INTERNATIONAL MONETARY FUND

IMF Country Report No. 11/135

Zimbabwe

2011 ARTICLE IV CONSULTATION

Zimbabwe: 2011 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Zimbabwe

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Zimbabwe, the following documents have been released and are included in this package:

- The staff report for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 30, 2011, 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 May 12, 2011. 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 supplement on the Debt Sustainability Analysis.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 1, 2011 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Zimbabwe.

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

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INTERNATIONAL MONETARY FUND

ZIMBABWE

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

May 12, 2011

KEY ISSUES:

Outlook: The nascent recovery gathered pace in 2010, but it remains fragile. If recent policy setbacks were not corrected, growth would decelerate to 5.5 percent in 2011, from 9 percent in 2010; vulnerabilities most likely would intensify, despite a favorable external environment. Key risks include possible political instability and declines in commodity prices. The medium-term outlook is clouded by political uncertainties and unclear prospects for addressing structural bottlenecks. Short- and medium-term growth and poverty reduction prospects could be significantly improved through implementation of stronger policies. The authorities are building political consensus for implementing corrective policies.

Rebuilding fiscal buffers and improving expenditure quality: Despite historically high commodity prices and large nonconcessional borrowing (4 percent of GDP), a substantial financing gap is likely to emerge in 2011 because of wage overruns and the large stock of domestic payment arrears accumulated by the end of 2010. This gap needs to be eliminated through expenditure measures, while safeguarding spending on pressing social needs and infrastructure. Over the medium term, it would be prudent to rebuild fiscal buffers and increase international reserves while commodity prices are high.

Containing financial sector vulnerabilities: The multicurrency system has served Zimbabwe well. For its medium-term viability, it would be essential to make steadfast progress in restructuring the financially distressed Reserve Bank of Zimbabwe (RBZ) to which banks are exposed, strengthen and enforce prudential measures aimed at reducing vulnerabilities in the financial system, and pursue countercyclical fiscal policy.

Implementing key structural reforms: Rising labor costs, the recent announcement of fast-track indigenization of mining, and structural bottlenecks, including rigid labor market legislation, lack of security of land tenure, and poor governance in the diamond sector, continue to impede higher growth. Addressing these structural issues would boost long-term growth potential.

Resolving external payment arrears: Absent debt relief**,** Zimbabwe is projected to remain in debt distress over the long term. A significant strengthening in policies and debt relief within a comprehensive arrears clearance framework supported by donors are essential for resolving Zimbabwe's external payments arrears. Government nonconcessional borrowing is not affordable and could complicate future external arrears clearance.

Approved By
Mark Plant and Dominique Desruelle

Discussions took place in Harare from March 16 to 30, 2011. The staff team comprised Mr. Kramarenko (head), Mr. Engstrom, Ms. Verdier (all AFR), Ms. Fernandez (SPR), Mr. McHugh (FAD), Ms. Sodsriwiboon, Mr. Sullivan (all MCM) and Ms. Yang (FIN)

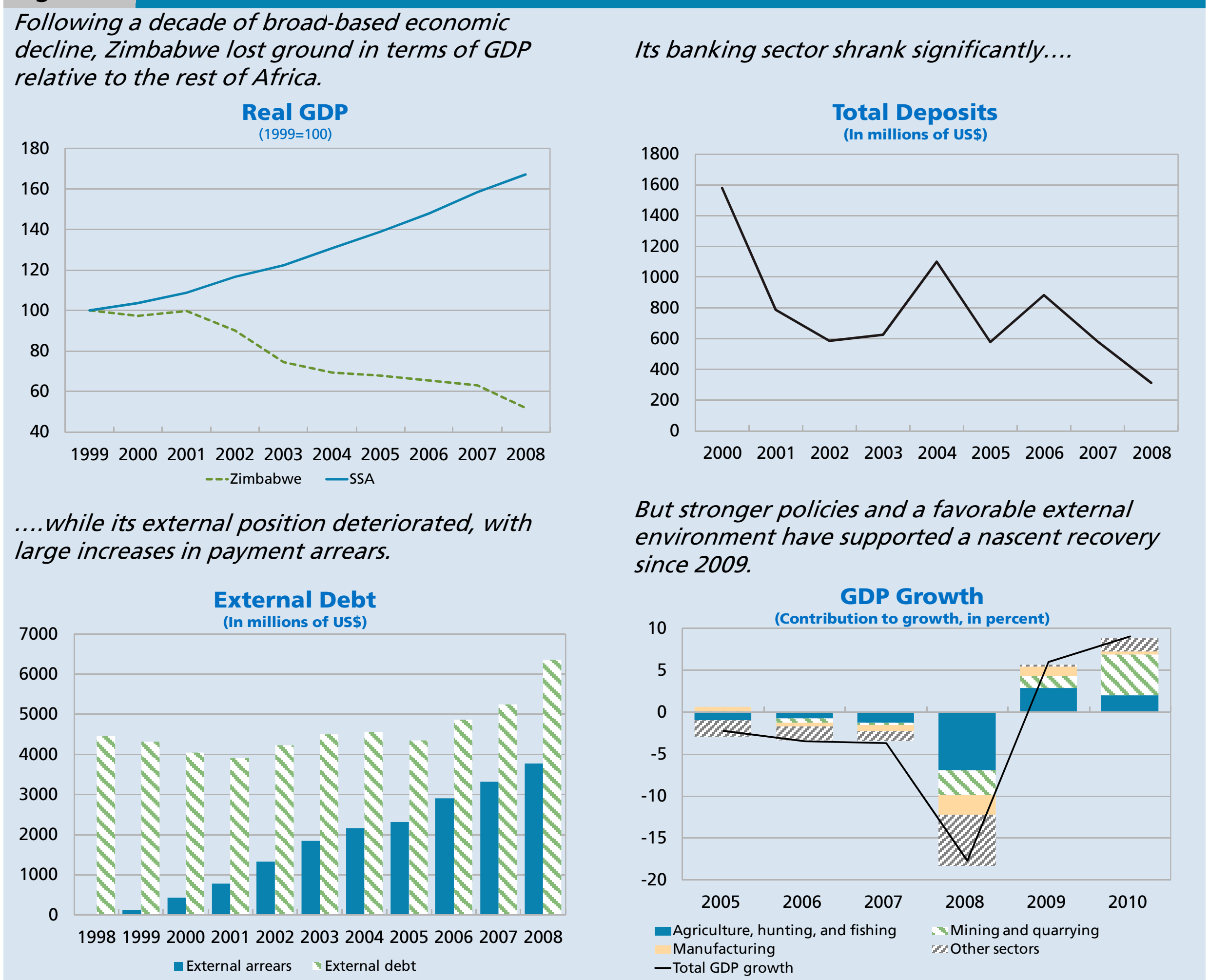
CONTENTS

APPENDIXES

A NASCENT RECOVERY (2009-10)

1. **Zimbabwe's economy was in a tailspin between 1998 and 2008.** Political turmoil and economic mismanagement caused large output losses and culminated in hyperinflation accompanied by a humanitarian crisis in 2008. Zimbabwe fell behind while the rest of sub-Saharan Africa moved ahead. The economic decline affected all sectors (Figure 1).

Figure 1 Zimbabwe: Recent Economic Performance



Sources: Zimbabwean authorities and IMF staff estimates.

2. **The unity government formed in February 2009 started to address the acute economic and humanitarian crisis.** The adoption of the multicurrency regime helped restore price stability and forced stronger fiscal discipline. Price and exchange liberalization increased efficiency, boosted output, and encouraged renewed capital inflows.

3. **Economic growth gathered pace during 2009–10 but significant structural bottlenecks and acute vulnerabilities remained:**

- **An economic recovery, albeit uneven and from a low base**. Real GDP growth accelerated from 6 percent in 2009 to 9 percent in 2010. Improved policies, a favorable external environment, and sizeable off-budget donor grants (8.6 percent of GDP) supported the burgeoning economic recovery, ameliorated food security and halted the deterioration of human development indicators. However, economic growth started from a low base and concentrated on primary commodity sectors in mining and agriculture, both of which are sensitive to exogenous shocks. Structural impediments weighed heavily on manufacturing and utilities, which were the locomotives of growth and employment creation in the past.

Zimbabwe: Millennium Development Goals

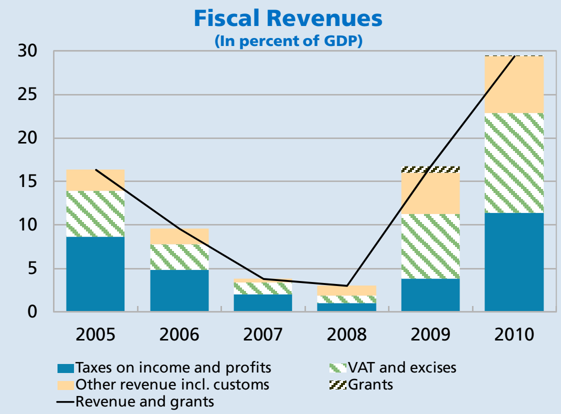
	Zimbabwe			SSA
	1990	2000	2009 1/	2009 1/
Population (millions)	10.5	12.4	12.5	840.0
Life expectancy at birth, total (years)	60.8	43.3	*44.2*	*52*
Literacy rate, youth female (% of females ages 15–24)	...	...	*99.4*	*67*
Literacy rate, youth male (% of males ages 15–24)	...	...	*98.3*	*77*
Under 5 mortality rate (per 1,000)	81.3	115.9	89.5	130.0
Maternal mortality ratio (per 100,000 live births)	...	...	*790*	*650.0*
Prevalence of HIV, total (% ages 15–49)	14.2	27.3	*15.3*	*5.0*
Access to an improved water source (percent of population)	78.0	80.0	*82.0*	*60.0*

1/ Italics refer to earlier periods.
Source: World Development Indicators.

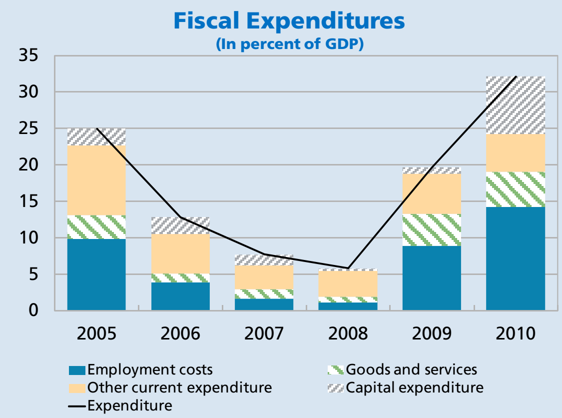
- **Expanded fiscal space, but slow progress in improving expenditure quality and difficulties in adhering to cash budgeting**. Commendable improvements in tax policy and administration helped generate large increases in fiscal revenues. However, over-sized employment costs, the continued financing of weakly supervised state-owned enterprises and challenges in public financial management undermined the quality of expenditure and competitiveness. After generating a small cash fiscal surplus in 2009, the central government had a cash deficit in 2010, and expenditure arrears amounted to $75 million at end-2010 (Figure 2).

Figure 2 Zimbabwe: Recent Budgetary Performance

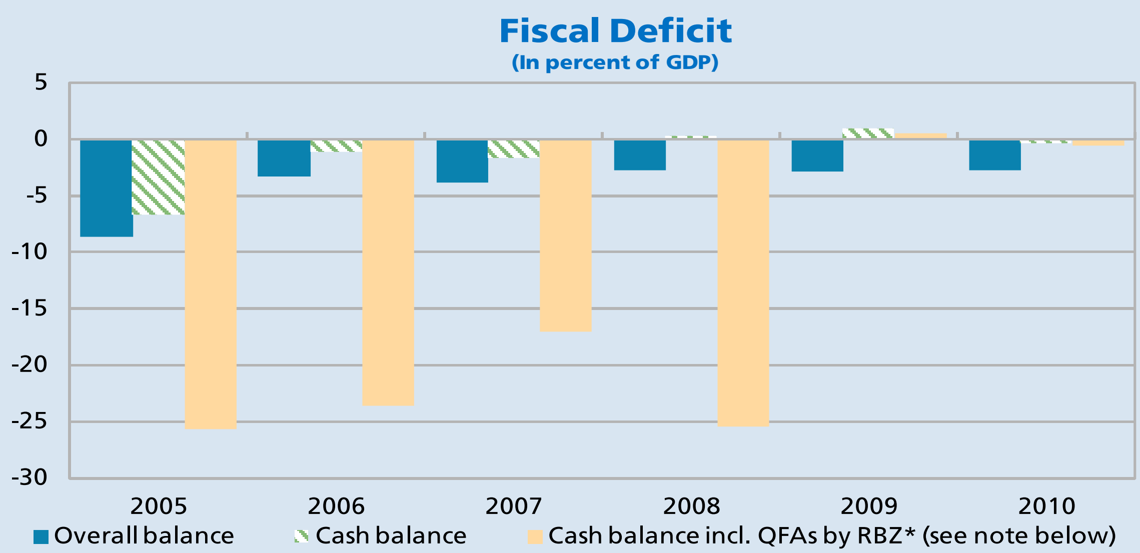
Revenue collection continued to improve in 2010, as the recovery strengthened and tax policy and administration improved.



But employment costs continued to crowd out other expenditures...



...and a cash deficit emerged in 2010.



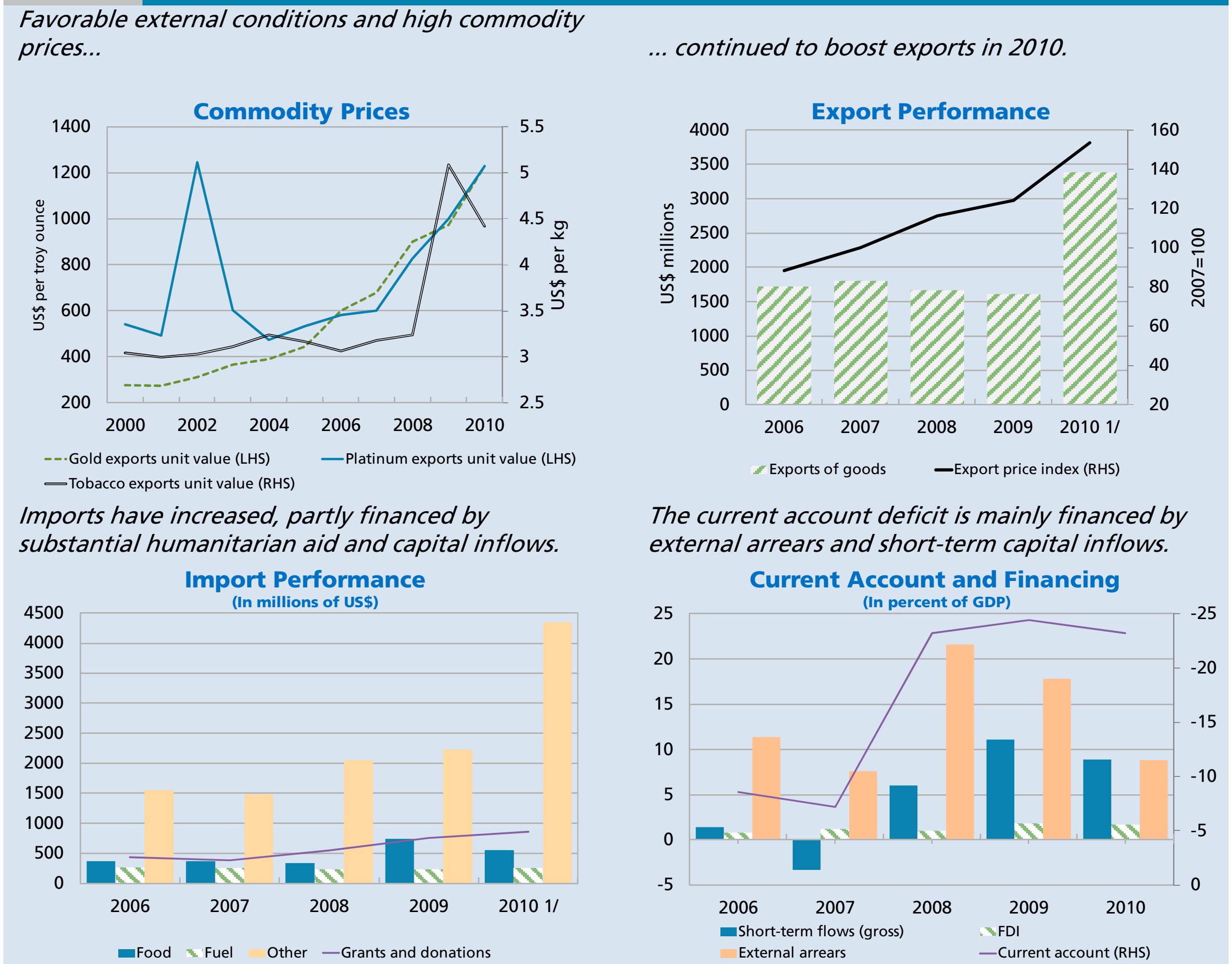
Sources: Zimbabwean authorities and IMF staff estimates.

Note: Quasi-fiscal activities (QFAs) by the Reserve Bank of Zimbabwe (RBZ) include election-related expenses, transfers to parastatals, subsidized direct lending, below-cost provision of equipment and fertilizers to farmers, and allocation of foreign exchange at subsidized exchange rates.

- **Rapid recovery in primary commodity exports, but a still precarious external position**. Historically high commodity prices, the resumption of official diamond trade, a significant appreciation of the rand, and capital inflows eased balance of payments pressures somewhat in 2010 (Figure 3). However, the current account deficit (23 percent of GDP in 2010) was large and financed in part by short-term capital flows. Zimbabwe's usable reserves (0.4 months of imports at end-2010) were well below levels observed in officially dollarized economies and benchmarks for sub-Saharan fragile states with fixed exchange rate regimes (Appendix I). Zimbabwe remained in debt distress with large and unsustainable debt stock (118 percent of GDP at end-2010), the bulk of which was in arrears (80 percent of GDP at end-2010).

- **The financial sector—growing, yet highly vulnerable.** The multicurrency system helped jumpstart intermediation with the size of the banking system surpassing the prehyperinflation levels. However, the banking system remains highly vulnerable (Appendix II) with weakening capitalization, rising nonperforming loans, and a tightening liquidity situation (Figure 4).

Figure 3 Zimbabwe: External Sector Performance

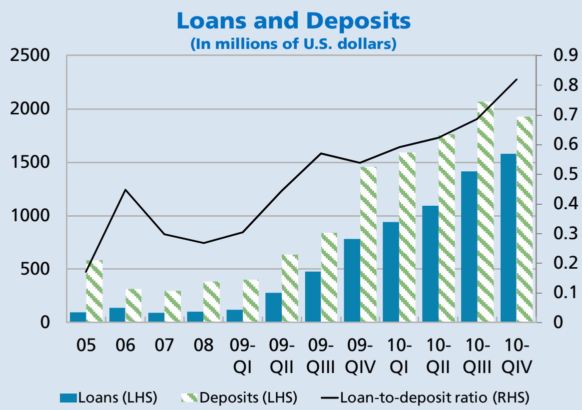


Sources: Zimbabwean authorities and IMF staff estimates.

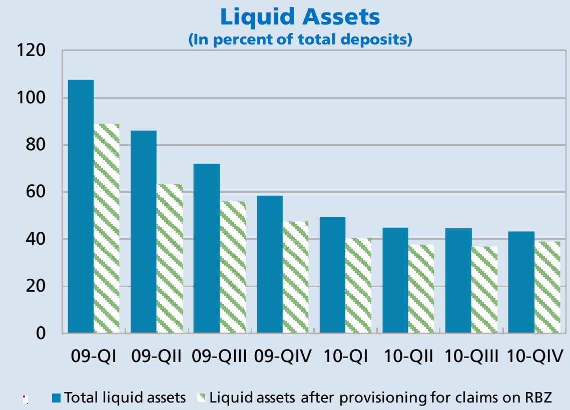
1/ Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.

Figure 4 Zimbabwe: Banking System Indicators, 2005–11

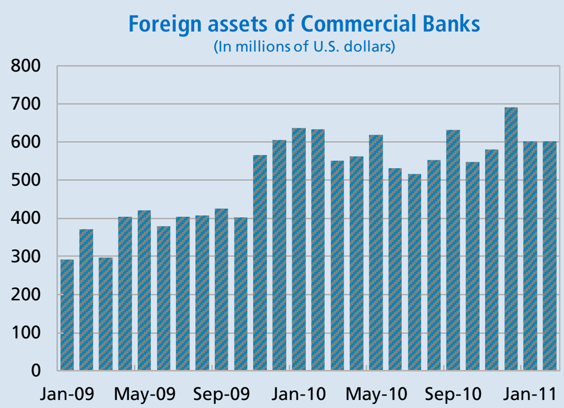
The banking system has surpassed its size before hyperinflation...



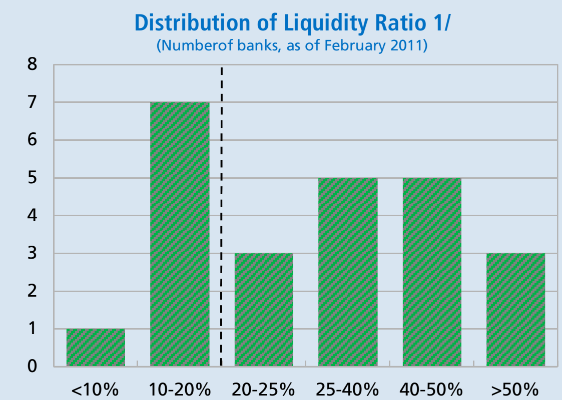
... but liquidity risks are rising.



