January 2001
Country Report No. 01/05

Zimbabwe: 2000 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; Statement by the Executive Director for Zimbabwe and Statement by the Authorities of Zimbabwe

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Zimbabwe, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **September 12, 2000,** 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 November 14, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of **December 1, 2000,** updating information on recent economic developments.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the December 6, 2000, Executive Board discussion** of the staff report that concluded the Article IV consultation.

- a statement to the Executive Board by the Executive Director for Zimbabwe.

- a statement by the authorities of Zimbabwe.

The document listed below has been or will be separately released.

Recent Economic Developments paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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Washington, D.C.

INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 2000 Article IV Consultation

Prepared by the Staff Representatives for the
2000 Consultation with Zimbabwe

Approved by G.E. Gondwe and G. Russell Kincaid

November 14, 2000

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- Zimbabwe launched an economic reform program in 1991 that was instrumental in liberalizing the economy and addressing structural impediments to growth. However, subsequent weaknesses in macroeconomic policies, especially in the fiscal area, and governance problems have undermined economic performance and investor confidence.

- Faced with serious pressure on the currency in late 1997, which was fueled by a large increase in benefits to war veterans and uncertainties regarding the direction of the land reform program, the government adopted emergency measures and designed an adjustment program supported by the June 1998 Stand-By Arrangement. Performance under that program and a successor Stand-By Arrangement approved in August 1999 was weak, and the economic situation continued to deteriorate.

- The economic crisis deepened during 2000 owing to mounting fiscal imbalances, the erosion of competitiveness, election-related violence, and a significant change in the government's stance regarding land reform. Inflation accelerated to 61 percent in the year ended October, and economic activity and employment have faltered. Real GDP is projected to contract by more than 5 percent during the year, which would result in a cumulative decline in per capita income of 12 percent in the past three years. With foreign exchange receipts declining because of the erosion of competitiveness and depressed commodity prices, and access to foreign financing restricted by sagging creditworthiness, usable official reserves have remained negligible despite a seasonal increase in tobacco export receipts in recent months. The stock of external payment arrears reached about US$500 million at end-September, of which three-fourths were owed by the public sector.

- In the absence of a fundamental change in the policy environment, Zimbabwe is facing the prospects of a precipitous decline in economic activity, hyperinflation, and a rapid deterioration in bank loan portfolios which, taken together, could trigger a financial crisis. Fiscal consolidation and an exchange rate realignment, the main pillars of the required adjustment effort, should be supported ~~by~~ tight monetary policy, the reorientation of public spending to priority sectors, and expedited structural reforms, especially privatization, civil service reform, and trade liberalization. Success in restoring economic stability will also hinge on the rebuilding of confidence through a speedy return to the rule of law and the implementation of an orderly land reform program that could garner domestic and international support.

- Steadfast implementation of strong policies, backed by a broad domestic consensus, could restore Zimbabwe's status as an anchor of stability and prosperity in southern Africa over the medium term. The major downside risks in the outlook stem from the possibility of continued political tension and uncertainties ahead of the April 2002 presidential election, which would prolong the economic drift and create enormous social hardship.

I. Introduction

1. Discussions for the 2000 Article IV consultation were held in Harare during August 28-September 12, 2000. The mission met with the Ministers of Finance and Economic Development; Industry and International Trade; Mines and Energy; Lands, Agriculture and Resettlement; Public Service, Labor and Social Welfare; Local Government, Public Works and National Housing; and Rural Resources and Water Development; the Governor of the Reserve Bank (RBZ); and other senior officials. The mission also met with representatives of the private sector, civil society, nongovernmental organizations, and donors.[1]

2. Zimbabwe is on the standard 12-month consultation cycle. In concluding the last Article IV consultation on May 5, 1999 (EBM/99/51), Directors noted that performance under the 1998 Stand-By Arrangement had suffered from weak implementation of policies and uncertainties about their direction. Directors underlined the importance of fiscal consolidation, improvements in the composition of spending, tight monetary policy, and supporting reforms and liberalization measures. They welcomed the authorities' stated commitment to the land reform strategy agreed with donors and stakeholders in 1998, and urged continued improvement in governance.

3. On August 2, 1999, the Board approved a 14-month Stand-By Arrangement in an amount equivalent to SDR 141.36 million (40 percent of quota). SDR 24.74 million was drawn under the arrangement, but significant deviations emerged soon after the program's inception and the arrangement expired on October 1, 2000. Zimbabwe's relations with the Fund and the World Bank are described in Appendices I and II.

II. Recent Economic Performance

4. Zimbabwe launched an economic reform program in 1991 that was instrumental in liberalizing the economy and addressing structural impediments to growth. Nonetheless, fiscal policy in the past decade has been generally weak and monetary policy unsteady, while two serious droughts (in 1992 and 1995) and governance problems have further jeopardized economic performance and shaken investor confidence. Faced with serious pressures on the currency in late 1997, which were fueled by a large increase in benefits to war veterans and uncertainties regarding the direction of land reform, the government adopted emergency measures and designed an adjustment program supported by the June 1998 Stand-By Arrangement. Performance under that program was mixed, owing in part to a failure to contain the nonfinancial public sector deficit (including parastatals), the fallout from the emerging markets financial crisis, involvement in the Democratic Republic of Congo (DRC)

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[1] The mission comprised Messrs. Neuhaus (head), Kovanen, Charap, and Pillay (all AFR), Leigh (PDR), Prakash (FAD), and Yagci (World Bank). It was assisted by the Fund's Resident Representative in Harare, Mr. Franco.

conflict from August 1998 onward, and a series of other policy decisions that undermined market confidence. The first review under the arrangement could not be concluded. After the government undertook to address pending issues, including land reform, it reached agreement with the Fund in 1999 on a new program supported by a successor Stand-By Arrangement (see SM/99/93, 4/21/99; and EBS/99/131, 7/19/99).

5. The 1999 program targeted a decline in inflation to 30 percent by year's end from 47 percent in 1998, real GDP growth of 1.2 percent, and a US$160 million gain in net official international reserves. The government deficit (on a commitment basis and excluding grants) would be contained at 5.3 percent of GDP, versus 4.6 percent in 1998, and parastatal losses would be reduced. Fiscal adjustment was to be supported by tight monetary policy and confidence-building measures, including implementation of land reform under the strategy agreed upon during the 1998 international conference; disclosure of the cost of Zimbabwe's involvement in the DRC conflict; a rollback of emergency trade and capital controls; and an acceleration of public asset sales.

6. The program veered sharply off track soon after inception. Several performance criteria for September and December 1999 were missed by wide margins, as policies were weaker and terms of trade losses larger than envisaged. Also, progress in adoption of reforms and confidence-building measures, including liberalization of exchange controls, was limited, and several structural performance criteria were breached as well (Table 1 and Box 1). As a result, inflation rose to a peak of 70 percent in October before easing to 57 percent by end-1999, while real GDP fell by 0.2 percent as a 7 percent decline in manufacturing output more than offset gains in agriculture and tourism (Table 2). Net international reserves increased by US$314 million in 1999, but usable reserves were virtually depleted owing to substantial pledging and collateralization of foreign assets. The government's primary balance shifted from a surplus of 5 percent of GDP in 1998 to a deficit of 1½ percent in 1999 (versus a 3.2 percent surplus in the program), driven by wage and defense overruns and a weak revenue performance. Sharply higher domestic borrowing exacerbated by a shortfall in foreign financing led to a surge in domestic interest payments, such that the overall deficit widened from 4½ percent of GDP to 11½ percent and the operational balance (i.e., the overall deficit corrected for accelerated amortization of domestic debt owing to inflation) shifted from a surplus of 2½ percent to a deficit of 4 percent (Tables 3a. and 3b. and Figures 1 and 2). By contrast, losses of the nine major parastatals declined from 5 percent of GDP in 1998 to 3 percent in 1999 because of periodic adjustments in utility prices, although the combined net worth of these enterprises at the end of the year stood at minus 2 percent of GDP.

Box 1. Structural Reforms in 1999-2000

Under the 1999 Stand-By Arrangement, the authorities committed themselves to implementing several structural reforms, including a phased liberalization of foreign currency accounts (FCAs) and reversal of the September 1998 increase in import duties and surcharges; issuance of guidelines to deal with troubled banks; removal of maize-meal price controls; a cap on the size of the civil service; and liquidation of a number of parastatals. Progress in these areas has been limited:

- The authorization to retain all export proceeds in FCAs, reintroduced in August 1999, was partially reversed in February 2000, and, since May, exporters have been required to sell 25 percent of their proceeds, which the RBZ earmarks for priority energy imports. Tobacco exporters, however, must sell 75 percent of their receipts in proportions specified by the RBZ to the state oil and power companies, to the RBZ (for exclusive use for debt-service payments), and to the tobacco growers' association (ZTA) to finance imports of raw materials.

- The new tariff structure effective September 2000 reduced the unweighted average tariff (including surcharges) from 39 percent to 36 percent and the maximum rate from 100 percent to 70 percent, but failed to lower the duty surcharge as planned or to make the envisaged sectoral tariff reductions.

- Guidelines on dealing with troubled banks await finalization.

- Retail price controls on maize meal have not been dismantled, although they have not been enforced strictly.

- Little progress has been made in reducing the civil service (see para. 17).

- The programmed liquidation of parastatals has not taken place.

Regarding other structural measures, the situation is as follows:

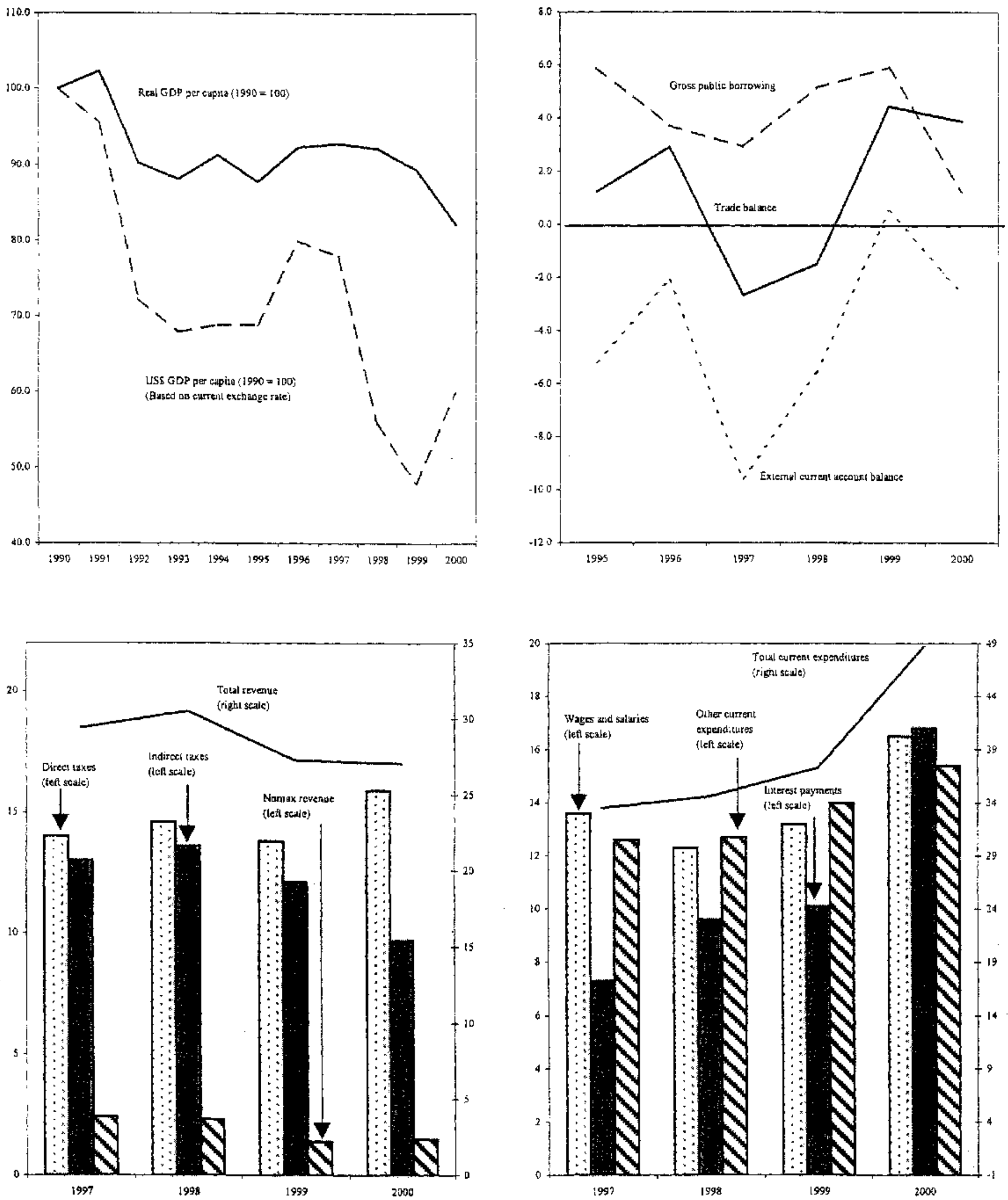
- The government established a Competition Commission in January and a Privatization Agency in August 1999.

- In January 2000, the government imposed a 3 percent levy on personal incomes earmarked to fight AIDS, but the introduction of VAT was postponed until 2002.

- Fuel prices have been raised periodically, most recently in early November 2000, but are still below cost recovery levels. The state electricity company ZESA has moved to a formula-based pricing, and local governments have been authorized to charge economic tariffs from January 1, 2001 onward on water, sewerage and other services, which currently are subsidized.

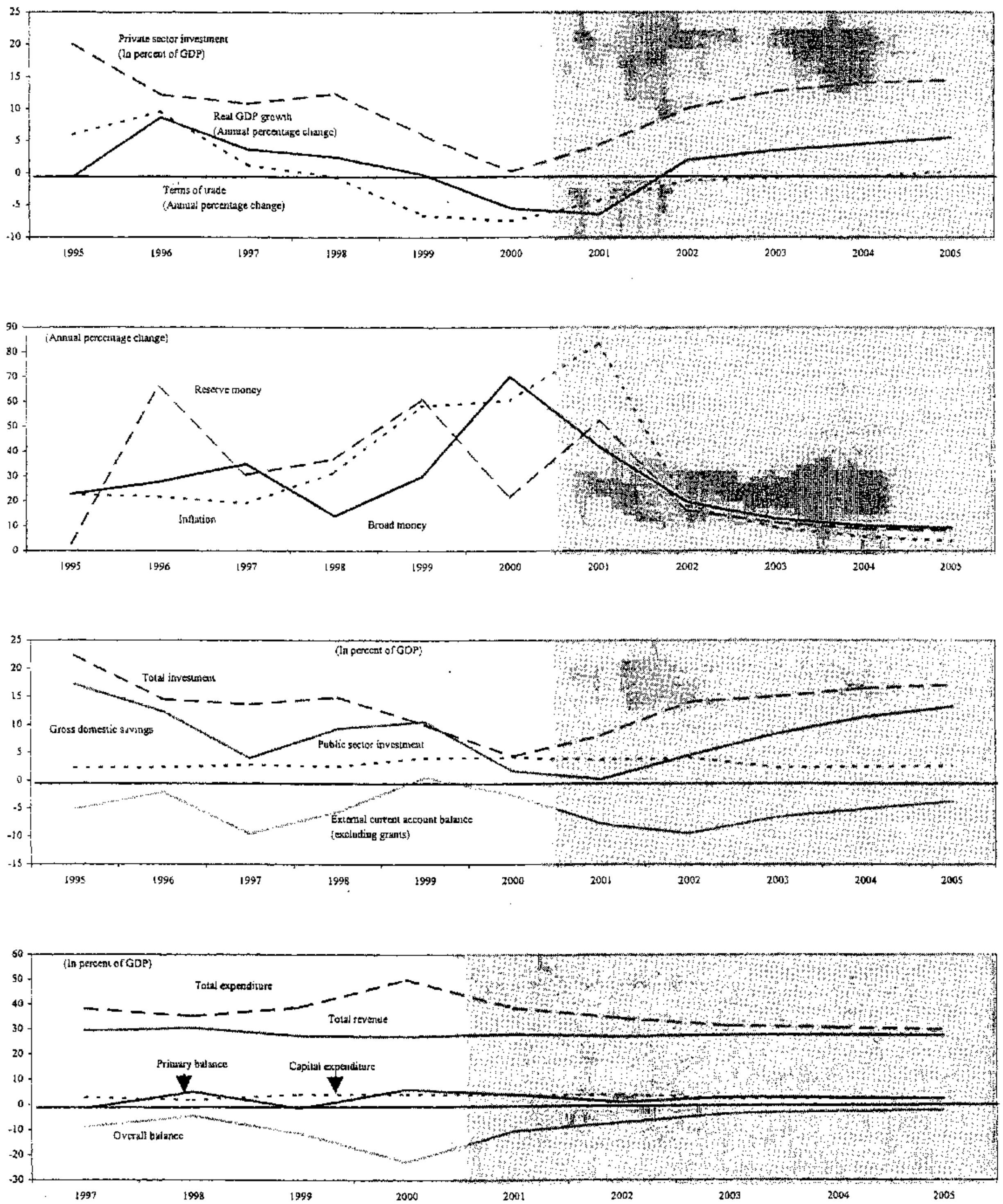
- Government procurement procedures are under review, but no new legislation has been passed.

Figure 1. Zimbabwe: Selected Indicators, 1990-2000
(In percent of GDP, unless otherwise indicated)



Sources: Zimbabwean authorities; and staff estimates and projections.

