintage | Classification based on the two previous vintage |
|---|---|---|---|
| Weak | Weak | Weak | Weak |
| | 2.03 | 1.77 | 1.81 |

Calculation of the CI Index

| Components | Coefficients (A) | 10-year average values (B) | CI Score components (A*B) = (C) | Contribution of components |
|---|---|---|---|---|
| CPIA | 0.385 | 2.918 | 1.12 | 55% |
| Real growth rate (in percent) | 2.719 | 1.738 | 0.05 | 2% |
| Import coverage of reserves (in percent) | 4.052 | 9.573 | 0.39 | 19% |
| Import coverage of reserves^2 (in percent) | -3.990 | 0.916 | -0.04 | -2% |
| Remittances (in percent) | 2.022 | 4.090 | 0.08 | 4% |
| World economic growth (in percent) | 13.520 | 3.137 | 0.42 | 21% |
| CI Score | | | 2.03 | 100% |
| CI rating | | | Weak | |

Applicable thresholds

| EXTERNAL debt burden thresholds | Weak |
|---|---|
| PV of debt in % of | |
| Exports | 140 |
| GDP | 30 |
| Debt service in % of | |
| Exports | 10 |
| Revenue | 14 |
| TOTAL public debt benchmark | |
| PV of total public debt in % of GDP | 35 |

[11] To capture the various factors affecting a country's debt carrying capacity, the DSF uses a CI. The CI captures the impact of the several factors through a weighted average of the World Bank's CPIA score, the country's real GDP growth, remittances, international reserves, and world growth.

# DEBT SUSTAINABILITY AND RISK RATING

## A. External Debt Sustainability Analysis

**16. Zimbabwe is faced with high public and publicly guaranteed external debt burden indicators and external debt overhang.** External public and publicly guaranteed (PPG) debt indicators breach the policy-relevant thresholds over the forecast period under the baseline and the stress tests (Figure 3). The PV of the external debt-to-GDP ratio is above the 30 percent threshold until the end of the projection horizon under the baseline and the stress tests. While debt service ratios fall below the threshold during the projection period, the debt service indicators are not reliable measures of debt burden for Zimbabwe given that the bulk of external debt is in arrears and given that in the absence of financing and an agreed repayment schedule for blocked funds and farmers' compensation the DSA does not capture the servicing of a large share of public debt. The stress tests with the most severe impact relate to the one-time depreciation shock for the PV of debt-to-GDP ratio and to the exports shock for the PV of debt-to-exports ratio and the debt service ratios.

**17. Exiting the debt overhang would require sustained strong growth, access to concessional financing, and debt relief**. While the authorities have prepared a debt resolution strategy and resumed token payments to external creditors, a complete picture of the specific timeline and modalities of this plan are yet to be finalized.

**18. These outturns, together with the existence of substantial external arrears, support the determination that Zimbabwe is in external debt distress**.

## B. Public Sector Debt Sustainability Analysis

**19. Total public debt burden indicators are high.** Despite the decline in the domestic debt burden in real terms since the last DSA owing to the sharp rise in inflation, total public debt remains above the indicative threshold of 35 percent of GDP (PV terms) under both the baseline and the stress tests. Even with fiscal consolidation, the amount of public debt will carry a heavy burden on Zimbabwe.

**20. Domestic and external debt obligations and large external arrears support the assessment that the Zimbabwean government is in debt distress**.

# RESTORING DEBT SUSTAINABILITY

**21. The implementation of both prudent macroeconomic policies and the authorities' plan to reach agreements with creditors for comprehensive debt restructuring can help restore debt sustainability**. Restoring debt sustainability requires the sustained implementation of prudent monetary, exchange rate, and fiscal policies, cessation of quasi-fiscal activities that lead to debt increases, structural reforms to set growth on a sustainable path, as well as agreement with creditors on a comprehensive debt restructuring plan.

# CONCLUSION

**22. Zimbabwe is in debt distress.** The external debt burden is excessive and the country is incurring external arrears. While the real value of domestic debt has fallen significantly given the high inflation, plans to settle unfunded liabilities related to blocked funds and a compensation agreement for displaced farmers, aggravate the debt situation.

**23. Implementation of a comprehensive reform strategy, accompanied by debt resolution, is critical for Zimbabwe to emerge from its current difficulties.** Greater official exchange rate flexibility and prudent fiscal and monetary polices are necessary, as are bold structural and governance reforms to restore growth and attract investment. External support and debt relief from the international community would also be necessary to address Zimbabwe's debt overhang and development needs.

# AUTHORITIES' VIEWS

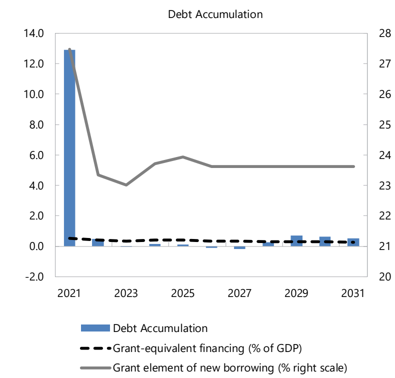
**24.** The authorities broadly concurred with staff's assessment in the DSA. They were confident that their envisaged reengagement with the international community would help to restore debt sustainability. They explained that the farmers' compensation would be treated as domestic US$-denominated debt. The authorities also noted that, in the absence of a comprehensive arrears clearance strategy, Zimbabwe's debt position would remain in debt distress. To this end, the authorities have formulated an Arrears Clearance, Debt Relief, and Restructuring Strategy. The Strategy explores possible debt relief options under both HIPC and non-HIPC scenarios, whereby participating in the HIPC Initiative would allow the authorities to benefit from maximum debt relief. Should the HIPC Initiative not be viable, they plan to resort to a combination of own resources and bridge concessional financing for the clearance of external arrears. To show their commitment to the resolution of the country's external arrears, the authorities have resumed token payments to IFIs and 16 Paris Club creditors.

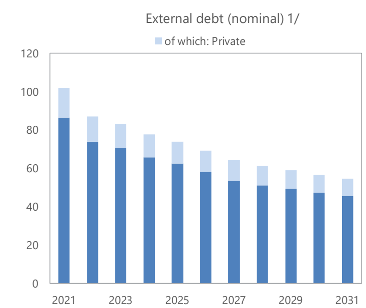
## Table 1. Zimbabwe: External Debt Sustainability Framework, Baseline Scenario, 2018–41