Liquid foreign assets have recently declined ...



... and some banks are facing tight liquidity.



Sources: Zimbabwean authorities and IMF staff estimates.

1/ The ratio of liquid assets to short-term liabilities. Liquid assets are defined as cash, claims on nonresident banks, interbank claims, and clearing balances at the RBZ. Illiquid claims on the RBZ are excluded. Short-term liabilities comprise all deposits, interbank liabilities, and liabilities to nonresidents.

OUTLOOK AND RISK

4. **Political tensions fuel uncertainties about the economic outlook.** Negotiations for an election roadmap are underway. Some officials propose early elections in 2011 while other members of the government argue that polls should take place after major political reforms, including adoption of a new constitution, have been completed. The political tensions surrounding the pre-election debate are complicating economic policymaking.

5. **Under the *unchanged policies scenario*, growth most likely would decelerate in 2011.** Projected budget overruns

for 2011, an inefficient expenditure composition, rising vulnerabilities in the financial system, and the recent announcement of the fast-track indigenization of the mining sector would be a drag on the recovery and cause growth to decelerate to 5.5 percent in 2011. Twelve-month inflation is forecast to increase to about 7 percent by December 2011 on account of higher food and fuel prices, as well as wage-driven increases in prices for nontradables (i.e., rents and services).[1] Despite historically high export commodity prices, the current account deficit is projected at about 14 percent of GDP and is expected to be financed in part by short-term capital flows and nonconcessional government borrowing. Foreign direct investment (FDI), particularly in mining, and portfolio investment are projected to decline in 2011. There is no fiscal space for increasing Zimbabwe's usable international reserves (less than ½ month of imports), and prudential regulations do not require banks to increase their liquidity buffers to sufficiently prudent levels. The current fiscal stance is highly procyclical and would contribute to a further buildup of external and fiscal vulnerabilities. The government intends to run a fiscal deficit of 4 percent of GDP, financed by nonconcessional external borrowing, while commodity prices have reached historical highs.

[1] The official CPI has low weights for nontradable goods, which contributes to a possible understatement of reported and forecast inflation.

6. **The medium-term outlook is highly uncertain owing to the lack of a roadmap for elections and ensuing political uncertainty.** For illustrative purposes, an *unchanged policies scenario* projects a gradual decline of real GDP growth rates to about 3 percent, because investment most likely would remain subdued on account of significant structural impediments, the acceleration of indigenization in mining and lingering uncertainties about ownership requirements in other sectors (Figure 5).

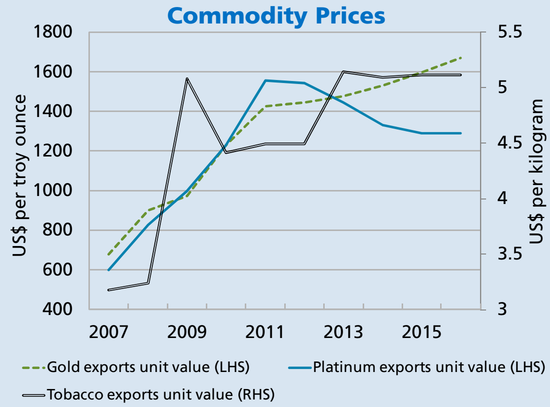
7. **The balance of risks for the unchanged policies scenario is slanted to the downside.** On the upside, even higher commodity prices and increased diamond exports could underpin higher growth, higher budget revenues, and a faster reduction of the current account deficit. Downside risks for the outlook include political disturbances, export price declines, higher-than-anticipated increases in import food and fuel prices, unfavorable weather, reversals of capital inflows, and banking system instability.

8. **Implementing timely policy measures would solidify the economic recovery and reduce acute vulnerabilities.** *Under the recommended policies scenario*, it is assumed that the government will eliminate expenditure overruns while leaving more fiscal space for critical infrastructure and social spending in 2011 and start rebuilding fiscal buffers in the medium term, forcefully address financial sector vulnerabilities, and strengthen the business climate. As a result, in 2011, the economy could grow by 7.2 percent,

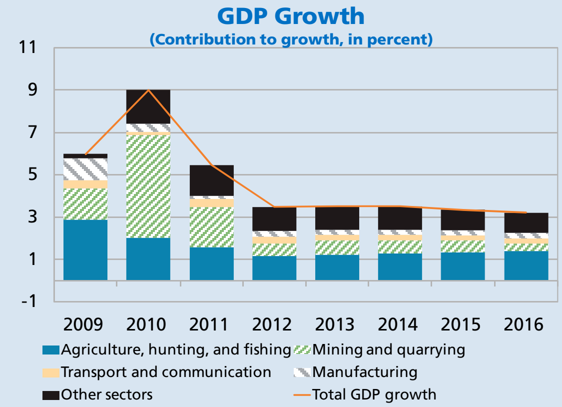
mainly because mining and mining-related activities in manufacturing and nontradable sectors would benefit from higher capital inflows providing for more working capital and higher investment, as well as from higher public investment in critical infrastructure (Figures 5 and 6). Over the medium term, the country could potentially boost growth performance by about 3 percentage points relative to the unchanged policies scenario, and increase international reserves to almost 1 month of imports by 2016 (Figures 6 and 7).

Figure 5 Zimbabwe: Unchanged Policies Scenario

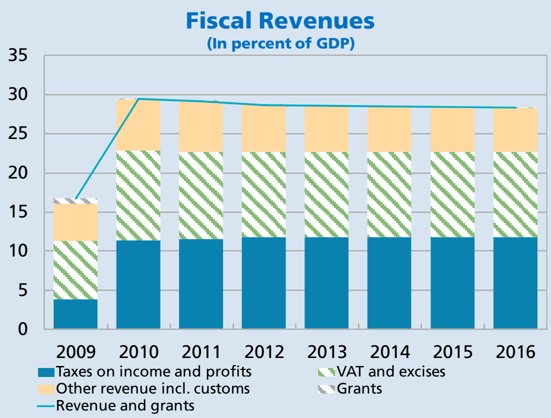
Despite favorable external conditions and high commodity prices…



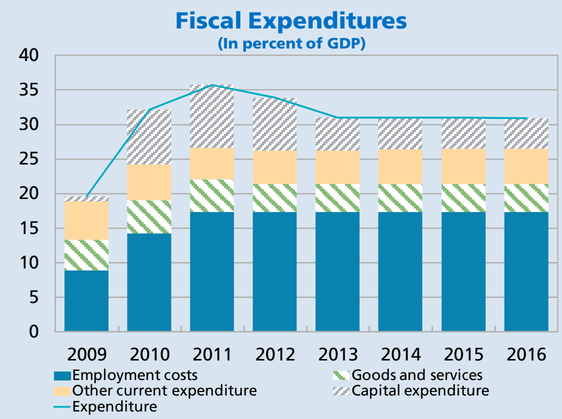
… growth in commodity sectors will decline as a result of recent policy setbacks.



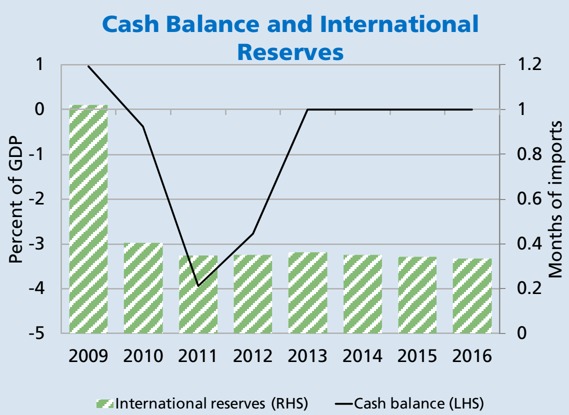
Fiscal revenues will level off…



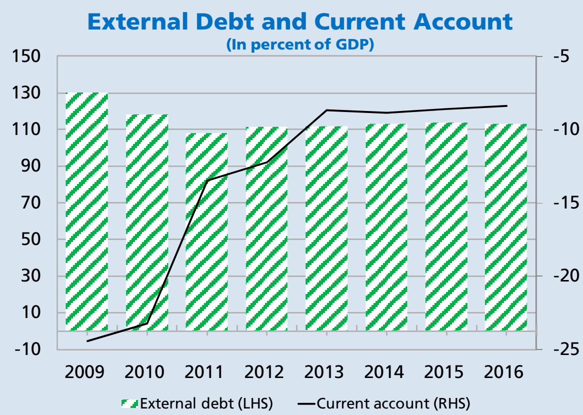
… and employment costs will continue to take the lion's share of expenditures.



The resulting cash balance will fail to provide appropriate buffers against external shocks…



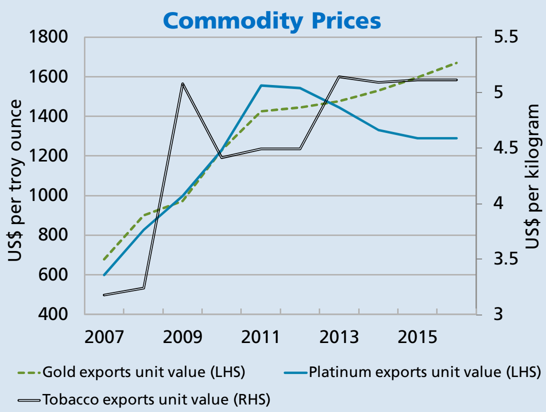
… and despite the stabilization of the current account, external debt will remain unsustainable.



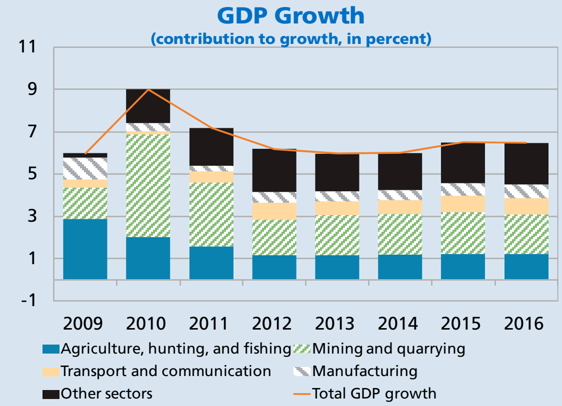
Sources: Zimbabwean authorities and IMF staff estimates and projections.

Figure 6 Zimbabwe: Recommended Policies Scenario

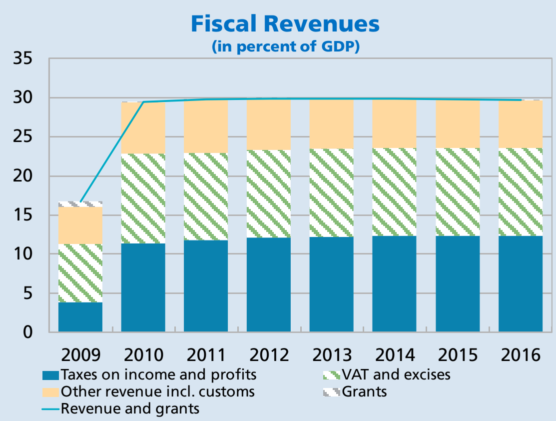
If corrective measures are implemented, favorable external conditions and high commodity prices...



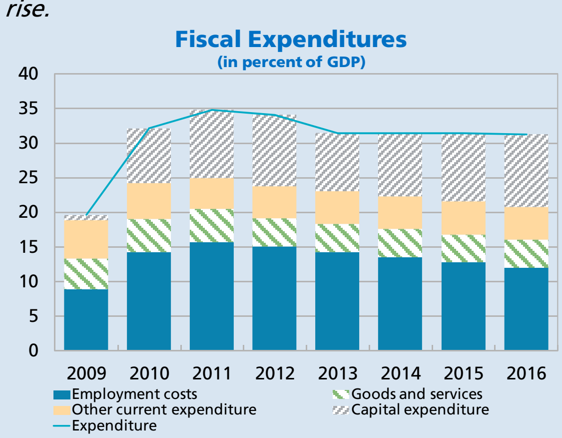
... will have a greater growth dividend, particularly in mining and mining-related sectors, such as manufacturing and transport and communications.



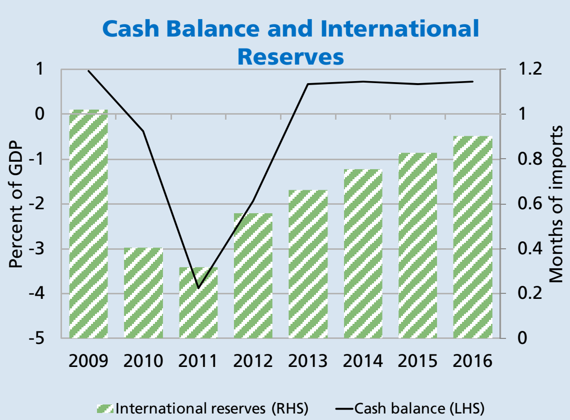
Fiscal revenues will be higher…



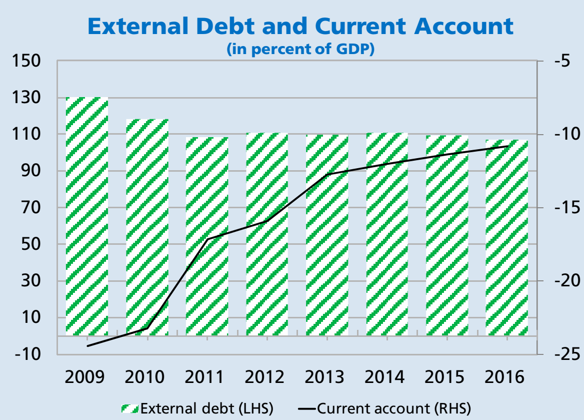
… and employment costs will constitute a smaller share of expenditures while capital spending will rise.



The positive cash balance will provide a greater reserve buffer against external shocks…

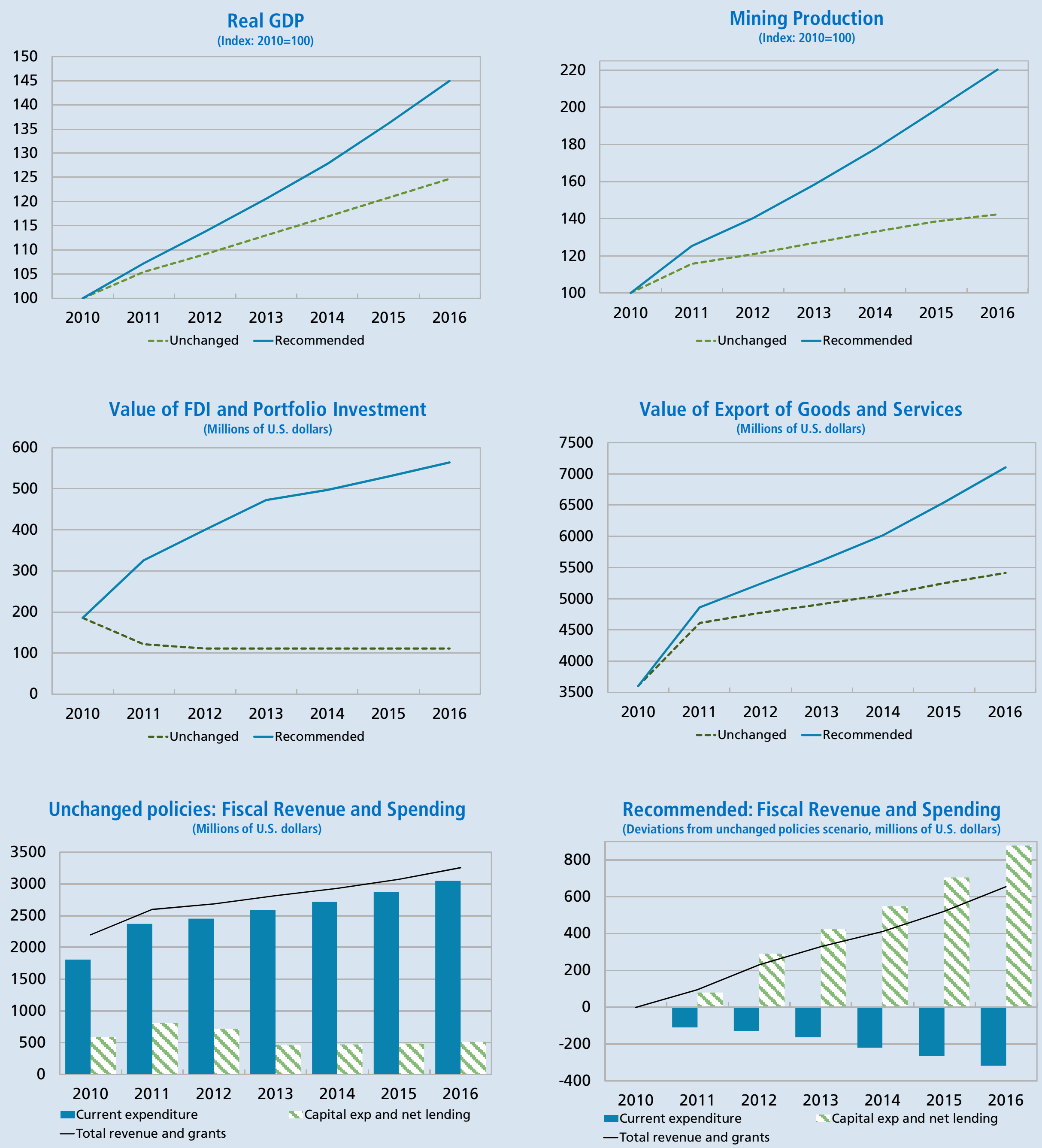


… and the economy will have a smaller debt stock.



Sources: Zimbabwean authorities and IMF staff estimates and projections.

Figure 7 Zimbabwe: Two Scenarios (Unchanged and Recommended Policies Scenarios)



Sources: Zimbabwean authorities and IMF staff estimates and projections.

Authorities' Views

9. **The authorities were confident that growth could be maintained at about 9 percent in 2011 but agreed that growth would decline in the medium term under unchanged policies.** Most officials were confident that staff recommendations would be implemented in a timely manner, which, along with favorable external conditions, would support strong growth in 2011. The authorities also indicated that lack of access to concessional official financing was a major constraint on medium-term growth potential. Some officials thought restrictive measures imposed on some Zimbabwean officials and their companies by several countries hindered the recovery and constituted the major obstacle to medium-term growth.

POLICY THEME #1—CREATE FISCAL SPACE FOR ADDRESSING PRESSING SOCIAL AND INFRASTRUCTURE NEEDS AND REBUILDING INTERNATIONAL RESERVES

Background

10. **After two years of rapid growth, revenues most likely will level off in 2011 and the medium term.** Under the *unchanged policies scenario*, in 2011, revenues are projected to remain broadly unchanged at 29 percent of GDP compared with 2010. This implies a revenue shortfall of 1.6 percent of GDP compared to the 2011 budget. Over the medium term, revenues are expected to stabilize at about 28 percent of GDP, as Zimbabwe simplifies its tariff structure in line with its commitments under regional trade agreements. Donors are expected to contribute about $770 million (8.6 percent of GDP in 2011) in off-budget assistance, including food aid, medicine, and expenditure from the Multi-Donor Trust Fund. *Under the recommended policies scenario*, nominal revenues would be significantly higher mainly owing to stronger growth in 2011, whose positive effects could be supplemented with additional revenue measures over the medium term.