Figure 2. Zimbabwe: Macroeconomic Indicators, 1995-2005 1/



Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Shaded areas indicate staff projections.

7. Monetary policy was accommodative during the first half of 1999, but as inflationary pressures intensified, the RBZ began to tighten liquidity in July, mainly by doubling reserve requirements to 30 percent. Reserve money growth, which peaked at 96 percent in the 12 months ended August 1999, slowed to 61 percent by year's end, and treasury bill yields and bank lending rates soared in real terms (to 17 percent), although deposit rates remained negative. Crowded out by mounting government borrowing, credit to the private sector declined sharply in real terms for the second consecutive year (Tables 4a. and 4b.).

8. The spillover to the external sector of lax domestic policies and investor skepticism was compounded by the de facto pegging of the currency from January 1999 onward. As the erosion of competitiveness, depressed commodity prices, and a shortfall in foreign financing weakened foreign exchange receipts, usable foreign reserves dwindled. An unavoidable compression of imports and service payments turned the current account into a small surplus in 1999 from a deficit of 5½ percent of GDP in 1998 (Table 5). Increasing shortages of essential imports and queues for private sector foreign exchange payments developed and a parallel market spread emerged. The public sector started to build external arrears that totaled about US$110 million by year's end (of which three-fourths were owed by the oil and power companies).

9. The economic crisis deepened during 2000, fueled by mounting fiscal imbalances, a further erosion of competitiveness, election-related violence (including farm invasions and casualties), and uncertainties related to the government's program of compulsory land acquisition, all of which have further undermined confidence.[2] The authorities took some steps to tackle governance issues as agreed under the 1999 Fund-supported program[3], especially by intensifying enforcement of the 1985 Prevention of Corruption Act and correcting irregularities that had been uncovered in the state oil company. However, progress in these areas was overshadowed by the emergence of other serious governance problems and breaches in property rights since early 2000, in connection with the government's defeat in a constitutional referendum in February and the launching of an accelerated land resettlement program in June (Box 2). Inflation rose to 61 percent in the year ended October and may exceed 80 percent by year's end. Activity and employment have faltered, especially in manufacturing, mining, and tourism,[4] and

[2] The United Kingdom-based *Economist Intelligence Unit* recently ranked Zimbabwe as the third most risky investment destination out of 93 emerging markets surveyed.

[3] See para.11 of the authorities' Memorandum of Economic Policies (Appendix I of EBS/99/131; 7/19/99).

[4] During the first seven months of the year, manufacturing output fell by 11 percent from the same period a year ago and mining production by 14 percent, while tourist arrivals were down by 60 percent. As a consequence, thousands of rural and urban workers have been displaced, and many firms have shortened the workweek.

despite a good agricultural harvest, real GDP is projected to contract by more than 5 percent during the year, which would result in a 12 percent cumulative decline in per capita income over the past three years.

Box 2. Land Reform in Zimbabwe

Background. Land reform has been a contentious issue since independence in 1980, as most prime lands are owned by about 4,000 white commercial farmers, while the majority indigenous population engages in subsistence farming. In the first half of the 1980s, resettlement of over 3 million hectares was based on the government's "first option to buy" at market prices. Subsequently, the 1992 Land Acquisition Act provided for **compulsory** purchase of farms, as long as the property was derelict, located on underutilized land, owned by absentee landlords, or surrounded by communal areas, and the owner had multiple farms. The act required fair compensation and provided a right of appeal. To add momentum, in 1997 the government gazetted 1,471 commercial farms (representing a significant share of the commercial farming area) for compulsory purchase, meeting strong opposition from owners and jolting investor confidence. These developments prompted the launching of an international conference in September 1998, which forged a consensus on the principles that should guide the land redistribution process, namely, poverty reduction, transparency, respect for the rule of law, beneficiary participation, and consultation with stakeholders. In return, donors agreed to provide substantial financial support and the "inception phase" of the program was launched, involving uncontested acquisition of 130,000 hectares and resettlement of 200 farms.

In November 1998, however, the government issued acquisition orders to 841 farmers who had contested the 1997 compulsory purchases. Donors considered this at odds with the agreed principles and scaled back assistance. Following the government's defeat in the February 2000 constitutional referendum that featured land reform as a key plank, war veterans began to occupy commercial farms—often violently—and an estimated 1,600 farms were invaded at some point. In April, the government secured parliamentary approval of a constitutional amendment allowing compulsory acquisitions, which was incorporated formally into the Land Acquisition Act in May.

Recent developments. In June, the government announced a fast-track resettlement program covering 5 million hectares and 150,000 families in 2000, compared with the 3.3 million hectares and 73,000 families resettled since independence (in the process, 2,455 farms were gazetted for acquisition, some of which are being delisted because of errors). The government undertook to provide compensation for capital improvements but not for the value of land, although it invited donors to provide resources voluntarily for the latter purpose. About 1,000 farms remain occupied at present, and owners face a short deadline if they wish to appeal the gazetting on certain grounds. The resettlement process will likely be protracted because of legal procedures, complex logistics, and budgetary constraints, and neither the budgetary costs nor the financing for the program from domestic or foreign sources have been identified to date. Meanwhile the Commercial Farmers' Union has challenged the government's legal authority to carry out compulsory land purchases, with a Supreme Court decision expected in November 2000. The UNDP and the World Bank are coordinating efforts to try to advise the authorities to implement a more orderly land reform program that respects the rule of law. Meanwhile, there appears to be a broad consensus that, over the medium term, the program will lead to increased acreage for subsistence crops, especially maize, at the expense of tradable outputs such as tobacco, wheat, and horticulture. The effects on total farm output will depend on whether resettled farmers receive adequate support (infrastructure, seeds, fertilizer, credit, etc.) to avert a decline in yields, but the present support system does not appear up to this task. In the immediate future, disruptions and uncertainties in commercial farming (including with respect to property rights and availability of crop financing) could result in sizable losses in output, employment, and export earnings in that sector and the rest of the economy, and a rise in relative foodstuff prices.

10. Fiscal performance in 2000 has again deviated sharply from the original target (a deficit of 3.8 percent of GDP), owing to overruns in wages, defense, and domestic interest outlays. The deficit stood at 18 percent of GDP at an annualized rate during the first nine months of the year, and in early September parliament passed a supplementary budget authorizing additional expenditures, mainly for defense, which would widen the deficit to about 23 percent for the year. In that case, the primary deficit would widen to 6 percent of GDP and the operational deficit to 8.7 percent. The government wage bill would reach 16.5 percent of GDP, an unusually high level compared with the sub-Saharan region (Figure 3) as a result of a 60-90 percent wage increase granted before the elections (versus 30 percent in the original budget) and the full-year effect of increases to certain categories granted in late 1999. Defense outlays would rise to about 5 percent of GDP from an estimated 3 percent in 1999, fanned by continued involvement in the DRC conflict. Despite the imposition of caps on interest rates in August, the government's domestic interest bill would rise to 17 percent of GDP. Major parastatals and municipalities, which are outside the budget, are also in a weak financial position.[5]

11. The RBZ sought to contain monetary expansion during the first seven months of the year, but given the government's rising borrowing requirement, this effort came at the expense of continued crowding out of the private sector. In August the RBZ eased monetary conditions by capping its benchmark bank rate at 2-2.5 percentage points above the most recent 12-month rate of consumer price inflation (and treasury bill yields at 1 percentage point below the bank rate), and by allowing banks to channel part of their reserve requirements into subsidized export credits. Broad money, which grew by 30 percent in 1999, increased by 49 percent during the year ended September 2000.

12. In early August, the RBZ announced a 24 percent step devaluation and introduced a crawling peg with periodic adjustments based on inflation differentials with trading partners. Despite subsequent adjustments which have led to a 31 percent cumulative decline vis-à-vis the U.S. dollar in the year to October, the currency is still significantly overvalued (Figure 4), while the parallel market rate is about 25 percent more depreciated than the official rate.[6] With access to foreign financing restricted by sagging creditworthiness, usable official

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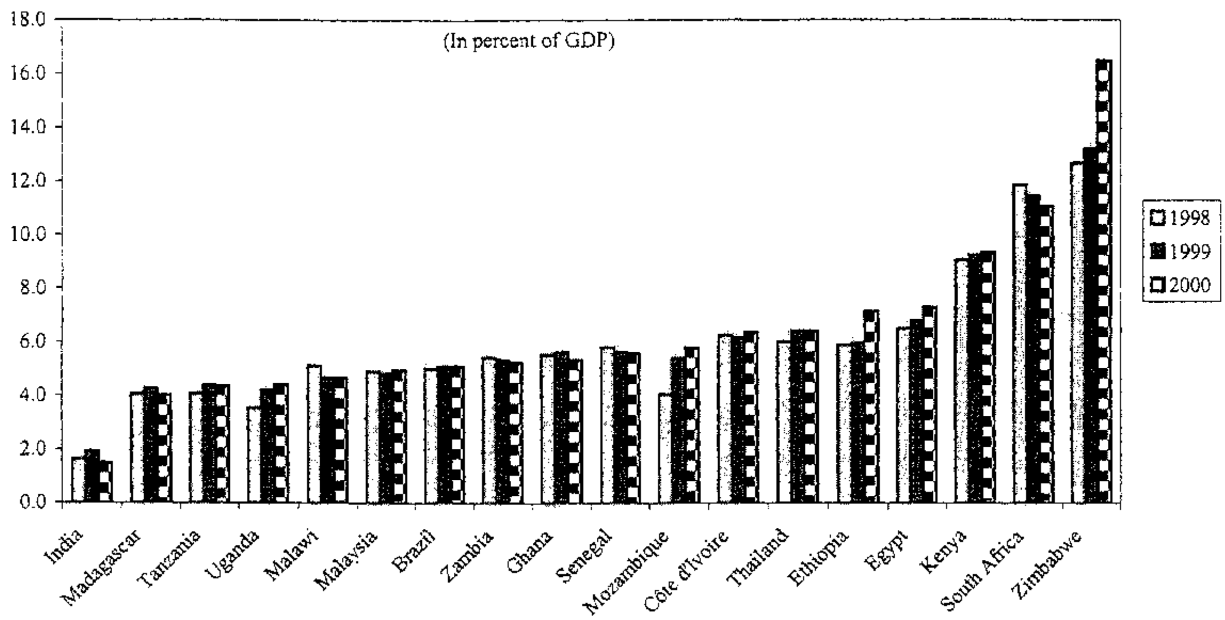
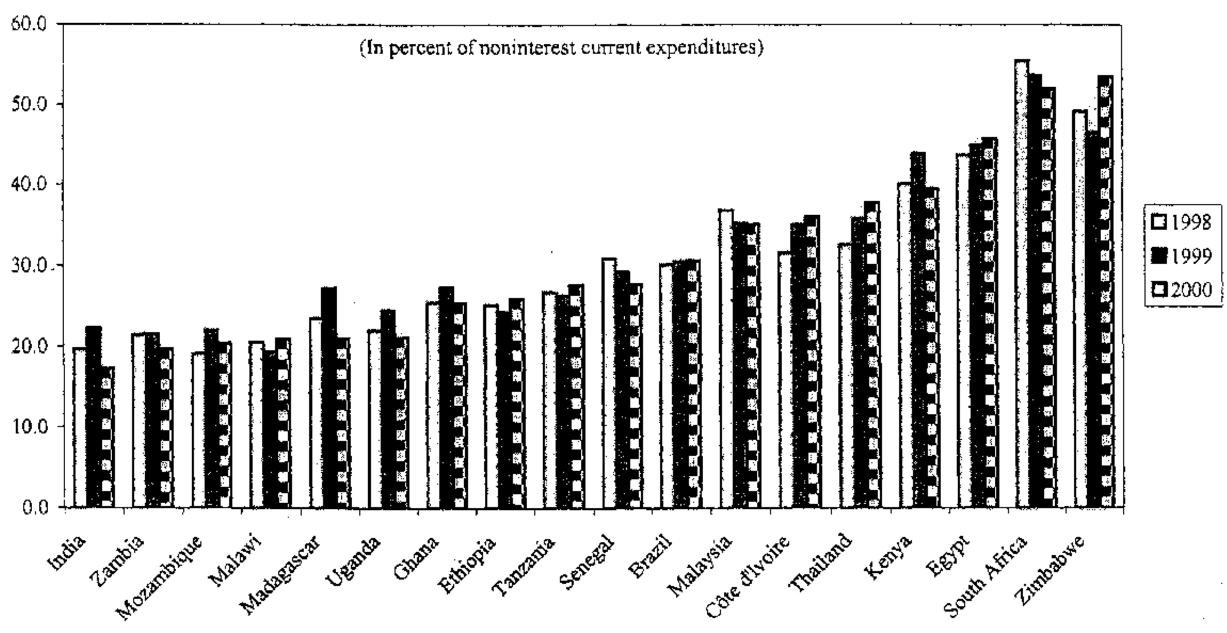
[5] Losses of the nine major parastatals during the first half of the year were equivalent to 0.6 percent of GDP at an annualized rate.

[6] An econometric study in the forthcoming selected issues paper on the determinants of the equilibrium real exchange rate in Zimbabwe confirms that the current real exchange rate is significantly overvalued compared to the underlying equilibrium path. The study also includes empirical evidence on the lagged, but significant response of exports to movements in the real exchange rate.

Figure 3. Government Wage Bill of Selected Countries, 1998-2000 1/

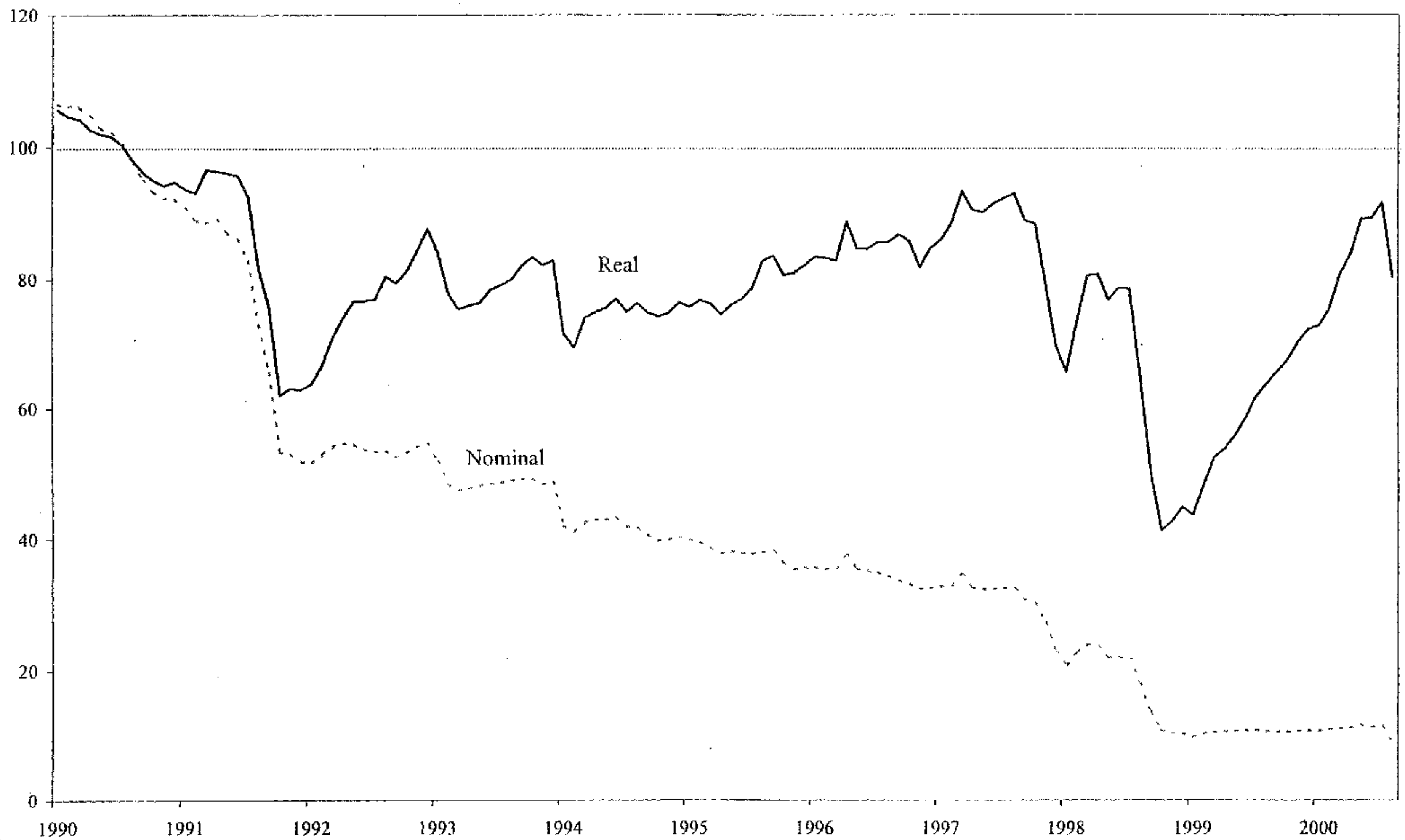




Sources: World Economic Outlook (WEO) database; and staff estimates and projections.

1/ Shares for 2000 are projections

Figure 4. Zimbabwe: Effective Exchange Rates, January 1990 - August 2000
(Period average, 1990 = 100)



Source: IMF, Information Notice System.

reserves have remained negligible despite a seasonal increase in tobacco export receipts in recent months. Severe shortages of fuel, electricity, and other essential imports and a backlog of private service remittances have continued, but a sizable terms of trade loss[7] and a sharp drop in export volumes are expected to shift the current account into a deficit of 2½ percent of GDP. The stock of external payment arrears reached about US$500 million at end-September (including arrears to the World Bank, the African Development Bank, and the European Investment Bank that have prompted suspension of disbursements); three-fourths of these arrears were owed by the public sector. However, Zimbabwe has remained current in its payments to the Fund.