(In percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 8/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2031 | 2041 | Historical | Projections |
| **External debt (nominal) 1/** | 56.8 | 105.3 | 124.2 | 101.9 | 87.0 | 83.2 | 77.8 | 74.1 | 69.4 | 54.7 | 35.8 | 65.4 | 71.8 |
| ***of which: public and publicly guaranteed (PPG)*** | 40.1 | 87.5 | 106.6 | 86.6 | 73.8 | 70.6 | 65.7 | 62.4 | 58.2 | 45.7 | 30.1 | 50.5 | 60.4 |
| Change in external debt | -1.0 | 48.5 | 19.0 | -22.4 | -14.9 | -3.8 | -5.4 | -3.8 | -4.7 | -2.1 | -1.7 | | |
| **Identified net debt-creating flows** | -1.1 | -2.5 | -1.3 | -12.3 | -7.0 | -4.6 | -3.7 | -2.6 | -1.5 | -1.2 | -0.7 | 2.3 | -3.5 |
| **Non-interest current account deficit** | 5.3 | -4.5 | -5.2 | -6.3 | -4.7 | -2.7 | -1.7 | -0.5 | 0.7 | 0.6 | 0.8 | 6.1 | -1.1 |
| Deficit in balance of goods and services | 10.4 | 0.6 | 1.0 | 1.3 | 2.0 | 2.8 | 3.5 | 4.4 | 5.3 | 4.9 | 4.2 | 14.3 | 4.1 |
| Exports | 21.9 | 23.3 | 24.3 | 26.7 | 25.0 | 24.4 | 23.9 | 23.3 | 22.8 | 20.0 | 15.5 | | |
| Imports | 32.3 | 23.9 | 25.3 | 28.1 | 27.0 | 27.1 | 27.4 | 27.8 | 28.1 | 24.9 | 19.6 | | |
| Net current transfers (negative = inflow) | -5.9 | -6.2 | -8.3 | -8.7 | -7.6 | -6.5 | -6.3 | -6.0 | -5.8 | -5.4 | -4.2 | -9.2 | -6.3 |
| *of which: official* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other current account flows (negative = net inflow) | 0.8 | 1.1 | 2.0 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 | 1.2 | 1.1 | 0.9 | 1.0 | 1.1 |
| **Net FDI (negative = inflow)** | -3.0 | -1.1 | -0.7 | -0.4 | -0.5 | -0.6 | -0.7 | -0.8 | -0.9 | -0.8 | -0.7 | -1.9 | -0.8 |
| **Endogenous debt dynamics 2/** | -3.4 | 3.1 | 4.7 | -5.6 | -1.8 | -1.2 | -1.3 | -1.3 | -1.2 | -1.0 | -0.8 | | |
| Contribution from nominal interest rate | 0.5 | 0.4 | 0.2 | 1.5 | 1.4 | 1.3 | 1.1 | 1.0 | 1.0 | 0.6 | 0.2 | | |
| Contribution from real GDP growth | -2.5 | 3.7 | 5.8 | -7.1 | -3.2 | -2.5 | -2.4 | -2.3 | -2.2 | -1.6 | -1.1 | | |
| Contribution from price and exchange rate changes | -1.4 | -1.0 | -1.3 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Residual 3/** | 0.2 | 51.0 | 20.2 | -10.1 | -7.9 | 0.8 | -1.7 | -1.2 | -3.2 | -0.9 | -1.0 | 4.6 | -2.8 |
| *of which: exceptional financing* | -2.3 | -0.9 | -1.7 | -0.8 | -0.7 | -0.7 | -0.6 | -0.6 | -0.5 | 0.0 | 0.0 | | |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of PPG external debt-to-GDP ratio** | ... | ... | 69.5 | 74.1 | 68.1 | 64.3 | 61.2 | 58.2 | 55.1 | 43.9 | 28.6 | | |
| **PV of PPG external debt-to-exports ratio** | ... | ... | 286.4 | 277.1 | 272.2 | 263.6 | 256.2 | 249.3 | 241.6 | 219.1 | 184.9 | | |
| **PPG debt service-to-exports ratio** | 12.7 | 10.7 | 8.5 | 10.0 | 11.9 | 11.4 | 10.9 | 10.9 | 11.0 | 6.2 | 5.7 | | |
| **PPG debt service-to-revenue ratio** | 12.0 | 20.0 | 12.6 | 11.5 | 11.8 | 10.2 | 9.7 | 9.9 | 10.4 | 5.6 | 4.2 | | |
| Gross external financing need (Million of U.S. dollars) | 3243.2 | 1313.3 | 1101.0 | 1377.9 | 2264.3 | 3128.8 | 3357.5 | 3712.9 | 4064.4 | 3665.8 | 3938.4 | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.7 | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 3.0 | 3.6 | 3.4 |
| GDP deflator in US dollar terms (change in percent) | 2.4 | 1.8 | 1.2 | 4.7 | 5.9 | 2.7 | 2.1 | 2.3 | 2.2 | 2.4 | 2.4 | 2.6 | 2.9 |
| Effective interest rate (percent) 4/ | 1.0 | 0.8 | 0.2 | 1.3 | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 | 1.1 | 0.6 | 1.4 | 1.3 |
| Growth of exports of G&S (US dollar terms, in percent) | 11.6 | 1.7 | -0.1 | 22.5 | 2.5 | 3.2 | 3.1 | 3.0 | 3.0 | 2.8 | 2.8 | 4.8 | 4.7 |
| Growth of imports of G&S (US dollar terms, in percent) | 22.8 | -29.4 | 1.7 | 23.3 | 5.3 | 6.5 | 6.4 | 6.7 | 6.7 | 3.0 | 3.0 | 0.1 | 6.3 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 27.5 | 23.3 | 23.0 | 23.7 | 23.9 | 23.6 | 23.6 | 23.6 | ... | 23.9 |
| Government revenues (excluding grants, in percent of GDP) | 23.2 | 12.5 | 16.5 | 23.2 | 25.3 | 27.1 | 26.8 | 25.6 | 24.1 | 22.0 | 20.9 | 18.6 | 24.0 |
| Aid flows (in Million of US dollars) 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | ... | ... | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | ... | 0.4 |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | ... | ... | 27.5 | 23.3 | 23.0 | 23.7 | 23.9 | 23.6 | 23.6 | 23.6 | ... | 23.9 |
| Nominal GDP (Million of US dollars) | 23,651 | 22,600 | 21,670 | 24,124 | 26,425 | 27,963 | 29,428 | 31,027 | 32,684 | 42,717 | 72,966 | | |
| Nominal dollar GDP growth | 7.3 | -4.4 | -4.1 | 11.3 | 9.5 | 5.8 | 5.2 | 5.4 | 5.3 | 5.5 | 5.5 | 6.3 | 6.4 |
| **Memorandum items:** | | | | | | | | | | | | | |
| PV of external debt 7/ | ... | ... | 87.2 | 89.3 | 81.2 | 76.9 | 73.4 | 69.8 | 66.3 | 52.8 | 34.3 | | |
| In percent of exports | ... | ... | 359.1 | 334.2 | 324.9 | 315.2 | 307.2 | 299.3 | 290.6 | 263.7 | 221.7 | | |
| Total external debt service-to-exports ratio | 52.2 | 49.0 | 45.4 | 46.4 | 55.0 | 59.6 | 57.9 | 56.9 | 55.7 | 43.9 | 34.0 | | |
| PV of PPG external debt (in Million of US dollars) | | | 15071.7 | 17869.0 | 17987.0 | 17974.0 | 18011.8 | 18044.2 | 18010.0 | 18751.3 | 20857.8 | | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | 12.9 | 0.5 | 0.0 | 0.1 | 0.1 | -0.1 | 0.5 | 0.2 | | |
| Non-interest current account deficit that stabilizes debt ratio | 6.3 | -53.0 | -24.2 | 16.1 | 10.2 | 1.0 | 3.7 | 3.3 | 5.4 | 2.8 | 2.5 | | |

| Definition of external/domestic debt | Residency-based |
|---|---|
| Is there a material difference between the two criteria? | Yes |




Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

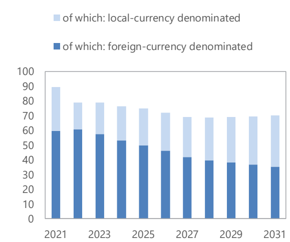
## Table 2. Zimbabwe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

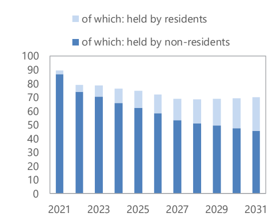
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 6/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2031 | 2041 | Historical | Projections |
| **Public sector debt 1/** | **79.7** | **94.8** | **109.7** | **89.4** | **78.9** | **78.8** | **76.2** | **74.7** | **72.0** | **70.1** | **75.0** | **59.8** | **74.2** |
| **of which: external debt** | **40.1** | **87.5** | **106.6** | **86.6** | **73.8** | **70.6** | **65.7** | **62.4** | **58.2** | **45.7** | **30.1** | **50.5** | **60.4** |
| Change in public sector debt | 23.9 | 15.2 | 14.9 | -20.3 | -10.6 | -0.1 | -2.6 | -1.5 | -2.7 | 0.9 | 0.8 | | |
| **Identified debt-creating flows** | **8.2** | **17.7** | **-22.6** | **-6.4** | **-8.7** | **-0.7** | **-0.7** | **-0.8** | **-0.8** | **2.0** | **1.6** | **1.1** | **-1.0** |
| **Primary deficit** | **9.6** | **1.8** | **-0.3** | **3.1** | **4.3** | **4.8** | **4.5** | **3.9** | **3.3** | **2.3** | **1.4** | **3.3** | **3.2** |
| Revenue and grants | 23.2 | 12.5 | 16.5 | 23.2 | 25.3 | 27.1 | 26.8 | 25.6 | 24.1 | 22.0 | 20.9 | **18.6** | **24.0** |
| *of which: grants* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Primary (noninterest) expenditure | 32.8 | 14.2 | 16.2 | 26.3 | 29.6 | 31.9 | 31.4 | 29.5 | 27.4 | 24.3 | 22.3 | **21.8** | **27.2** |
| **Automatic debt dynamics** | **-2.7** | **15.9** | **-22.3** | **-9.6** | **-12.9** | **-5.5** | **-5.3** | **-4.7** | **-4.1** | **-0.2** | **0.2** | | |
| Contribution from interest rate/growth differential | -2.7 | -30.6 | -1.5 | -9.6 | -12.9 | -5.5 | -5.3 | -4.7 | -4.1 | -0.2 | 0.2 | | |
| *of which: contribution from average real interest rate* | -0.2 | -35.8 | -6.8 | -3.0 | -9.9 | -3.2 | -2.9 | -2.5 | -1.9 | 1.8 | 2.3 | | |
| *of which: contribution from real GDP growth* | -2.5 | 5.2 | 5.3 | -6.5 | -3.0 | -2.3 | -2.3 | -2.3 | -2.2 | -2.0 | -2.2 | | |
| Contribution from real exchange rate depreciation | 0.0 | 46.6 | -20.8 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Other identified debt-creating flows** | **1.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.7** | **0.0** |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Residual** | **15.8** | **-2.5** | **37.5** | **-13.8** | **-1.9** | **0.6** | **-1.9** | **-0.7** | **-1.8** | **-1.2** | **-0.8** | **5.1** | **-2.6** |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of public debt-to-GDP ratio 2/** | **...** | **...** | **114.0** | **92.3** | **81.1** | **80.3** | **77.0** | **74.9** | **71.8** | **68.6** | **73.7** | | |
| **PV of public debt-to-revenue and grants ratio** | **...** | **...** | **692.4** | **398.6** | **320.3** | **296.6** | **287.3** | **292.3** | **297.9** | **312.1** | **352.5** | | |
| **Debt service-to-revenue and grants ratio 3/** | **29.4** | **29.2** | **14.2** | **13.6** | **13.7** | **18.0** | **22.1** | **27.5** | **32.2** | **55.1** | **110.1** | | |
| Gross financing need 4/ | 17.8 | 5.4 | 2.0 | 6.3 | 7.7 | 9.7 | 10.4 | 10.9 | 11.0 | 14.4 | 24.4 | | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.7 | -6.1 | -5.3 | 6.3 | 3.5 | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 3.0 | **3.6** | **3.4** |
| Average nominal interest rate on external debt (in percent) | 1.0 | 0.8 | 0.3 | 2.1 | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 | 1.2 | 0.7 | **1.3** | **1.5** |
| Average real interest rate on domestic debt (in percent) | 2.1 | -87.6 | -83.8 | -43.6 | -29.1 | -15.9 | -12.6 | -9.6 | -6.7 | 4.3 | 4.4 | **-16.3** | **-9.5** |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 0.0 | 105.8 | -22.6 | ... | ... | ... | ... | ... | ... | ... | ... | **7.4** | **...** |
| Inflation rate (GDP deflator, in percent) | 2.4 | 729.8 | 537.3 | 80.8 | 52.0 | 30.6 | 25.5 | 20.4 | 16.1 | 3.8 | 3.9 | **129.0** | **23.0** |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 18.3 | -59.2 | 7.4 | 73.1 | 16.3 | 11.1 | 1.3 | -2.8 | -4.5 | 3.4 | 2.3 | **6.1** | **8.9** |
| Primary deficit that stabilizes the debt-to-GDP ratio 5/ | -14.4 | -13.4 | -15.2 | 23.4 | 14.8 | 4.9 | 7.1 | 5.4 | 5.9 | 1.4 | 0.7 | **-14.3** | **6.8** |
| PV of contingent liabilities (not included in public sector debt) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |

| | |
|---|---|
| **Definition of external/domestic debt** | **Residency-based** |
| **Is there a material difference between the two criteria?** | **Yes** |