11. **Contracted nonconcessional borrowing will lead to fiscal deficits in 2011 and 2012, but access to foreign financing is uncertain beyond 2012.** Nonconcessional loans will mainly finance net lending to utilities, private fertilizer companies, and farmers (equipment), and government purchases of health equipment. The 2011 budget limits domestically financed cash expenditure to 31 percent of GDP, and external borrowing financed expenditure would amount to 4 percent of GDP. In the absence of corrective measures, domestically-financed expenditure commitments would be higher than budgeted by about 2.7 percent of GDP. Taking into account the revenue shortfall (1.6 percent of GDP) under the unchanged policies scenario, a financing gap of

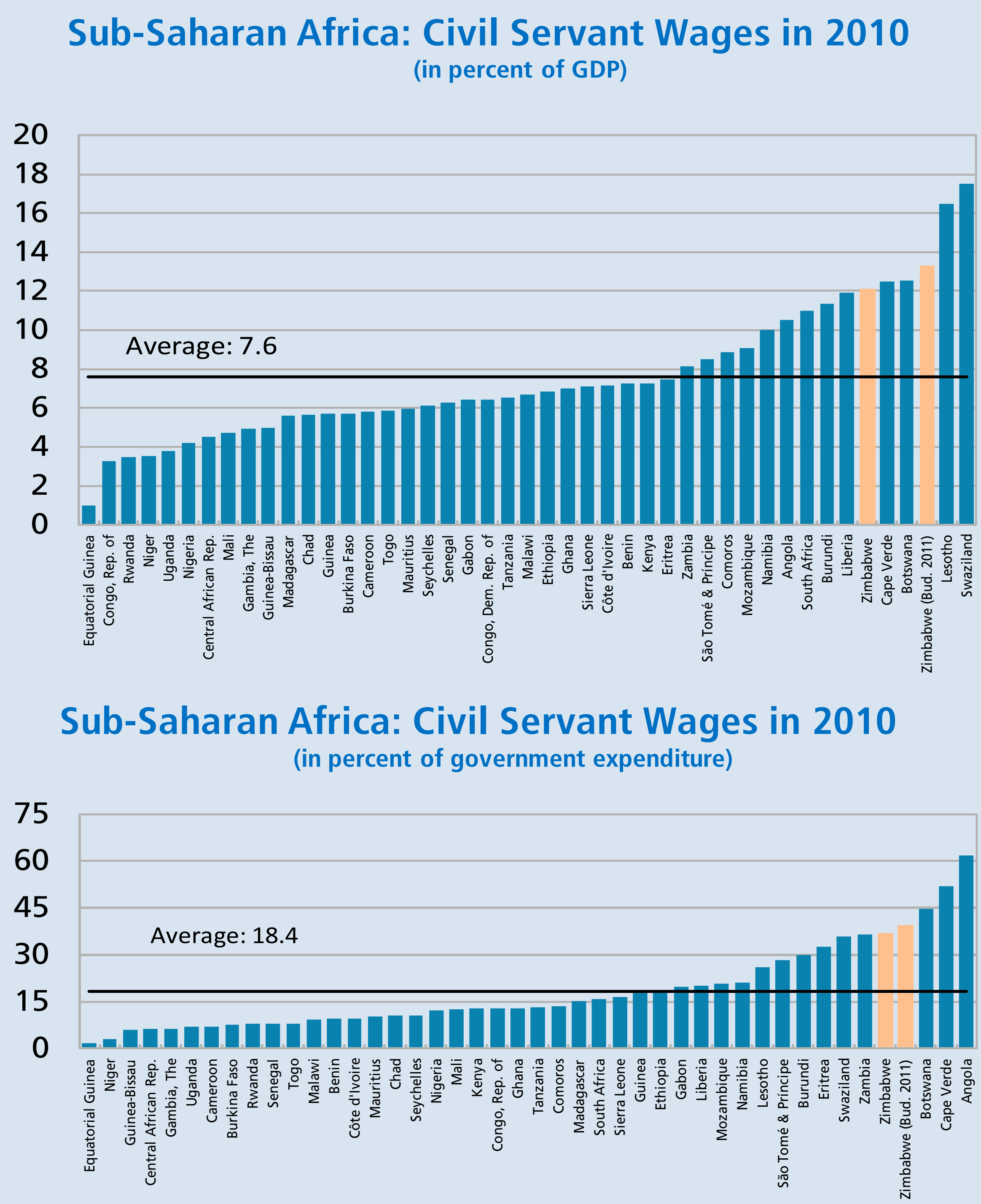
4.4 percent of GDP likely will emerge, and a significant part of it most likely will be closed by further accumulation of expenditure arrears and cuts in capital expenditure with a negative feedback impact on growth. In 2012, the government will continue to rely on the nonconcessional loan contracted in 2011, but uncertainty exists regarding the availability of foreign financing beyond 2012. The risk of further accumulation of expenditure arrears in the medium term remains high.

Zimbabwe, Fiscal Outlook for 2011 (US$ millions, unless otherwise indicated)	
Budget 2011	
Net revenues	2,743
Domestic expenditures and net lending	2,746
Postbudget expenditure pressures	
Wage over run	155
External loan commitment fee	4
Upfront loan payment 1/	9
Domestic arrears clearance	75
Total	243
Recommended scenario	
Revenue shortfall	-47
Expenditure overrun	243
Total gap	290
Percent of GDP	3.2
Baseline scenario	
Revenue shortfall	-145
Expenditure overrun	243
Total gap	389
Percent of GDP	4.4

1/ Medical equipment and supplies loan is assumed to be on-budget.
Source: IMF staff estimates.

12. **On unchanged policies, the share of employment costs will continue to increase reducing fiscal space for other expenditures.** In 2011, employment costs, including wages, benefits, and pensions, are projected to increase by 45 percent to $1.54 billion (17.3 percent of GDP), well above the budgeted $1.4 billion. As a result, the budget will be heavily tilted toward employment costs (59 percent of revenue), crowding out other essential expenditures, raising significant competitiveness concerns and leaving no room for increasing international reserves. The wage bill in Zimbabwe is one of the highest in sub-Saharan Africa (Figure 8). A recent public payroll audit identified 38,000 staff positions with significant irregularities, including possibly 14,000 ghost workers. On-budget nonwage expenditure on social programs remains very low, and the public investment program contains some projects with little immediate impact on social sectors, poverty reduction, and growth. Despite recent computerization upgrades and efforts to improve budget formulation, PFM systems contain a number of weaknesses.

Figure 8 Zimbabwe: Competitiveness Indicators (I)



Sources: African Department database and IMF staff estimates and calculations.

Note: Zimbabwe (Bud. 2011) refers to Zimbabwe's civil services wages as projected in the 2011 Budget.

Staff Recommendations

13. **It would be prudent to rebuild fiscal buffers while commodity prices are high.** Pursuing coutercyclical fiscal policy will help reduce macroeconomic volatility over the economic cycle and build usable international reserves over the medium term (Appendix I). As a result, external and fiscal vulnerabilities to volatile commodity prices and other shocks would be reduced, and the multicurrency system would be more resilient.

14. **For 2011, the first best advice is to have a balaned cash budget with no nonconcessional borrowing.** However, the government has already contracted a large nonconcessional loan and priority should be given to limiting the fiscal deficit to already contracted foreign borrowing (to the extent drawings are mandated under the contract) and closing the likely financing gap of 4.4 percent of GDP ($390 million). This could be achieved through reducing the wage bill closer to the initially budgeted amount (e.g., elimination of ghost workers, strict controls on hiring, initiation of a due process for irregular civil servants), mobilizing off-budget donor grants for some capital projects, and curtailing low-priority current and capital expenditures.

15. **Owing to significant uncertainties regarding revenue performance in 2011, a contingency plan is needed.** If upside risks materialize, saving revenues above budget expectations as part of international reserves would be prudent. Should revenue collection underperform by more than projected by staff, the government would need to activate a plan specifying areas of expenditure cuts to facilitate orderly expenditure reductions.

16. **Fiscal reforms need to be stepped up to support growth and poverty reduction, start generating fiscal surpluses and accumulating international reserves in the medium term.** On the expenditure side, reducing employment costs to a more sustainable level of about 40 percent of revenues by 2016 would significantly increase fiscal space for priority expenditures and reserve accumulation. Other key reform measures include reinforced expenditure controls, activation of the human resource module of the expenditure control system, stronger oversight of state-owned enterprises (SOEs), and enhanced budget planning within a medium-term expenditure framework. On the revenue side, the reform of the tax system needs to be continued in line with previous IMF technical assistance (TA). As part of the ongoing discussions of the draft Zimbabwe Income Tax Act, a public debate on key features of the new tax system, including in mining, would be beneficial (Appendix IV).

Authorities' Views

17. **Most officials agreed that the country would benefit from countercyclical fiscal policy and that fiscal and reserve buffers need to be built while commodity prices are high.** The government will initiate an internal debate on a reserve accumulation strategy and the role for fiscal policy in the context of full dollarization.

18. **The authorities felt their revenue target for 2011 is within reach, provided the**

political situation does not deteriorate. They also indicated that risks to revenue are broadly balanced in 2011. The downside risk from weaker growth is broadly offset by an upside risk to diamond revenues.

19. **The authorities agreed that expenditure measures would be required in 2011 to offset the impact of wage bill overruns and accumulated expenditure arrears.** They explained that the wage bill was driven by civil service labor unions' demands and the need to provide sufficient decompression of the wage scale. However, the authorities indicated that part of the wage bill overrun relative to the budget ($120 million) would be addressed by implementing corrective measures. They would also seek to continue to review civil service wages on an annual rather than semiannual basis, despite strong pressure from some high-level government officials for a wage increase in June 2011. The burden of adjustment for the remaining financing gap for 2011 most likely will fall on capital expenditure, but the authorities emphasized that off-budget donor grants for capital projects (about $60 million) through the Multi-Donor Trust Fund managed by the African Development Bank would cover some capital expenditure projects reflected in the budget. The authorities agreed that continued accumulation of domestic expenditure arrears remains a concern, and indicated that they would seek to allocate sufficient resources and further improve their PFM systems to achieve a reduction in these arrears.

20. **The authorities intend to advance fiscal reforms with IMF and World Bank TA.** The authorities plan to complete their work on a new Income Tax Act in 2011 and initiate medium-term reforms aimed at improving tax administration, strengthening PFM systems and oversight of SOEs, and achieving a significant reduction in employment costs relative to revenues.

POLICY THEME #2—CONTAIN FINANCIAL SECTOR VULNERABILITIES UNDER THE MULTICURRENCY REGIME

Background

21. **The official policy is that the multicurrency system will be maintained until at least 2012.** The government has stated that the Zimbabwe dollar would not be reintroduced until there is clear evidence of a strong economic recovery, characterized by a sound track record of policy consistency and implementation, a sustainable external position, and a strong financial sector.

22. **Central bank reforms are proceding, but significant challenges remain.** With the appointment of a governing board in May 2010, the RBZ has strengthened reporting and accounting and has completed staff downsizing, involving a severance package and back wages of about $59

million (0.7 percent of GDP), of which $15 million has already been paid using fiscal transfers. The RBZ's data reporting to the Fund has improved significantly. However, the institution remains in financial distress ($1.2 billion of negative equity), and its financial restructuring is at an early stage. In addition, the RBZ's use of fiscal transfers earmarked for operating expenses to pay severance packages results in a further accumulation of RBZ expenditure arrears.

23. Banking system vulnerabilities are increasing. They stem from (i) large exposures to the financially distressed RBZ ($174 million or 40 percent of banks' equity capital at end-2010); (ii) rising liquidity risk in part attributable to weak prudential requirements against the background of possible balance of payment pressures and lack of lender-of-last resort facility (8 banks, including one large bank, had liquidity ratios below 20 percent as of end-February 2011); (iii) an increase in the number of smaller banks (to seven) failing to comply with minimum capital requirements and delays in resolving some smaller banks in distress; and (iv) rising credit risk and nonperforming loans, in particular in smaller banks (Appendix II).

Staff Recommendations

24. To remove uncertainties regarding the future currency regime, it is important to announce an extension of the lifespan of the multicurrency system (perhaps by another three years) by mid-2011. Zimbabwe continues to benefit from the multicurrency system, and the authorities' self-imposed conditions for the re-introduction of the Zimbabwe dollar are not likely to be met by 2012.

25. The RBZ's balance sheet needs to be restructured by transferring noncore assets and liabilities to a special purpose vehicle (SPV). In the interest of financial stability, the restructuring process needs to give priority to a transparent disposal of noncore assets and refund of statutory reserves to commercial banks ($83 million). In addition, the status of frozen foreign currency accounts of resident nonbanks lodged by banks at the RBZ ($91 million) needs to be clarified. The treatment of liabilities to nonresidents needs to be consistent with the overall external debt strategy, which is yet to be developed fully. It would also be essential to define clearly the status of the remaining claims of downsized staff ($44 million, 0.5 percent of GDP) and ensure that the fiscal transfers to the RBZ planned under the 2011 budget are used for opertaing expenses as intended. The RBZ should publish its audited financial statements for 2008 and accelerate completion of the 2009 audit.

26. Rising vulnerabilities in the banking system need to be addressed by stepping up supervisory efforts and better enforcing compliance with prudential requirements. The RBZ needs to (i) intervene swiftly to resolve banks that fail to restore compliance with minimum capital requirements; (ii) require banks exposed to the RBZ to raise capital, if needed, after completion of RBZ restructuring; (iii) raise the prudential liquidity ratio to 25 percent (from 20 percent) and exclude illiquid claims on the RBZ from the definition of banks' liquid assets, while ensuring that noncompliant banks have credible transition schedules to rebuild their liquidity; (iv) require that risky banks hold additional liquidity buffers; (v) improve stress testing of banks (with additional IMF TA); and (vi) ensure sound loan underwriting standards and practices. The recommended tightening of prudential requirements and their stricter enforcement would also contribute to a reduction in credit growth to a more sustainable pace.

Authorities' Views

27. **The authorities agreed that the conditions for the re-introduction of the Zimbabwe dollar have not been met, and they intend to announce an extension of the multicurrency system by end-2011.** They also indicated that an internal debate on long-term options (beyond the next three years) for a currency regime would be initiated soon.

28. **The authorities continue to attach the highest importance to building internal consensus on a speedy resolution of financial distress at the RBZ.** They broadly agreed with staff recommendations regarding the creation of the SPV, which should be in charge of transparent disposal of noncore assets and a resolution of nonperforming liabilities. The Ministry of Finance concurred that claims of banks should be given priority in the interest of financial stability, while underscoring the importance of validating RBZ's external liabilities before incorporating them into the future sovereign external debt resolution framework. However, the RBZ saw merit in giving priority to the claims of downsized staff and called for using part of Zimbabwe's SDR allocation for this purpose. The authorities expect to conclude the internal debate on these issues soon and submit SPV legislation to parliament in the coming months. They also requested further Fund TA in the area of RBZ balance-sheet restructuring and reporting.

29. **The authorities acknowledged rising risks in the banking sector and reiterated their intention to remain vigilant in monitoring vulnerable institutions.** The Ministry of Finance will work closely with the RBZ to find the best way forward in light of the staff's advice to tighten liquidity requirements, enforce minimum capital requirements, and strengthen monitoring of credit risk. RBZ officials expressed reluctance to implement staff advice and stressed the importance of striking the appropriate balance between financial stability considerations and the need to support credit growth and provide banking services to underfinanced groups. In this regard, the RBZ saw an urgent need for a sufficiently large lender-of-last-resort facility rather than prudential measures. However, there is broad consensus among policymakers that there is no fiscal space for such a facility. The authorities conveyed appreciation for continued IMF TA on stress testing and expressed interest in further Fund TA in this area.

POLICY THEME #3—IMPLEMENT KEY STRUCTURAL REFORMS TO INCREASE GROWTH POTENTIAL AND IMPROVE COMPETITIVENESS

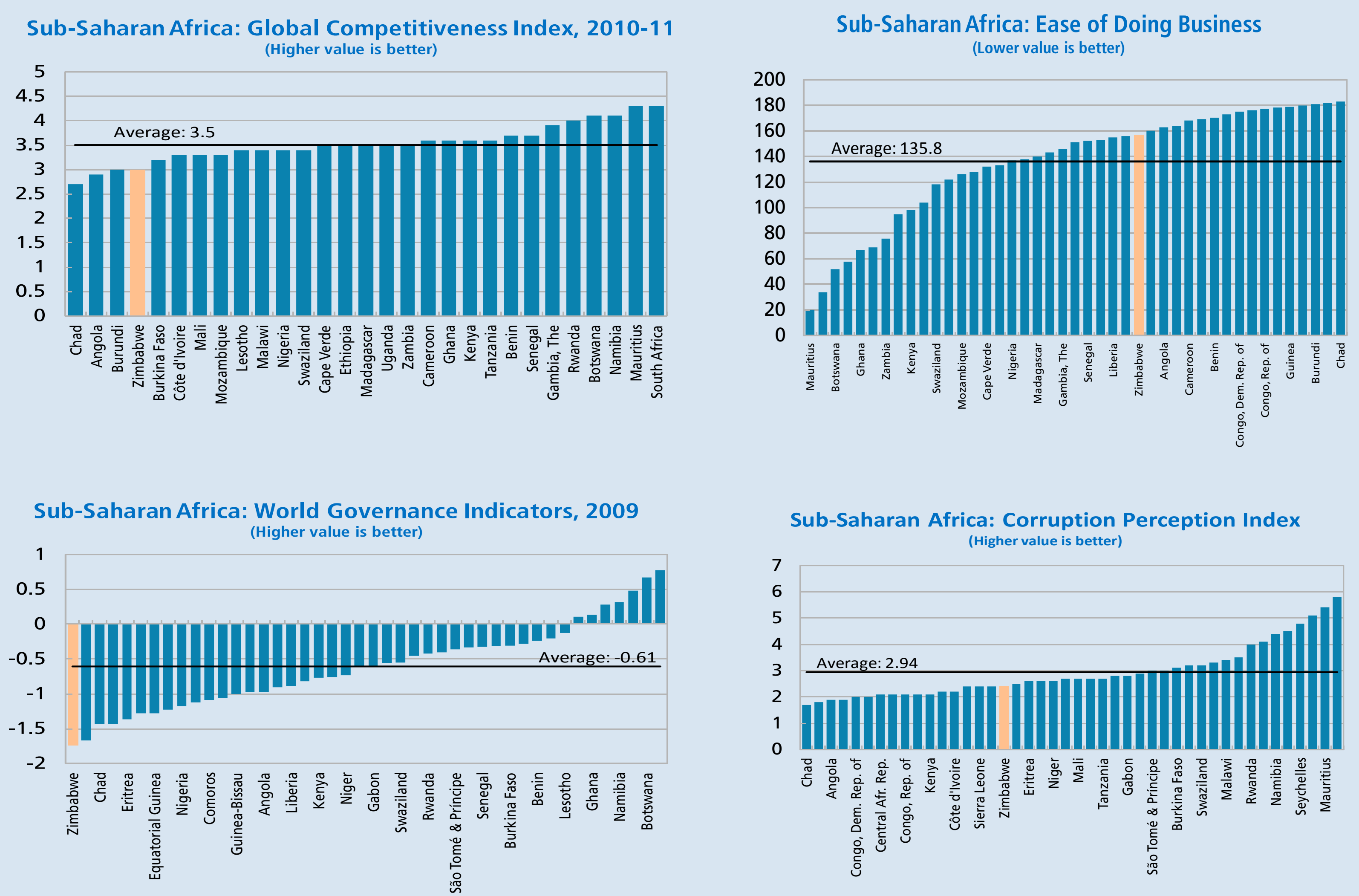
Background

30. Medium-term growth potential and competitiveness are constrained by rapidly rising labor costs, and structural and governance impediments (Figure 9). Recent wage increases in the public sector, including SOEs, have had a demonstrative impact on private sector wages and exerted pressure on utility prices. These factors contributed to the high cost of doing business. Uncertainties about indigenization requirements persist. After announcing some flexibility with respect to ownership requirements under the indigenization legislation (requiring that 51 percent of equity of companies with assets exceeding $500,000 belong to indigenous Zimbabweans), the authorities planned to set sector-specific thresholds on minimum local ownership by end-2010. However, the announcement of thresholds has been delayed, except for mining. In the latter sector, a 51 percent requirement should be met by September 25, 2011 for all firms regardless of their value. As a first step toward addressing governance issues in the diamond sector, the government is preparing a diamond act to clarify the institutional framework for diamond mining. Many private businesses continue to indicate that the current labor market legislation could be made more flexible to facilitate employment creation. Also, the launch of a land audit has been delayed.

Staff Recommendations

- Aligning the objective of empowerment with the need to facilitate domestic and foreign investment and respect for property rights.
- Implementing a land audit as a first step toward resolving the issues of land rights and the security of land tenure.
- Improving governance of public enterprises active in the diamond sector—with IMF and World Bank TA.
- Strengthening the regulatory framework in the utilities sector.
- Strengthening the anti-money-laundering and combating of terrorism framework in the diamond and precious metals sector.
- Increasing the flexibility of labor legislation to improve competitiveness and facilitate adjustment in the labor market.

Figure 9 Zimbabwe: Competitiveness Indicators (II)



Sources: Global Competitiveness Report (2010-2011); Doing Business 2011, World Bank (2010); Worldwide Governance Indicators, World Bank (2009); Corruption Perceptions Index 2010, Transparency International (2010); and IMF staff calculations.

Authorities' Views

31. The authorities expressed a range of views on indigenization. There is broad agreement in the government that empowerment of indigenous Zimbabweans through indigenization of businesses is an important objective. However, significant differences of opinion exist regarding the pace and modalities of indigenization. Some officials observed that it would be important to achieve the indigenization targets quickly because foreign investors would feel more secure with Zimbabwean partners as majority stakeholders. At the same time, other officials shared the staff's concern that rapid indigenization, in particular if implemented nontransparently, could undermine exports, investment, and capital inflows, exacerbating balance of payment pressures and jeopardizing medium-term growth prospects. These officials expressed confidence that flexibility in the implementation of indigenization in mining could still be introduced this year, and other sectors could also be expected to benefit from flexibility.

32. Government officials indicated that improving governance of public enterprises and establishing transparency in the management of diamond revenues remained important priorities. They requested IMF TA in the areas of governance of public sector enterprises and anti-money-laundering and combating the financing of terrorism in the diamond and precious metals sector. The authorities also expressed interest in participating in the Extractive Industry Transparency Initiative.

33. The authorities also concurred that land reform and more flexible labor legislation are important for sustainable growth. Efforts to start a land audit are hampered by lack of funds and equipment, and the authorities are seeking assistance of cooperating partners. Government officials indicated that addressing labor market rigidities would require further consensus building within the government.