13. The new tariff structure effective September 1, 2000, reduced tariff lines from 7,080 to 5,900 items, the maximum tariff rate from 100 percent to 70 percent, and the unweighted average tariff including surcharges from 39 percent to 36 percent. On this basis, the trade regime rated 8 on the 1-10 restrictiveness scale developed by the Fund (see EBS/97/163; 8/27/97), but the ratio of actual tariff collections to imports was only about 13 percent in 1999-2000, partly because of customs duties exemptions. There are also still some nontariff barriers affecting the agriculture and mining sectors. Zimbabwe and its trading partners are moving to strengthen regional integration in the context of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), and some progress has been made in the discussions on a bilateral trade deal with South Africa, one of its main trading partners.[8]

III. Policy Discussions

14. The new economic team appointed in July indicated that it was seeking to address the country's problems and increase transparency, as evidenced by the recent exchange rate measures and greater candor to civil society on defense outlays. While welcoming the recent corrective steps and the authorities' stated intention to deepen them in the future, the staff cautioned that, absent a fundamental policy turnaround, Zimbabwe faced the prospects of a precipitous decline in activity and employment, hyperinflation, and a rapid deterioration in bank loan portfolios that could trigger a financial crisis (this outlook was illustrated in the staff's "unchanged policies" scenario). Zimbabwe's current difficulties have also had adverse repercussions on neighboring countries, including pressures on the South African rand, disincentives to regional trade and tourism, and migration of workers displaced in Zimbabwe, and there was a risk of regional contagion if Zimbabwe's economy was allowed to melt down.

[7] The terms of trade loss reflects a 9 percent increase in import unit values, owing to the surge in world oil prices.

[8] For details, see the upcoming recent economic developments and selected issues paper.

15. To stabilize the economy and pave the way for sustained medium-term recovery, the staff urged the authorities to formulate a comprehensive adjustment package for 2001 aimed at reducing end-period inflation to 40-50 percent and rebuilding foreign reserves. Even under this "normative" scenario, however, the economic contraction would likely spill into 2001 because of ongoing disruptions in farming activities and shortages in essential imported inputs. Fiscal consolidation and exchange rate realignment, the main pillars of the proposed package, should be buttressed by a reorientation of public spending to priority sectors, tight monetary and wage policies, and expedited structural reforms—especially privatization, civil service reform, and trade liberalization. The mission underscored that successful economic stabilization hinged on rebuilding confidence through a speedy return to the rule of law, an alleviation of political tensions, and the implementation of an orderly land reform that could garner domestic and international support. Uncertainties surrounding property rights and the land reform strategy needed to be resolved promptly, so that adequate crop financing could be provided by banks and a collapse of the commercial farming sector averted.

16. To ease inflation and balance of payments pressures, the mission urged the authorities to exercise expenditure restraint during the remainder of the year and to make every effort to secure approval of a 2001 budget geared to macroeconomic stability, while improving the composition of public spending. Specifically, the staff recommended targeting a **primary fiscal surplus** of 4 percent of GDP, which would correspond to a small **operational deficit** and an **overall deficit** of 10½ percent in 2001. The brunt of the fiscal adjustment needed to come from savings in current expenditure, premised on curtailing real public remuneration through a nominal increase in the wage bill of 20 percent or less in 2001 (thereby reversing the unsustainable increase in real wages granted in 2000), and possibly introducing cutbacks in public employment,[9] as well as by withdrawing from the DRC conflict in step with the deployment of UN troops envisaged under the Lusaka peace initiative. However, outlays for social programs and infrastructure should be protected as much as possible. Greater transparency in fiscal reporting was desirable, and to forestall the recurrence of expenditure overruns, strong expenditure control mechanisms in the executive branch and parliamentary oversight over budget execution would be required.

17. The government would also need to improve tax administration and adopt new revenue measures, for example, increasing certain tax rates and user fees, broadening the tax base, and eliminating preferential tax regimes, exemptions, and loopholes. Furthermore, timely periodic adjustments in fuel and electricity tariffs were essential to put the state oil company (NOCZIM) and the power utility (ZESA) on a sounder footing and eliminate the need for government support.

[9] At the time, the government considered retrenching 5,000 civilian and 10,000-15,000 military positions over the next year or so, but it had not pinpointed the related attritions, early retirements, and severance payments.

18. The authorities were broadly receptive to the call for fiscal consolidation, but underlined the spending pressures stemming from HIV/AIDS and other social problems and the need to cushion the effect of the fiscal retrenchment on vulnerable groups.[10] The officials added that the starting of operations of the autonomous revenue authority early next year boded well for better tax administration over time. Zimbabwe was also working with SADC partners to resolve the DRC conflict, but prospects for a withdrawal of its troops and a peace dividend (net of the cost of demobilization) remained uncertain. The officials admitted that privatization efforts had stalled in recent years, but indicated that they would be given new momentum, especially through outright divestiture of a few prime companies and equity placements by other parastatals in the Zimbabwe Stock Exchange. More generally, the authorities stressed that the 2001 budget target would need to be realistic to avoid repeated expenditure overruns that weakened credibility. The staff noted that a more gradual deficit reduction path than outlined above would become feasible if the government were able to quickly mobilize sizable foreign grants and concessional loans and privatization proceeds; such resources could also give some leeway for protecting priority spending and covering the costs of land reform and public worker severance payments, which had not yet been factored in. The staff added that, under the current circumstances, it was not realistic to count on immediate resumption of large-scale donor assistance, although donor sentiment would likely turn around if the government demonstrated resolve in strengthening economic policies and ensuring a speedy return to the rule of law.

19. The mission noted that fiscal consolidation and confidence building should ease the burden of monetary policy, but it urged the RBZ to tighten the monetary stance until inflation was brought under control, including through the elimination of interest rate caps and return to market determination of treasury bill yields. The staff added that the proposed policies to reduce inflation and restore confidence should allow nominal interest rates to decline in 2001. While welcoming the steps taken to strengthen bank supervision,[11] the mission recommended prompt issuance of guidelines that await finalization for dealing with troubled banks. At the moment, financial sector exposure to currency mismatch is limited, suggesting that its vulnerability to the proposed exchange rate realignment would be

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[10] The social challenges associated with the fiscal retrenchment and the development of social safety nets to cushion the impact on vulnerable groups, as well as the other structural and social issues in which the World Bank is expected to take the lead, are summarized in Box 3.

[11] These steps include passage of the Reserve Bank Act (which is expected to strengthen the RBZ's ability to supervise banks and deal with problem institutions) and an increase in minimum bank capital requirements in 1999, as well as the issuance of new banking regulations in September 2000.

Box 3. Future Social Challenges and Reforms

Immediate social and poverty challenges. All major indices of poverty prevalence, depth, and severity have increased in recent years, and new vulnerabilities have emerged as a result of the HIV/AIDS pandemic and land invasions (see Boxes 3 and 4). The poor have been particularly hit by the rising cost of foodstuffs and public utilities, deteriorating public service provision, shortages of imported drugs and medicines, increasing numbers of layoffs in the private sector, and the threatened displacement of thousands of farm workers on commercial farms scheduled for compulsory acquisition and resettlement. Moreover, personal violence is increasing in rural and urban areas.

Response by the Bretton Woods institutions. The Fund and the Bank are working together to monitor the situation and prepare appropriate measures to mitigate the impact of necessary fiscal adjustments in the future, as well as to deal with current problems associated with HIV/AIDS and the land reform. As the economy enters into an adjustment period, the Bank will play a central role (in cooperation with donors) in helping the authorities to identify vulnerable population groups and to propose cost initiatives to cushion the transition, as well as in assisting the authorities and stakeholders in the implementation process. The scope and timing of potential savings in government wage outlays through retrenchments and real wage cuts; the timing and cost of demobilization and resettlement of troops deployed in the DRC; the size of the adjustments required in public utility prices; and the repercussions of the land reform program and of the downturn in nonfarm activities (including rural and urban unemployment, projected food shortages, and increases in relative food prices) are some of the main parameters that will need to be focused on.

Other areas for Fund/Bank cooperation. In recent years, the Bank has been assisting the authorities extensively in several major areas (see Appendix II). The proposed structural adjustment credit (SAC III) included (a) privatization and parastatal reform; (b) land reform and poverty reduction; (c) foreign trade and export promotion; and (d) financial sector reform. These initiatives were intended to complement and amplify the structural benchmarks included in the program supported by the 1999-2000 Stand-By Arrangement. In the event, SAC III was not presented to the Bank's Board as the Stand-By Arrangement quickly veered off track, but the Bank has continued to engage the authorities in a dialogue and provide technical assistance on these issues.

Looking forward, and assuming that the authorities decide to embark on a comprehensive adjustment and reform program along the lines outlined in this report, the Bank (in the context of Fund/Bank collaboration) will take the lead in the areas of civil service and public sector restructuring, land reform, social protection, and trade liberalization and export promotion. On financial sector issues, the Fund and Bank staffs will cooperate closely and build on earlier technical assistance provided by both institutions. Past work in all the above areas will need to be updated and tailored to the present circumstances and challenges. More immediately, in anticipation of the clearance of Zimbabwe's arrears to the Bank and progress in the areas of governance, land reform, and macroeconomic stability, the Bank is undertaking the preparatory work for an HIV/AIDS project as well as a social protection project that will help cushion the immediate effects of fiscal adjustment and disruptions in economic activity. The latter is likely to include basic education assistance for poor children, labor-intensive public works programs in urban areas, support for community care of orphans, provision of emergency drugs and medical supplies, and strengthening of government capacity in social protection. Other initiatives being considered under the project include establishment of a short-term poverty-monitoring system to detect emerging pressure points and the allotment of resources to a rapid response fund to address social protection emergencies.

manageable. Lending to the agricultural sector consists mostly of crop financing, and uncertainties created by the land reform program have led banks to sharply reduce crop credits to insulate themselves from the risk of default by commercial farmers. However, banks and supervisory authorities needed to remain vigilant to detect strains on the financial system arising from a generalized weakening in economic activity, and they were advised to stand ready to adopt prompt remedial actions as needed.[12]

20. The mission welcomed the authorities' decision to exit from the fixed exchange rate regime in early August and underlined the need for further steps to restore competitiveness in conjunction with the tightening of macroeconomic policies. In the current circumstances, this goal could best be achieved by allowing the exchange rate to float (and using reserve money as an anchor to permit the conduct of an independent monetary policy); if the authorities preferred to retain the crawling peg, they would need to make additional adjustments to narrow the gap with the parallel market and possibly to widen the current band of 5 percent on each side of the parity.

21. The mission noted that the new import tariff schedule introduced in September 2000 had positive aspects, including a simplification of the structure and reduction in the average and maximum tariff rates. It cautioned, however, that Zimbabwe's trade regime remained quite restrictive by comparable international standards. In that vein, the authorities were advised to examine closely the repercussions of the new cascading tariff structure on sectoral effective protection in order to avert inefficiencies in resource allocation, as well as to formulate a plan for deepening trade liberalization in conjunction with the other proposed adjustment measures.

22. Zimbabwe maintains a multiple currency practice subject to Fund approval under Article VIII, Sections 2(*a*) and 3 of the Articles of Agreement arising from outstanding contracts under a discontinued RBZ scheme for forward foreign exchange cover (which the authorities expect to phase out by end-2001). Fund approval of the authorities' retention of this practice lapsed in March 2000. Moreover, the limitation on the availability of foreign exchange from the RBZ (as evidenced by the accumulation of private sector external payment arrears) gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(*a*). The mission urged the authorities to eliminate as soon as possible the multiple currency practice and the exchange restriction and to liberalize the export surrender requirements and foreign exchange allocation guidelines described in Box 1. The mission also encouraged the authorities to formulate a plan for the elimination of the public sector's external payment arrears as part of the comprehensive package described above to stabilize the economy.

[12] The share of nonperforming loans in the total portfolio of commercial banks rose from 14 percent at end-1999 to 21 percent in September 2000. In September, the RBZ intervened in a troubled merchant bank to stabilize its situation and prevent contagion to other banks.

23. The authorities expressed frustration with the limited progress achieved during the "inception phase" of land reform that followed the 1998 Harare conference. They noted the serious inequality in land ownership that had persisted 20 years after independence and cited the pressures from land invasions (including by the politically powerful war veterans), which had led the political leadership to launch a program of fast-track compulsory acquisition aimed at resettling 5 million hectares of commercial farms by end-2000, compared with the 3.3 million hectares resettled since independence (see Box 2). The staff noted that it was important to conduct the land reform process in a lawful manner and dispel uncertainties (e.g., regarding property rights and availability of crop financing) that could entail large output and employment losses, especially at a time when the economy was already debilitated. The mission urged the authorities to work closely with donors and recommended, in particular, a close examination of the economic and legal aspects of the land reform program (which the authorities have initiated in cooperation with the United Nations Development Program (UNDP) and the World Bank), as well as a careful phasing commensurate with available resources.

IV. Medium-Term Outlook

24. Progress in stabilizing the economy, addressing governance issues, and normalizing relations with creditors should help restore confidence and foster sustained and more equitable economic growth over the medium term. Taking into account the ongoing economic dislocations and the strains arising from the spread of HIV/AIDS (Box 4), staff projections suggest that real GDP could rebound in 2002 and gradually rise to 4.5-5.5 percent in the outer years if the authorities adopt prudent macroeconomic policies that foster a recovery in private investment (Table 6). In particular, a strong effort would be needed to reduce the government deficit (before grants) from about 23 percent of GDP in 2000 to about 2¼ percent by 2005. Based on World Economic Outlook (WEO) commodity price forecasts and assuming that strong policies elicit a sustained increase in domestic and foreign savings, the current account deficit (excluding official transfers) would peak at 9½ percent of GDP in 2002 before narrowing gradually to 4 percent by 2005, and usable foreign reserves would rise steadily to three months of imports of goods and services by the end of the period. The debt-service ratio would decline from an estimated 29 percent of exports of goods and services in 2000 to 20 percent by 2005 (Tables 5 and 7). Improved creditworthiness associated with strong and credible policies should help renew Zimbabwe's access to foreign borrowing on concessional terms, but part of the financing gaps projected over the next two years would probably need to be covered by a rescheduling of bilateral and commercial obligations.

25. The major downside risks in the outlook stem from the possibility of continued political tensions and uncertainties ahead of the April 2002 presidential election, which would prolong the economic drift and create enormous social hardships. Zimbabwe also remains vulnerable to weather and terms of trade shocks and a long-term decline in foreign demand for some of its exports (such as tobacco and asbestos), although diversification and development of domestic energy sources should lessen these risks over time. A sensitivity analysis suggests that a 10 percent decline in international prices of tobacco and gold (the

main exports) or a 10 percent increase in oil import prices from the baseline scenario would worsen the current account deficit by an annual average of US$110 million (2 percent of GDP) and US$40 million (0.7 percent of GDP), respectively, during 2001-05.

Box 4. The HIV/AIDS Pandemic

Health and social indicators. The rapid spread of HIV/AIDS in recent years, together with a decline in living standards and a weakening in the fiscal stance, has put serious strains on the public health system and eroded earlier gains in social indicators (Appendix IV). The incidence of HIV/AIDS in Zimbabwe, affecting 1.5 million persons or one-fourth of the adult population according to the estimates of the Joint United Nations Program on HIV/AIDS (UNAIDS), is one of the highest in the world, exceeded only by Botswana and Swaziland. Furthermore, 20 percent of Zimbabweans over 15 years of age can expect to die of AIDS within the next ten years. During the decade ended 1997, life expectancy declined from 59 years to 54 years for females, and from 55 to 41 years for males, and AIDS-related deaths are expected to double over the next five-ten years. Another serious effect of HIV/AIDS is a sharp increase in the number of orphans. The National AIDS Coordination Program estimates that 60,000 children lose at least one parent to AIDS each year, and that there are currently 600,000 orphans in the country. In 1999 alone, the number of new AIDS-related orphans was 130,000 (1 percent of the population), straining already limited resources for social services and stretching informal safety nets. The number of under age orphans is expected to increase to at least 1.2 million by 2005 and to represent at least 10 percent of the population by 2010.

The HIV/AIDS pandemic has also increased sharply the occurrence of opportunistic infections, such as tuberculosis, and the treatment of HIV/AIDS-related illnesses currently absorbs more than one-fourth of public health expenditure (however, total public health expenditure has been declining in relation to GDP since the early 1990s). Moreover, there are indications that mortality rates for illnesses not related to HIV/AIDS are rising, and that the overall quality of health services is declining; while health service demand is growing, a rising number of doctors and nurses is required just to replace those who fall victim to AIDS.

Growth repercussions of the pandemic. Beyond the direct fiscal pressures (felt through increased expenditures on health, disability payments, and pensions for surviving dependents), HIV/AIDS hampers economic development through a number of other channels, especially by lowering the supply of skilled labor and labor productivity and by reducing savings. The pandemic also hinders the accumulation of human capital (as a result of the shortening of life expectancy) and discourages private investment because of the higher labor costs stemming from higher mortality and labor attrition. Poverty rates also increase as households often are unable to compensate for the loss of the main wage earner. Furthermore, the pandemic erodes institutions and policies that are crucial for economic growth. While estimates of the economic impact of HIV/AIDS on growth are subject to a large margin of error, some studies estimate that average annual per capita output growth in Africa will be reduced by about 0.8 percentage point owing to HIV/AIDS. Zimbabwe, with its higher-than-average infection rate, could therefore see its per capita output growth fall by well over 1 percent.1/

1/ René Bonnel, "HIV/AIDS: Does it Increase or Decrease Growth? What Makes an Economy HIV-Resistant?" (unpublished; Washington: World Bank, 2000).