Public sector debt 1/




Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

## Table 3. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-31

(In percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| **PV of debt-to GDP ratio** | | | | | | | | | | | |
| **Baseline** | **74** | **68** | **64** | **61** | **58** | **55** | **52** | **50** | **48** | **46** | **44** |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | **74** | **80** | **83** | **85** | **83** | **79** | **74** | **70** | **67** | **65** | **62** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **74** | **76** | **81** | **77** | **73** | **69** | **66** | **63** | **60** | **58** | **55** |
| B2. Primary balance | **74** | **71** | **70** | **67** | **65** | **62** | **59** | **57** | **55** | **53** | **52** |
| B3. Exports | **74** | **73** | **77** | **73** | **68** | **63** | **58** | **53** | **51** | **49** | **46** |
| B4. Other flows 3/ | **74** | **71** | **71** | **67** | **63** | **58** | **54** | **51** | **48** | **46** | **44** |
| B5. Depreciation | **74** | **134** | **123** | **117** | **112** | **106** | **101** | **97** | **93** | **90** | **86** |
| B6. Combination of B1-B5 | **74** | **78** | **82** | **78** | **72** | **67** | **62** | **58** | **55** | **53** | **51** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **74** | **77** | **74** | **73** | **71** | **69** | **66** | **64** | **63** | **62** | **61** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | **74** | **73** | **73** | **70** | **66** | **61** | **56** | **53** | **50** | **48** | **45** |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| **PV of debt-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | **277** | **272** | **264** | **256** | **249** | **242** | **234** | **229** | **226** | **223** | **219** |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | **277** | **319** | **342** | **354** | **357** | **348** | **335** | **325** | **320** | **315** | **312** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **277** | **272** | **264** | **256** | **249** | **242** | **234** | **229** | **226** | **223** | **219** |
| B2. Primary balance | **277** | **282** | **285** | **282** | **278** | **272** | **267** | **263** | **261** | **259** | **257** |
| B3. Exports | **277** | **330** | **404** | **393** | **374** | **353** | **332** | **315** | **308** | **302** | **295** |
| B4. Other flows 3/ | **277** | **285** | **289** | **281** | **269** | **256** | **243** | **234** | **229** | **225** | **221** |
| B5. Depreciation | **277** | **272** | **257** | **249** | **243** | **237** | **231** | **228** | **225** | **222** | **219** |
| B6. Combination of B1-B5 | **277** | **308** | **293** | **326** | **312** | **296** | **280** | **269** | **264** | **259** | **253** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **277** | **308** | **303** | **307** | **303** | **302** | **298** | **298** | **299** | **301** | **303** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | **277** | **333** | **337** | **322** | **303** | **282** | **260** | **249** | **243** | **238** | **233** |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 |
| **Debt service-to-exports ratio** | | | | | | | | | | | |
| **Baseline** | 10 | **12** | **11** | **11** | **11** | **11** | **11** | 8 | 6 | 6 | 6 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | 10 | **12** | **15** | **26** | **36** | **44** | **50** | **46** | **42** | **41** | **41** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 10 | **12** | **11** | **11** | **11** | **11** | **11** | 8 | 6 | 6 | 6 |
| B2. Primary balance | 10 | **12** | **13** | **14** | **16** | **17** | **18** | **16** | **14** | **15** | **16** |
| B3. Exports | 10 | **14** | **17** | **23** | **31** | **31** | **31** | **23** | **12** | **11** | **11** |
| B4. Other flows 3/ | 10 | **12** | **12** | **16** | **19** | **19** | **19** | **13** | 8 | 8 | 7 |
| B5. Depreciation | 10 | **12** | **11** | **10** | 9 | 9 | 8 | 6 | 5 | 5 | 6 |
| B6. Combination of B1-B5 | 10 | **13** | **15** | **19** | **23** | **23** | **23** | **16** | 9 | 9 | 9 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 10 | **12** | **16** | **15** | **17** | **17** | **18** | **16** | **14** | **15** | **15** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 10 | **14** | **15** | **19** | **22** | **22** | **20** | **14** | 7 | 7 | 6 |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| **Debt service-to-revenue ratio** | | | | | | | | | | | |
| **Baseline** | 12 | 12 | 10 | 10 | 10 | 10 | 10 | 8 | 6 | 6 | 6 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | 12 | 12 | 13 | **23** | **33** | **42** | **49** | **44** | **40** | **38** | **37** |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 12 | 13 | 13 | 12 | 13 | 13 | 13 | 10 | 7 | 7 | 7 |
| B2. Primary balance | 12 | 12 | 11 | 13 | **15** | **16** | **17** | **15** | 13 | 14 | **15** |
| B3. Exports | 12 | 12 | 12 | **16** | **22** | **23** | **23** | **18** | 9 | 8 | 8 |
| B4. Other flows 3/ | 12 | 12 | 11 | **14** | **17** | **18** | **18** | 13 | 7 | 7 | 7 |
| B5. Depreciation | 12 | **23** | **20** | **18** | **15** | **16** | **16** | 12 | 10 | 10 | 10 |
| B6. Combination of B1-B5 | 12 | 13 | 13 | **17** | **21** | **22** | **22** | **15** | 9 | 8 | 8 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 12 | 12 | 14 | 14 | **15** | **16** | **17** | **15** | 13 | 14 | 14 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 12 | 13 | 12 | **16** | **20** | **20** | **20** | 13 | 7 | 6 | 5 |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

## Table 4. Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt, 2021–2031
(In percent)

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| **PV of Debt-to-GDP Ratio** | | | | | | | | | | | |
| **Baseline** | **92** | **81** | **80** | **77** | **75** | **72** | **68** | **68** | **68** | **68** | **69** |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | **92** | **57** | 34 | 20 | 13 | 10 | 8 | 7 | 6 | 6 | 6 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **92** | **98** | **115** | **117** | **120** | **121** | **120** | **124** | **129** | **133** | **139** |
| B2. Primary balance | **92** | **90** | **94** | **91** | **89** | **85** | **81** | **79** | **79** | **79** | **79** |
| B3. Exports | **92** | **85** | **91** | **87** | **83** | **77** | **72** | **69** | **69** | **69** | **69** |
| B4. Other flows 3/ | **92** | **85** | **87** | **83** | **80** | **75** | **70** | **69** | **69** | **68** | **69** |
| B5. Depreciation | **92** | **205** | **195** | **181** | **171** | **160** | **147** | **140** | **136** | **131** | **128** |
| B6. Combination of B1-B5 | **92** | **85** | **88** | **82** | **80** | **76** | **72** | **70** | **70** | **69** | **69** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **92** | **101** | **101** | **97** | **95** | **92** | **88** | **87** | **87** | **87** | **88** |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | **92** | **93** | **93** | **92** | **93** | **94** | **94** | **99** | **106** | **111** | **118** |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **TOTAL public debt benchmark** | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 | 35 |
| **PV of Debt-to-Revenue Ratio** | | | | | | | | | | | |
| **Baseline** | 399 | 320 | 297 | 287 | 292 | 298 | 298 | 300 | 304 | 307 | 312 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | 399 | 226 | 126 | 75 | 52 | 40 | 33 | 29 | 28 | 27 | 27 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 399 | 386 | 425 | 436 | 469 | 503 | 526 | 549 | 577 | 602 | 630 |
| B2. Primary balance | 399 | 356 | 348 | 339 | 346 | 354 | 353 | 352 | 355 | 356 | 358 |
| B3. Exports | 399 | 335 | 336 | 324 | 323 | 321 | 313 | 307 | 309 | 311 | 314 |
| B4. Other flows 3/ | 399 | 334 | 323 | 311 | 312 | 312 | 307 | 304 | 307 | 309 | 313 |
| B5. Depreciation | 399 | 810 | 722 | 674 | 667 | 663 | 643 | 623 | 609 | 594 | 584 |
| B6. Combination of B1-B5 | 399 | 336 | 324 | 306 | 312 | 317 | 315 | 313 | 314 | 314 | 315 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 399 | 398 | 372 | 362 | 373 | 383 | 384 | 386 | 391 | 394 | 399 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 399 | 390 | 365 | 364 | 380 | 401 | 418 | 440 | 473 | 504 | 537 |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Debt Service-to-Revenue Ratio** | | | | | | | | | | | |
| **Baseline** | 14 | 14 | 18 | 22 | 27 | 32 | 39 | 40 | 44 | 49 | 55 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2021-2031 2/ | 14 | 9 | 7 | 5 | 4 | 3 | 3 | 2 | 2 | 2 | 2 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 14 | 15 | 23 | 34 | 48 | 60 | 75 | 83 | 94 | 107 | 122 |
| B2. Primary balance | 14 | 14 | 20 | 30 | 37 | 40 | 49 | 50 | 54 | 60 | 67 |
| B3. Exports | 14 | 14 | 19 | 28 | 39 | 44 | 51 | 49 | 47 | 52 | 57 |
| B4. Other flows 3/ | 14 | 14 | 19 | 27 | 35 | 40 | 47 | 45 | 46 | 51 | 56 |
| B5. Depreciation | 14 | 23 | 32 | 36 | 43 | 50 | 60 | 62 | 66 | 76 | 86 |
| B6. Combination of B1-B5 | 14 | 13 | 18 | 22 | 27 | 32 | 39 | 41 | 44 | 49 | 55 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 14 | 14 | 24 | 41 | 35 | 44 | 48 | 51 | 54 | 60 | 66 |
| C2. Natural disaster | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C3. Commodity price | 14 | 15 | 19 | 28 | 42 | 52 | 65 | 73 | 84 | 96 | 109 |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