POLICY THEME #4—MOVE TOWARD ACHIEVING EXTERNAL SUSTAINABILITY

Background

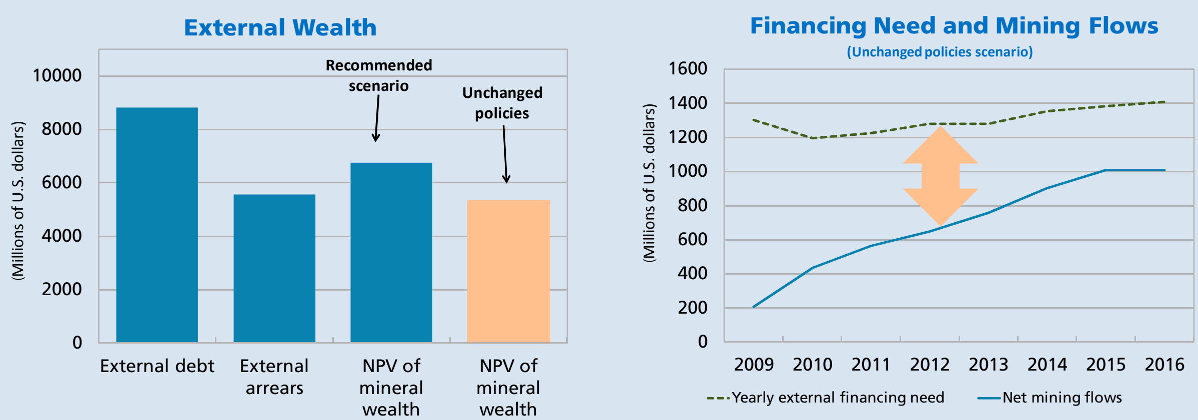
34. Zimbabwe is in debt distress with the bulk of external debt in arrears. At end-2010, all but two external debt indicators exceeded thresholds for low-income countries with weak policy frameworks. Recent borrowing and guaranteeing of nonconcessional loans by the government has intensified debt distress. Zimbabwe is not likely to reach debt sustainability even taking into account increased receipts from the country's mineral resources and assuming a significant strengthening of policies in line with staff recommendations (Figure 10, Appendix III on mineral wealth and the Debt Sustainability Analysis).

35. **The authorities have expressed interest in a staff-monitored program (SMP).** In light of stronger policies and the improved macroeconomic performance in 2010, specific markers were agreed on with the authorities to give them an opportunity to demonstrate implementation capacity and policy commitment. In this regard, (i) timely data reporting for at least three months, in particular by the RBZ, and (ii) concrete steps toward eliminating ghost workers were agreed as markers for initiating a stocktaking exercise with the government and donor community on the merits of an SMP. The data reporting marker has been met, but not the marker on eliminating ghost workers. Recent policy setbacks have also raised concerns about the sustainability of reform and stabilization efforts.

Figure 10 Zimbabwe: Mineral Wealth, 2010

The net present value (NPV) of mineral wealth is less than Zimbabwe's external debt, and...

...projected inflows from mining are not large enough to cover yearly external financing needs.



Sources: Zimbabwean authorities and IMF staff estimates.

Note: Yearly external financing need: Financing gap (balance of payments deficit excluding diamonds, gold, and platinum) plus change in arrears; net mining flows: net value of diamonds, gold, and platinum production available for exports.

Staff Recommendations

36. **A significant strengthening of policies and debt relief are essential for achieving external sustainability.** Debt relief would require a comprehensive arrears clearance framework supported by donors. The authorities need to make further progress in reconciling their debt data with individual creditors. Adhering to a regular schedule of payments to the Poverty Reduction and Growth Trust (PRGT) and increasing payments as the country's payment capacity increases will have a strong positive signaling effect. In the future, it would be important for the government to seek to renegotiate terms of the contracted loan to increase its concessionality and refrain from incurring or guaranteeing new nonconcessional loans to prevent further exacerbation of debt distress and possible significant complications in the

process of normalizing relations with external creditors.

37. In light of recent policy setbacks, moving toward an SMP would require bringing policies back on track. Before an SMP stocktaking exercise could begin, the authorities will need to meet the SMP marker on ghost workers and make progress on key policy challenges, in particular by adopting measures to eliminate the projected fiscal financing gap for 2011 and strengthen liquidity requirements for banks. The continuation of timely data reporting is also required.

Authorities' Views

38. The government has approved the Zimbabwe Accelerated Arrears Clearance, Debt and Development strategy to facilitate re-engagement with the international community on arrears clearance, new financing, and a comprehensive debt relief program. The strategy involves both a request for debt relief under the HIPC Initiative and use of fresh financing from international institutions and mineral wealth to achieve sustainable development. In line with this strategy, a newly established debt office has initiated a debt reconciliation process with individual creditors which they expect to complete later in 2011. The authorities intend to build internal consensus for meeting the SMP marker on eliminating ghost workers and addressing policy setbacks. They also agreed to make timely quarterly payments to the PRGT and increase them over time, as payment capacity improves.

39. On nonconcessional borrowing, the government emphasized the need to balance debt sustainability considerations and re-engagement with creditors on the one hand, and delivery of crucial social services on the other. They indicated that recently contracted and guaranteed nonconcessional debt obligations would be used to finance critical agricultural, water, and health projects, which would be closely monitored.

STAFF APPRAISAL

40. Stronger policies, a favorable external environment, and sizeable off-budget donor grants supported a nascent economic recovery and a notable improvement in the humanitarian situation during 2009–10. However, economic growth started from a low base and was concentrated on primary commodities in mining and agriculture, sectors sensitive to exogenous shocks. The budget was heavily tilted toward the wage bill with insufficient resources allocated to social programs and high-priority infrastructure. As a result, growth benefits did not trickle down fully to many ordinary Zimbabweans outside the public sector.

41. The recovery remains fragile and a significant improvement in policies is needed to solidify macroeconomic prospects. With a favorable external environment, short-term growth potential, particularly in mining, is strong. However, significant policy setbacks would slow growth and poverty reduction in 2011. The medium-term outlook is clouded by political uncertainties and unclear prospects for addressing structural bottlenecks to growth. In light of rising vulnerabilities, the economy will remain highly sensitive even to mild shocks. Therefore, decisive corrective measures are needed to preserve the gains in macroeconomic stabilization and solidify the recovery.

42. The fiscal position needs to be strengthened and expenditure quality significantly improved. The first-best policy is an immediate return to cash budgeting. However, since the government has already borrowed nonconcessionally, it would be essential to prevent further increases of the deficit beyond this loan. In the short term, it is important to implement expenditure measures aimed at eliminating the financing gap that would emerge mainly as a result of wage bill overruns and the need to clear domestic expenditure arrears. Over the medium term and while commodity prices are high, generating small fiscal surpluses to raise international reserves to two months of expenditures would increase resilience to shocks and contribute to a more stable pattern of economic growth. It would be critically important to gradually reduce the wage bill relative to revenues and tighten budget constraints of SOEs to leave sufficient fiscal space for priority social programs and critical infrastructure.

43. There is an urgent need to contain rising financial sector vulnerabilities. This could be achieved by restructuring the financially distressed RBZ and by strengthening prudential regulations and their enforcement. A reduction in financial sector vulnerabilities, along with countercyclical fiscal policy, is essential for medium-term viability of the multicurrency system.

44. Structural reforms need to be stepped up. Alignment of indigenization and empowerment objectives with respect for private property rights and the need to attract investment, more flexible labor market legislation, and improved governance, particularly in the diamond sector, would be essential to strengthening the business climate and boosting growth.

45. Zimbabwe remains in debt distress. To avoid exacerbating debt distress, the authorities need to refrain from nonconcessional borrowing and seek better terms for recently contracted debt. A significant strengthening in policies and debt relief within a comprehensive arrears clearance framework supported by donors are key to achieving external sustainability. Staff welcomes the authorities' commitment to make regular quarterly payments to the PRGT and increase payments over time as the country's payment capacity rises.

46. Staff recommends that the next Article IV consultation be held on the standard 12-month cycle.

Table 1 Zimbabwe: Selected Economic Indicators, 2008–16 (Unchanged Policies Scenario)

	Estimated			Projected					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP growth (annual percent change) 1/	-17.7	6.0	9.0	5.5	3.5	3.5	3.5	3.3	3.2
Nominal GDP (US$ millions)	4,416	5,836	7,474	8,916	9,359	9,871	10,290	10,830	11,515
GDP deflator (annual percent change) 1/	1.3	24.7	17.5	13.1	1.4	1.9	0.7	1.9	3.0
Inflation (annual percent change)									
Consumer price inflation (annual average) 2/	5.56E+10	6.5	3.0	4.8	5.8	5.7	5.2	5.0	5.0
Consumer price inflation (end-of-period) 2/	4.89E+11	-7.7	3.2	7.1	6.0	5.5	5.0	5.0	5.0
Central government (percent of GDP, measured in US$)									
Revenue and grants	3.0	16.7	29.4	29.2	28.7	28.6	28.5	28.4	28.3
Expenditure and net lending	5.8	19.6	32.1	35.7	33.9	31.0	31.0	31.0	30.9
Of which: cash expenditure and net lending	2.7	15.7	29.8	33.1	31.4	28.6	28.5	28.4	28.3
Of which: employment costs	1.3	8.9	14.2	17.3	17.3	17.3	17.3	17.3	17.4
Overall balance (including quasi-fiscal activity) 3/	-28.5	-3.3	-2.9	-6.5	-5.2	-2.5	-2.6	-2.7	-2.6
Primary balance (including quasi-fiscal activity) 3/	-25.4	0.1	-0.1	-4.1	-2.5	0.3	0.3	0.4	0.3
Cash balance	0.3	1.0	-0.4	-3.9	-2.8	0.0	0.0	0.0	0.0
Money and credit (US$ millions) 4/									
Broad money (M3)	314	1,322	2,222	2,667	…	…	…	…	…
Net foreign assets	-316	-295	-151	-182	…	…	…	…	…
Net domestic assets	630	1,618	2,374	2,849	…	…	…	…	…
Domestic credit	140	649	1,577	1,992	…	…	…	…	…
Of which: credit to the private sector	140	684	1,665	2,080	…	…	…	…	…
Reserve money	7	125	256	251	…	…	…	…	…
Velocity (M3)	14.1	4.4	3.4	3.3	…	…	…	…	…
External trade (US$ millions; annual percent change)									
Merchandise exports	-7.7	-2.8	109.4	28.5	3.5	2.9	3.0	4.2	3.1
Merchandise imports	24.4	22.2	60.6	14.0	-1.3	-3.0	2.6	2.5	2.2
Balance of payments (US$ millions; unless otherwise indicated)									
Merchandise exports 5/	1,662	1,616	3,382	4,346	4,500	4,629	4,769	4,968	5,124
Merchandise imports 5/	-2,630	-3,213	-5,162	-5,882	-5,803	-5,632	-5,777	-5,920	-6,051
Current account balance (excluding official transfers)	-1,026	-1,426	-1,735	-1,203	-1,146	-859	-913	-932	-966
(percent of GDP)	-23.2	-24.4	-23.2	-13.5	-12.2	-8.7	-8.9	-8.6	-8.4
Overall balance	-1,114	96	-649	-516	-506	-499	-520	-609	-640
Official reserves (end-of-period)									
Gross international reserves (US$ millions) 6/	6	437	453	442	431	443	454	467	484
Usable international reserves (US$ millions) 7/	6	312	197	191	190	190	190	189	189
(months of imports of goods and services)	0.0	1.0	0.4	0.3	0.4	0.4	0.4	0.3	0.3
Debt (end-of-period)									
Total external debt (US$ millions) 8/	6,355	7,595	8,823	9,624	10,426	11,010	11,641	12,305	13,019
(percent of GDP)	143.9	130.1	118.0	107.9	111.4	111.5	113.1	113.6	113.1
Total external arrears (US$ millions) 8/	4,248	5,289	5,950	6,452	6,948	7,459	7,990	8,613	9,267
(percent of GDP)	96.2	90.6	79.6	72.4	74.2	75.6	77.7	79.5	80.5

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ In constant 2009 prices. Discrepancies in estimates bewteen staff and the Zimbabwean authorities partly reflect differences in methodology in computing sectoral contributions to growth.
2/ For 2008, annual average January–September 2008, and end of period September 2008.
3/ Quasi-fiscal activity includes subsidies provided by the central bank to the public sector and producers/exporters.
4/ Zimbabwe dollar values converted into U.S. dollars at the UN exchange rate at end-2008.
5/ Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.
6/ Excluding encumbered deposits and securities.
7/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.
8/ Includes arrears and amounts for unidentified financing.

Table 2 Zimbabwe: Balance of Payments, 2008-16 (Unchanged Policies Scenario)

(Millions of U.S. dollars, unless otherwise indicated)

	Estimated			Projected					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current account (excluding official transfers)	-1,026	-1,426	-1,735	-1,203	-1,146	-859	-913	-932	-966
Trade balance	-967	-1,598	-1,779	-1,536	-1,303	-1,003	-1,007	-952	-927
Exports, f.o.b.	1,662	1,616	3,382	4,346	4,500	4,629	4,769	4,968	5,124
Imports, f.o.b.	-2,630	-3,213	-5,162	-5,882	-5,803	-5,632	-5,777	-5,920	-6,051
Food	-341	-741	-554	-547	-537	-515	-495	-478	-500
Nonfood	-2,289	-2,472	-4,608	-5,336	-5,267	-5,117	-5,281	-5,442	-5,551
Nonfactor services (net)	-207	-266	-444	-418	-401	-376	-385	-412	-419
Investment income (net)	-477	-442	-486	-680	-737	-778	-826	-882	-934
Interest	-365	-358	-386	-458	-506	-539	-577	-624	-668
Receipts	2	2	3	3	3	3	3	3	3
Payments	-367	-361	-389	-461	-509	-542	-580	-627	-672
Other	-112	-84	-100	-222	-230	-239	-249	-257	-266
Private transfers (including transfers to NGOs)	625	879	974	1,431	1,295	1,298	1,304	1,313	1,313
Remittances[1]	75	198	263	782	811	839	870	901	901
Capital account (including official transfers)	134	1,127	709	687	641	360	393	324	326
Official transfers	73	156	231	231	231	231	231	231	231
Direct investment	44	105	123	71	61	61	61	61	61
Portfolio investment	0	250	63	50	50	50	50	50	50
Long-term capital	-174	-145	-77	99	106	-128	-100	-158	-141
Government [2]	-227	-139	-333	131	136	-115	-113	-170	-171
Receipt	12	2	0	352	259	0	0	0	0
Payment	-238	-141	-333	-221	-123	-115	-113	-170	-171
Public enterprises	57	-7	-9	-9	-7	-7	-2	-2	-2
Private sector	-5	2	265	-23	-23	-6	14	14	32
Short-term capital	192	241	369	236	192	145	151	139	125
Public sector	0	0	0	0	0	0	0	0	0
Private sector (loans mediated outside DMBs)	…	257	274	150	150	150	150	150	150
Cash in circulation (non-banks, -, increase)	…	272	75	75	35	0	0	0	0
Other short-term capital	…	0	0	0	0	0	0	0	0
Change in NFA of DMBs	192	-288	20	11	7	-5	1	-11	-25
Change in assets	…	-345	-85	-39	-43	-55	-49	-61	-75
Change in liabilities	…	57	105	50	50	50	50	50	50
SDR Department	0	520	0	0	0	0	0	0	0
Change in liabilities	0	520	0	0	0	0	0	0	0
Errors and omissions	-222	395	377	0	0	0	0	0	0
Overall balance	-1,114	96	-649	-516	-506	-499	-520	-609	-640
Financing	1,114	-96	649	516	506	499	520	609	640
IMF (net)	0	0	0	0	0	0	0	0	0
Central bank (net)	51	-1,189	-12	14	10	-12	-11	-14	-14
Assets	52	-480	-25	14	10	-12	-11	-14	-14
Change in usable official reserves	52	-300	107	10	0	0	0	0	0
Monetary authorities operations (non reserve)	0	-179	-132	4	10	-12	-11	-14	-14
Liabilities	305	-709	13	-1	0	0	0	0	0
Change in arrears (–, decrease)	954	1,041	661	502	496	511	531	623	654
Debt relief/rescheduling	109	53	0	0	0	0	0	0	0
Financing gap (ch. in arrears + unidentified financing)	954	1,040	662	502	496	511	531	623	654
Memorandum items:									
Current account balance (% of GDP)	-23.2	-24.4	-23.2	-13.5	-12.2	-8.7	-8.9	-8.6	-8.4
Usable international reserves (US$ millions, e.o.p.)	5.6	311.7	197.1	191.2	190.4	190.1	189.8	189.5	189.1
Months of imports of goods and services	0.0	1.0	0.4	0.3	0.4	0.4	0.4	0.3	0.3
SDR holdings (US$ millions, e.o.p.)	0	361	254	258	257	257	257	256	256
External debt (US$ millions, e.o.p.) [3]	6,355	7,596	8,823	9,624	10,426	11,010	11,641	12,305	13,019
Percent of GDP	144	130	118	108	111	112	113	114	113
External arrears (US$ millions, e.o.p.)	4,248	5,289	5,950	6,452	6,948	7,459	7,990	8,613	9,267
Percent of GDP	96	91	80	72	74	76	78	80	80
Nominal GDP (US$ millions)	4,416	5,836	7,474	8,916	9,359	9,871	10,290	10,830	11,515
Percentage change	-16.6	32.2	28.1	19.3	5.0	5.5	4.3	5.3	6.3
Exports of goods and services	1,831	1,798	3,607	4,611	4,775	4,911	5,060	5,249	5,414
Percentage change	-8.4	-1.8	100.6	27.8	3.5	2.9	3.0	3.7	3.1
Imports of goods and services	-3,005	-3,662	-5,831	-6,565	-6,479	-6,290	-6,452	-6,613	-6,759
Percentage change	22.4	21.8	59.2	12.6	-1.3	-2.9	2.6	2.5	2.2

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ IMF staff projections are adjusted for underreported remittances.

2/ May not match data for government external financing in the fiscal table because this line is on an accrual basis.

3/ Includes arrears and amounts for unidentified financing.

Table 3 Zimbabwe: Central Government Operations, 2008-16 (Unchanged Policies Scenario)

(Millions of U.S. dollars)

	Estimated			Projected					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total revenue & grants	**133**	**975**	**2,199**	**2,601**	**2,684**	**2,818**	**2,930**	**3,074**	**3,259**
Tax revenue	128	883	2,074	2,418	2,503	2,628	2,731	2,865	3,036
Personal income tax	22	156	428	525	571	602	628	661	702
Corporate income tax	18	44	256	300	318	336	350	368	392
Other direct taxes	3	21	168	202	215	227	237	249	265
Customs	45	212	340	360	346	353	360	369	382
Excise	6	68	165	170	168	178	185	195	207
VAT	32	367	689	825	847	893	931	980	1042
Other indirect taxes	2	14	28	36	37	39	41	43	46
Nontax revenue	5	51	124	180	178	188	196	206	219
Additional mineral revenues	0	0	0	0	0	0	0	0	0
Budget grants	0	41	1	3	3	3	3	3	4
Off-budget grants 1/	0	351	630	571	435	435	435	435	435
Total expenditure & net lending	**257**	**1,145**	**2,402**	**3,184**	**3,169**	**3,062**	**3,193**	**3,361**	**3,563**
Of which: Cash expenditure	*120*	*919*	*2,228*	*2,953*	*2,943*	*2,818*	*2,930*	*3,074*	*3,259*
Current expenditure	240	1,099	1,809	2,372	2,451	2,591	2,715	2,872	3,049
Employment costs	59	517	1,064	1,542	1,622	1,710	1,784	1,879	1,999
Wages & salaries	52	419	784	1,020	1,061	1,118	1,167	1,229	1,307
Pensions	7	98	188	237	265	280	292	307	327
Benefits	0	0	91	285	296	312	326	343	365
Interest payments	138	198	206	221	254	275	299	329	343
Foreign	137	194	206	221	254	275	299	329	343
Of which: Paid	*0*	*16*	*31*	*40*	*28*	31	36	41	39
Domestic	1	3	0	0	0	0	0	0	0
Of which: Paid	*1*	*3*	*0*	*0*	*0*	0	0	0	0
Goods & services	32	260	362	425	381	402	419	441	469
Grants & transfers	11	123	178	184	194	204	213	224	238
Capital expenditure and net lending	17	46	593	811	718	471	478	489	514
Off-budget expenditure	0	351	630	571	435	435	435	435	435
Overall balance	**-124**	**-170**	**-203**	**-583**	**-486**	**-244**	**-263**	**-288**	**-305**
Primary balance	14	28	3	-362	-231	31	36	41	39
Cash balance	13	56	-28	-352	-259	0	0	0	0
QFA by RBZ 2/	1,135	23	12	0	0	0	0	0	0
Overall balance (incl. QFA by RBZ)	**-1,259**	**-193**	**-215**	**-583**	**-486**	**-244**	**-263**	**-288**	**-305**
Financing	**133**	**170**	**203**	**583**	**486**	**244**	**263**	**288**	**305**
Domestic financing (net)	0	-106	-72	0	0	0	0	0	0
Bank	0	-106	-44	0	0	0	0	0	0
Nonbank	0	0	-28	0	0	0	0	0	0
Foreign financing (net)	-226	-91	-233	131	136	-115	-113	-170	-171
Disbursements	12	50	100	352	259	0	0	0	0
Of which: SDRs		50	100	0	0	0	0	0	0
Amortization due	238	141	333	221	123	115	113	170	171
Of which: Paid	-4	0	0	0	0	0	0	0	0
Of which: Reconstituted SDRs and build-up of reserves			0	0	0	0	0	0	0
Change in arrears	360	367	508	452	349	359	376	458	476
Domestic	0	48	0	50	0	0	0	0	0
Interest	0	0	0	0	0	0	0	0	0
Principal	0	0	0	0	0	0	0	0	0
Expenditure	0	48	0	50	0	0	0	0	0
Foreign	360	319	508	402	349	359	376	458	476
Interest	137	178	175	181	226	244	263	288	305
Principal	223	141	333	221	123	115	113	170	171
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Zimbabwean authorities; and IMF staff estimates and projections.
1/ Excluding food aid.
2/ Subsidies provided by the RBZ to the public sector and producers/exporters.