V. Statistical Issues

26. Zimbabwe's database continues to suffer from numerous deficiencies in coverage and timeliness. The most serious problems stem from lack of transparency and accuracy in reporting foreign reserves and fiscal operations (including sizable amounts of pledged and illiquid foreign assets, off-budget fiscal transactions, discrepancies between fiscal and monetary data on the financing of the budget deficit, and lack of transparency on defense outlays). Output, price, and external sector data are also weak and reported with long lags, and there are no data on unemployment (Appendix III). The mission urged the authorities to address these shortcomings as soon as possible, if necessary with external technical assistance, and stressed that accurate and timely statistics and full disclosure were essential to guide the authorities in the conduct of economic policy, as well as to allow the Fund to properly discharge its surveillance responsibilities.

VI. Staff Appraisal

27. Zimbabwe has plunged into a grave crisis over the past two years as a result of fiscal profligacy, an erosion of competitiveness, and governance problems that have undermined investor confidence and curtailed access to foreign financing. These difficulties have also generated increasingly negative externalities on neighboring countries, of which the Zimbabwean authorities need to be mindful. Efforts to stabilize and reform Zimbabwe's economy under the program supported by the 1999 Stand-By Arrangement were quickly eclipsed by new and unsustainable spending initiatives that crowded out the private sector. Productive activities were further buffeted by erratic law enforcement, including large-scale farm invasions, and an acute foreign exchange shortage. In addition, the spread of HIV/AIDS has wiped out hard-won gains in social indicators and become a serious obstacle to future economic and social development.

28. Against this backdrop, the new economic team appointed after the June elections has taken some positive steps, especially by devaluing the currency and raising the awareness of public opinion about the size of the fiscal deficit and its root causes. However, these efforts have been hamstrung by continued policy weaknesses, dislocations and uncertainties related to the fast-track land resettlement program, and political tensions.

29. The government clearly needs to muster a broad political consensus to design and implement an adjustment package aimed at stabilizing the economy and paving the way for a resumption of sustained growth over the medium term. In this fashion, Zimbabwe would also regain its rightful status as an anchor of stability and prosperity in southern Africa. Corrective measures need to focus on fiscal consolidation and restoration of competitiveness, and should be supported by prudent monetary and wage policies. In addition, structural reforms would provide the added momentum needed to foster efficiency gains and improve public sector operations. These initiatives, however, can bear fruit only if confidence is restored through improved governance, and if land reform is implemented in a fair and transparent manner, respects the rule of law, and therefore can be supported by domestic stakeholders and the international community.

30. To restore fiscal discipline, it will be essential to curtail wage and defense outlays, which have risen to unsustainable levels and preempted spending on priority sectors, and to introduce greater transparency in fiscal reporting and strong expenditure control mechanisms. Civil service reform and a well-designed program of public asset sales could usefully complement these efforts and signal a greater role for the private sector in the economy. While the weakening in economic activity may depress tax revenue in the near future, the authorities would be advised to improve tax administration (especially by launching the National Revenue Authority), broaden the tax base, and possibly raise certain tax rates and user fees, with a view to buttressing collections over time. Moreover, timely adjustments in public utility prices would help strengthen the finances of parastatals and forestall pressures for government support.

31. Fiscal consolidation would be expected to ease the heavy burden on monetary policy and release resources for the recovery of private sector activity. Nevertheless, the monetary authorities need to tighten liquidity and move toward greater exchange rate flexibility—preferably by floating the currency or otherwise effecting discrete adjustments under the crawling peg. Given the unsettled economic environment, bank supervisors need to monitor financial institutions closely and stand ready to address emerging strains. In this connection, the welcome steps already taken to bolster supervision should be aided by the prompt issuance of the pending guidelines for dealing with troubled banks.

32. Zimbabwe's trade regime continues to be quite restrictive, despite the useful steps taken recently to streamline and reduce import tariffs. Together with the measures outlined above to restore macroeconomic equilibrium, the authorities would be advised to deepen trade liberalization, with a view to improving resource efficiency and shielding domestic consumers from monopolistic practices. The government should also seek to normalize relations with external creditors and formulate a timetable for the elimination of external payment arrears. A track record of credible and strong policies could then pave the way for renewed financial assistance from the international community and, possibly, debt rescheduling to cover the financing gaps arising in the next few years.

33. Zimbabwe maintains a multiple currency practice subject to approval under Article VIII, Sections 2*(a)* and 3 of the Fund's Articles of Agreement, arising from outstanding contracts under a discontinued RBZ scheme for forward foreign exchange cover, which the authorities expect to phase out by end-2001. In addition, Zimbabwe maintains an exchange restriction subject to approval under Article VIII, Section 2*(a)* arising from the limited availability of foreign exchange from the RBZ, as evidenced by the accumulation of private sector external payment arrears. The authorities are urged to eliminate as soon as possible the multiple currency practice and the exchange restriction subject to approval under Article VIII. In the absence of a timetable for their removal, the staff does not recommend approval. The authorities are also urged to normalize relations with external creditors and formulate a plan for timely elimination of the public sector's external payment arrears, pari passu with the implementation of comprehensive adjustment measures to restore domestic and external equilibrium.

34. Serious weaknesses in coverage and long lags in the reporting of economic statistics continue to complicate the design and monitoring of economic policies in Zimbabwe and hamper the conduct of Fund surveillance. Timely and transparent dissemination of data on the RBZ's foreign reserves (specifying those that are usable or encumbered) and on defense outlays, the consolidation into the fiscal accounts of extrabudgetary operations, and the reconciliation of fiscal and monetary data on government deficit financing are some of the issues to which the authorities should attach high priority. To address these problems, government agencies may wish to avail themselves of external technical assistance.

35. It is proposed that the next Article IV consultation with Zimbabwe be held on the standard 12-month cycle.

Table 1. Zimbabwe: Performance Criteria Under the 1999-2000 Stand-By Arrangement 1/

	1999							
	End-June		End-September			End-December		
	Original Estimate	Revised Actual	Performance Criteria	Actual	Achieved	Performance Criteria	Actual	Achieved
	(In millions of Zimbabwe dollars)							
Quantitative performance criteria								
Ceiling on net domestic financing of the central government budget, including receipts from asset sales 2/	6,565	10,772	6,196	14,830	NO	2,950	30,710	NO
Ceiling on reserve money	11,467	12,240	11,617	15,711	NO	11,964	17,785	NO
	(In millions of U.S. dollars)							
Floor on net international reserves of the Reserve Bank of Zimbabwe 3/	-290	-231	329	-157	YES	-290	-222	YES
Ceiling on new nonconcessional external borrowing contracted or guaranteed by the public sector (one year or more maturity) 2/ 4/ 5/ 6/	40	57	400	169	YES	400	169	YES
Ceiling on stock of short-term external borrowing by the public sector or guaranteed by the public sector (less than one year) 4/ 5/ 6/	280	232	270	175	YES	260	230	YES
Ceiling on outstanding external payments arrears	21	66	11	24	NO	0	109	NO
Nonaccumulation of new external arrears (continuous performance criterion)					NO			NO

Structural performance criteria	Target date	Action
Lifting of import restrictions and liberalization of foreign currency account	August 11, 1999	Only partially competed.
Issuance to public of guidelines to deal with troubled banks	End-September 1999	Not completed.
Removal of all remaining import restrictions imposed in September 1998	End-December 1999	Not completed.
Maize meal to be sold at a controlled retail price no lower than Z$393 per 50-kilogram bag	End-September 1999	Completed de facto. 7/
Cap on size of civil service		
152,020	End-September 1999	Not completed.
149,600	End-December 1999	Not completed.
The sale of 30 percent of ZIMRE (an insurance company) shares held by the government; the sale of all subsidiaries in the Zimbabwe Development Corporation and its dissolution; the sale of the Zimbabwe State Trading Corporation; and liquidation of the Central Purchasing Authority	End-September 1999	Not completed.
The sale of all remaining government holdings in Hwange Colliery	End-December 1999	Not completed.

1/ Unadjusted performance criteria. No performance criteria were set for 2000 as the midterm review under the arrangement could not be completed.
2/ Cumulative from January 1, 1999.
3/ Includes external payments arrears as a liability. Does not account for collateralization of reserves.
4/ Public sector consists of the Reserve Bank of Zimbabwe, central government, and local authorities.
5/ Excluding normal import-related credits.
6/ Includes domestic borrowing in foreign currency.
7/ Maize meal price controls are not enforced.

Table 2. Zimbabwe: Selected Economic Indicators, 1995-2001

	1995	1996	1997	1998	1999		2000	2001	
					Program	Estimate	Projection	Normative	Unchanged Policies
GDP									
Nominal GDP (in billions of Zimbabwe dollars)	61.8	84.8	99.7	135.7	207.5	214.2	329.7	570.3	690.8
Nominal GDP (in billions of U.S. dollars)	7.1	8.5	8.4	6.3	...	5.6	7.2	4.8	...
Real GDP (market prices; percentage change)	-0.6	8.7	3.7	2.5	1.2	-0.2	-5.5	-6.5	-10.0
Real per capita GDP (percentage change)	-4.0	5.4	0.6	-0.7	-1.9	-3.1	-8.3	-9.3	-12.7
Savings and investment (in percent of GDP)									
Gross national savings (excluding grants)	17.2	12.4	4.0	9.3	16.8	10.5	1.7	0.2	4.0
Of which Public Sector			-7.7	-2.3	-3.6	-5.9	-17.6	-7.2	-27.6
Of which Private Sector			11.8	11.6	20.4	16.4	19.3	7.3	31.6
Gross investment	22.4	14.5	13.6	14.9	23.1	10.0	4.3	8.0	4.0
Of which Public Sector	2.3	2.3	2.8	2.5	2.6	4.0	4.1	3.7	1.2
Of which Private Sector	20.1	12.2	10.8	12.4	20.5	6.0	0.2	4.3	2.8
Net savings minus investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prices and interest rates (in percent)									
CPI inflation (annual average)	22.6	21.7	18.9	31.5	47.7	58.2	60.4	83.5	131.3
CPI inflation (end of period)	25.8	16.4	20.1	46.6	29.8	56.9	85.9	44.0	155.1
GDP deflator (market prices)	10.3	26.6	16.1	29.8	46.5	58.2	62.9	85.0	132.8
91-day treasury bills (annualized yield)	28.0	24.5	31.4	35.0	31.0	74.0	87.4	36.5	...
Central government budget (in percent of GDP; calendar-year basis)									
Revenue	...	...	29.4	30.5	26.9	27.3	27.1	28.0	25.1
Expenditure and net lending	...	...	38.2	35.1	32.3	38.8	49.9	38.5	54.1
Of which : interest on central government debt	...	...	7.3	9.6	8.6	10.1	16.8	14.6	27.3
Overall balance, excluding grants and arrears	...	...	-8.8	-4.6	-5.3	-11.5	-22.8	-10.5	-29.0
Primary balance, excluding grants	...	...	-1.5	5.0	3.2	-1.4	-6.0	4.1	-1.7
Domestic financing (incl. privatization)	7.7	4.6	7.5	5.4	1.5	11.5	20.3	8.3	27.4
External financing (including grants and arrears)	1.4	1.5	1.3	-0.8	3.9	-0.1	2.5	2.2	1.6
Total public debt (in percent of GDP; end of period)	...	...	...	86.1	...	97.4	90.4	97.4	112.4
Domestic debt	...	...	...	28.6	...	30.3	36.6	27.4	49.4
External debt	51.0	43.2	42.5	57.5	...	67.1	53.8	70.0	63.0
Money and credit (percentage change; end of period)									
Broad money (M3)	22.7	27.7	34.9	14.1	9.7	29.8	70.1	42.0	116.5
Domestic credit	29.0	36.2	42.7	22.6	12.7	17.1	67.9	17.1	84.1
Credit to the private sector	29.4	49.1	35.6	27.5	30.0	10.5	50.9	37.5	44.2
External trade (percentage change)									
Export volume	0.8	5.9	0.1	-11.3	5.9	3.9	-11.4	-7.1	-28.6
Import volume	12.4	8.8	23.3	-15.5	2.2	-18.9	-17.1	-6.7	-32.0
Terms of trade	6.0	9.6	1.2	-0.6	-4.2	-6.6	-7.5	-4.4	-4.4
Balance of payments (in billions of U.S. dollars, unless otherwise indicated)									
Exports	2.22	2.50	2.42	1.93	2.13	1.92	1.80	1.66	1.28
Imports	-2.13	-2.25	-2.65	-2.02	-2.06	-1.68	-1.52	-1.52	-1.01
Current account balance (excluding official transfers)	-0.37	-0.18	-0.83	-0.36	-0.35	0.03	-0.19	-0.37	0.05
(in percent of GDP)	-5.2	-2.1	-9.6	-5.6	-6.3	0.5	-2.6	-7.8	0.0
Overall balance	0.26	-0.04	-0.74	-0.21	-0.03	0.21	-0.51	-0.22	-0.25
External debt and arrears (including private debt)									
Total external debt (in percent of GDP; end of period)	75	61	58	71	101	82	62	98	82
Debt service (in percent of exports of goods and services)	19	17	17	33	21	22	29	29	41
Total external arrears (in percent of GDP; end of period)	...	...	...	...	...	1.9	9.1	0.0	21.6

Sources: Zimbabwean authorities; and staff estimates and projections.

Table 3a. Zimbabwe: Central Government Operations, 1998-2001

	1998	1999	2000		2001 Staff Proj.	
		Est.	Budget	Proj.	Normative	Unchanged Policies
			(In percent of GDP)			
Total revenue	30.5	27.3	29.0	27.1	28.0	25.1
Tax revenue	28.2	25.9	27.5	25.6	26.5	23.5
Domestic taxes	23.1	22.0	21.9	22.9	22.5	20.0
Customs duties	5.1	4.0	5.6	2.7	4.0	3.5
Nontax revenue	2.3	1.4	1.5	1.5	1.5	1.5
Total expenditure and net lending	35.1	38.8	32.8	49.9	38.5	54.1
Current expenditure on goods and services	17.4	19.0	16.7	22.1	16.6	19.9
Of which: wages and salaries	12.3	13.2	11.3	16.5	11.5	14.9
Interest payments	9.6	10.1	9.4	16.8	14.6	27.3
Of which: domestic	8.0	8.4	7.7	15.5	12.5	26.2
Subsidies and transfers	5.8	4.2	4.1	5.7	4.0	5.3
Capital expenditure	1.8	4.0	2.7	4.1	3.7	1.2
Net lending	0.5	1.5	0.0	1.2	-0.4	0.4
Budget balance, excl. grants (commitment basis) 1/	-4.6	-11.5	-3.8	-22.8	-10.5	-29.0
Of which: primary balance	5.0	-1.4	5.5	-6.0	4.1	-1.7
Of which: operational balance 2/	2.4	-3.9	...	-8.7	-0.5	-6.5
Grants	1.7	1.0	1.0	3.8	0.8	0.1
Foreign financing (net, including arrrears)	-2.5	-1.1	-0.6	-1.3	1.4	1.5
Domestic financing (net)	5.4	11.5	3.5	20.3	8.3	27.4
Of which: privatization	...	...	0.5	3.9	2.1	...
Memorandum items:						
Health outlays	3.9	2.9	2.1	2.8	...	...
Education outlays	11.9	8.0	7.4	9.8	...	...
Military expenditure	...	3.4	3.0	4.6	...	...

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Commitments with respect to foreign interest payments.
2/ Operational balance equals overall balance minus the inflation component of interest payments on domestic debt.

Table 3b. Zimbabwe: Central Government Operations, 1998-2001

	1998	1999	2000		2001 Staff Proj.	
		Est.	Budget	Proj.	Normative	Unchanged Policies
	(In millions of Zimbabwe dollars)					
Total revenue	42,773	58,563	87,216	89,232	159,939	173,150
Tax revenue	39,483	55,569	82,740	84,293	151,385	162,639
Income and profits	20,461	29,670	43,508	52,022	83,681	96,321
Customs duties	7,106	8,507	16,770	8,927	22,811	24,179
Excise duties	1,757	2,926	3,550	4,409	7,414	8,290
Sales tax	8,869	12,340	17,000	16,659	32,062	29,014
Other taxes	1,291	2,126	1,912	2,275	5,418	4,836
Nontax revenue	3,290	2,995	4,476	4,939	8,554	10,511
Total expenditure and net lending	48,404	83,096	98,727	164,462	219,628	373,751
Current expenditure	45,173	71,279	90,727	147,162	200,796	362,698
Goods and services	23,603	40,640	50,092	72,862	94,665	137,472
Wages and salaries	17,196	28,175	33,892	54,562	65,582	102,931
Other and suspense accounts	6,407	12,465	16,200	18,300	29,084	34,541
Interest on debt	13,466	21,631	28,200	55,400	83,320	188,613
Foreign	2,307	3,560	5,120	4,307	12,168	7,619
Domestic	11,158	18,071	23,080	51,093	71,152	180,993
Subsidies, pensions, grants and transfers	8,105	9,007	12,435	18,900	22,811	36,613
Capital expenditure and net lending	3,231	11,817	8,000	17,300	18,832	11,053
Capital expenditure	2,488	8,629	8,000	13,445	21,113	8,290
Net lending	743	3,188	0	3,855	-2,281	2,763
Budget balance, excl. grants (commitment basis) 1/	-5,631	-24,533	-11,511	-75,230	-59,688	-200,601
Of which: primary balance	7,834	-2,901	16,689	-19,830	23,631	-11,988
Of which: operational balance 2/	4,152	-8,386	...	-28,680	-2,982	-44,928
Grants	2,322	2,144	2,912	12,624	4,412	990
Foreign interest arrears	0	0	0	0	0	7,619
Budget balance, incl. grants (cash basis)	-3,309	-22,388	-8,599	-62,606	-55,277	-191,992
Financing	3,309	22,388	8,599	62,607	55,277	191,992
Foreign financing	-3,514	-2,280	-1,804	-4,323	7,741	2,492
Borrowing	2,021	6,194	6,962	6,555	13,546	1,484
Amortization	-5,535	-8,474	-8,766	-10,878	-26,374	-21,789
Other financing (net)	...	0	0	0	20,568	22,797
Domestic financing	6,823	24,668	10,403	66,930	47,536	189,500
Of which: privatization	...	...	1,584	12,708	11,988	...
Memorandum Items						
Health outlays	5,505	6,260	6,189	9,272	...	...
Education outlays	16,656	17,223	22,108	32,304	...	...
Military expenditure	...	7,202	9,017	15,202	...	...