Sources: Country authorities; and staff estimates and projections.

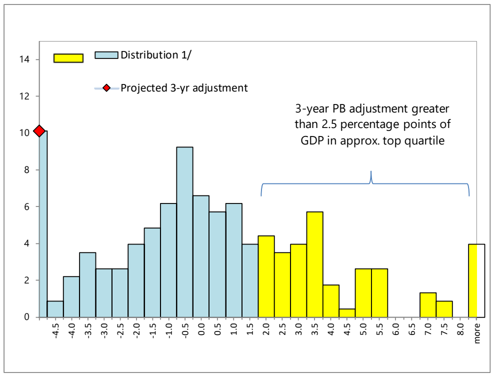
1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

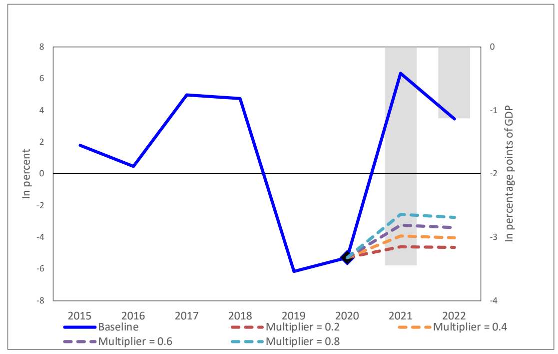
## Figure 1. Zimbabwe: Realism Tools

**3-Year Adjustment in Primary Balance**
**(Percentage points of GDP)**



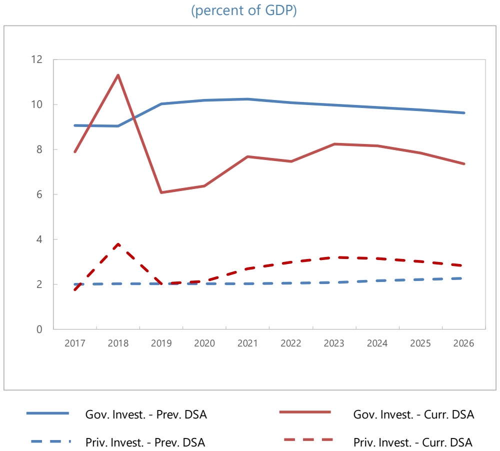

1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

**Fiscal Adjustment and Possible Growth Paths 1/**



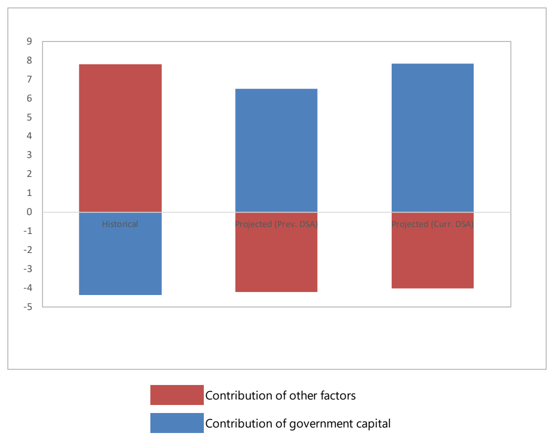

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates 1/**
(percent of GDP)