Table 3 Zimbabwe: Central Government Operations, 2008-16 (Unchanged Policies Scenario) (concluded)

(Percent of GDP)

	Estimated			Projected					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total revenue & grants	**3.0**	**16.7**	**29.4**	**29.2**	**28.7**	**28.6**	**28.5**	**28.4**	**28.3**
Tax revenue	2.9	15.1	27.7	27.1	26.7	26.6	26.5	26.5	26.4
Personal income tax	0.5	2.7	5.7	5.9	6.1	6.1	6.1	6.1	6.1
Corporate income tax	0.4	0.8	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Other direct taxes	0.1	0.4	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Customs	1.0	3.6	4.5	4.0	3.7	3.6	3.5	3.4	3.3
Excise	0.1	1.2	2.2	1.9	1.8	1.8	1.8	1.8	1.8
VAT	0.7	6.3	9.2	9.3	9.0	9.0	9.0	9.0	9.0
Other indirect taxes	0.0	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nontax revenue	0.1	0.9	1.7	2.0	1.9	1.9	1.9	1.9	1.9
Additional mineral revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget grants	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-budget grants 1/	0.0	6.0	8.4	6.4	4.6	4.4	4.2	4.0	3.8
Total expenditure & net lending	**5.8**	**19.6**	**32.1**	**35.7**	**33.9**	**31.0**	**31.0**	**31.0**	**30.9**
Of which: Cash expenditure	*2.7*	*15.7*	*29.8*	*33.1*	*31.4*	28.6	28.5	28.4	28.3
Current expenditure	5.4	18.8	24.2	26.6	26.2	26.2	26.4	26.5	26.5
Employment costs	1.3	8.9	14.2	17.3	17.3	17.3	17.3	17.3	17.4
Wages and salaries	1.2	7.2	10.5	11.4	11.3	11.3	11.3	11.3	11.4
Pensions	0.2	1.7	2.5	2.7	2.8	2.8	2.8	2.8	2.8
Benefits	0.0	0.0	1.2	3.2	3.2	3.2	3.2	3.2	3.2
Interest payments	3.1	3.4	2.8	2.5	2.7	2.8	2.9	3.0	3.0
Foreign	3.1	3.3	2.8	2.5	2.7	2.8	2.9	3.0	3.0
Of which: Paid	*0.0*	*0.3*	*0.4*	*0.4*	*0.3*	0.3	0.3	0.4	0.3
Domestic	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Paid	*0.0*	*0.1*	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
Goods and services	0.7	4.5	4.8	4.8	4.1	4.1	4.1	4.1	4.1
Grants and transfers	0.3	2.1	2.4	2.1	2.1	2.1	2.1	2.1	2.1
Capital expenditure and net lending	0.4	0.8	7.9	9.1	7.7	4.8	4.6	4.5	4.5
Off budget expenditure	0.0	6.0	8.4	6.4	4.6	4.4	4.2	4.0	3.8
Overall balance	**-2.8**	**-2.9**	**-2.7**	**-6.5**	**-5.2**	**-2.5**	**-2.6**	**-2.7**	**-2.6**
Primary balance	0.3	0.5	0.0	-4.1	-2.5	0.3	0.3	0.4	0.3
Cash balance	0.3	1.0	-0.4	-3.9	-2.8	0.0	0.0	0.0	0.0
QFA by RBZ 2/	25.7	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. QFA by RBZ)	**-28.5**	**-3.3**	**-2.9**	**-6.5**	**-5.2**	**-2.5**	**-2.6**	**-2.7**	**-2.6**
Financing	**3.0**	**2.9**	**2.7**	**6.5**	**5.2**	**2.5**	**2.6**	**2.7**	**2.6**
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	0.0	-1.8	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Bank	0.0	-1.8	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	-5.1	-1.6	-3.1	1.5	1.5	-1.2	-1.1	-1.6	-1.5
Change in arrears	8.1	6.3	6.8	5.1	3.7	3.6	3.6	4.2	4.1
Domestic	0.0	0.8	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	0.0	0.8	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Foreign	8.1	5.5	6.8	4.5	3.7	3.6	3.6	4.2	4.1
Interest	3.1	3.0	2.3	2.0	2.4	2.5	2.6	2.7	2.6
Principal	5.0	2.4	4.5	2.5	1.3	1.2	1.1	1.6	1.5
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Zimbabwean authorities; and IMF staff estimates and projections.
1/ Excluding food aid.
2/ Subsidies provided by the RBZ to the public sector and producers/exporters.

Table 4 Zimbabwe: Central Government Operations (GFSM 2001 Classification), 2008-16 (Unchanged Policies Scenario)

(Millions of U.S. dollars)

	Estimated			Projected					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	133	975	2,199	2,601	2,684	2,818	2,930	3,074	3,259
Taxes	128	883	2,074	2,418	2,503	2,628	2,731	2,865	3,036
Taxes on income, profits, and capital gain	43	221	852	1,027	1,104	1,165	1,214	1,278	1,359
Income tax on profits	18	44	256	300	318	336	350	368	392
Income tax on wages and salaries	22	156	428	525	571	602	628	661	702
Income tax on interest income and capital gains	3	21	168	202	215	227	237	249	265
Penalties on income tax	0	0	0	0	0	0	0	0	0
Taxes on goods and services	38	435	854	995	1,015	1,070	1,116	1,175	1,249
Net VAT revenues	32	367	689	825	847	893	931	980	1,042
Excises	6	68	165	170	168	178	185	195	207
Taxes on international trade	45	212	340	360	346	353	360	369	382
Other taxes	2	14	28	36	37	39	41	43	46
Grants	0	41	1	3	3	3	3	3	4
Other revenue	5	51	124	180	178	188	196	206	219
Entrepreneurial and property income	0	0	0	0	0	0	0	0	0
Other	5	51	124	180	178	188	196	206	219
Expense	240	1,099	1,809	2,372	2,451	2,591	2,715	2,872	3,049
Compensation of employees	52	419	875	1,305	1,357	1,431	1,492	1,572	1,672
Wages and social security payments	52	419	784	1,020	1,061	1,118	1,167	1,229	1,307
Allowances	0	0	91	285	296	312	326	343	365
Purchase of goods and services	32	260	362	425	381	402	419	441	469
Interest payments	138	198	206	221	254	275	299	329	343
Domestic currency debt	1	3	0	0	0	0	0	0	0
Of which: paid	1	3	0	0	0	0	0	0	0
Foreign currency debt	137	194	206	221	254	275	299	329	343
Of which: paid	0	16	31	40	28	31	36	41	39
Grants	11	123	178	184	194	204	213	224	238
Social benefits	7	98	188	237	265	280	292	307	327
Of which: Pensions	7	98	188	237	265	280	292	307	327
Gross operating balance	-107	-124	390	229	233	227	215	201	210
Net transaction in nonfinancial assets	14	45	415	318	629	376	379	385	404
Acquisition of nonfinancial assets	14	45	415	318	629	376	379	385	404
Domestically financed	14	45	415	318	629	376	379	385	404
Foreign financed	0	0	0	0	0	0	0	0	0
Disposal of non-financial assets	0	0	0	0	0	0	0	0	0
Net lending/borrowing (overall balance)	-121	-169	-25	-89	-396	-149	-164	-184	-194
Transactions in financial assets and liabilities	-121	-169	-25	-90	-395	-149	-164	-184	-194
Net acquisition of financial assets	3	576	150	494	90	95	99	104	111
Domestic	3	107	250	494	90	95	99	104	111
Currency and deposits	0	106	72	0	0	0	0	0	0
Loans (net lending)	3	1	178	494	90	95	99	104	111
Foreign	0	470	-100	0	0	0	0	0	0
Currency and deposits (+ increase in assets)	0	0	0	0	0	0	0	0	0
Monetary gold and SDRs	0	470	-100	0	0	0	0	0	0
Net incurrence of liabilities	-124	-746	-175	-583	-485	-244	-263	-288	-305
Domestic	0	-48	0	-50	0	0	0	0	0
Change in domestic arrears	0	-48	0	-50	0	0	0	0	0
Foreign	-124	-698	-175	-533	-485	-244	-263	-288	-305
SDRs	0	-520	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	236	141	333	-131	-136	115	113	170	171
Disbursements	-2	0	0	-352	-259	0	0	0	0
Amortization due	238	141	333	221	123	115	113	170	171
Of which: paid	-4	0	0	0	0	0	0	0	0
Change in foreign arrears	-360	-319	-508	-402	-349	-359	-376	-458	-476
Interest	-137	-178	-175	-181	-226	-244	-263	-288	-305
Principal	-223	-141	-333	-221	-123	-115	-113	-170	-171
Memorandum items:									
Cash balance	13	56	-28	-352	-259	0	0	0	0
Overall balance	-124	-170	-203	-583	-486	-244	-263	-288	-305
Cash expenditures	120	919	2,228	2,953	2,943	2,818	2,930	3,074	3,259
Change in arrears	-360	-367	-508	-452	-349	-359	-376	-458	-476

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

Table 5 Zimbabwe: Integrated Balance Sheet, 2008–16 (Unchanged Policies Scenario)

(Millions of U.S. dollars)

	Estimated			Projected					
	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016
Net worth	…	…	…	…	…	…	…	…	…
Nonfinancial assets	…	…	…	…	…	…	…	…	…
Net financial worth	**-6,327**	**-7,177**	**-7,646**	**-7,913**	**-8,448**	**-8,742**	**-9,060**	**-9,407**	**-9,777**
Financial assets	**1**	**527**	**646**	**1,146**	**1,234**	**1,329**	**1,427**	**1,531**	**1,641**
Domestic	1	62	290	784	873	968	1,067	1,171	1,281
Currency and deposits	1	61	111	111	111	111	111	111	111
Debt securities	0	0	0	0	0	0	0	0	0
Loans	0	1	179	673	763	857	956	1,060	1,171
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…
Foreign	0	465	356	362	361	361	360	360	359
Monetary gold and SDRs 1/	0	465	356	362	361	361	360	360	359
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…
Financial liabilities	**6,328**	**7,704**	**8,292**	**9,058**	**9,682**	**10,071**	**10,487**	**10,937**	**11,417**
Domestic	438	514	654	788	789	790	791	792	792
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts payable	438	514	654	788	789	790	791	792	792
Of which: Debt owed by the RBZ 2/	*438*	*466*	*606*	*690*	*692*	*692*	*693*	*694*	*694*
Foreign	5,890	7,190	7,638	8,270	8,893	9,281	9,697	10,146	10,625
SDRs	16	531	521	530	529	528	527	527	526
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	1,924	1,579	1,384	1,506	1,635	1,513	1,399	1,227	1,054
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts payable	3,950	5,080	5,733	6,234	6,729	7,240	7,770	8,392	9,046

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

1/ Including about US$ 100 million of escrowed SDRs, which will become available once arrears to the PRGT Trust have been settled.
2/ About US$ 150 million of short-term foreign loans reclassified to domestic liabilities in 2010.

Table 6 Zimbabwe: Monetary Survey, 2008–16 1/ (Unchanged Policies Scenario)

(Millions of U.S. dollars, unless otherwise indicated)

	Estimated				Projected
	Dec. 2008	Dec. 2009	Dec. 2010	Jan. 2011	Dec. 2011
Monetary authorities					
Net foreign assets	**-577**	**-845**	**-680**	**-700**	**-701**
Usable international reserves 2/	6	312	197	191	191
Other foreign assets	78	259	389	385	385
Short-term foreign liabilities 3/	-590	-810	-671	-672	-672
Of which: Liabilities to IMF	-137	-140	-134	-136	-136
Other foreign liabilities	-70	-605	-595	-603	-604
Net domestic assets	**584**	**970**	**936**	**951**	**951**
Net domestic claims	-1	-1	-4	-4	-4
Claims on other depository corporations	0	0	0	0	0
Net claims on central government	-1	-2	-5	-4	-5
Claims on other sectors	0	1	1	1	1
Claims on other financial corporations	0	0	0	0	0
Claims on state and local government	0	0	0	0	0
Claims on public non-financial corporations	0	0	0	0	0
Claims on private sector	0	1	1	1	1
Other items (net)	585	971	940	954	955
Monetary base	**7**	**125**	**256**	**251**	**251**
Statutory reserves	...	71	83	83	83
Banks' current/RTGS accounts	...	54	173	167	167
Deposit money banks and other banking institutions					
Net foreign assets	**261**	**549**	**529**	**441**	**518**
Foreign assets	...	606	690	602	730
Foreign liabilities	...	-57	-162	-161	-212
Net domestic assets	**53**	**773**	**1,693**	**1,730**	**2,148**
Net domestic claims	146	856	1,853	1,884	2,299
Claims on RBZ	5	205	272	303	303
Currency	0	0	0	0	0
Deposits	5	205	272	303	303
Net claims on central government	0	-59	-106	-191	-106
Claims on other sectors	140	709	1,687	1,771	2,102
Claims on public nonfinancial corporations	0	25	23	24	23
Claims on private sector	140	684	1,664	1,747	2,079
Other items (net)	-93	-83	-160	-154	-151
Liabilities to RBZ	**1**	**0**	**0**	**0**	**0**
Deposits included in broad money	**314**	**1,322**	**2,222**	**2,171**	**2,667**
Of which: In foreign currency	308	1,322	2,222	2,171	2,667
Monetary survey					
Net foreign assets	**-316**	**-295**	**-151**	**-259**	**-182**
Net domestic assets	**630**	**1,618**	**2,374**	**2,431**	**2,849**
Domestic claims	140	649	1,577	1,577	1,992
Net claims on central government	-1	-61	-111	-195	-111
Claims on other sectors	140	710	1,688	1,772	2,103
Claims on public nonfinancial corporations	0	25	23	24	23
Claims on private sector	140	684	1,665	1,748	2,080
Other items (net)	490	969	797	854	857
Broad money liabilities (M3)	**314**	**1,322**	**2,222**	**2,171**	**2,667**
Deposits	314	1,322	2,222	2,171	2,667
	(Annual percentage change)				
Monetary base	-87	1,738	104	79	-2
Broad money (M3)	-48	321	68	63	20
Currency	-100	...	...	...	...
Deposits	-46	321	68	63	20
Private sector credit	41	388	143	137	25
Memorandum items:					
Loan-to-deposit ratio (in percent)	45	52	75	80	78
Reserves-to-deposit ratio (in percent)	2	9	12	12	9
Money multiplier (M3/monetary base)	46	11	9	9	11
Velocity (GDP/M3)	14.1	4.4	3.4	4.1	3.3

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

1/ The monetary accounts may be distorted by hyperinflation and the use of multiple exchange rates in 2008. Zimbabwe dollar values converted into U.S. dollars at the UN exchange rate at end-2008.

2/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.

3/ About US$ 150 million of short-term loans reclassified to domestic liabilities in 2010.

Table 7 Zimbabwe: Selected Economic Indicators, 2008–16 (Recommended Policies Scenario)

	Estimated			Projected					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP growth (annual percent change) 1/	-17.7	6.0	9.0	7.2	6.2	6.0	6.0	6.5	6.5
Nominal GDP (US$ millions)	4,416	5,836	7,474	9,060	9,758	10,548	11,187	12,077	13,178
GDP deflator (annual percent change) 1/	1.3	24.7	17.5	13.1	1.4	2.0	0.1	1.4	2.5
Inflation (annual percent change)									
Consumer price inflation (annual average) 2/	5.56E+10	6.5	3.0	4.8	5.8	5.7	5.2	5.0	5.0
Consumer price inflation (end-of-period) 2/	4.89E+11	-7.7	3.2	7.1	6.0	5.5	5.0	5.0	5.0
Central government (percent of GDP, measured in US$)									
Revenue and grants	3.0	16.7	29.4	29.8	29.9	29.8	29.9	29.8	29.7
Expenditure and net lending	5.8	19.6	32.1	34.8	34.1	31.5	31.5	31.5	31.3
Of which: cash expenditure and net lending	2.7	15.7	29.8	33.6	31.8	29.2	29.1	29.1	29.0
Of which: employment costs	1.3	8.9	14.2	15.7	15.0	14.3	13.5	12.7	12.0
Overall balance (including quasi-fiscal activity) 3/	-28.5	-3.3	-2.9	-5.1	-4.3	-1.6	-1.6	-1.7	-1.6
Primary balance (including quasi-fiscal activity) 3/	-25.4	0.1	-0.1	-2.6	-1.7	1.0	1.0	1.0	1.0
Cash balance	0.3	1.0	-0.4	-3.9	-1.9	0.7	0.7	0.7	0.7
Money and credit (US$ millions) 4/									
Broad money (M3)	314	1,322	2,222	2,735	…	…	…	…	…
Net foreign assets	-316	-295	-151	-228	…	…	…	…	…
Net domestic assets	630	1,618	2,374	2,963	…	…	…	…	…
Domestic credit	140	649	1,577	2,179	…	…	…	…	…
Of which: credit to the private sector	140	684	1,665	2,267	…	…	…	…	…
Reserve money	7	125	256	256	…	…	…	…	…
Velocity (M3)	14.1	4.4	3.4	3.3	…	…	…	…	…
External trade (US$ millions; annual percent change)									
Merchandise exports	-7.7	-2.8	109.4	34.9	7.9	7.1	7.2	9.0	8.6
Merchandise imports	24.4	22.2	60.6	25.3	2.3	1.4	4.6	6.2	6.5
Balance of payments (US$ millions; unless otherwise indicated)									
Merchandise exports	1,662	1,616	3,382	4,564	4,925	5,274	5,656	6,167	6,699
Merchandise imports	-2,630	-3,213	-5,162	-6,468	-6,615	-6,709	-7,018	-7,452	-7,937
Current account balance (excluding official transfers)	-1,026	-1,426	-1,735	-1,554	-1,551	-1,344	-1,344	-1,374	-1,429
(percent of GDP)	-23.2	-24.4	-23.2	-17.1	-15.9	-12.7	-12.0	-11.4	-10.8
Overall balance	-1,114	96	-649	-511	-426	-419	-431	-515	-546
Official reserves (end-of-period)									
Gross international reserves (US$ millions) 5/	6	437	453	447	515	607	707	813	942
Usable international reserves (US$ millions) 6/	6	312	197	191	344	413	493	572	666
(months of imports of goods and services)	0.0	1.0	0.4	0.3	0.6	0.7	0.8	0.8	0.9
Debt (end-of-period)									
Total external debt (US$ millions) 7/	6,355	7,595	8,823	9,794	10,791	11,570	12,376	13,216	14,104
(percent of GDP)	143.9	130.1	118.0	108.1	110.6	109.7	110.6	109.4	107.0
Total external arrears (US$ millions) 7/	4,248	5,289	5,950	6,452	6,948	7,459	7,990	8,613	9,267
(percent of GDP)	96.2	90.6	79.6	71.2	71.2	70.7	71.4	71.3	70.3

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ In constant 2009 prices. Discrepancies in estimates bewteen staff and the Zimbabwean authorities partly reflect differences in methodology in computing sectoral contributions to growth.
2/ For 2008, annual average January–September 2008, and end of period September 2008.
3/ Quasi-fiscal activity includes subsidies provided by the central bank to the public sector and producers/exporters.
4/ Zimbabwe dollar values converted into U.S. dollars at the UN exchange rate at end-2008.
5/ Excluding encumbered deposits and securities.
6/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.
7/ Includes arrears and amounts for unidentified financing.

Appendix I. Zimbabwe: Reserve Adequacy

In Zimbabwe, the reserve coverage of imports was about half month and that of government expenditures about one month at end-2010. Absent stronger policies and debt relief, it is unrealistic to expect that Zimbabwe can reach the optimal level of reserves for fragile states (six to nine months of import cover) in sub-Saharan Africa or a more traditional benchmark of three months of import coverage over the medium term. However, the government should seek to increase reserves to at least two months of government expenditures to ensure the continuity of government operations under moderate shocks.

1. **Common measures of reserve adequacy.** The traditional measures of reserve adequacy include reserves as a ratio of: (i) imports (usually 3 months) for countries where shocks arise mainly from the current account; (ii) broad money to capture risks of capital flight; and (iii) short-term debt (usually 100 percent) reflecting rollover risks for countries with access to capital markets. Less traditional measures include those implied by Wijnholds and Kapteyn (2001) (100 percent of short-term debt plus a fraction of M2 of between 5 to 20 percent) and those derived from optimality models, reserve demand regressions, and country-specific scenario analysis.