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Commitments with respect to foreign interest payments.

2/ Operational balance equals overall balance minus the inflation component of interest payments on domestic debt.

Table 4a. Zimbabwe: Monetary Survey, 1997-2001

	1997 Dec.	1998 Dec.	1999 Dec. Prog.	1999 Dec. Act.	2000 Mar. Act.	2000 Jun. Act.	2000 Dec. Proj.	2001 Dec. Norm.	2001 Dec. Unchanged Policies
	(Annual percentage change)								
Monetary authorities									
Net foreign assets of Reserve Bank 1/	-276.7	175.0	-5.4	-37.3	-1.7	35.4	35.7	-307.4	-105.0
Net domestic assets of Reserve Bank 1/	552.7	100.5	0.4	-1.0	27.5	58.8	27.2	-100.8	52.7
Credit to government (net)	-706.0	4.0	-32.2	-45.5	22.1	196.7	243.4	-61.4	134.0
Credit to non financial public enterprises	17.5	258.5	-0.3	-3.1	73.4	73.3	101.5	-34.2	38.0
Credit to private sector	8.8	325.0	48.8	54.3	107.7	140.6	-9.5	-97.7	69.9
Other items (net)	265.9	140.9	-8.5	-7.4	-1.4	-5.6	-8.1	-153.4	-48.9
Reserve money	30.5	37.1	10.0	60.9	55.8	76.0	21.5	52.2	170.9
Currency outside banks	45.0	25.6	16.9	61.4	49.5	44.9	88.5	38.3	182.1
Non bank deposits	76.2	381.1	-64.0	13.5	18.0	-59.5	-62.9	42.4	108.9
Other banking institution reserves	51.6	38.8	-7.1	25.4	23.5	16.8	7.7	42.4	108.9
Deposit money bank reserves	19.5	43.2	8.7	64.6	63.3	112.3	-21.5	75.9	158.0
Monetary survey									
Net foreign assets	557.7	115.6	11.6	-44.3	-13.7	6.6	28.9	-216.0	-66.4
Net domestic assets	60.9	34.8	10.5	5.6	27.8	35.7	63.0	7.1	90.7
Domestic credit	42.7	22.6	12.7	17.1	27.8	43.2	67.9	17.1	84.1
Claims on government (net)	72.2	1.7	-44.5	36.8	56.7	101.9	127.7	-17.7	166.2
Claims on nonfinancial public enterprises	17.8	82.5	-2.1	34.4	52.9	22.6	10.6	-16.6	9.7
Claims on private sector	35.6	27.5	30.0	10.5	14.0	26.0	50.9	37.5	44.2
Other items (net)	-101.6	9536.5	-11.3	-108.1	25.1	-303.8	758.2	287.6	-95.3
Broad money (M3)	34.9	14.1	9.7	29.8	41.3	41.9	70.1	42.0	116.5
Currency	45.0	25.6	16.9	61.4	49.5	44.9	88.5	38.3	182.1
Deposits	34.2	13.2	9.1	27.3	40.6	41.6	68.2	42.4	108.9
Monetary authorities	(in percent of lagged reserve money)								
Net foreign assets of Reserve Bank 1/	-174.2	-149.2	9.2	63.8	2.1	-26.1	-23.7	228.5	78.1
Net domestic assets of Reserve Bank 1/	204.7	186.2	1.0	-2.7	60.0	102.1	45.3	-175.7	91.9
Of which : credit to government (net)	130.9	3.4	-21.0	-29.7	11.7	56.2	53.9	-38.4	83.8
Reserve money	30.5	37.1	10.0	60.9	55.8	76.0	21.5	52.2	170.9
Of which : currency outside banks	17.1	10.8	6.5	23.7	20.1	20.6	34.2	23.0	109.3
Monetary survey	(In percent of lagged broad money)								
Net foreign assets	-29.3	-29.6	-5.6	21.4	4.5	-1.4	-6.0	34.0	10.4
Net domestic assets	64.1	43.7	15.6	8.4	36.8	43.2	76.1	8.2	104.9
Domestic credit	50.7	28.3	17.2	23.1	36.6	51.2	82.5	20.5	100.9
Claims on government (net)	18.2	0.6	-12.7	10.5	20.2	27.7	38.5	-7.1	67.1
Claims on nonfinancial public enterprises	0.8	3.1	-0.1	2.1	3.0	1.4	0.7	-0.7	0.4
Claims on private sector	31.7	24.6	30.0	10.5	13.4	22.1	43.4	28.3	33.4
Other items (net)	13.5	15.4	-1.5	-14.7	0.2	-7.9	-6.4	-12.3	4.1
Broad money (M3)	34.9	14.1	9.7	29.8	41.3	41.9	70.1	42.0	116.5
Currency	2.9	1.8	1.3	4.6	3.7	3.7	8.3	4.0	18.9
Deposits	32.0	12.3	8.5	25.2	37.6	38.1	61.8	38.0	97.6
Memorandum items:	(in units indicated)								
Private sector credit growth (real; percent)	12.9	-13.0	0.2	-29.6	-28.2	-21.1	-18.8	-4.5	-43.5
Velocity (GDP/period average M3)	2.3	2.6	...	3.3	...	...	3.5	3.8	4.1

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Reserve Bank of Zimbabwe's net foreign assets and net domestic assets have been adjusted for memorandum of deposits.

Table 4b. Zimbabwe: Monetary Survey, 1997-2001

	1997 Dec.	1998 Dec.	1999 Dec.		2000 Mar.	2000 Jun.	2000 Dec.	2001 Dec.	
			Prog.	Act.	Act.	Act.	Proj.	Norm.	Unchanged Policies
	(In millions of Zimbabwe dollars)								
Monetary authorities									
Net foreign assets of Reserve Bank 1/	-6,869	-18,893	-17,878	-11,845	-13,480	-12,209	-16,068	33,320	806
Net domestic assets of Reserve Bank 1/	14,928	29,932	30,038	29,631	30,648	33,752	37,684	-286	57,552
Credit to government (net)	6,939	7,216	4,894	3,936	7,162	10,367	13,515	5,220	31,621
Credit to nonfinancial public enterprises	188	674	672	653	1,165	1,166	1,316	866	1,816
Credit to private sector	1,764	7,497	11,158	11,569	9,658	10,010	10,471	246	17,792
Credit to deposit money banks	1,403	6,689	10,158	10,475	8,072	8,305	8,766	41	16,337
Credit to nonbank private sector	361	808	1,000	1,095	1,587	1,705	1,705	205	1,455
Other items (net)	6,037	14,545	13,314	13,473	12,662	12,209	12,382	-6,618	6,323
Reserve money	8,059	11,052	12,159	17,785	17,168	21,543	21,616	32,907	58,551
Currency outside banks	3,396	4,265	4,987	6,884	6,702	8,143	12,974	17,939	36,602
Nonbank deposits	37	178	64	202	74	59	75	107	157
Other banking institution reserves	335	465	432	583	565	493	628	894	1,311
Deposit money bank reserves	4,291	6,144	6,676	10,116	9,827	12,849	7,940	13,967	20,481
Deposit money banks and other banking institutions									
Net foreign assets	-5,832	-8,489	-12,686	-3,413	-3,501	-2,911	-3,596	-10,503	-7,413
Reserves	4,614	6,512	7,108	10,693	10,296	13,415	8,568	14,861	17,052
Net credit from the Reserve Bank (asset +)	-951	-6,689	-10,158	-10,495	-8,083	-8,461	-8,766	-41	-16,337
Total credit	54,786	67,630	79,474	83,716	91,676	101,581	133,542	169,439	241,348
Credit to government (net)	9,000	8,997	4,106	18,239	23,341	26,820	36,972	36,330	102,781
Credit to non financial public enterprises	1,702	2,776	2,704	3,985	3,996	3,813	3,813	3,411	3,813
Credit to private sector	44,084	55,857	72,664	61,493	64,339	70,948	92,758	129,698	134,754
Other items (net)	-6,398	-6,778	-6,647	-14,068	-11,809	-15,734	-17,720	-14,043	-6,546
Total deposits	46,219	52,185	57,091	66,433	78,580	87,891	112,028	159,570	233,991
Of which: foreign currency accounts	2,307	3,462	...	5,618	5,918	5,695	...	...	...
Monetary survey									
Net foreign assets	-12,701	-27,382	-30,564	-15,258	-16,981	-15,121	-19,665	22,817	-6,607
Net domestic assets	62,354	84,037	92,876	88,777	102,337	111,213	144,741	155,043	275,990
Domestic credit	62,274	76,328	86,040	89,399	101,590	114,819	150,078	175,730	276,239
Claims on government (net)	15,939	16,213	9,000	22,174	30,503	37,187	50,487	41,550	134,402
Claims on nonfinancial public enterprises	1,890	3,450	3,376	4,638	5,161	4,979	5,129	4,277	5,629
Claims on private sector	44,445	56,665	73,664	62,587	65,926	72,653	94,462	129,903	136,209
Other items (net)	80	7,709	6,836	-622	747	-3,606	-5,337	-20,687	-249
Broad money (M3)	49,652	56,629	62,142	73,519	85,356	96,092	125,076	177,616	270,749
Currency	3,396	4,265	4,987	6,884	6,702	8,143	12,974	17,939	36,602
Deposits	46,256	52,364	57,155	66,635	78,654	87,949	112,102	159,677	234,147

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Reserve Bank of Zimbabwe's net foreign assets and net domestic assets have been adjusted for memorandum of deposits.

Table 5. Zimbabwe: Balance of Payments, 1997 - 2005

(In millions of U.S. dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
			Est.	Proj.	Normative Projections				
Current account (excluding official transfers)	-823	-355	27	-185	-373	-467	-340	-280	-230
Trade balance	-230	-95	249	276	143	26	64	131	200
Exports, f.o.b.	2,424	1,925	1,924	1,801	1,662	1,797	2,015	2,297	2,633
Imports, f.o.b.	-2,654	-2,020	-1,675	-1,525	-1,519	-1,771	-1,951	-2,167	-2,433
Nonfactor services	-314	-40	21	-62	-126	-137	-124	-106	-116
Receipts	659	630	621	380	303	331	369	415	468
Payments	-973	-670	-600	-442	-429	-467	-493	-521	-585
Investment income	-405	-348	-358	-445	-492	-507	-490	-485	-494
Interest (net)	-147	-147	-143	-196	-180	-220	-239	-258	-282
Other	-258	-201	-215	-250	-313	-287	-251	-227	-212
Private transfers	126	128	115	46	102	150	210	180	180
Capital account (including official transfers)	84	150	179	-323	152	279	462	403	367
Official transfers	85	77	101	35	98	100	100	100	100
Direct investment	107	436	50	16	150	200	201	202	205
Portfolio investment	32	11	21	-30	20	25	35	25	25
Long-term capital (net)	10	-269	34	-255	-116	-46	126	0	-19
Disbursements	350	406	382	109	204	270	409	308	305
Amortization	-340	-675	-348	-364	-320	-316	-284	-308	-323
Short-term capital and errors and omissions	-150	-105	-27	-88	0	0	0	76	56
Overall balance	-739	-205	205	-509	-221	-189	122	123	137
Financing	739	205	-205	509	221	189	-122	-123	-137
Net foreign assets (- increase)	739	205	-314	18	-385	-218	-197	-163	-167
Gross official reserves (- increase)	559	-20	-180	193	-214	-118	-132	-130	-160
Net use of Fund resources	-27	5	-27	-72	-90	-100	-65	-32	-7
Drawings	0	53	35	0	0	0	0	0	0
Repayments	-27	-48	-62	-72	-90	-100	-65	-32	-7
Other short-term liabilities (net)	208	220	-107	-103	-81	0	0	0	0
Arrears accumulation (+ increase)	0	0	109	491	-600	0	0	0	0
Exceptional financing needs 1/	0	0	0	0	1,206	407	75	40	30
Memorandum items:									
Gross official reserves 2/	259	229	288	193	286	347	479	609	769
In months of imports of goods and services	0.9	1.0	1.5	1.2	1.8	1.9	2.4	2.7	3.1
Usable reserve assets (staff calculation)	119	55	47	15	229	347	479	609	769
In months of imports of goods and services	0.4	0.2	0.2	0.1	1.4	1.9	2.4	2.7	3.1
as a share of short-term debt (in percent) 3/	8.4	5.4	4.6	1.9	25.5	40.1	53.9	67.4	79.6
Current account balance (percent of GDP)	-9.6	-5.6	0.5	-2.6	-7.8	-9.5	-6.6	-5.1	-3.8
Export value growth (merchandise goods; annual percentage change	-3	-21	0	-6	-8	8	12	14	15
Import value growth (merchandise goods; annual percentage change	18	-24	-17	-9	0	17	10	11	12
Debt service ratio (in percent of goods and services) 4/	27.0	33.2	21.9	28.6	29.3	28.6	23.4	21.6	19.6
Stock of outstanding external payments arrears	0	0	109	600	0	0	0	0	0
Of which: owed by government	0	0	28	246	0	0	0	0	0
Of which: owed by parastatals	0	0	81	219	0	0	0	0	0

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ On the basis of preliminary projections, exceptional financing needs in 2001 can be filled by a combination of official and commercial debt rescheduling (US$0.86 billion) and balance of payments support (US$0.35 billion) from official creditors.

2/ Gross reserves reported by the Reserve Bank of Zimbabwe includes substantial amounts of pledged and illiquid assets.

3/ Short-term debt includes medium- and long-term amortization due within 12 months.

4/. Debt service (principal and interest) and exports of goods and services.

Table 6. Zimbabwe: Medium-Term Outlook, 2000-05

	2000	2001		2002	2003	2004	2005
			Unchanged				
	Projection	Normative	Policies	Normative Projections			
GDP							
Nominal GDP (in billions of Zimbabwe dollars)	329.7	570.3	690.8	686.8	778.3	860.0	942.3
Nominal GDP (in billions of U.S. dollars)	7.2	4.8	...	4.9	5.2	5.5	6.0
Savings and investment (in percent of GDP)							
Gross national savings (excluding grants)	1.7	0.2	4.0	4.5	8.4	11.4	13.2
Gross investment	4.3	8.0	4.0	14.0	15.0	16.5	17.0
Prices and interest rates (in percent)							
CPI inflation (annual average)	60.4	83.5	131.3	18.0	9.2	5.6	3.9
CPI inflation (end of period)	85.9	44.0	155.1	13.8	7.2	4.6	3.5
GDP deflator (market prices)	62.9	85.0	132.8	18.1	9.5	5.7	3.9
Central government budget (in percent of GDP; calendar-year basis)							
Revenue	27.1	28.0	25.1	27.1	27.8	27.8	27.6
Expenditure and net lending	49.9	38.5	54.1	34.4	31.5	30.8	29.9
Of which: interest on central government debt	16.8	14.6	27.3	8.2	6.7	5.6	4.6
Overall balance, excluding grants and arrears	-22.8	-10.5	-29.0	-7.3	-3.7	-2.9	-2.3
Primary balance, excluding grants	-6.0	4.1	-1.7	0.9	3.0	2.7	2.3
Domestic financing (incl. privatization)	20.3	8.3	27.4	6.0	2.5	1.7	1.1
External financing (including grants and arrears)	2.5	2.2	1.6	1.3	1.2	1.2	1.2
Total public debt (in percent of GDP; end of period)	90.4	97.4	112.4	118.1	112.6	105.0	96.8
Domestic debt	36.6	27.4	49.4	25.1	23.4	21.8	19.9
External debt	53.8	70.0	63.0	93.0	89.1	83.2	76.9
Money and credit (percentage change; end of period)							
Broad money (M3)	70.1	42.0	116.5	19.6	12.8	10.1	9.2
Domestic credit	67.9	17.1	84.1	15.4	10.5	6.4	7.2
Credit to the private sector	50.9	37.5	44.2	18.0	14.2	10.6	10.9
External trade (percentage change)							
Export volume	-11.4	-7.1	-28.6	5.8	9.0	10.9	11.5
Import volume	-17.1	-6.7	-32.0	15.8	7.5	7.7	8.9
Terms of trade	-7.5	-4.4	-4.4	-1.2	-0.8	-0.5	0.2
External debt and arrears (including private debt)							
Total external debt (in percent of GDP; end of period)	62	98	82	101	94	87	81
Total external arrears (in percent of GDP; end of period)	9.1	0.0	21.6	0.0	0.0	0.0	0.0

Sources: Zimbabwean authorities; and staff estimates and projections.