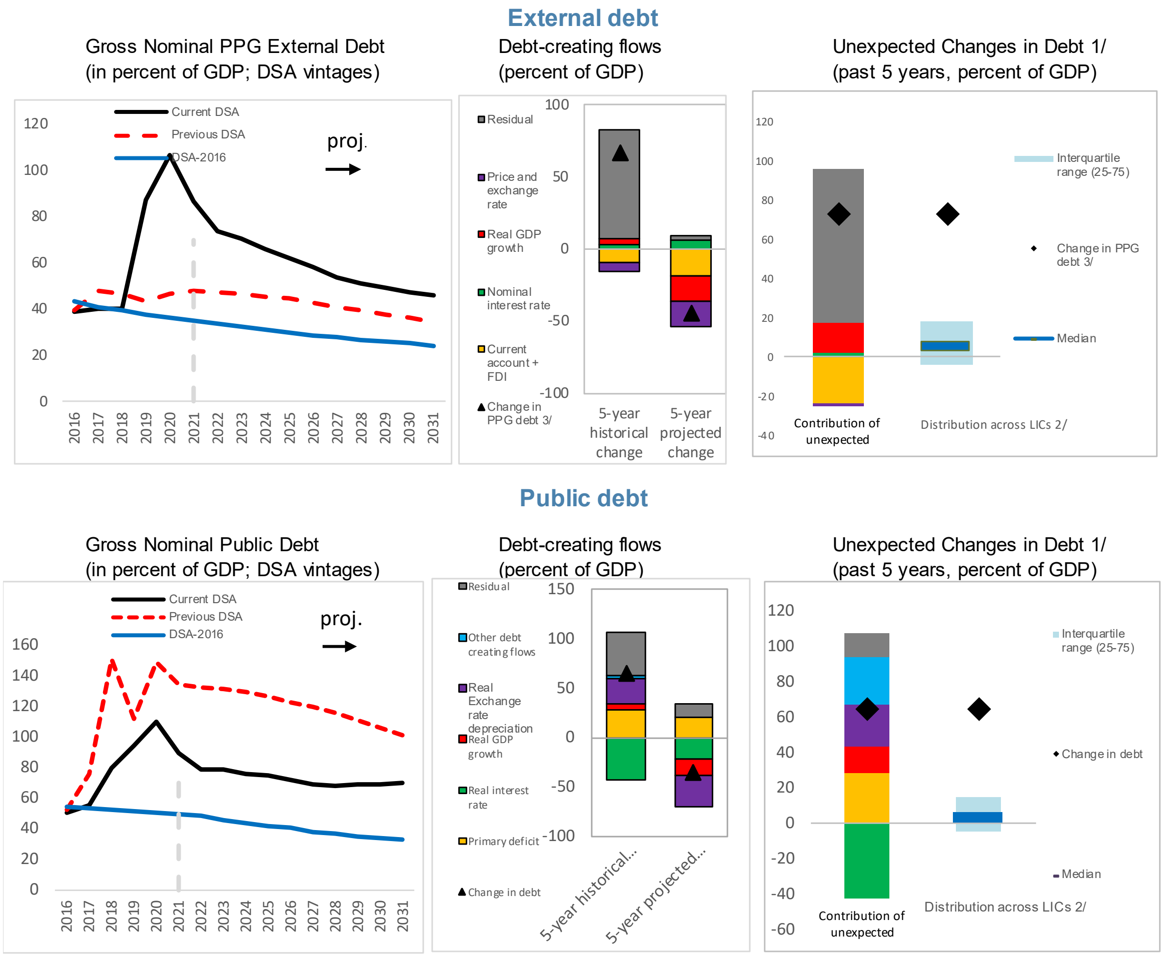



1/ Data show nominal investment rates due to data limitations for real investment.

**Contribution to Real GDP growth**
(percent, 5-year average)



## Figure 2. Zimbabwe: Drivers of Debt Dynamics - Baseline Scenario

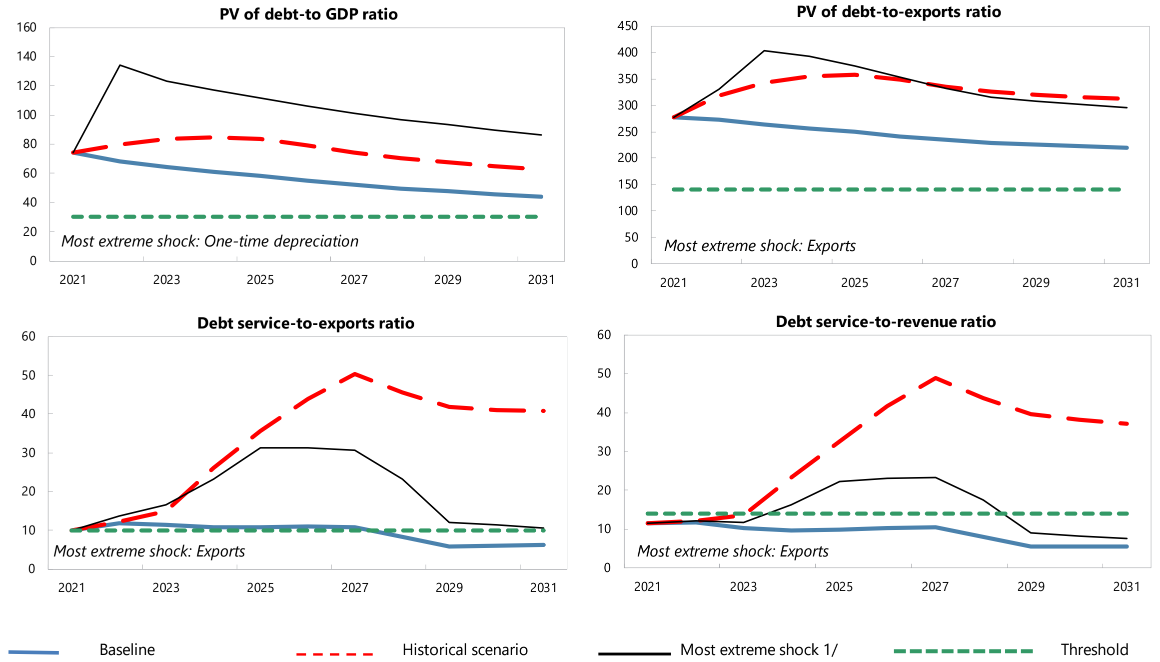



1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

## Figure 3. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021–31[1/,2/]




| Customization of Default Settings | Size | Interactions |
|---|---|---|
| **Tailored Stress** | | |
| Combined CL | Yes | |
| Natural disaster | n.a. | n.a. |
| Commodity price | No | No |
| Market financing | n.a. | n.a. |

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

| Borrowing assumptions on additional financing needs resulting from the stress tests* | Default | User defined |
|---|---|---|
| **Shares of marginal debt** | | |
| External PPG MLT debt | 100% | |
| **Terms of marginal debt** | | |
| Avg. nominal interest rate on new borrowing in USD | 3.3% | 9.0% |
| USD Discount rate | 5.0% | 5.0% |
| Avg. maturity (incl. grace period) | 18 | 5 |
| Avg. grace period | 4 | 1 |

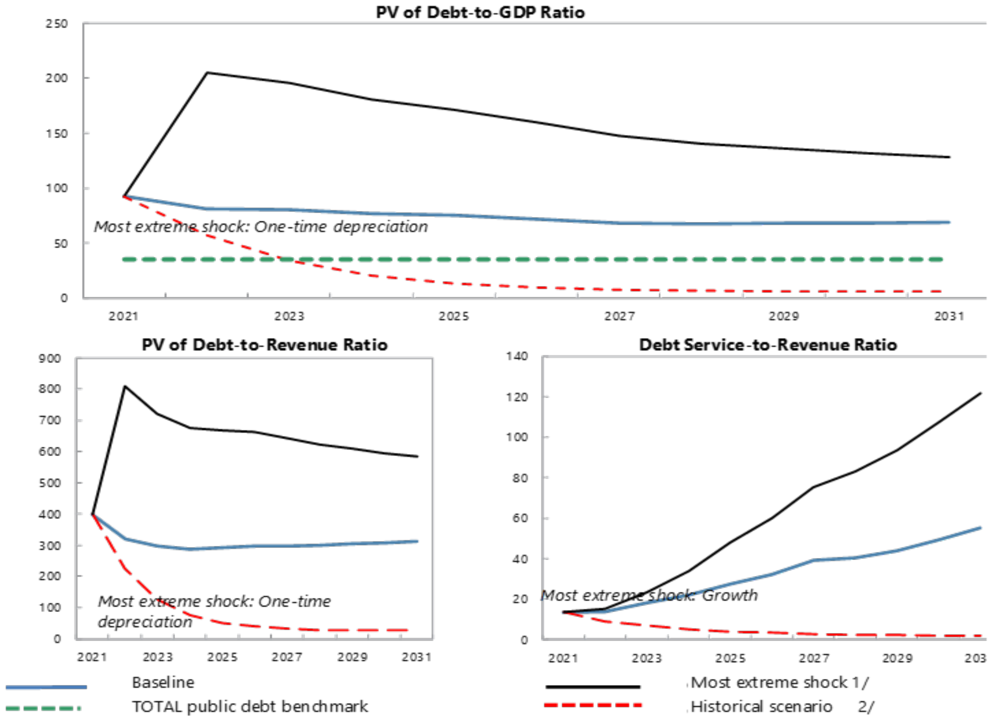
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

## Figure 4. Zimbabwe: Indicators of Public External Debt under Alternative Scenarios, 2021–31




| Borrowing assumptions on additional financing needs resulting from the stress tests* | Default | User defined |
|---|---|---|
| **Shares of marginal debt** | | |
| External PPG medium and long-term | 19% | 60% |
| Domestic medium and long-term | 57% | 40% |
| Domestic short-term | 24% | 0% |
| **Terms of marginal debt** | | |
| External MLT debt | | |
| Avg. nominal interest rate on new borrowing in USD | 3.3% | 12.0% |
| Avg. maturity (incl. grace period) | 18 | 10 |
| Avg. grace period | 4 | 1 |
| Domestic MLT debt | | |
| Avg. real interest rate on new borrowing | -15.8% | -15.8% |
| Avg. maturity (incl. grace period) | 2 | 2 |
| Avg. grace period | 1 | 1 |
| Domestic short-term debt | | |
| Avg. real interest rate | -14.2% | -14.2% |

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The historical scenario for the evolution of overall public debt is not representative in cases of past hyperinflationary episodes.