2. **For low-income countries, a new approach to deriving optimal reserve holdings has been proposed by the IMF.**[1] The crisis prevention and mitigation benefits of reserves in the event of adverse external shocks—where a crisis is defined as a sharp drop in absorption—are empirically estimated using data on past severe shock episodes. Calibrated optimal reserves are then derived using the estimated regression coefficients, reference values for the opportunity cost of holding reserves, and simplified assumptions about the extent of risk aversion. For sub-Saharan African fragile states with fixed exchange rate regimes (Zimbabwe's peer group), the optimal level of reserves ranges from about six to nine months of import coverage. (Zimbabwe was not included in panel estimates on account of lack of reliable data.)

3. **Zimbabwe: country-specific considerations.** Zimbabwe has unique characteristics that should be considered in assessing the need for building precautionary buffers. In particular: (i) it is highly exposed to terms-of-trade shocks as a primary commodity producer[2] and oil importer; (ii) it relies on volatile short-term capital, aid flows, and remittances to

[1] See Roaf and others, (2011).

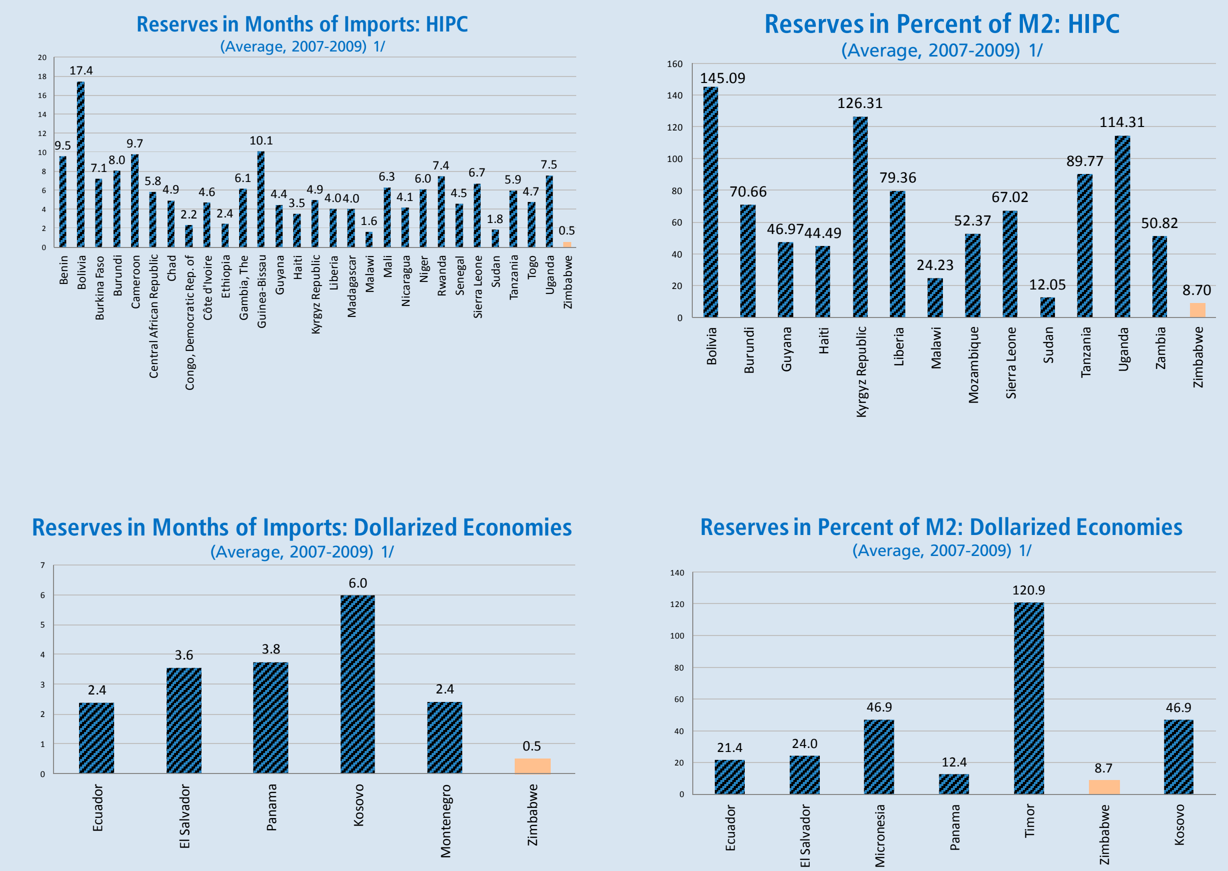
[2] A one standard deviation shock to prices of Zimbabwe's three main export products (platinum, gold and tobacco) would result in a financing gap equivalent to more than three times the current reserve level.

finance a large current account deficit net of transfers; (iii) it is in debt distress, with the bulk of its external debt stock in arrears, therefore limiting access to new official foreign financing, including insurance instruments; and (iv) it suffers from a history of political and economic instability, weak institutions, the absence of a lender of last resort, and a fragile banking system. In addition, it has a relatively open capital account regime; and because the economy is completely dollarized, any significant drain on the balance of payments potentially could lead to liquidity problems in the banking system and intensify the impact of a shock. These factors suggest that Zimbabwe may need higher reserve coverage than some fragile states in sub-Saharan Africa.

4. **Zimbabwe's current reserve level (0.4 month of imports) is well below peer countries (low-income countries and fully dollarized economies—Figure 1), widely-accepted benchmarks, or optimal levels for sub-Saharan fragile states with fixed exchange rate regimes.** Without a resolution of Zimbabwe's unsustainable debt situation, it would be unrealistic to expect the country to reach the optimal reserve levels or those indicated by traditional benchmarks. While working toward a resolution of external payments arrears, Zimbabwe would also benefit from increasing international reserves at a realistic pace, aiming at ensuring the continuity of government operations. Reserve levels equivalent to at least two months of government expenditure (one month of imports) should buy sufficient time to allow the government to continue to function and initiate an orderly adjustment at least in the event of a moderate shock. In addition, given Zimbabwe's lack of adequate reserves or lack of access to other safety nets against shocks, banks should be required to build sufficient liquidity buffers (equivalent to 25 percent of their short-term liabilities). The latter is also relevant from a microprudential perspective (Appendix II).

5. **Because Zimbabwe has a fully dollarized economy, increasing reserve coverage requires fiscal discipline.** In particular, fiscal surpluses would have to be generated, which implies the need for careful consideration of tradeoffs between accumulating savings abroad and spending on critical infrastructure and social sector needs crucial to long-term growth. High commodity prices projected in the Spring World Economic Outlook for the medium term present an opportunity to generate small surpluses to reach the recommended reserve coverage of two months of budget expenditures.

Figure 1 Zimbabwe: Reserves Compared with Peer Countries



Sources: African Department data base and IMF staff estimates and calculations.

1/ For Zimbabwe, reflects IMF staff estimate for 2010.

References:

Roaf, James, and others., 2011, "Assessing Reserve Adequacy," Policy Paper (Washington: International Monetary Fund). http://www.imf.org/external/np/pp/eng/2011/021411b.pdf

Wijnholds, J. Onno and Arend Kapteyn, 2001, "Reserve Adequacy in Emerging Market Economies," Working Paper (WP/01/143) (Washington: International Monetary Fund). http://www.imf.org/external/pubs/ft/wp/2001/wp01143.pdf

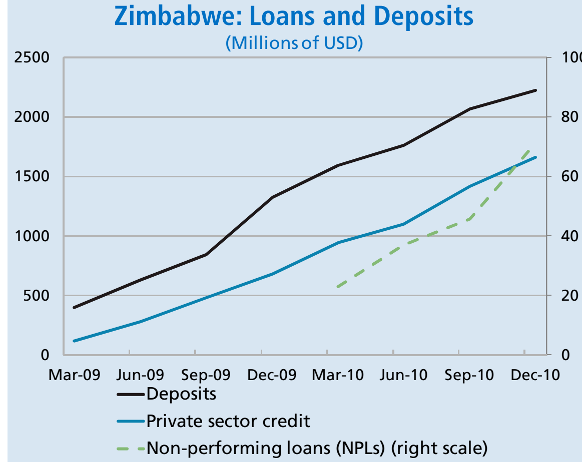
Appendix II--Banking Sector Stability Assessment

Introduction

1. **The expansion of banks' balance sheets continues, but so do the risks and vulnerabilities.**[1] Credit growth has been fast after the end of hyperinflation, supported by strong deposit growth, the rapid economic recovery, and the formalization of the economy. However, vulnerabilities in the banking system have increased and the credit and deposit expansion is expected to slow down significantly in 2011. Many banks are weakly capitalized, particularly some smaller banks. Nonperforming loans are trending up and growing as a percent of total loans. Some over-stretched banks, including a systemically important bank, have imprudently low liquidity buffers.

2. **Forceful regulatory action is required to address the above vulnerabilities.** Key recommended measures include (i) raising the minimum prudential liquidity requirement to 25 percent (of liquid assets to short-term liabilities), tightening the definition of liquid assets, and adopting transitional arrangements for noncompliant banks; (ii) enforcing minimum capital adequacy and liquidity requirements without further delays; and (iii) accelerating the restructuring of the financially distressed Reserve Bank of Zimbabwe (RBZ) to provide clarity on the status of banks' claims on the RBZ.

Deposit and credit growth is expected to slowdown, while NPLs are trending up.



Banking Performance and Soundness

3. **Solvency risks are high** (Table 1, Figures 1 and 2)**.** The average solvency ratio (regulatory capital to risk-weighted assets) stood at 15.3 percent[2] as of December 2010, well above the 10 percent minimum requirement, but with large variations across individual banks. Seven smaller banks are undercapitalized, and some even operate with negative capital. Although the undercapitalized banks account for about 10 percent of total assets in the banking system, the failure of one or more smaller institutions could

[1] For a discussion of Zimbabwe's multicurrency system, see Kramarenko, and others, (2010) Chapter 2, "Choosing a Monetary Regime."

[2] Illiquid claims on the RBZ are counted toward capital.

potentially spread out to the wider system and cause disproportionate damage. The recapitalization plans for undercapitalized banks lack detail, and the deadlines for completion have been postponed several times for some banks. Current deadlines are either vague or extended to 2012. Moreover, some undercapitalized merchant banks have been recently licensed to become commercial banks.

4. **The quality of bank capital is weak because of exposure to the financially distressed RBZ and potential losses from revaluation of premises and high operating expenses.** Banks remain exposed to illiquid claims on the RBZ, including US$83 million of statutory reserves and US$91 million of so-called frozen deposits, accounting for about 40 percent of their capital. A hypothetical write-off of these claims will necessitate recapitalization of a number of banks, including a few systemically important banks. Capital of some banks also is prone to potential asset revaluation losses, because the value of premises is included in bank capital, and to persistent operating losses.

5. **The system average reported nonperformance of loans remains low but it is growing rapidly and masks a wide variation across banks.** The value of nonperforming loans (NPLs) tripled in 2010, particularly for loans to agriculture, industry, and transportation and distribution. Although the average NPL ratio remains low, at less than 5 percent, the NPL ratios of smaller banks, especially the undercapitalized banks, are considerable and range from 6 to 36 percent. High NPLs suggest a lack of ability to assess loan quality, unsound lending practices, and poor risk management in the banks concerned. Routine rollover of short-term loans appears to be a common practice among banks, further boosting credit growth and allowing banks to keep provisions at an artificially low level.

Zimbabwe: Nonperforming Loans
(US$ millions, unless otherwise indicated)

	Mar-10	Jun-10	Sep-10	Dec-10
NPL 1/	**23.1**	**37.1**	**45.8**	**71.3**
Percentage change (q-o-q)	**-**	**60.8**	**23.7**	**55.5**
Percent of Total Loans	**2.5**	**3.3**	**3.2**	**4.2**
Of which				
Trade and services	0.2	0.3	0.4	0.3
Energy and minerals	0.9	2.0	0.8	1.8
Agriculture	2.2	4.2	5.5	8.3
Construction and property	0.0	0.3	0.6	0.3
Light and heavy industry	8.1	17.2	21.7	34.6
Physical persons	1.4	1.1	2.3	4.2
Transport and distribution	5.9	9.8	12.5	21.4
Finance services	0.0	0.0	0.0	0.5
State	0.0	-	-	-
Other	4.4	2.1	2.1	1.5

Source: Reserve Bank of Zimbabwe.
1/ Data include all banks in the system.
Nonperforming loans are those classified as substandard, doubtful, and loss loans.

6. **Liquidity in the banking system has recently deteriorated.** The average liquidity ratio, excluding illiquid claims on the RBZ, exceeded 30 percent as of February 2011, but it was below 20 percent for eight banks, including one systemically important bank (Figure 1), and below 25 percent for 11 banks.[3] The domestic interbank market is not fully operational and is likely to be inaccessible in case of a systemic liquidity shortage. To test the

[3] The prudential liquidity ratio enforced by the RBZ allows banks to include illiquid claims on the RBZ among liquid assets.

banking system's resilience to a general squeeze on liquidity, interbank claims were excluded from liquid assets. At end-February 2011, 15 banks had a liquidity ratio below 20 percent, when both illiquid claims on the RBZ and interbank claims are excluded; and 18 banks had liquidity ratios below 25 percent on the same definition. All liquidity ratios deteriorated between December 2010 and February 2011. This is also reflected in a loss of about $80 million of liquid assets by the banking system during this period.

7. Bank profitability has improved but smaller banks have taken considerable risks. The return on average assets (ROA) and return on equity (ROE) rose in 2010, as banks benefited from the improved economic environment, and new financial products, including mobile banking, generated additional revenue. Nevertheless, the profitability of banks in Zimbabwe remained lower than that of its sub-Saharan peers (Table 1, Figures 1 and 2). Smaller banks have become more risk-taking, reaching for lower-end and sometimes unbankable customers, potentially heightening the volatility to bank income and profitability. Smaller banks are also less efficient with a higher cost structure.

8. The developments in the nonbank segments are timid. The securities market is stagnant, owing to liquidity shortage and investor concern following new indigenization initiatives. Trading on the stock exchange is concentrated on a few blue-chip securities. The market capitalization was US$4.1 billion, 57 percent of GDP, at end-February 2011. The insurance sector is recovering from hyperinflation with total assets at about 20 percent of GDP in December 2010. The insurance sector is dominated by the largest insurance company, which holds 80 percent of total assets. The fact that the insurers' investment portfolios are centered on volatile Zimbabwean property and securities is a cause for concern. However, the linkages between bank and nonbank segments appear moderate with only a few cross-shareholdings.[4] Any spillovers across sectors are, therefore, likely to be contained.

Overall Risk Assessment and Policy Recommendations

9. The plan to restructure the RBZ's balance sheet needs to be expedited to reduce solvency and liquidity risks in the banking system. The restitution of banks' statutory reserves and other claims on the RBZ is a priority to reduce the risk of bank failures. The inability to refund statutory reserves and other illiquid bank claims would force the banks to write down these claims on the RBZ, leading to significant losses and undercapitalization, with some systemically

[4] Some banks are listed on the Zimbabwe Stock Exchange. The holding company that owns the largest insurance company also operates a bank.

important banks particularly vulnerable (see Risk Assessment Matrix).

10. High liquidity risk urgently needs to be addressed. Zimbabwe currently operates a dollarized financial system with no lender of last resort facility, no access to contingent foreign credit lines, and about two-thirds of bank liabilities falling due within 30 days.[5] As a result, the financial system is exceedingly prone to potential external and other shocks that could drain the system's liquid assets on short notice (see Risk Assessment Matrix). Regulators in countries with dollarized economies generally require a minimum liquidity ratio of 25 percent or higher. Raising the liquid asset requirement relative to short-term liabilities to 25 percent and excluding illiquid claims on the RBZ from the definition of banks' liquid assets would make liquidity risk more manageable. Because many banks are not likely to comply with the higher liquidity requirements, transitional compliance plans need to be agreed on. It would also be important to require that risky banks hold additional liquidity buffers.

11. The RBZ needs to enforce minimum capital and capital adequacy requirements, and ensure sound management of credit risk. For undercapitalized banks, banking supervision should intervene swiftly to resolve banks that fail to restore compliance with minimum capital requirements, not extend deadlines for noncompliant banks, and restrict the payment of dividends. Banking supervision should also continue to improve stress testing of all banks and ensure sound loan underwriting standards and practices to prevent wider problems in the banking sector. In addition, the supervisor should have the discretion to use the tools best suited to the circumstances of the banks.

[5] The RBZ's small lending facility of US$7 million cannot play the role of a lender-of-last-resort facility, because it would be inadequate in case of the failure of a large bank or a systemic banking crisis.

Table 1 Zimbabwe: Financial Soundness Indicators, 2000 – 2010

(In percent, unless otherwise indicated 1/)

	Avg.2000-07	2008	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Capital adequacy										
Regulatory capital to risk-weighted assets	21.4	43.5	32.4	31.3	25.7	21.6	19.0	17.0	14.3	15.3
Capital to assets	11.2	41.7	24.1	18.1	16.5	12.0	11.4	10.2	9.1	9.4
Asset quality										
Past-due loans to gross loans 2/	25.9	59.5	16.1	23.5	19.2	19.9	16.9	16.9	18.1	16.1
Nonperforming loans 3/	11.5	6.5	3.5	2.4	1.8	1.8	1.7	1.9	2.3	3.1
Watch-listed loans 4/	14.4	53.0	12.6	21.1	17.4	18.0	15.2	15.1	15.8	13.0
Provisions as percent of past-due loans	25.6	4.4	9.2	6.3	8.0	10.8	7.1	11.9	10.0	10.8
Earnings and profitability										
Net profit (before tax and extraordinary items) to net income	154.1	154.3	88.0	260.8	379.7	188.1	139.5	127.7	173.3	166.0
Return on assets	8.5	35.6	-1.1	0.7	0.5	0.5	0.5	0.8	1.0	1.9
Return on equity	66.4	55.4	-5.3	1.5	0.4	1.9	3.0	5.5	5.4	11.0
Expenses to income	73.7	9.2	179.3	86.6	94.2	95.5	84.6	88.3	89.4	84.1
Liquidity										
Loans to deposits	61.0	73.1	27.8	37.7	48.8	48.1	57.7	60.7	51.6	79.1
Excess reserves to broad money	2.1	0.2	0.0	0.0	0.0	0.0	5.3	7.1	5.7	7.4
Sensitivity to market risk										
Net foreign exchange assets (liabilities) to shareholders' funds	-6.1	10.6	49.0	14.7	-23.5	5.2	5.2	6.5	6.1	8.0
Interest rates										
Lending rate minus demand deposit rate	255.6	46975.0	31.5	2.0	2.6	3.0	2.9	2.8	3.3	3.1
Commercial banks fixed deposits (12 months)	125.1	320.0	10.0	6.3	4.2	10.3	9.9	9.4	9.1	9.0
Commercial banks lending rate (weighted average)	259.9	25250.0	37.5	7.5	7.7	11.0	7.2	7.2	7.1	7.5
Savings deposit rate	33.3	100.0	1.0	1.0	1.7	1.0	1.1	1.3	1.3	1.4

Source: Reserve Bank of Zimbabwe.

1/ Based on commercial banks only.

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

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

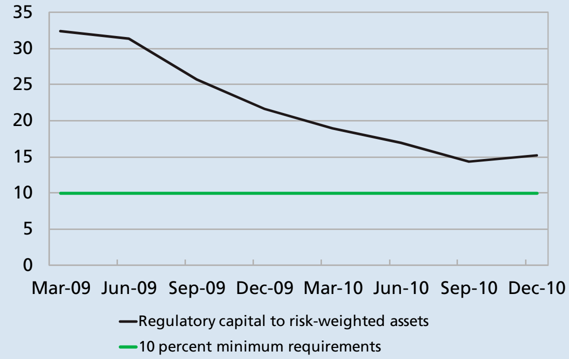
4/ Watch-listed loans refers to the aggregate of special mention loans.

Figure 1 Zimbabwe: Banking Performance and Soundness

The system appears to be compliant with RBZ capital adequacy requirements,...

Regulatory Capital to Risk-Weighted Assets 1/

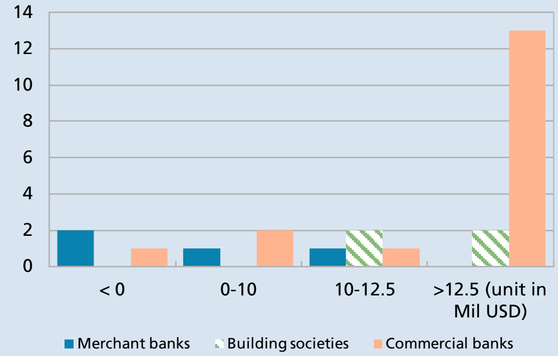
(Percent)



....although solvency is an issue for several smaller banks.