Table 7. Zimbabwe: External Debt Indicators, 1996-2000

	1996	1997	1998	1999 Est.	2000 Proj.
	(In percent of GDP)				
External debt outstanding	61.3	57.9	71.2	82.1	62.0
Medium- and long-term debt	54.8	48.0	60.6	72.4	58.5
Of which : Fund	5.2	4.6	6.2	6.5	4.0
other multilaterals	15.7	16.3	22.0	26.2	23.0
Short-term debt	6.5	9.9	10.6	9.8	3.5
Of which : non-trade related	0.3	2.9	5.3	4.1	1.8
Debt service 1/	6.4	6.4	14.2	10.5	8.8
Of which : Fund	0.2	0.4	0.9	1.3	1.1
other multilaterals	1.1	1.3	1.9	2.6	2.3
	(In percent of exports of goods and services)				
External debt outstanding	159.1	153.0	166.2	171.3	200.9
Medium- and long-term debt	142.3	126.8	141.6	150.9	189.4
Of which : Fund	13.4	12.1	14.5	13.6	13.1
other multilaterals	40.9	43.2	51.5	54.6	74.5
Short-term debt	16.8	26.2	24.7	20.4	11.4
Of which : non-trade related	0.7	7.7	12.4	8.5	5.7
Debt service 1/	16.7	17.0	33.2	21.9	28.6
Of which : Fund	0.6	1.1	2.1	2.6	3.7
other multilaterals	2.8	3.6	4.4	5.5	7.4
	(In millions of SDRs)				
Debt service due to Fund	14.3	25.8	42.9	51.5	60.3
Principal	5.9	18.5	35.6	45.1	53.4
Interest and charges	8.4	7.3	7.3	6.4	6.9
	(In percent)				
Ratio of outstanding Fund credit to:					
Quota	116.4	109.3	110.7	76.1	61.0
Total debt	8.4	7.9	8.7	8.0	6.5
Ratio of debt service due to Fund to:					
Quota 2/	5.5	9.9	16.4	14.6	17.1
Total debt service	3.8	6.5	6.5	11.9	12.8
Gross official reserves 3/	2.5	13.1	19.9	14.7	28.6
Memorandum item:					
Ratio of short-term debt to gross reserves 4/	49.0	144.8	141.8	87.5	61.4
Of which : non-trade related	2.1	42.5	71.4	36.6	30.5

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Principal on medium- and long-term debt plus interest payments on all debts.

2/ Zimbabwe's quota was raised from SDR 261.3 to SDR 353.4 in February 1999.

3/ Gold valued at full market prices.

4/ Official reserves plus reserves of deposit money banks.

Zimbabwe: Relations with the Fund
(As of October 31, 2000)

I. Membership Status: Joined: 09/29/1980; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	353.40	100.0
Fund holdings of currency	479.44	135.7
Reserve position in Fund	0.31	0.1

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	10.20	100.0
Holdings	0.01	0.1

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-By Arrangements	63.94	18.1
Extended Arrangements	62.40	17.7
Poverty Reduction Growth Facility (PRGF) Arrangements	93.56	26.5

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By Arrangement	08/02/1999	10/01/2000	141.36	24.74
Stand-By Arrangement	06/01/1998	06/30/1999	130.65	39.20
Extended Fund Facility (EFF)	09/11/1992	09/10/1995	114.60	86.90

VI. Projected Obligations to Fund:(SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	10/31/2000	2000	2001	2002	2003	2004
Principal		4.5	66.5	73.5	46.4	24.1
Charges/interest		2.2	7.1	4.8	2.4	1.0
Total		6.7	73.6	78.3	48.8	25.1

VII. Exchange Rate Arrangement

From January 1999 to July 2000, the exchange rate was fixed de facto by the Reserve Bank of Zimbabwe (RBZ) at US$1=Z$38. Since August 1, 2000 the exchange rate has been allowed to fluctuate in a range of +/- 5 percent around the central rate set by the RBZ. The central rate is adjusted periodically in light of inflation differentials with trading partners. As of October 23, 2000, the central rate was US$55=Z$1.

Zimbabwe accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement on February 3, 1995. The RBZ maintains a multiple currency practice arising from outstanding contracts under a discontinued RBZ scheme for forward foreign exchange cover (to be cleared by end-2001). Fund approval of this measure, pursuant to Article VIII, Section 2 *(a)* and Section 3, lapsed in March 2000. Moreover, the limitation on the availability of foreign exchange from the RBZ (as evidenced by the accumulation of external payments arrears by the private sector), gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a).

VIII. Article IV Consultations

Zimbabwe is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on May 5, 1999 (EBM/99/51).

IX. Technical Assistance

Fund technical assistance to Zimbabwe has been limited during the past 12 months. An MAE-sponsored long-term advisor arrived in Zimbabwe in August 1996 to assist in the area of banking supervision; his appointment was not extended beyond October 1999. Another MAE expert on monetary operations provided advice and trained staff in the implementation of open market operations and the use of repurchase agreements from October 1998 until October 2000. A third MAE expert on the payments system, who also advised the RBZ on the array of monetary instruments to be used to monitor and manage liquidity in the financial sector, completed a one-year assignment in October 1999.

Technical assistance is summarized in the attached table.

X. Resident Representative

A resident representative office was opened in July 1993. Mr. Robert Franco has been the Resident Representative since September 1996.

Zimbabwe: Technical Assistance from the Fund (Since the Inception of the PRGF/EFF Arrangements in September 1992)

Date	Department	Purpose	Result
November 1992	STA	Revise monetary statistics.	Revision initiated.
April 1993	MAE	Liberalize foreign exchange system.	Comprehensive reforms launched; completed in July 1994.
Spring 1994	LEG	Revise the Reserve Bank Act and the Banking Act.	Completed.
Spring 1995	FAD	Improve the system of budgeting and public expenditure control.	Initial steps taken.
Spring 1995	STA	Harmonize the reporting system for monetary statistics.	Harmonization completed.
Winter 1995	STA	Provide training in balance of payments methodology.	Seminar provided.
January 1996	STA	Improve foreign trade statistics.	Advice being implemented.
August 1996	MAE (long term)	Strengthen banking supervision.	Some of the advice being implemented.
October 1996	STA	Improve national accounts.	Some of the advice being implemented.
January 1996, November 1996	MAE	Improve monetary and foreign exchange operations.	Some of the advice being implemented.
November 1997	MAE	Improve monetary operations.	Some of the advice being implemented.
May 1999	MAE	Review and advise on monetary operations, the payments system, and supervision; assess vulnerability of the financial sector.	Report recommendations being reviewed.

Zimbabwe: Relations with the World Bank Group

Arrears to the Bank, which were US$27 million as of end-October 2000, are expected to be cleared by year's end. Due to the accumulation of arrears, disbursements were suspended on May 15. A resumption of disbursements would be contingent upon clearance of arrears, and the scale of the Bank's subsequent reengagement will depend on progress in the following issues: (a) governance, (b) land reform, and (c) macroeconomic stability. In the absence of adequate progress on these fronts, Bank support to Zimbabwe will be limited primarily to social protection and AIDS-related activities, as well as the dialogue on land reform.

The second structural adjustment loan was closed on December 31, 1997 after release of the third tranche earlier in the month. A third structural adjustment credit has been prepared but put on hold, owing to the weakening in economic performance and governance.

There are six ongoing investment projects in Zimbabwe, covering (a) Agricultural Services and Management, providing for improved extension services; (b) Sexually Transmitted Infections, aimed at arresting the spread of STDs and HIV/AIDS and providing care for those already infected; (c) Enterprise Development, to promote exports and industrial growth; (d) Community Action, aimed at alleviating structural causes of poverty in rural areas; (e) Park Rehabilitation and Conservation, focused on transforming the management of national parks, and recently amended to support rehabilitation of infrastructure in flood- affected areas; and (f) the Land Reform Project, already approved but not yet effective, to support pilot land improvement interventions (physical and social infrastructure) on already-acquired lands to be distributed to landless farmers. Moreover, an Enhanced Social Protection Project is under preparation.

The IFC's investment portfolio in Zimbabwe represents one of its largest exposures in Africa, with commitments of US$70 million (loans of US$54 million and equity of US$16 million) and an outstanding portfolio of US$48 million (loans of US$33 million and equity of US$15 million). These IFC investments cover over 25 companies in a wide range of sectors. The IFC's specific strategy for Zimbabwe is to assist private sector development by (a) helping to enhance export-generating activities; (b) assisting in corporate restructuring, privatization (subject to government's majority divestiture, the IFC would consider participating in the privatization of the insurance company, ZIMRE), and modernization; (c) strengthening the financial sector; and (d) supporting small and medium-sized enterprises.

IBRD/IDA Status of Operations 1/
(In millions of U.S. dollars, net of cancellations;
as of October 24, 2000)

	Commitments		Disbursements	
	IBRD	IDA	IBRD	IDA
Agricultural service/ management	0.0	8.8	0.0	2.0
Enterprise development	0.0	70.0	0.0	30.7
Health (STI)	0.0	64.5	0.0	63.2
Community Action Project	0.0	60.0	0.0	3.7
Park Rehabilitation and Conservation	0.0	62.5	0.0	3.7
Land Reform	0.0	5.0	0.0	0.0
Total	0.0	270.8	0.0	103.3

Loan/Credit Summary
(In millions of U.S. dollars; as of October 31, 2000)

	IBRD	IDA	Total
Original principal	896.2	662.0	1,558.2
Cancellations	47.9	28.2	76.0
Disbursed	842.9	461.3	1,304.1
Undisbursed	5.4	160.7	166.1
Repaid	399.6	5.3	404.9
Due	443.3	427.4	870.7

1/ The table is only indicative of active loans. The total outstanding loans from the IBRD and IDA are US$896.2 million and US$662.0 million, respectively.

Zimbabwe: Statistical Issues

The statistical database in Zimbabwe is inadequate, and deficiencies have emerged in the timely provision of data to the Fund. While some monetary data are of high quality, the RBZ does not report its foreign reserves in a meaningful fashion, data on external arrears are sketchy, budgetary data are reported to the staff with a substantial lag, and there is a significant discrepancy between above-the-line budgetary data and financing data compiled from other sources. The Central Statistical Office (CSO) conducts and updates regularly a wide array of sectoral surveys, but GDP data are reported with a substantial lag. There are shortcomings in external trade and finance data, and no information is available about unemployment.

Prices, production, labor

The CSO produces a monthly consumer price index with a 1990 base (new weights based on a 1995-96 survey will be introduced in December 2000) and also reports a monthly manufacturing index with a 1980 base, but with a long lag. Quarterly data on employment and wages are published with a substantial lag and limited coverage. A comprehensive labor market survey is long overdue.

National accounts

Having benefited from substantial technical assistance from the Fund, the World Bank, and the United Kingdom in 1996-97, the CSO published revised national accounts in late 1997, covering the period 1985-96, with 1990 as the base year for constant price estimates. While the revised national accounts are a significant improvement over the previous estimates, the coverage of economic activity in the informal sector remains inadequate. National accounts data for 1998 were not published until January 2000.

Public finance

Key weaknesses continue to impair the analysis of fiscal developments and the formulation of appropriate adjustment policies. Monthly revenue data for the central government are available with a lag of four-six weeks, while expenditure data are available with irregular lags of eight weeks or more. There are large discrepancies between the fiscal and monetary accounts, and a substantial unexplained discrepancy between the budget financing need (computed from the income expenditure side) and financing data from banking and other sources. In addition, a significant part of donor-financed development expenditure is off budget, the economic classification of expenditure is insufficiently disaggregated, and a functional classification of expenditure is not available.

The authorities do not provide Fund staff with budget data according to organizational classification on a regular basis, and they also provide limited access to source data, forcing staff to rely on aggregated data of unverifiable quality. Also, the operations of the social security fund and several self-financing funds under the purview of the central government are not included in reported data. Furthermore, although operating targets for public enterprises are provided regularly, it is still not possible to compile reliable consolidated accounts for the nonfinancial public sector, since financial operations of public enterprises are neither reported nor audited regularly, the accounts of local governments become available only with a lag of many years, and consolidated general government accounts are not compiled.

In 1999, the Ministry of Finance resumed reporting detailed data for publication in the *Government Finance Statistics (GFS) Yearbook.* The latest published data are for 1997. No more recent data are provided for publication in *International Financial Statistics (IFC).*

External sector

Merchandise trade statistics are still being reported with a four- to five-month lag, even though, following installation of the new ASYCUDA computer system at the customs department, data are being provided by customs to the CSO within seven days of the end of each month.

Compilation of capital and financial account transactions suffers from a considerable delay, and there is a significant lag in reporting balance of payments data to the Fund. While the Reserve Bank of Zimbabwe (RBZ) provides reasonably reliable estimates of the balance of payments for program and surveillance purposes, measures are needed to shorten the lag in the compilation and reporting of such data. Balance of payments data reported for publication in the *IFS* and *Balance of Payments Yearbook* are even less timely—the latest published data are for 1994.

Data on short-term external debt are reported to the Fund by the RBZ with a one- to two-month lag. Because of encumbrances on reserves, official reserve data are not reported to the Fund in a meaningful manner. In particular, data on "usable RBZ reserves" are not readily available to Fund staff in a timely manner. Comprehensive external debt data (including breakdowns of maturities, debtors, and creditors) are forthcoming only with a considerable lag. The authorities have only provided staff with partial information on the extent of their collateralized external borrowing, but they have not released comprehensive data on external arrears (including a detailed breakdown either by creditor and debtor or by principal and interest), which became significant in 1999 and grew substantially in ~~the~~ first half of 2000. There is a pressing need for the authorities to provide comprehensive external sector data on a more timely basis.

Monetary accounts

Significant progress has been made in developing a unified system for reporting monetary statistics to the Fund based on international standards of data classification, and in improving the collection and reporting of financial data. However, there continues to be some difficulty in reconciling the balance sheet of the RBZ provided in the monetary control program, which is produced within two weeks of the end of each month, with the monetary survey, which is produced within six weeks of the end of each month.

Zimbabwe: Core Statistical Indicators
(As of October 23, 2000)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service 2/
Date of latest observation	10/23/00	10/06/00	10/06/00	10/06/00	08/00	10/23/00	09/00	05/00	05/00	08/00	1999	1999
Date received	10/23/00	10/09/00	10/19/00	10/19/00	10/00	10/23/00	10/23/00	09/00	09/00	10/00	09/00	09/00
Frequency of data 3/	D	W	M	W	M	D	M	Q	Q	M	Y	Y
Frequency of reporting 3/	D	W	M	W	M	W	M	V	V	M	V	V
Source of update 4/	C	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 5/	E	C	C	C	C	C	C	V	V	C	V	V
Confidentiality 4/	C	A	A	A	A	A	A	A	A	A	A	A
Frequency of publication 3/	D	W	M	W	M	W	M	V	V	M	V	V

1/ Data on reserves as reported by the authorities include substantial amounts of pledged or illiquid assets that are not identified clearly in official reports.
2/ The authorities do not provide comprehensive data on external arrears.
3/ D = daily; W = weekly; M = monthly; Q = quarterly; A = annual; V = on mission or staff visits.
4/ A = direct reporting by central bank or relevant ministry (including reports forwarded by World Bank); C = cable or fax (including reports forwarded by World Bank).
5/ C = unrestricted use; E = embargoed for a period of time.

Zimbabwe: Selected Social and Demographic Indicators, 1998

Area	**Population**	**Density**
390,800 sq. km.	12,680 thousand	29.91 per sq. km.

Population characteristics		**Health**	
Population growth rate (1992-98)	2.1	Population per physician (latest year)	N/A
Life expectancy at birth	50.9	Public health expenditure	
Infant mortality rate (per thousand)	72.7	1999 (percent of GDP)	2.9
Total fertility rate (percent of total)	5.7	HIV-incidence	
Urban population (percent of total)	33.9	(percent of population,	
		age 15-49) (1999)	25
		Education	
GNP per capita	US$ 620		
		Adult literacy rate	87
Access to safe water		Primary school enrollment	93
		rate (percent of school-age	
Percent of population	77.0	group)	
Urban	99.0		
Rural	64.0	**Poverty indicators** (latest year)	
Labor statistics		Poorest 40 percent	
		Share of consumption	10
Labor force (millions)	2.1		
Of which: agriculture	1.3		
(latest year, in percent)	26		
Formal Sector	1.2		
Informal Sector	0.9		

Sources: World Bank, *World Development Indicators, 2000.*

INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 2000 Article IV Consultation
Supplementary Information

Prepared by the African and
Policy Development and Review Departments

Approved by Ernesto Hernández-Catá and G. Russell Kincaid

December 1, 2000

Budget proposal for 2001

1. The budget speech delivered to parliament on November 16 proposed a reduction in the government deficit to 15.5 percent of GDP, from an estimated 23 percent in 2000 (the budget document also noted that, under a three-year rolling framework, the deficit would be targeted to decline further to 8 percent of GDP in 2002 and 3 percent in 2003). In this vein, the primary balance would shift from an estimated deficit of 6 percent of GDP in 2000 to a surplus of 4.3 percent in 2001, while the operational deficit (i.e., the overall deficit corrected for accelerated amortization of domestic debt owing to inflation) would narrow from 8.7 percent of GDP to 2.1 percent (Tables 1 and 2). Discussions on appropriations for each ministry have already started, and a final vote on the budget is expected by end-December.