**Statement on Zimbabwe by Mr. Nakunyada, Alternate Executive Director, Mr. Ekeocha and Mr. Garang, Senior Advisors to the Executive Director**

**March 21, 2022**

## Introduction

1. Our Zimbabwean authorities appreciate the constructive engagement with IMF staff during the recent Article IV Consultation. They value Fund policy guidance and broadly share the staff's assessment of attendant macroeconomic challenges and key policy priorities.

2. The Zimbabwean economy is experiencing a strong rebound following the negative effects of Cyclone Idai, the drought, and the COVID-19 pandemic that weighed on growth in 2019 and 2020. The implementation of decisive response measures and an improved policy environment moderated the fallout from the pandemic and laid the groundwork for the recovery. The authorities also persevered with reforms supportive of macroeconomic stability that entrenched fiscal discipline, tightened monetary conditions to tame inflation, enhanced the AML/CFT framework, and advanced structural reforms to tackle governance vulnerabilities and improve the business climate. The authorities' determined reform efforts reflect their Vision 2030 aspirations of graduating to Upper Middle-Income Status, by realizing the objectives of the first National Development Strategy (NDS1, 2021-2025). Specifically, the NDS1 aims to sustain macroeconomic stability, reduce poverty and inequality, and transform institutions to enhance public sector efficiency and service delivery. The authorities have also renewed international re-engagement efforts and seek support to clear arrears, normalize creditor relations, unlock external financing, and unleash the country's growth potential.

## Recent Economic Developments

3. Economic growth rebounded from -5.3 percent in 2020 to 6.3 percent in 2021, largely underpinned by expanded activity in the mining and construction sectors. Manufacturing sector activity also benefitted from import substitution opportunities created by global supply bottlenecks. Moreover, the favourable 2020/21 farming season boosted output in agriculture and the downstream agro-processing industry, and enhanced hydro-power production. Going forward, the steady progress made to date, in vaccinating about 40 percent of the adult population is envisaged to help boost trade, transport, and other contact-intensive service sectors that had been impacted by the pandemic. At the same time, the vaccination of the entire adult population in Victoria Falls, the country's prime tourist destination, is expected to set the stage for a rebound in tourism activity. Growth is, however, projected to moderate to 3.5 percent in 2022 considering lingering risks from the pandemic and vulnerability to climate shocks. Nonetheless, the authorities are optimistic that the growth impetus will be stronger on the back of increased gold, platinum, and agricultural production.

4. Inflation declined significantly from a peak of 837.5 percent in July 2020 to 60.7 percent in December 2021, reflecting tight fiscal and monetary policies. While the widening parallel market premium has persisted, the authorities are optimistic that sustained disinflation efforts,

combined with policies to fine-tune the foreign exchange auction system, will further bring down inflation to lower double-digit levels by end 2022. The current account registered successive surpluses over the past three years, owing to increased remittances, firming commodity prices, and subdued imports. At the same time, external reserves improved from 0.1 to 1.3 months of import cover between 2020 and 2021, benefitting from the general allocation of SDRs.

**Fiscal Policy and Debt Management**

5. The authorities remain committed to prudent fiscal management underpinned by strict adherence to cash budgeting principles and non-inflationary financing. As a result, the budget has remained broadly balanced for the past three years, while the savings attained helped in mounting swift pandemic response actions. The authorities are determined to keep the budget deficit at less than 2 percent of GDP in the medium term to help contain debt levels. At the same time, they have discontinued recourse to the central bank's overdraft window to entrench fiscal discipline and support the broader disinflation efforts.

6. On the revenue front, the authorities continue to close tax leakages through automation and tax administration measures, while intensifying clearance of tax arrears. Concurrent efforts are being made to streamline tax exemptions. The authorities expect the Fund TA provided earlier this year to help strengthen the mining fiscal regime and improve the sector's contribution to revenues. Should the revenues underperform, the authorities plan to scale back capital expenditures and other non-essential spending to remain within their deficit targets.

7. To contain expenditures, the authorities have maintained a freeze on the recruitment of civil servants, except in education and health, while wage adjustments continue to be accommodated within the budget. The authorities are also working to enhance public procurement and rebalance spending towards capital expenditures to support their growth objectives. They have also developed a robust harmonized cash transfer system to cushion vulnerable households in urban and rural areas. Relatedly, the authorities leveraged the mobile payment system to support the efficient distribution of transfers to households, including in previously underserved communities. In addition to donor support, they also managed to finance vaccines from the budget, to support accelerated inoculations. Looking ahead, guided by an elaborate medium-term plan, the authorities intend to utilize SDR allocations to bolster their fight against the pandemic, build reserves, strengthen social safety nets, support e-learning activities, and cushion vulnerable households from the effects of climate change.

8. Furthermore, the authorities have made notable progress in improving expenditure controls, including through automation. They rolled out the public financial management information system (PFMS) to all ministries, departments, and agencies (MDAs). As a result, all MDAs now comply with the requirement to execute all expenditures through the PFMS and direct internally generated funds through the Consolidated Revenue Fund (CRF). Going forward, the authorities plan to reinvigorate efforts to better enforce the constitutional and legal requirements that guide the provision of financial reports and internal controls. They also plan to amend and strengthen the provisions for penalties and sanctions applicable in the event of non-compliance with the PFM regulations.

9. The authorities have renewed efforts to pursue an amicable resolution of debt arrears. As guided by the World Bank, they are exploring potentially viable debt relief options in the context of their Arrears Clearance, Debt Relief and Restructuring Strategy. In this context, they have resumed token payments to IFIs, and Paris Club Creditors. They are also engaging development partners to seek support for their arrear's clearance roadmap. In parallel, the authorities are advancing work on the successor 2022-25 Medium-Term Debt Strategy (MTDS), which seeks to foster prudent borrowing practices and promote the development of the domestic debt market. Furthermore, they introduced annual borrowing limits in the 2022 budget, including on government guarantees, to mitigate associated fiscal risks.

**Monetary, Exchange Rate, and Financial Sector Policies**

10. The authorities are determined to maintain a tight monetary policy stance within the reserve money targeting framework to help contain inflation. Accordingly, they reduced the quarterly reserve money targets from 22.5 percent at the beginning of 2021 to 10 percent by year end, and to current levels of 7.5 percent. Furthermore, they tightened monetary policy by increasing statutory reserves from 5 to 10 percent. Concurrently, the Reserve Bank of Zimbabwe (RBZ) increased the policy rate to ensure positive real rates. At the same time, the central bank continues to actively manage liquidity through aggressive open market operations and the use of non-negotiable certificates of deposit. As a result, inflation declined significantly, while the central bank stands ready to further tighten monetary policy, should incipient inflationary pressures persist.