Distribution of Bank Capital 1/ 2/

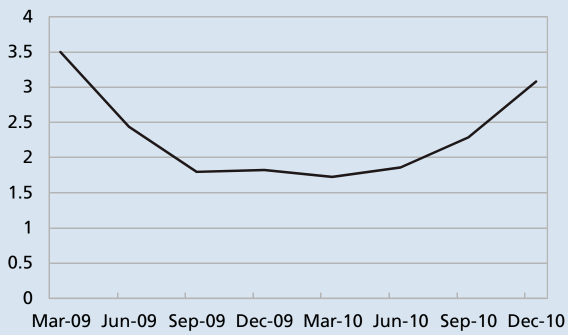
(Number of banks, as of February 2011)



Bank's assets quality is deteriorating with a rapid increase in NPLs during 2010.

Nonperforming Loans to Total Loans

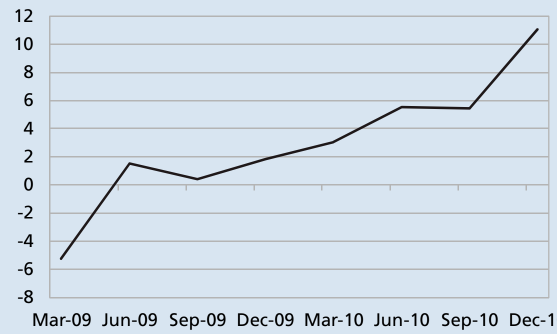
(Percent)



Banks benefited from favorable economic performance, but apparently in part due to higher risk taking.

Return on Equity

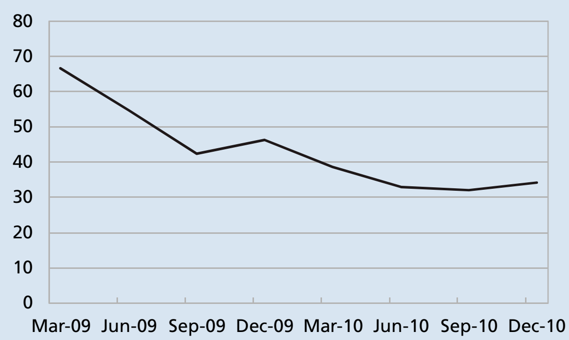
(Percent)



Liquidity ratios are declining and creating binding constraints for some banks…

Liquidity Ratio 3/

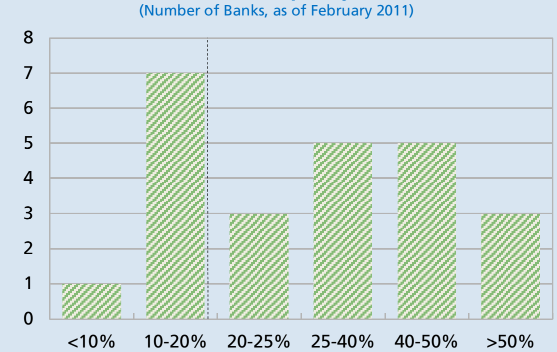
(Percent)



... particularly for eight banks with liquidity ratios below 20 percent.

Distribution of Liquidity Ratio 3/

(Number of Banks, as of February 2011)



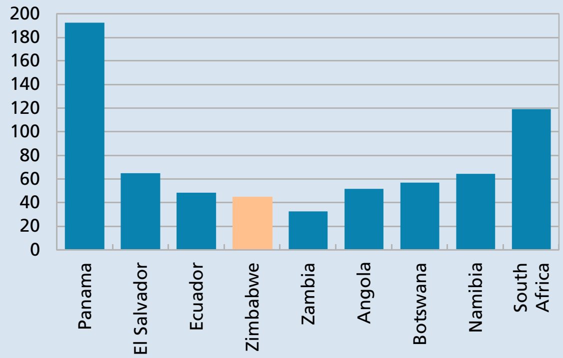
Source: Reserve Bank of Zimbabwe.

1/ Illiquid claims on the RBZ count toward capital.
2/ Minimum capital requirements are US$10 million for merchant banks and building societies, and US$12.5 million for commercial banks.
3/ The ratio of liquid assets to short-term liabilities. Liquid assets are defined as cash, claims on nonresident banks, interbank claims, and clearing balances at the RBZ. Illiquid claims on the RBZ are excluded. Short-term liabilities comprise all deposits, interbank liabilities, and liabilities to nonresidents. Time series are proxied and do not include quoted securities and other short term liabilities.

Figure 2 Zimbabwe: Financial Soundness Indicators by Cross-Country Comparison 1/

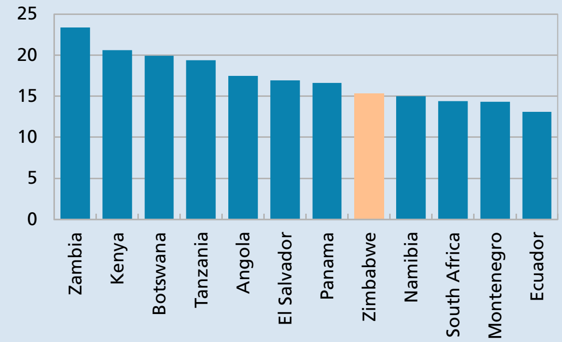
Zimbabwe's banking system is relatively small.

Total Bank Assets
(Percent of GDP)



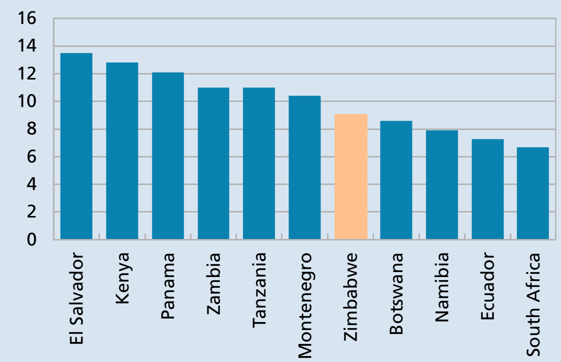
The system's capital is comparable to peers, yet on the low side.

Bank Regulatory Capital to Risk-Weighted Assets
(percent of GDP)



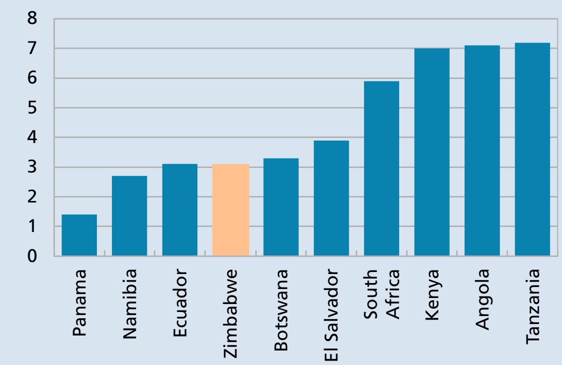
The system is moderately leveraged, but the quality of capital is weak.

Bank Capital to Assets
(Percent)



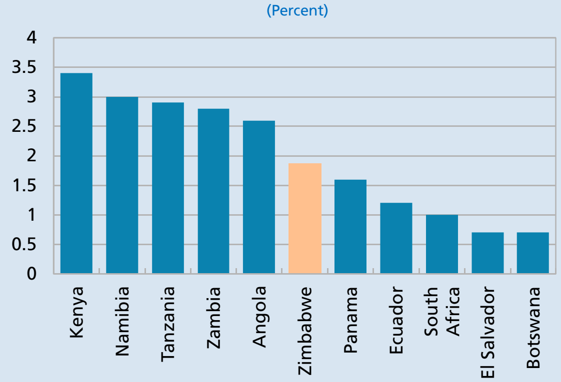
The average NPL ratio remains low among key comparators, but it is increasing fast and marks significant variations across banks.

Nonperforming Loans to Total Loans
(Percent)



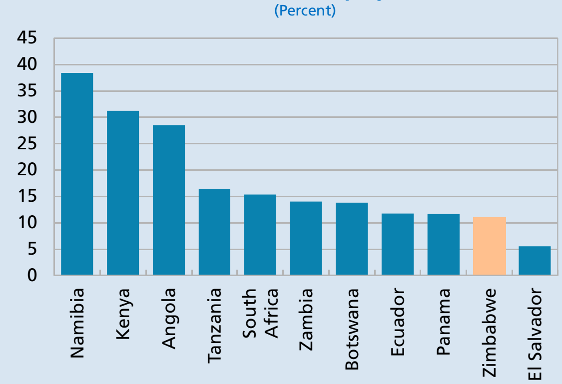
The return on assets and ...

Return on Assets
(Percent)



...equity is rather low.

Return on Equity
(Percent)



Sources: Global Financial Stability Report (October 2010), Zimbabwean authorities and IMF staff calculations.

1/ Data for bank assets are as of December 2010. Financial soundness indicators for Zimbabwe are as of December 2010; those of other countries range from June to December 2010, depending on the availability of data.

Zimbabwe: Risk Assessment Matrix

Nature/Source of Main Threats	Overall Level of Concern: Likelihood of Severe Realization of Threat (in the next 1-3 years)	Overall Level of Concern: Expected Impact on Financial Stability if Threat Is Realized
1. Banks are unable to recover their frozen claims on the RBZ, including statutory reserves. In addition, the RBZ may not be able to return banks' RTGS funds.	*Medium* • The RBZ remains in financial distress, with slow progress in financial restructuring. At present, it channels fiscal transfers to cover severance packages of retrenched staff rather than cover operating expenses. In the past, the foreign exchange cover of banks' claims has been used to fund expenses and selective loan servicing. • Banks are highly exposed to the Reserve Bank of Zimbabwe (RBZ). The frozen claims, including statutory reserves, amount to $174 million or about 40 percent of banks' equity capital at end-2010. • The resolution of RBZ claims is likely to take time, and banks' auditors may force a write-off of these claims. Moreover, authorities may not give preference to banks' claims in the resolution of RBZ liabilities. • The RTGS account operating at the RBZ was backed by international reserves as of end February 2011. However, the backing could potentially fall short of 100 percent, should the RBZ financial situation worsen.	*High* • Failure to refund statutory reserves and resolve other frozen claims of the banks would force the banks to write down these claims, leading to significant losses and undercapitalization, particularly among systemically important banks. • The deterioration in bank capitalization could lead to loss of confidence in the banking system, resulting in possible bank runs and contagion with spreading liquidity problems. • An inability of the RBZ to return real time gross settlement (RTGS) funds to banks may lead to loss of confidence in the payments system, discouraging its use and possibly lead to liquidity problems in banks, which cannot make payment on behalf of their customers. • The loss to the banks of RTGS funds would also undermine their capital position, which would tend to compound the problem of potential write-downs of other claims on the RBZ.
2. Failure of smaller distressed banks or banks with weak liquidity to meet withdrawal demands could lead to loss of confidence and subsequently contagion to the rest of the system, causing a liquidity shock to other solvent banks.	*Medium* • A number of small banks are undercapitalized; some are heavily insolvent. A failure of undercapitalized banks could ignite a systemic panic and a run on banks. • A number of banks, including some systemically important banks, have liquidity buffers below 20 percent of short-term liabilities. • Domestic interbank claims may become illiquid under systemic liquidity difficulties. As of February 2011, interbank claims were $185.2 million, approximately 1/5 of prudential liquid assets, excluding illiquid claims on the RBZ. • Stress test results also indicate the liquidity risk remains high.	*High* • Liquidity problems in one or a few banks may lead to contagion to other banks. • Bank runs may lead otherwise solvent and liquid banks to experience large losses, as they struggle to mobilize less liquid assets to meet liquidity needs. These losses could quickly erode the capital position of still weakly capitalized banks. • Systemic failure of banks could occur, because the banking system has no safety-net of any sorts.

	Overall Level of Concern	
Nature/Source of Main Threats	**Likelihood of Severe Realization of Threat (in the next 1-3 years)**	**Expected Impact on Financial Stability if Threat Is Realized**
3. Balance of payments (e.g., a sharp reversal of capital flows or a negative terms-of-trade shock) pressure forces a contraction in banks' liquid foreign assets under the multicurrency system, leading to liquidity difficulties in the banking system.	*High* • The external position is precarious. Current account deficits are projected at double digits over the medium term, largely financed by volatile capital flows. • Under the multicurrency system, balance of payments pressure leads to an outflow of funds (i.e., nostro accounts and cash in vaults) from banks. • The banking system is unlikely to be able to borrow abroad to resolve these liquidity issues.	*High* • Without a domestic currency or a lender of last resort, a systemic liquidity shortage may lead to bank runs and a general loss of confidence in the banking system, further exacerbating the demand for liquidity. • Faced with a systemic liquidity shortage, banks are likely to respond with a sharp curtailment of credit, which would have a strong negative impact on economic activity.
4. A sharp economic slowdown	*Medium* • Growth is largely driven by mining and agriculture, both of which are vulnerable to shocks. Activity in mining also depends on the investment climate, which has been recently adversely affected by the publication of new indigenization requirements. • A slowdown in the growth of export proceeds from mining and agriculture could contract liquidity in the banking system, and reduce credit growth, negatively affecting other sectors of the economy. • There is a sharp rise in nonperforming loans (albeit from a low base), despite favorable economic conditions in the past two years. A possible sharp slowdown could further worsen the asset quality of banks. • While the average NPL ratio remains low, this could reflect mostly the immaturity of the loan portfolio, a possible lack of experience in correctly assessing loan quality, and potentially hidden evergreening of mostly short-term loans. Some individual banks have NPL ratios well above the system's average.	*Medium* • Credit concentration risk is high. Large firms could be strongly affected by the economic slowdown. Downgrading the loan classification of large debtors could be expected. An outright default of their three largest exposures could drive a significant number of banks, including some systemically important banks, to become undercapitalized. • An increase in nonperforming loans would impact profitability by lowering interest income and requiring loan provisioning. • Weakly capitalized banks would have difficulty withstanding loan losses even under a mild shock. • Failure of one or more banks could lead to a general loss of confidence in the banking system, with negative effects on the fragile macroeconomic situation.

References:

Kramarenko, Vitaliy and others, 2010, "Zimbabwe: Challenges and Policy Options after Hyperinflation" African Departmental Paper No. 10/3, Chapter 2 (Washington: International Monetary Fund). http://www.imf.org/external/pubs/ft/dp/2010/afr1003.pdf

Appendix III. Estimating Zimbabwe's Net External Wealth

Zimbabwe's net foreign asset position is negative even when taking into account the economy's net present value of mineral wealth. Sound policies, supported by debt relief, are the only feasible options for Zimbabwe to re-establish external sustainability.

1. **This appendix provides an update of the estimates of Zimbabwe's net foreign asset position based on previously published work assessing Zimbabwe's external sustainability**[1] Our estimate of NFA is based on two components: (i) a backward-looking estimate of Zimbabwe's *external position* and (ii) a forward-looking estimate of the *net present value (NPV) of mineral wealth.*

2. **We provide two backward-looking estimates of Zimbabwe's external position.** The first estimate is based on the updated External Wealth database constructed by Lane and Milesi-Ferretti (2007) which contains information on the value of external assets and liabilities for 145 countries between 1970 and 2009. The second estimate is based on public debt data complemented with estimates of private net assets from the Zimbabwean authorities and information from the Joint BIS-IMF-OECD-World Bank Statistics on External Debt Database. Our analysis indicates that Zimbabwe is a net debtor to the world: our estimates range between 103 and 118 percent of GDP in 2010 (Table 1).

3. **These backward-looking estimates, however, may understate Zimbabwe's true net wealth, because it is a country rich in mineral resources.** Estimating Zimbabwe's mineral wealth is fraught with challenges but we compute the NPV of gold, platinum and diamond receipts—the highest value commodities in Zimbabwe—based on the following assumptions:

- **Proven reserves.** Given the uncertainty surrounding proven reserves, we discount flows for the next 20 years.[2]

- **Extraction rates.** The recent announcement of the fast track indigenization of the mining sector clouded the macroeconomic outlook. Assuming no major disruptions from the on-going indigenization process, the current staff projection under the unchanged policies scenario for mining output assumes that

[1] See Kramarenko, and others, (2010) Chapter 3, "Assessing Competitiveness and External Sustainability in Zimbabwe."

[2] At least 95 percent of the NPV is attained within the first 20 years.

production will be 9.7 metric tons of gold, 13.6 metric tons of platinum and 7.6 million carats of diamonds by 2016. Production is assumed to be constant at those levels thereafter. Under the recommended policies scenario, gold output would reach 23.9 metric tons and platinum would be 21.1 metric tons by 2016. The diamond production profile would remain the same under both scenarios (7.6 million carats by 2016).

- **Discount factor.** Income streams are discounted at 15, 17 and 20 percent, reflecting country risk premiums.

- **Prices.** We assume that world prices for gold and platinum remain at their historically high nominal levels at end-2010: US$1,318 per troy ounce for gold and US$1,679 per troy ounce of platinum. In 2010, Zimbabwe diamonds certified by the Kimberley process sold at an average price of US$53 per carat. Zimbabwe authorities project that diamonds could fetch as high as US$90 per carat by 2016, and we adopt this assumption.

- **Extraction costs.** We use estimates provided by the Zimbabwe Chamber of Mines: US$650 per troy ounce for gold and platinum and US$10 per carat for diamonds.

4. Under a range of plausible assumptions, the country's NFA position, including mining wealth, is negative. Assuming a 17 percent discount rate, we find that the NPV of mining wealth is US$6.8 billion (90.5 percent of GDP) under the recommended policies scenario. Under fairly optimistic assumptions about price levels and extraction costs, Zimbabwe's NFA position is still negative at -12.9 percent of GDP. Under the unchanged policies scenario, the NPV of mining wealth is much lower—US$5.3 billion (71.5 percent of GDP) with a 17 percent discount rate, and total NFA is between -47 and -32 percent of GDP .The economy would need to adjust its nonmineral primary current account deficit by about 38 percent of GDP in 2011 to maintain this level of NFA, let alone reduce it.

5. The government can only claim part of mineral wealth (through taxes and royalties) while most of the nation's liabilities are owed by the public sector. We estimate that the government's net debt position in 2010 is a little less than 70 percent of GDP under the unchanged policies scenario and 63 percent of GDP under the recommended policies scenario. This suggests that debt relief should be part of any debt resolution strategy for Zimbabwe.

Table 1 Zimbabwe: Net Foreign Assets, 2010

	2010					
Discount rate	**15%**	**17%**	**20%**	**15%**	**17%**	**20%**
	Unchanged policy scenario			**Recommended scenario**		
	(billions of U.S. dollars)					
Net foreign assets based on						
External wealth	-1.6	-2.4	-3.2	0.0	-1.0	-2.0
Public and private debt	-2.7	-3.5	-4.3	-1.1	-2.1	-3.1
Net external position based on						
External wealth	-7.7			-7.7		
Public and private debt	-8.8			-8.8		
Net present value of mining wealth	**6.1**	**5.3**	**4.5**	**7.7**	**6.8**	**5.7**
Net present value of gold	1.6	1.4	1.2	2.1	1.9	1.6
Net present value of platinum	1.7	1.5	1.3	2.8	2.5	2.1
Net present value of diamonds	2.8	2.4	2.0	2.8	2.4	2.0
	(percent of GDP)					
Net foreign assets based on						
External wealth	-22.1	-31.9	-42.7	0.0	-12.9	-27.2
Public and private debt	-36.8	-46.6	-57.4	-14.7	-27.6	-41.9
Net external position based on						
External wealth	-103.4			-103.4		
Public and private debt	-118.0			-117.5		
Net present value of mining wealth	81.3	71.5	60.6	103.4	90.5	76.2
Net present value of gold	20.9	18.7	16.3	28.1	24.9	21.3
Net present value of platinum	23.0	20.5	17.7	37.9	33.4	28.3
Net present value of diamonds	37.4	32.3	26.6	37.4	32.3	26.6
Government wealth						
	Unchanged policy scenario			**Recommended scenario**		
	(billions of U.S. dollars)					
Government net position	**-5.2**			**-4.8**		
NPV of fiscal wealth from mining	1.9			2.4		
Public and publicly guaranteed external debt	7.1			7.1		
of which: Arrears	5.7			5.7		
	(percent of GDP)					
Government net position	**-69.8**			**-63.6**		
NPV of fiscal wealth from mining	25.4			31.6		
Public external debt	95.2			95.2		
of which: Arrears	76.7			76.7		

Source: IMF staff estimates and projections.

References:

Philip R. Lane and Gian Maria Milesi-Ferretti (2007), "The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004," *Journal of International Economics 73*, November, 223-250.

Kramarenko, Vitaliy, and others, 2010, "Zimbabwe: Challenges and Policy Options after Hyperinflation" African Departmental Paper No. 10/3, Chapter 3 (Washington: International Monetary Fund). http://www.imf.org/external/pubs/ft/dp/2010/afr1003.pdf

Appendix IV. Zimbabwe: Tax Reform Measures

Income tax law

Finalize the draft of the new Zimbabwe income tax law (ZITA) in line with IMF technical assistance advice.

VAT

The VAT system could be strengthened by:

- Eliminating the temporary VAT and customs duties exemptions on the 36 basic commodities.
- Abolishing defunct customs and VAT rebates.
- Requiring all government purchases to pay customs duties and VAT at customs.

Trade reform

The current tariff structure is excessively complex with more than 17 bands. Over the medium term, it needs to be streamlined in anticipation of regional trade liberalization.

- Adopt a time-bound action plan to simply tariff bands with a view to eventual harmonization with COMESA external tariffs.
- Establish higher domestic excises on: i) beer and soft drinks, ii) tobacco products, and iii) motor vehicles while reducing the current tariff rates to 40 percent. In principle, these measures should be revenue neutral.