2. The budget bill was framed in the context of a financial program aimed at lowering inflation to 40 percent during 2001, with a decline in real GDP by 2.8 percent. It targets a sharp reduction in real non-interest outlays in 2001, assuming that (a) the government will succeed in limiting the nominal increase in wage outlays to 12½ percent, despite the request by government employees for increases in the order of 100-125 percent, and (b) that it will be able to curb military spending by withdrawing Zimbabwe's troops from the Democratic Republic of Congo (DRC) in early 2001, despite the inconclusive outcome of recent discussions among the countries participating in the Lusaka peace framework. The land resettlement program will be allocated US$24 million (at the current exchange rate), which would appear to be insufficient to accomplish the targeted resettlement of 150,000 families on 5 million hectares of commercial farm lands slated for compulsory acquisition. The authorities are also taking steps to strengthen expenditure controls, including a new attempt to establish a cash budgeting system. The budget proposal forecasts a rise in interest payments from 16¾ percent of GDP in 2000 to 19¾ percent in 2001, owing to the rapid increase in domestic debt in 2000 and the sizable domestic borrowing requirement anticipated for next year, which will continue to put pressure on interest rates. The authorities are seeking to stretch out the maturities of domestic public debt in consultation with the financial sector and institutional investors, aiming to convert at least 30 percent of

the outstanding stock into medium and long-term obligations, whereas practically all treasury bills currently mature within three months.

3. On the revenue side, the delayed establishment of an autonomous National Revenue Authority is now slated for the first quarter of 2001. In addition, the authorities expect to submit to parliament an Agricultural Land Tax Bill as a springboard toward the introduction of a Land Tax in the course of 2001. However, tax collections are projected to fall by about 1 percent of GDP in 2001, as an effort to collect arrears on customs duties from the state oil company NOCZIM would be more than offset by a drop in domestic tax revenue, reflecting the erosion of the tax base as a result of the contraction in economic activity, as well as a package of tax measures mostly comprising tax cuts, namely:

a. Reductions in:

- the corporate income tax from 35 percent to 25 percent for mining, and 30 percent for other sectors;
- the withholding tax on interest earnings by residents from 30 percent to 20 percent;
- the tobacco levy from 5 percent to 3 percent;
- the sales tax on commercial vehicles and the excise taxes on beer and soft drinks; and
- the earmarked AIDS levy on wages from 5 percent to 3 percent.

b. An increase in the tax-free threshold for individuals and an upward adjustment in the personal income tax brackets; and

c. Other miscellaneous changes in the tax system include modifications to certain investment and export incentives, and the expansion of coverage of the withholding tax on interest earnings to include bankers' acceptances and other discount instruments.

4. The budget bill envisages an acceleration of the privatization program to generate proceeds equivalent to 4 percent of GDP in 2001; this forecast appears to be optimistic in light of the limited results achieved to date by the Privatization Agency of Zimbabwe (PAZ) in its attempt to expedite asset sales during the second half of 2000.

Recent economic performance

5. The outstanding stock of domestic government debt rose by 65 percent during the first 10 months of the year, to Z$207 billion (63 percent of GDP). Preliminary data suggest that losses of the nine major parastatals during January-September 2000 rose to 2.7 percent of GDP at an annualized rate, driven by a weakening in the finances of the Grain Marketing Board and the Posts and Telecommunications Corporation, which more than offset the

improvement in the position of the fuel and power companies stemming from periodic tariff adjustments.

6. Despite an acute foreign exchange shortage, the exchange rate has been left unchanged at Z$55 per U.S. dollar since October 20, and the parallel market rate is now 25-30 percent more depreciated than the official rate. Meanwhile, the RBZ's usable foreign reserves as of mid-November remained at a critically low level of US$12.3 million, or about 3 days of projected 2000 imports of goods and services. Preliminary data suggest that the outstanding stock of external payments arrears declined to US$455 million as of end-November, of which US$381 million represented public and publicly guaranteed obligations. World Bank staff have indicated that arrears to the Bank were US$31 million as of end-November, and the suspension of Bank loan disbursements to Zimbabwe remains in place. Zimbabwe has to date remained current in its obligations to the Fund (scheduled debt service payments to the Fund are equivalent to SDR 0.2 million in the remainder of the year and SDR 73. 8 million in 2001).

7. The implementation of the fast-track land resettlement program has remained problematic, with indications that the government is not adhering to its own stated criteria for selection of properties and beneficiaries for resettlement and for the issuance of acquisition orders. Moreover, farm invasions have continued despite a ruling by the Supreme Court on November 10 ordering the eviction of squatters. In a related development, the Supreme Court is expected to rule before the end of the year on a lawsuit challenging the legality of the May 2000 Lands Acquisition Act, whereby the government is acquiring commercial farms without compensation. While that Act stipulates that landowners should be compensated for the value of capital improvements on their land (although not for the value of land itself), the government has recently announced that, because of a shortage of funds, only half of the compensation will be paid (without indexation) within the first two years of compulsory acquisition, with the balance to be paid over the subsequent five years. Following a brief fact-finding visit of a team of experts appointed by the United Nations Development Program (UNDP), the Administrator of the UNDP, Mr. Malloch-Brown, has visited Harare recently to discuss with President Mugabe possible modifications to the government's land reform strategy, aimed at minimizing output disruptions and eliciting support from stakeholders.

Table 1. Zimbabwe: Central Government Operations, 1998-2001
(In percent of GDP)

	1998	1999		2000			2001		
								Staff Proj.	
		Jan.-Sep. Act.	Jan.-Dec. Est.	Budget	Jan.-Sep. Act.	Jan.-Dec. Proj.	Budget Speech	Normative SM/00/254	Unchanged Policies
Total revenue	30.5	25.5	27.3	29.0	24.7	27.1	26.1	28.0	25.1
Tax revenue	28.2	24.1	25.9	27.5	22.9	25.6	24.7	26.5	23.5
Domestic taxes	23.1	20.4	22.0	21.9	20.8	22.9	20.9	22.5	20.0
Customs duties	5.1	3.7	4.0	5.6	2.1	2.7	3.8	4.0	3.5
Nontax revenue	2.3	1.4	1.4	1.5	1.8	1.5	1.4	1.5	1.5
Total expenditure and net lending	35.1	35.7	38.8	32.8	42.5	49.9	41.5	38.5	54.1
Current expenditure on goods and services	17.4	16.9	19.0	16.7	19.4	22.1	15.7	16.6	19.9
Of which: wages and salaries	12.3	12.3	13.2	11.3	13.7	16.5	11.4	11.5	14.9
Interest payments	9.6	8.9	10.1	9.4	14.6	16.8	19.7	14.6	27.3
Of which: domestic	8.0	7.5	8.4	7.7	14.3	15.5	17.6	12.5	26.2
Subsidies and transfers	5.8	4.4	4.2	4.1	5.0	5.7	4.3	4.0	5.3
Capital expenditure and net lending	2.3	5.5	5.5	2.7	3.4	5.2	2.0	3.3	1.6
Budget balance, excl. grants (commitment basis) 1/	-4.6	-10.1	-11.5	-3.8	-17.8	-22.8	-15.5	-10.5	-29.0
Of which: primary balance	5.0	-1.2	-1.4	5.5	-3.2	-6.0	4.3	4.1	-1.7
Of which: operational balance 2/	2.4	...	-3.9	...	...	-8.7	-2.1	-0.5	-6.5
Grants	1.7	0.7	1.0	1.0	0.3	3.8	0.0	0.8	0.1
Foreign financing (net, including arrears)	-2.5	-2.7	-1.1	-0.6	-0.6	-1.3	-4.6	1.4	1.5
Domestic financing (net)	5.4	12.2	11.5	3.5	18.1	20.3	20.0	8.3	27.4
Of which: privatization	...	...	...	0.5	0.0	3.9	4.1	2.1	...
Memorandum items:									
Health outlays	3.9	...	2.9	2.1	...	2.8	2.0	...	...
Education outlays	11.9	...	8.0	7.4	...	9.8	6.2	...	...
Military expenditure	...	...	3.4	3.0	...	4.6	2.5	...	...

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Commitments with respect to foreign interest payments.
2/ Operational balance equals overall balance minus the inflation component of interest payments on domestic debt.

Table 2. Zimbabwe: Central Government Operations, 1998-2001
(In millions of Zimbabwean dollars)

	1998	1999		2000			2001		
								Staff Proj.	
	Act.	Jan.-Sep. Act.	Jan.-Dec. Est.	Budget	Jan.-Sep. Act.	Jan.-Dec. Proj.	Budget Speech	Normative SM/00/254	Unchanged Policies
Total revenue	42,773	40,998	58,563	87,216	61,065	89,232	140,284	159,939	173,150
Tax revenue	39,483	38,694	55,569	82,740	56,708	84,293	132,710	151,385	162,639
Domestic taxes	32,377	32,702	47,062	65,970	51,404	75,366	112,460	128,574	138,460
Customs duties	7,106	5,992	8,507	16,770	5,304	8,927	20,250	22,811	24,179
Nontax revenue	3,290	2,304	2,995	4,476	4,357	4,939	7,574	8,554	10,511
Total expenditure and net lending	48,404	57,302	83,096	98,727	105,083	164,462	223,474	219,628	373,751
Current expenditure on goods and services	23,603	27,196	40,640	50,092	48,025	72,862	84,369	94,665	137,472
Of which: wages and salaries	17,196	19,715	28,175	33,892	33,758	54,562	61,321	65,582	102,931
Interest payments	13,466	14,327	21,631	28,200	36,219	55,400	106,179	83,320	188,613
Of which: domestic	11,158	12,042	18,071	23,080	35,465	51,093	94,501	71,152	180,993
Subsidies and transfers	8,105	6,995	9,007	12,435	12,447	18,900	22,929	22,811	36,613
Capital expenditure and net lending	3,231	8,783	11,817	8,000	8,392	17,300	9,997	18,832	11,053
Budget balance, excl. grants (commitment basis) 1/	-5,631	-16,303	-24,533	-11,511	-44,018	-75,230	-83,190	-59,688	-200,601
Of which: primary balance	7,834	-1,976	-2,901	16,689	-7,799	-19,830	22,989	23,631	-11,988
Of which: operational balance 2/	4,152	...	-8,386	...	...	-28,680	-11,468	-2,982	-44,928
Grants	2,322	1,150	2,144	2,912	664	12,624	0	4,412	990
Foreign financing (net, including arrears)	-3,514	-4,408	-2,280	-1,804	-1,410	-4,323	-24,482	7,741	10,112
Domestic financing	6,823	19,561	24,668	10,403	44,764	66,929	107,672	47,536	189,500
Memorandum Items									
Health outlays	5,505	...	6,260	6,189	...	9,272	10,934	...	...
Education outlays	16,656	...	17,223	22,108	...	32,304	33,167	...	...
Military expenditure	...	...	7,202	9,017	...	15,202	13,292	...	...

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Commitments with respect to foreign interest payments.
2/ Operational balance equals overall balance minus the inflation component of interest payments on domestic debt.

Public Information Notice (PIN) No. 00/107
FOR IMMEDIATE RELEASE
December 13, 2000

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Zimbabwe

On December 6, 2000, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Zimbabwe.[1]

Background

Confronted with growing internal and external disequilibria (precipitated mainly by large fiscal deficits), the Zimbabwean government adopted in 1998 and again in 1999 a policy framework that was aimed at restoring macroeconomic stability. The program for 1999 targeted a decline in inflation to 30 percent by the end of the year from 47 percent in 1998, and real GDP growth of 1.2 percent. However, expenditure overruns, especially in the areas of wages and defense, and a weak revenue performance, caused the overall fiscal deficit to widen from 4½ percent of GDP in 1998 to 11½ percent in 1999, compared with a targeted 5.3 percent. Monetary policy was accommodating during the first half of the year, with reserve money growth peaking at 96 percent in the 12 months ended August. As a result, inflation rose to a peak of 70 percent in October before easing to 57 percent by end-1999, as a result of a tightening of liquidity by the Reserve Bank of Zimbabwe (RBZ) in midyear, while real GDP fell by 0.2 percent. The spillover to the external sector of the lax domestic policies and investor skepticism was compounded by the de facto pegging of the currency from January 1999, as the erosion of competitiveness and depressed commodity prices further weakened foreign exchange receipts.

The economic crisis has deepened during 2000, fueled by a continued deterioration in the fiscal position and erosion of competitiveness, as well as by political tensions related to the February

[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. 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. In this PIN, the main features of the Board's discussion are described.

constitutional referendum, the June parliamentary elections, and the land reform program. Fiscal performance in 2000 has again deviated sharply from the original target (a deficit of 3.8 percent of GDP), owing to overruns in wages, defense, and domestic interest outlays. The deficit amounted to 18 percent in the first eight months of the year at an annualized rate, and, in early September, parliament passed a supplementary budget that would widen the deficit to about 23 percent for the year. Faced with the government's rising borrowing requirement, the RBZ initially sought to contain monetary expansion but at the expense of the crowding out of the private sector. In August, however, monetary conditions were eased, resulting in an acceleration of broad money growth from 30 percent in 1999 to 49 percent in the year ended September 2000.

As a consequence, inflation rose to 61 percent in the year up to October and may exceed 80 percent by the end of the year. Economic activity and employment have faltered, especially in manufacturing, mining, and tourism, and real GDP is projected to contract by more than 5 percent, which would result in a 12 percent cumulative decline in per capita income over the past three years. While the downturn in economic activity and restricted access to foreign exchange have combined to compress imports, a sizable deterioration in Zimbabwe's terms of trade and a sharp drop in export volumes are expected to shift the external current account into a deficit of 2½ percent of GDP during 2000.

Executive Board Assessment

Directors expressed deep concern about the decline in per capita income and the deterioration in social conditions of the past several years as a result of Zimbabwe's weak macroeconomic policies, the rapid spread of the HIV/AIDS pandemic, poor governance, and escalating tension and uncertainty related to the government's land reform program.

Directors stressed that the slump in economic performance in 1999-2000 was due mainly to the pursuit of an unsustainable fiscal policy driven by large wage and defense overruns, and by governance problems that have undermined investor confidence. Economic activity has contracted, inflation has accelerated, and the balance of payments position has weakened significantly, as evidenced by the depletion of usable foreign reserves and the emergence of external payment arrears. Directors also noted the worrisome fallout from Zimbabwe's problems on neighboring countries and they urged the authorities to be mindful of the repercussions on their neighbors when framing domestic policies.

Directors considered that Zimbabwe needs to take corrective measures urgently in order to forestall a deepening of the current economic crisis. Despite the severe deterioration in recent years, Directors noted that Zimbabwe has the potential to resume vigorous and sustained economic growth, provided the authorities implement a strong economic program with determination. They were encouraged by the new economic team's commitment to reform, and hoped that it would attract the national consensus and broad ownership necessary for success. Directors agreed that a restoration of macroeconomic stability—which is a prerequisite for recovery—would hinge on the design and implementation of a credible adjustment program, anchored by a return to a sustainable fiscal path and restoration of external competitiveness.

Rebuilding investor confidence will require determined efforts to improve the economic environment, including by taking decisive steps to strengthen governance and ensure a speedy return to the rule of law, and by implementing an orderly and transparent land reform program that garners domestic and international support. Directors also urged the authorities to normalize relations with foreign creditors and eliminate external payment arrears.

Directors considered that the brunt of the fiscal adjustment will have to come from savings in wage and defense outlays. They welcomed the government's plan to curtail these outlays so as to reduce the fiscal deficit substantially, and to realign spending priorities, especially to make room for increased spending to address the HIV/AIDS problem. They underscored that the establishment of strong expenditure control mechanisms will be essential to underpin fiscal discipline, and endorsed the government's statement that fiscal consolidation must be further deepened during 2002-03.

Directors also observed that the 2001 budget bill features a number of tax cuts, and they encouraged the authorities to adopt offsetting measures to bolster tax revenue, particularly by broadening the tax base and improving tax administration. In this regard, they welcomed the imminent establishment of an autonomous revenue authority. Directors welcomed the decision to strengthen the position of the state oil and power companies through periodic adjustments in fuel and electricity tariffs. They also encouraged the authorities to take steps to improve the finances of the other major parastatals. Directors noted that structural initiatives such as civil service reform and restructuring or privatization of public enterprises would also help reduce the fiscal deficit and promote efficiency.

Directors urged the authorities to tighten monetary policy until inflation is brought firmly under control, while noting that fiscal adjustment should ease the burden on monetary policy and avoid a crowding out of the private sector. They recommended elimination of interest rate caps and a return to market determination of treasury bill yields. Directors welcomed the steps that have been taken to strengthen banking supervision. In view of current dislocations in economic activity and strains on the financial sector, however, they urged the authorities to be vigilant in identifying weaknesses in the banking system, and to promptly issue the guidelines for dealing with troubled banks.

Directors welcomed Zimbabwe's decision to exit from the fixed exchange rate regime, and underlined the need for further steps to restore competitiveness in conjunction with a tightening of macroeconomic policies. In this connection, they stressed that a flexible and market-determined exchange rate would be appropriate.

Directors encouraged the authorities to deepen trade liberalization, and recommended the elimination as soon as possible of the multiple currency practice and the exchange restriction subject to approval under Article VIII of the Fund's Articles of Agreement.

Directors expressed considerable concern about the impact on Zimbabwe's economy of the government's policy on land reform. They noted that it was important to conduct the process in a lawful manner, and to dispel uncertainties that could entail further large output and employment losses. They urged the authorities to work closely with donors, and recommended, in particular, a close examination of the economic and legal aspects of the land reform program, as well as a careful phasing of the program, commensurate with available financial resources and implementation capacity.