11. The RBZ is making efforts to wind down residual quasi-fiscal operations, with a view to transferring them to the Treasury as articulated in the 2022 National Budget. The authorities acknowledge the need to enhance central bank autonomy and appreciate the criticality of appropriate legislative amendments to enhance the operational autonomy of the RBZ. They welcome further Fund advice and guidance in this regard. In the meantime, consistent with the Southern African Development Community (SADC) Central Bank Model Law, the RBZ has put in place a five-tier system of decision-making process to enhance corporate governance and accountability. The system comprises the General Management Committee, Executive Management Committee, Monetary Policy Committee, Board Committees, and the Board of Directors.

12. The authorities are making further refinements to enhance the efficiency and transparency of the foreign exchange auction system. To this end, they have allowed an adjustment of the auction exchange rate towards market clearing levels. This adjustment and a move toward greater exchange rate flexibility are expected to eliminate distortions, while the tight monetary and fiscal policies should support the exchange rate and anchor inflation expectations. They have also cleared the backlog that had accumulated at the auction. That said, the authorities view the speculative demand for foreign exchange for value preservation purposes, as a key driver of the parallel market exchange rate. In this regard, they are making steady efforts to re-build confidence in the local unit, including through the transparent and regular publication of the Reserve Bank balance sheet. Further, the government recently allowed partial payment of taxes in local currency, to increase the demand for the local unit.

13. The financial sector remains well-capitalized with a growing deposit base, profitable banks, and improved credit quality. Notable progress has been made in the implementation of the Basel III standards, as well as the key recommendations of the 2019 FSSR that helped improve stress-testing capabilities. Benefiting from Fund TA, they enhanced the remote examination framework and the cyber-risk framework to mitigate risks from digitalization. Furthermore, most banks have made progress in closing their net operating positions created by the breaking of the exchange rate parity in 2019. At the same time, non-performing loans (NPLs) remain low, even as lending has remained subdued in the pandemic context. Improved credit quality also benefitted from the operationalization of the credit reference bureau (CRB) that helped strengthen credit assessments and facilitated on-line lending in line with the pandemic conditions. However, because of high NPLs in the past, most, banks tightened their credit risk management practices and adopted stringent classification rules more out of prudence.

14. The Zimbabwe Asset Management Company (ZAMCO) helped to improve and enhance the capital adequacy and earnings of banks through the removal of toxic assets. To date, ZAMCO has fully repaid the loan secured by government to acquire NPLs from banks to mitigate the threat of systemic risk and enhance financial intermediation. ZAMCO achieved this feat ahead of the sunset time of 2025 and plans to wind down its operations in line with the provisions of the RBZ Act.

15. The authorities have advanced work to launch the collateral registry that will help borrowers leverage movable assets as collateral and help promote financial inclusion. Relatedly, important steps have been made to improve access to financial services through expanded digital financial services, financial innovation, enhanced financial literacy and consumer protection, the establishment of low-cost bank accounts, and dedicated women's desks, with SME units set up in most banks. To support the testing of financial innovations, the RBZ is running the Fintech Regulatory Sandbox on a pilot basis, and the number of registrations has increased substantially since its establishment in March 2021. Reflecting remarkable progress in addressing identified AML/CFT deficiencies, the country recently exited from the FATF grey list following the assessment mission conducted earlier this year. This positive development is expected to improve financial integrity and help preserve the remaining correspondent banking relationships.

**Structural and Governance Reforms**

16. Structural reforms continue to rank high on the reform agenda with a focus on strengthening governance, improving the business climate, and enhancing competitiveness to support inclusive growth. The establishment of the Zimbabwe Investment Development Authority (ZIDA), which brings all investment agencies under one roof, is expected to further reduce turnaround times for investment processes and improve the ease of doing business. The authorities have also intensified the fight against corruption through the launch of the National Anti-Corruption Strategy (NACS, 2020-24). More importantly, Treasury continues to support the work of the Zimbabwe Anti-Corruption Commission (ZACC). Further, the principles of the Whistle blower protection bill have been developed for tabling before Parliament.

17. The authorities have also established an Inter-ministerial Committee to follow up on the recommendations of the Fund's 2019 Governance Vulnerabilities Assessment and monitor

implementation. To this end, they have developed a roadmap for the systematic implementation of recommendations of this assessment. Important steps have also been made on governance reforms aimed to improve individual and media freedoms. In this vein, the Public Order and Security Act (POSA) was successfully repealed and replaced with the Maintenance of Peace and Order Act (MOPA). Similarly, the Access to Information and Privacy Protection Act (AIPPA) was repealed and replaced with the Freedom of Information Act and the Data Protection Law that supports access to information with appropriate safeguards.

18. Despite the slowdown in momentum on State Owned Enterprises (SOEs) reforms owing to the pandemic, the authorities have renewed efforts to improve their operational efficiency and reduce associated fiscal risks. To this effect, they aim to strengthen financial performance and service delivery among SOEs within the context of the State Enterprise and Parastatal (SEP) reform program. Consequently, the authorities adopted the Public Entities Corporate Governance (PECG) Acts and associated regulations to enhance governance and accountability. In this regard, they are resuming the application of appropriate SOEs restructuring models, including mergers, departmentalization, liquidation, privatization, and unbundling. To date, they have completed the restructuring of the Grain Marketing Board, the power utility company (ZESA), the Civil Aviation Authority of Zimbabwe (CAAZ), and Agribank, among others. Going forward, they will intensify efforts to enforce the regular production of financial statements.

19. The authorities attach importance to climate adaptation and mitigation efforts in view of increased vulnerability to adverse climate events. Specifically, the increased frequency and intensity of adverse climate events characterized by devastating tropical cyclones, and droughts that undermine agriculture and power production and destroy critical infrastructure, represent a threat to decades of development gains and food security. These exogenous shocks create sizeable financing gaps through unbudgeted spending to rehabilitate infrastructure, resettle affected communities, and secure food imports to bridge grain deficits. Against this backdrop, the authorities have adopted strategies to reduce climate vulnerabilities and enhance adaptive capabilities while reducing carbon emissions to achieve the nationally determined contributions (NDC). They are investing in solar energy, reducing greenhouse emissions, and undertaking afforestation initiatives. Nevertheless, access to climate and emergency financing has remained challenging and the authorities look forward to external support including under the RST, to help strengthen climate resilience, adaptation, and transition.

**Conclusion**

20. Our authorities remain steadfast in implementing appropriately tight fiscal and monetary policies to sustain macroeconomic stability. The implementation of coordinated policies is expected to further bring down inflation and help stabilize the exchange rate. At the same time, the authorities remain committed to re-engaging the international community to unlock international capital to support on-going reform efforts. They look forward to continued Fund technical support and policy guidance to help overcome the challenging circumstances compounded by the pandemic and recurrent climate shocks.