Directors expressed deep concern over the decline in social indicators, and the rapid spread of HIV/AIDS and related diseases. They strongly urged the authorities to formulate appropriate measures to address the social and economic consequences of the health crisis.

Directors underlined the importance of transparency in government operations. Zimbabwe's database continues to suffer from numerous deficiencies in coverage and timeliness, and they urged the authorities to address these shortcomings as soon as possible, including with Fund technical assistance. Directors stressed that timely statistics and full disclosure will be essential to guide the authorities in the implementation of economic policy, and to facilitate the discharge by the Fund of its surveillance responsibilities.

Directors welcomed the authorities' decision to publish the staff report for the 2000 Article IV consultation.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Zimbabwe: Selected Economic Indicators, 1995-2001

	1995	1996	1997	1998	1999 Estimate	2000 Projection	2001 Normative	2001 Unchanged Policies
Real economy (change in percent)								
Real GDP (market prices; percentage change)	0.6	8.7	3.7	2.5	-0.2	-5.5	-6.5	-10.0
Consumer prices (end of period)	25.8	16.4	20.1	46.6	56.9	85.9	44.0	155.1
Government finances (in percent of GDP)								
Revenue, excluding grants	...	...	29.4	30.5	27.3	27.1	28.0	25.1
Expenditure and net lending	...	...	38.2	35.1	38.8	49.9	38.5	54.1
Overall balance, excluding grants and arrears	...	...	-8.8	-4.6	-11.5	-22.8	-10.5	-29.0
Primary balance, excluding grants	...	...	-1.5	5.0	-1.4	-6.0	4.1	-1.7
Money and interest rates								
Broad money (M3; end of period; percentage change)	22.7	27.7	34.9	14.0	29.9	70.1	42.0	116.5
91-day treasury bill yield (annualized yield)	28.0	24.5	31.4	35.0	74.0	87.4	36.5	...
Balance of payments (in US$ billions, unless otherwise indicated)								
Exports	2.22	2.50	2.42	1.93	1.92	1.80	1.66	1.28
Imports	-2.13	-2.25	-2.65	-2.02	-1.68	-1.52	-1.52	-1.01
Current account balance								
(excluding official transfers)	-0.37	-0.18	-0.83	-0.36	0.03	-0.19	-0.37	0.05
(in percent of GDP)	-5.2	-2.1	-9.6	-5.6	0.5	-2.6	-7.8	0.0
Overall balance	0.26	-0.04	-0.76	-0.21	0.21	-0.51	-0.22	-0.25
Gross reserves (end of period; in US$ millions) 1/	882	830	259	229	288	193	286	376
(in month of imports of goods and services)	3.3	2.9	0.9	1.0	1.5	1.2	1.8	3.8
Total external debt (in percent of GDP; end of period)	75	61	58	71	82	62	98	82
Debt service (in percent of exports of goods and services)	19	17	17	33	22	29	29	41

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

1/ Gross reserves as reported by the authorities, which includes substantial amounts of pledged or illiquid assets. Gold valued at 100 percent of market price.

IMF STAFF REPORT
ZIMBABWE ARTICLE IV CONSULTATIONS
GOVERNMENT RESPONSES AND COMMENTS

In its report on the Article IV Consultations on Zimbabwe, the IMF Team raised a number of issues covering the following broad areas:

- fiscal policy;
- monetary developments;
- balance of payments;
- exchange rate policy; aid,
- structural and governance issues.

Herewith our responses and comments.

1. Fiscal Consolidation

1.1 Staff comment:
Target a primary surplus of 4% of GDP and an operational/overall deficit of 10.5% of GDP.

Response:
The 2001 budget aims to reduce the budget deficit from an estimated 23% in 2000 to 15.5% of GDP. In addition, a primary surplus of 4.2% of GDP is envisaged. Government believes the deficit envisaged in the 2001 budget, is realistic and pragmatic, taking into account non-discretionary expenditures and the wage bill, which together amount to 81% of total expenditures. Furthermore, it is planned to reduce the deficit to 8% and 3% of GDP, in 2002 and 2003; respectively.

1.2 Staff comment:
Effect wage bill increase of 20% or less in 2001, and reduce the size of the civil service.

Response:
The 2001 budget limits the wage bill to 12%, of GDP, down from 16.7% in 2000. Within this limit, ministries and the Public Service Commission will reduce and rationalise the civil services appropriately.

1.3 Staff comment:
Withdraw troops from the DRC, in step with the deployment of UN troops in terms of the Lusaka peace agreement.

Response:
Government has stated its commitment to withdrawing from the DRC, (as already noted by Staff) in the context of both the regional (SADC) and international (UN) peace initiatives. To that end, the country's leaders are actively contributing to the search for a speedy attainment of durable peace.

1.4 Staff comment:

Prioritise public expenditures in favour of social sectors and infrastructure.

Response:

Within current resource constraints, these priorities were affirmed and reflected in the 2001 budget, where 51% of allocations were directed at the social sectors. This trend will be maintained through to 2003.

1.5 Staff comment:

Exercise greater transparency in fiscal reporting, forestall the re-occurrence of expenditure overruns and strengthen parliamentary oversight over the budget execution.

Response:

A cash budgeting system, where expenditures are limited to budgeted resources, will be introduced; the computerised Public Finance Management System (PFMS) will be rolled out to all ministries, and professional finance managers/directors will be appointed in the year 2001. Further, private accounting firms will be commissioned to undertake special audits, as necessary.

In addition to the existing Public Accounts Committee, the Parliament of Zimbabwe has established a Budget Committee and Portfolio Committees, which are charged with oversight of public expenditure programmes. It is also now a requirement for government to submit to Parliament quarterly reports on the economy and the budget.

1.6 Staff Comment:

Improve tax administration.

Response:

The National Revenue Authority will become operational during the first quarter of 2001, and more resources have been availed in 2001 to improve effectiveness and efficiency in revenue collection and tax administration. In the mean time, preparatory work has commenced towards introducing the Value Added Tax (VAT) system in 2002.

1.7 Staff Comment:

Adopt new revenue measures, broaden the tax base and eliminate preferential tax regimes, exemptions and loopholes.

Response:

It must be emphasised that, in a declining and contracting economy, the scope for major new revenue sources is limited. However, the 2001 budget has introduced a number of modest new revenue measures, and proposed simplification of the corporate tax system. However, it is anticipated that the enhanced revenue collection measures intimated in 1.6 above, will mitigate the effects of a contracting revenue base.

2. **Monetary Policy Issues**

2.1 Staff comment:
Eliminate interest rate caps, and return to market determined Treasury Bill yield

Response:
The main objective of monetary policy remains the attainment of low and stable levels of inflation. The current monetary policy aims to maintain:

- the Bank rate at 2 to 2.5 percentage points above inflation; and,
- the effective Treasury Bill yield at 0.5% to 1.0 percentage points below the Bank rate.

2.2 Staff Comment:
Finalisation of guidelines for dealing with troubled banks

Response:
Consultations on guidelines for dealing with troubled and insolvent banks among key stakeholders, are at an advanced stage, and finalisation is anticipated shortly.

3. **External Sector Issues**

3.1 Staff comment:
Allow the exchange rate to float or make additional adjustments so as to narrow the gap with the parallel market.

Response:
The exchange rate policy announced in August 2000 will be implemented seriously, taking into account both its benefits and costs to the national economy.

3.2 Staff comment:
Eliminate multiple currency practice and exchange restrictions.

3.3 Response:
The foreign exchange forward cover scheme was discontinued, but existing contracts are being honoured. Despite the current foreign exchange shortages, there are no policy restrictions on current account transactions. However, restrictions on the capital account will remain, until the balance of payments position improves.

3.4 Staff comment:
Liberalise the export surrender requirements and foreign exchange allocation guidelines.

Response:
Shortages of critical imports, such as fuel and electricity, due to foreign currency shortages, are threatening virtually the whole economy. Therefore, in order to ameliorate this situation, the Reserve Bank introduced, in February 2000, special surrender requirements. The position is under constant monitoring, and will be reviewed from time to time, taking the currency reserve position into ccount.

3.5 Staff comment:
Elimination of arrears.

Response:
Government is committed to eliminating the country's external payments arrears, and continues to accord priority to this matter in the application of currency earned. Particular attention is being paid to eliminating arrears with some key creditors, in order to unlock potential new inflows. Besides, measures have been implemented to stimulate the export sectors of the economy.

4. **Structural Policy Issues**

Privatisation

4.1 Staff comment:
Privatisation has not progressed according to Government plans

Response:
Government will continue efforts to accelerate the sale and/or privatisation of public assets. As outlined in the 2001 budget statement, Government has already approved an initial list of public assets for immediate disposal.

Trade Liberalisation

4.2 Staff comment:
The Trade regime continues to be restrictive.

Response:
The recent comprehensive tariff review, and implementation of the SADC and COMESA trade regimes, demonstrate Government's commitment to deepen trade liberalization.

Energy Prices

4.3 Staff comment:
Energy tariffs should be increased as they are still below recovery levels.

Response:
A price trigger mechanism has been adopted, which will ensure that petroleum fuel price adjustments are effected timeously, taking into account procurement and other operational costs. Further, power tariffs are being adjusted periodically, in order to maintain economic rate.

5. **Statistics and Accounts**

Staff comment:
Serious weaknesses in coverage and long lags in reporting economic statistics complicate design and monitoring of economic policies.

Response:
Government will continue efforts to strengthen the capacities of research and statistical services, and looks forward to enhanced technical assistance from the Fund. Efforts will also continue to improve the timeliness and accuracy of both government and public enterprise accounts.

6. **Land Policy and the Rule of Law**

6.1 Staff comment:
The Government must implement an orderly land reform programme that is designed to garner domestic and international support. A speedy return to the rule of law is important in rebuilding the confidence of domestic, regional and international investors and the international donor community.

Response:
Government is committed to the speedy implementation of an orderly land acquisition and resettlement programme, and broad agrarian reform. To this end, Government enjoins the local commercial farming, banking and other business sectors, as well as the international community, to extend concrete assistance for the various aspects of the programme. The extension of support for demonstrably accelerated resolution of the land issue, will also facilitate enforcement of due process of law.

7. **General Comment:**
Government welcomed the opportunity for the Team to experience life in the country first hand, and to engage in extensive consultations with key players in the economy, both inside and outside government. It is hoped that the staff report, and these comments will enable the Executive Board to appreciate the challenges facing the country, and design appropriate ways in which the Fund can lend effective assistance to us.

We also appreciate that these comments will be published on the Fund's website, as an addendum to the Staff Report.

Ministry of Finance
Harare
4th December 2000

Statement by Cyrus D.R. Rustomjee
Executive Director for Zimbabwe
December 6, 2000

At the outset, the Zimbabwean authorities are very grateful for the constructive role which the Fund, the Bank and the donor community continue to play in helping the country move forward with its economic development process. They thank the Fund staff for their fair, accurate and candid assessment of recent and current economic developments in the country.

The immediate picture illustrates that Zimbabwe's short-term outlook is challenging; there is need to stabilize the macroeconomic environment, pursue a viable land reform, restore investor confidence, fight against HIV/AIDS and reduce unemployment in order to enable the economy to turn around. Against the background of these considerable short-term difficulties, it is also important to recognize that the upside potential for Zimbabwe, once the range of short-term policy issues are addressed, is significant. The country is endowed with natural resources, a highly educated labor force, well developed infrastructure, one of the highest productivity growth rates in the region and represents an important trading partner to several other economies in the region.

The authorities appreciate the difficulties facing the economy and the urgency with which they have to act. The new economic team that was appointed after the June 2000 parliamentary elections, in which the opposition gained a substantial number of seats, moved quickly to adjust the exchange rate in order to ease the foreign exchange shortages, increased fuel and electricity tariffs to improve the financial situation of these utility companies and disclosed the costs associated with Zimbabwe's involvement in the Democratic Republic of Congo (DRC).

The real test of the authorities' resolve to turn the economy around is contained in the 2001 Budget which was announced on December 16 and is under discussion in parliament. This Budget projects a major improvement in the primary fiscal balance from a deficit of 6 percent of GDP in 2000 to a surplus of 4.3 percent of GDP in 2001. The Budget was formulated against the background of high inflation, a declining economy and the realization by the new economic team that failure to stabilize the economy in the past was due in substantial part, to fiscal lapses.

The budget now faces a structural problem where 81 percent of total expenditures are non-discretionary and little is left for social sectors and infrastructure. The new budget, elaborated in the staff supplement (SM/00/254), targets a drastic reduction in the public sector wage bill and military expenditures. To realize these cuts, wage negotiations and the civil service retrenchment exercise have been decentralized to line ministries while peace is being pursued in the DRC within the context of SADC and the UN. To ensure that line ministries live within their allocations, a cash budgeting system has been introduced and a computerized Public Finance Management System is being made applicable to all ministries. Professional finance managers are being appointed and will be supplemented by private accounting firms who will undertake special audits. The new budget also sets an important new trend in the allocation of expenditures where by more resources will be earmarked for health, education, infrastructure, fighting against HIV/AIDS and other poverty reduction activities. These efforts are consistent with the approach of the new economic team, which is to progressively shift the composition of budgetary expenditures towards poverty alleviation and infrastructure development.

On the revenue side, Zimbabwe portrays an over-taxed economy with total revenue collections close to 30 percent of GDP, despite significant exemptions. The 2001 budget contains revenue measures aimed at simplifying the tax system and reducing the tax burden while enhancing revenue collections. To strengthen tax administration and collection, the National Revenue Authority will become operational in the first quarter of 2001 and preparations are being expedited to introduce VAT in 2002. It is intended that fiscal consolidation will rely more on expenditure reduction.

The authorities have also presented a medium-term fiscal framework which aims at reducing the fiscal deficit to 3 percent of GDP by 2003 from about 23 percent in 2000. In this connection, the 2001 budget has set a target to accelerate privatization with a view to retire domestic debt and reduce the borrowing requirements of Government. The authorities have also authorized local authorities to charge economic tariffs for their services beginning January 2001.

To reduce inflation, a number of measures were taken recently to tighten monetary policy, including linking interest rates to inflation and interest rates are positive in real terms. In support of the 2001 Budget, the stance of monetary policy will remain sufficiently tight until inflation is brought under control. The role of the central bank has also been strengthened in its oversight of the financial sector, capital adequacy ratios for the banking system are being enforced and measures are being taken to reduce non-performing loans. The central bank has benefited from a number of MAE missions and some of the advice has been fully implemented.

On the external sector, the authorities are concerned about the poor export response to recent exchange rate devaluations and are undertaking a study on the issue. In addition, the fallout of the emerging market crisis, the sharp increase in oil prices and general terms of trade loses are weighing heavily on external sector performance and Zimbabwe is currently facing serious shortages of foreign currency. Against this background, the authorities have committed themselves to adjusting the exchange rate in line with the need to maintain competitiveness. Nevertheless, they are also of the opinion that given the current situation prevailing in the country, exchange rate devaluation is not the panacea, and they are giving the highest priority to reducing the fiscal deficit, bringing inflation under control and restoring investor confidence.

As a result of the shortage of foreign exchange, the authorities could not discharge their external obligations on time and external payments arrears have accumulated. They have made a commitment to clear these arrears once the foreign exchange situation improves. In this connection, the authorities are close to clearing their arrears to the World Bank and they remain current with regards to payments to the Fund.

Zimbabwe has been making steady progress towards the liberalization of trade. More recently, the number of tariff lines have been reduced by 1180, the maximum tariff has been scaled down and the average tariff including surcharges has been reduced from 39 to

36 percent. The authorities are engaged in regional free trade initiatives within the SADC and COMESA. A trade agreement with South Africa, the major trading partner in the region, is also being negotiated.

Turning to the land issue, it is important to underscore that land reform represents a pressing and historical challenge which is deeply rooted in the economic legacy of the pre-independence era. World Bank studies have conclusively shown that land reform in Zimbabwe is a central issue in enhancing Zimbabwe's long-term growth potential and is capable of improving the productive capacity of labor and capital in agriculture, increasing employment, stabilizing the rural economy and reducing poverty. This reality was also acknowledged by the UNDP administrator in his press statement of December 1, 2000 after he visited Zimbabwe. It is the intention of the authorities to pursue a land reform strategy that reduces imbalances in the ownership of fertile land while improving productivity in agriculture and reducing poverty among the 75 percent of the population that lives in the rural areas. The UNDP are actively engaged with the authorities in working out the modalities for providing technical assistance for the exercise and this mobilizing donor support for land reform.

The authorities are also aware of the need to improve governance. Cases of corruption are being pursued by the police and the courts and measures are being put in place to recover public funds from cases that have been concluded, as announced in the 2001 Budget. Parliament has also strengthened its oversight role in the management of public resources and has formed the Budget and Portfolio committees. The Minister of Finance is required to submit quarterly reports on the economy and the budget to Parliament. The new Finance Minister is also on record as having set about enhancing transparency and public disclosures from the start of his term and in that same spirit, he has authorized the publication of the staff papers.

In conclusion, Zimbabwe faces a difficult and complex set of economic, social and other challenges. It is authorities' hope that they will be able to conclude negotiations soon with the Fund on a program that could help catalyze external assistance. The 2001 Budget offers important proposals to enable Zimbabwe to begin benefiting from its resource potential. In this regard, there is evidence that technical assistance provided to Zimbabwe has benefited the country and it would be of great value to the new economic team if this assistance could be redoubled, particularly at a time when improvements in the statistical data and the management of fiscal policy are initially needed.