Financial sector

Repeal transaction taxes on banking and securities transactions.

Subject fee-based financial transactions to VAT.

Replace the current formula for taxing long-term insurance with a revised current year transactions formula.

Taxation of mining
Consider applying the current first-tier additional profits tax (APT) – for special mining leases – to all mining leases and special grants, with a transitional deduction for existing projects at the written-down book value of assets.
Revise capital allowances for tangible assets to conform to generally applicable rules.
Revise thin capitalization rules restricting the deductibility of interest.
Define direct or indirect sales of immoveable property by nonresidents as chargeable to capital gains tax.
Mining companies or projects should pay normal customs and excise duties and VAT.
Tax administration
Complete the reorganization of the Zimbabwe Revenue Authority (ZIMRA) in line with previous IMF technical assistance recommendations.
Strengthen the operation of the recently created large tax papers unit.
Introduce a post-clearance audit infrastructure within Customs.

INTERNATIONAL MONETARY FUND

ZIMBABWE

May 12, 2011

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

FUND RELATIONS

A. Financial Relations

As of March 31, 2011

Membership Status

Joined: September 29, 1980; Article VIII

General Resources Account:	SDR Million	%Quota
Quota	353.40	100.00
Fund holdings of currency	353.07	99.91
Reserve position	0.33	0.09

SDR Department:	SDR Million	%Allocation
Net cumulative allocation[1]	272.18	100.00
Holdings[1]	164.82	60.55

[1] Excluding SDRs allocated and placed in escrow account under the Fourth Amendment of the IMF's Articles of agreement (SDR 66,402,156). Such holdings will be available to Zimbabwe upon the settlement of all overdue obligations to the Fund.

Outstanding Purchases and Loans:	SDR Million	%Quota
ECF arrangements	71.14	20.13

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

[1] Formerly PRGF

Projected Payments to Fund[1, 2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	Mar 31, 2011	2011	2012	2013	2014	2015
Principal	71.14					
Charges/interest	16.01	0.70	0.84	0.84	0.84	0.84
Total	87.15	0.70	0.84	0.84	0.84	0.84

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.
[2] Projected amounts do not include additional interest levied on overdue PRGT interest.

Implementation of HIPC Initiative:

Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

Not Applicable

Application of Remedial Measures under the Arrears Strategy

Zimbabwe has been in continuous arrears to the Fund since February 2001. On September 24, 2001, the Executive Board declared Zimbabwe ineligible to use the general resources of the Fund and removed it from the list of PRGT-eligible countries. On June 13, 2002, the Board issued a declaration of non-cooperation with respect to Zimbabwe and suspended all technical assistance to the country. On June 6, 2003, the Board suspended Zimbabwe's voting and related rights in the Fund. A complaint with respect to compulsory withdrawal was issued on February 6, 2004. The Executive Board considered the complaint on July 7, 2004, on February 15, 2005, and again on September 9, 2005 and decided to postpone the recommendation on Zimbabwe's compulsory withdrawal from the Fund to the Board of Governors so as to give more time for Zimbabwe to improve cooperation with the Fund. On February 15, 2006, Zimbabwe fully settled its arrears to the General Resources Account. As a consequence, the Managing Director withdrew his complaint for compulsory withdrawal. However, the Executive Board decided not to restore Zimbabwe's voting and related rights, nor did it terminate Zimbabwe's ineligibility to use the general resources of the Fund. The Executive Board kept in place the decisions taken to address Zimbabwe's arrears to the PRGT Trust—the declaration of noncooperation, the suspension of technical assistance, and the removal of Zimbabwe from the list of PRGT-eligible countries. Zimbabwe's arrears to the PRGT Trust remain, amounting to SDR 87.15 million (US$138 million) as of March 31, 2011. On May 4, 2009, the Executive Board lifted the suspension of technical assistance to Zimbabwe in the following areas: (i) tax policy and administration, (ii) payments system, (iii) lender-of-last resort and banking supervision, (iv) central banking governance and accounting (EBS/09/55). On February 19, 2010, the Executive Board restored Zimbabwe's voting rights and its eligibility for general resources. On May 17, 2010, the Executive Board added macroeconomic statistics to the targeted areas for Fund technical assistance. The last review of Zimbabwe's overdue financial obligations to the PRGT Trust was completed in January 2011 (EBS/11/4, 1/7/2011), and the Executive Board decided the Fund should continue its technical assistance in targeted areas and added public financial management and anti-money laundering and combating the financing of terrorism to the list of targeted areas for technical assistance. However, the Executive Board judged that the other measures to address Zimbabwe's arrears to the PRGT Trust should remain in place.

B. Nonfinancial Relations

Exchange Arrangement

Zimbabwe's exchange system has been significantly liberalized and exchange rates have been unified. Apart from one remaining exchange restriction subject to IMF jurisdiction arising from unsettled balances under an inoperative bilateral payments agreement with Malaysia, payments and transfers for current international transactions can now be effected without restriction.

Since 2009, Zimbabwe has adopted hard currencies for transactions (i.e., multi-currency regime) with the U.S. dollar as principal currency; and use of the Zimbabwe dollar as domestic currency was discontinued over the period 2010–12. The de facto exchange regime is classified as *exchange arrangement with no separate legal tender.*

Article IV Consultations

Zimbabwe is on the standard 12-month consultation cycle. The Executive Board discussed the staff report for the 2010 consultation on May 17, 2010.

Technical Assistance

2009	MCM mission on payments systems, lender-of-last resort operations and banking supervision, and central banking governance and accounting
2009	FAD mission on tax policy
2009	FAD mission on revenue administration
2009	FAD follow-up mission on tax policy
2010	MCM mission on accounting
2010	FAD mission on general tax policy and mining taxation
2010	STA mission on compilation of national accounts
2010	MCM mission on central bank balance sheet restructuring and reporting
2010	STA mission on compilation of monetary statistics for the central bank
2010	FAD follow-up mission on general tax policy and mining taxation
2010	LEG mission on fiscal law
2011	MCM mission on banking supervision

WORLD BANK—IMF COLLABORATION

May 3, 2011

1. The Fund Zimbabwe team led by Mr. Kramarenko (mission chief) met with the World Bank Zimbabwe team led by Mr. Kumar (Lead Economist).

2. The teams agreed that Zimbabwe's main economic challenges are to sustain the momentum of economic recovery, enable its benefits to be distributed more equitably, and reduce significant external and financial vulnerabilities. To meet these challenges, Zimbabwe needs to: (i) strengthen its management of public finances including: strengthening financial monitoring and control; improving allocation and use of public resources to raise the economy's productivity, improve service delivery, and help meet acute social needs of vulnerable groups; and improving efficiency and transparency in revenue collection; (ii) advance policies that support economic growth, including through improving business environment and improving labor market flexibility; (iii) reduce systemic risks in the banking system; (iv) restructure and downsize the RBZ; and (v) start implementing a strategy to resolve external payment arrears.

3. Based on this assessment, the teams identified the following structural reform areas as macrocritical:

- **Public financial management (PFM) reform:** Public expenditure management deteriorated sharply during the hyperinflationary period, and the Ministry of Finance is working on reviving PFM institutions. Significant efforts have been made to revive the computerized PFM system, but reporting and monitoring so far is rudimentary. There are also considerable difficulties with budget preparation, the development of a medium-term expenditure framework, and monitoring of public enterprises. There is a need to attempt a comprehensive revival of the PFM systems, including human resource management and procurement systems.

- **Public investment program:** There is a need to develop and implement a well-prioritized public investment program to rehabilitate ailing infrastructure.

- **Service delivery and social safety nets:** There is a need to scale-up expenditure on education and health and consolidate social safety net interventions.

- **Tax reform:** The authorities have made good progress in tax reform. The next major step is the adoption of a comprehensive new income tax act that will simplify and modernize the framework for direct taxation.

- **Diamond sector reform**: Concerns about governance in the official diamond sector and allegations of illegal diamond trading raise questions about the government's ability to collect diamond revenues and ensure transparency in this sector**.**

- **Business environment reform:** Investment is constrained by infrastructure bottlenecks, labor market rigidities, and lack of clarity on specific details regarding ownership under the indigenization legislation. Regulatory burden is also excessive.

- **Financial sector reform:** Under full dollarization, strong banking supervision and early intervention are critical for maintaining banking system stability. The RBZ needs an action plan to adapt the stress-testing framework, enhance the capacity to use stress tests regularly, and move to a multi-factor stress testing methodology.

- **Central bank reform:** RBZ lacks liquid assets and has negative net worth. Following the downsizing to adjust staff numbers to the core activities under the multi-currency system, the RBZ needs a major balance sheet restructuring to shed noncore assets and liabilities. The systemic risks to bank capitalization from exposures to the RBZ are currently high, and in the resolution process the authorities should give banks' claims on the RBZ preference over all other claims for financial stability reasons.

- **Reform of the statistical system:** Despite recent progress in data reporting, there are serious shortcomings in all major areas of data production that significantly hamper surveillance and evidence-based decision making. ZIMSTAT needs to rebuild its capacity and acquire new equipment.

- **Debt and arrears strategy:** Following government approval of the Zimbabwe Accelerated Arrears Clearance, Debt, and Development Strategy, the Government has set up a Debt Management Office to start implementation of this strategy.

4. The teams agreed to the following division of labor:

- **PFM reform:** The Bank will: (i) complete the TA to strengthen the computerized PFM system; (ii) lead a multi-donor benchmarking assessment of the PFM and procurement system that will provide a basis for further PFM reforms; and (iii) provide TA in human resource systems, following the completion and publication of the payroll audit. The Fund will offer TA in: (i) forecasting and budgeting within a more binding medium-term expenditure framework; (ii) strengthening budget preparation, including more rigorous costing of services; and (iii) improving fiscal oversight at the general government and public sector level, including SOEs.

- **Public investment program:** The Bank is providing analytical support for implementation of a capital budget, and financing of water and sanitation rehabilitation.

- **Social delivery and social safety nets:** The Bank has recently carried out a broad review of financing needs of education, health and social protection sectors. During 2011, the Bank will implement a results-based financing program for maternal and child health and a public works rapid social response program. Analytical support will be provided for a safety nets tracking survey, health financing issues note, and design of social transfer framework.

- **Tax reform:** The Fund will offer TA in tax policy and tax administration reform and the drafting of the Zimbabwe Income Tax Act. The Bank will provide technical support for improving mineral revenue transparency, develop an inventory of mineral wealth to improve mineral revenue forecasting and, jointly with the Fund, provide technical advice on mining sector tax policy and revenue management.

- **Diamond sector reform:** The Fund will offer TA on AML/CFT standards in diamond and precious metal sectors, subject to external funding.

- **Business environment reform:** The Bank is undertaking a business enterprise survey and drafting a growth and competitiveness strategy to identify costs for businesses, including labor costs and strategies to develop strategic sectors, such as IT and agriculture.

- **Financial sector reform:** The Bank is undertaking a FINSCOPE survey to assess access to finance. Fund staff will provide TA in banking supervision to improve compliance with Basle core principles and stress testing for liquidity and credit risks.

- **Central bank reform:** Following Parliamentary approval of a special purpose vehicle (SPV), the Fund will offer additional TA in governance and central bank accounting and financial controls.

- **Reform of the statistical system:** The Bank is providing technical guidance to household survey and has assisted ZIMSTAT in developing the National Statistics Development Strategy. The Fund will offer TA in national accounts, monetary statistics, and government finance statistics.

- **Debt and arrears strategy:** In the context of the 2011 Article IV Consultation, Bank and Fund staff produced a joint DSA.

5. The teams agreed to the following sharing of information:

- The Fund team requests to be kept informed of progress in the above macro-critical structural reform areas. Timing: in the context of WB missions.

- The Bank team requests to be kept informed of progress in the above cited areas where the Fund takes the lead and shares outputs when requested by the Bank team.

6. The appendix lists the teams' separate and joint work programs during January-December 2011. The Bank team noted that the Zimbabwe Interim Strategy Note is under revision and the program listed here represents the team's best judgment at this stage.

Table 1 Zimbabwe: Bank and Fund Planned Activities in Macro-critical Structural Reform Areas, January–December 2011

Title	Products	Provisional Timing of Missions	Expected Delivery Date
Bank Work Program	-TA to strengthen the computerized PFM system	January 2011	March 2011
	-PFM benchmarking (CIFA)	January, May 2011	June 2011
	-TA for Human Resource Systems, wage bill and employment issues	May 2011	September 2011
	-Results-based financing program in health	March, June 2011	June 2011
	-Public works rapid social response program	June 2011	July 2011
	-Technical support for improving mineral revenue transparency	February, May 2011	May 2011
	-Inventory of mineral wealth to improve mineral revenue forecasting	February, May 2011	September 2011
	-Enterprise survey to benchmark business environment, SME survey	March, May 2011	August 2011
	-Growth recovery report	February, July 2011	September 2011
	-Support to debt data reconciliation	June 2011	
Fund Work Program	-MCM TA in stress testing	January 2011	February 2011
	-Article IV Consultations	March 2011	May 2011
	-MCM TA in balance sheet bifurcation and debt relief	March 2011	Q2 2011
	-LEG follow up TA on the Income Tax Act	Q2 2011	
	-FAD TA in tax administration reform	Q2 2011	
	-FAD diagnostic mission in PFM	Q2 2011	
	-STA mission in government finance statistics	Q2 2011	
	-MCM TA in liquidity risk stress testing and supervisory framework	Q2 2011	
	-MCM TA on credit risk stress testing and bank resolution framework	Q3 2011	
	-STA TA in national accounts	Q2-Q4 2011	
	-LEG TA in AML/CFT	Q3-Q4 2011	
	-FAD follow-up mission in PFM	Q3-Q4 2011	
	Possible TA: -STA TA in monetary statistics -MCM TA in central bank accounting and financial controls		
Joint Work Program	-Debt Sustainability Analysis	March 2011	May 2011
	-Bank-Fund (FAD) TA in mining taxation		

STATISTICAL ISSUES

As of April 2011

I. Assessment of Data Adequacy for Surveillance

General: Data have serious shortcomings that significantly hamper surveillance. Despite recent improvements in timeliness and coverage, there are serious shortcomings in all major datasets. The Zimbabwe National Statistics Agency (ZIMSTAT) needs to rebuild its capacity and acquire new equipment. All technical assistance from the Fund was suspended on June 13, 2002, when the Executive Board issued a declaration of noncooperation regarding Zimbabwe. On May 17, 2010, the Executive Board lifted the suspension of technical assistance in targeted areas, including assistance in macroeconomic statistics. ZIMSTAT has conducted some surveys in 2010 to benchmark national accounts for 2009 and is planning to conduct a new labor force survey and an income, consumption and expenditure survey in 2011.

National Accounts: The most recent official publication of national accounts data includes developments in 2009 in U.S. dollars based on on a survey of industrial production, a quarterly employment survey and a survey of non-profit institutions, all conducted in 2010. ZIMSTAT has also published preliminary estimates of GDP in U.S. dollars using 2009 as the base year for constant prices. National accounts are also available in Zimbabwe dollars before 2008 with 1990 as the base year. The production of national accounts is constrained by both insufficient input data, limited by low survey response rates, and insufficient processing and other resource capacity. Benchmark data for industrial production have improved with the 2010 update but the last income, consumption, and expenditure survey of any reasonable quality was made in 2001 (a survey made in 2007/08 collected data that are distorted due to hyperinflation). At the same time, despite the revision of the base year to 2009 for GDP, value added for some sectors like agriculture is still based on 1990 weights for individual commodities.

Price statistics: ZIMSTAT published a new consumer price index (CPI) based on prices in U.S. dollars, with December 2008 as the base, for the first time on March 24, 2009. The index uses 1990 weights for the consumer basket. There are concerns that the CPI does not adequately reflect the price changes faced by households. A review of the weights, coverage, and outlet and product selection is planned once the 2010 survey of income, consumption, and expenditure is completed in 2011.

Government finance statistics: The Ministry of Finance (MoF) does not yet compile government finance statistics in line with the Government Finance Statistics Manual 2001. They compile budget data for the budgetary central government. Reporting of government finance statistics for the central government has improved significantly over the past two years. The MoF collects data on revenue and expenditure, which are published on its website on a bi-annual basis, along with budget statements. There is limited data on government financing. The MoF is in the process of reconciling its data on external debt, in particular interest payments on principal and arrears, with external creditors.

Monetary statistics: The RBZ produces monthly monetary and financial statistics. The quality of the data deteriorated substantially up to 2009 because of previous hyperinflation and the transition to accounting in U.S. dollars, weak accounting practices, and quasi-fiscal activities. The auditors provided an adverse opinion of the 2008 RBZ financial statement based on two observations: the hyperinflationary environment in 2008 and failures within the RBZ's financial reporting systems that is, RBZ's inability to account for foreign currency purchases and internal control deficiencies. MCM and STA technical assistance in 2009 and 2010 and the Article IV missions in 2009 and 2010 made recommendations on central bank accounting and reporting. Timeliness and coverage of data reporting improved in 2010, partly as a result of the technical assistance provided. The RBZ has not published comprehensive monetary statistics since April 2008.

External sector statistics: Balance of payments and external debt statistics are subject to a number of data issues. There is a structural break in trade data in 2010. The source of trade data is the Exchange Control Department of the RBZ for years prior to 2010, and in 2010 onwards, it is based on customs data. In 2010, there are very large, unidentified financing flows in the BOP which are financing imports, but cannot be explained. Labor income and workers' remittances do not include estimates of cash and in-kind transfers from Zimbabweans working abroad. Interest payments are not reconciled with creditors' records and do not contain accrued interest on overdue financial obligations. Data on outstanding debt stocks and principal payments are inconsistent with data received by staff directly from Paris Club and major multilateral creditors. Current and capital transfers to nongovernmental organizations and to the government are not fully reconciled with donors' data. The financial account is incomplete, as it does not record substantial transactions in assets that are reported by central banks that are members of the Bank for International Settlements. The RBZ's initial submission of flows and stocks of gross international reserves and its net foreign assets position often require substantial adjustments. Exceptional financing does not fully capture the flow of overdue financial obligations. External sector data are reported to the staff irregularly with significant delays.

II. Data Standards and Quality

Participant in the General Data Dissemination System since November 1, 2002.	No data ROSC is available.

III. Reporting to STA

Zimbabwe does not report balance of payments statistics to STA for redissemination in the *International Financial Statistics* or the *Balance of Payments Statistics Yearbook*. No monetary or fiscal data are currently reported to STA for publication in the *International Financial Statistics,* and annual fiscal data are also not reported for inclusion in the *Government Finance Statistics Yearbook*. National accounts data have not been reported since 2005 and no data are being reported for the new CPI.

Table 1 Table of Common Indicators Required for Surveillance

	Date of latest observation (dd/mm/yy)	Date received (dd/mm/yy)	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates[2]	NA	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities[3]	25/3/11	4/4/11	W	W	NA
Reserve/base money	25/3/11	4/4/11	W	W	NA
Broad money	28/2/11	11/4/11	M	M	NA
Central bank balance sheet	25/3/11	4/4/11	W	W	NA
Consolidated balance sheet of the banking system	28/2/11	11/4/11	M	M	NA
Interest rates[4]	31/12/10	16/3/11	Q	I	NA
Consumer price index	01/11	02/11	M	M	M
Revenue, expenditure, balance and composition of financing[5]—General government[6]	02/11	02/11	NA	NA	NA
Revenue, expenditure, balance and composition of financing[5]—Central government	02/11	02/11	M	M	NA
Stocks of central government and central government-guaranteed debt[7]	2010	02/11	M	I	NA
External current account balance	2010	02/11	A, Q	I	NA
Exports and imports of goods and services	2010	02/11	A, Q	I	NA
GDP/GNP	2009	02/11	A	I	NA
Gross external debt	2010	02/11	A	I	NA
International investment position[8]	NA	NA	NA	NA	NA

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

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

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

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

[5] Foreign, domestic bank, and domestic nonbank financing.

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

[7] Including currency and maturity composition.

[8] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

ZIMBABWE

May 5, 2011

JOINT IMF/WORLD BANK DEBT SUSTAINABILITY ANALYSIS[1]

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Based on the external LIC DSA, Zimbabwe is in debt distress. The public DSA suggests that Zimbabwe's overall public debt is unsustainable in light of the fiscal policy implementation and the current size and evolution of the debt stock. The authorities broadly agreed with these conclusions. Under a country-specific alternative upside scenario, debt burden indicators would decline faster but the country's external debt ratios would still remain above indicative thresholds.

[1] This exercise was guided by the Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (SM/10/16).

BACKGROUND

1. **Zimbabwe is in debt distress, with arrears to most of its creditors continuing to build up.** At end-2010, total external debt is estimated at $8.8 billion or 118 percent of GDP (Table 1). Total public and publicly-guaranteed (PPG) external debt is estimated at $7.1 billion or 95 percent of GDP, with 77 percent of GDP in arrears. Most PPG external debt is medium- to long-term and owed to official creditors. Zimbabwe's overdue financial obligations to IFIs include the World Bank ($807 million), African Development Bank ($510 million), EIB ($239 million) and the IMF ($134 million).

Zimbabwe: 2010 External Debt Stock (in million US dollars) 1/

	Remaining Principal Due	Total Arrears	Principal Arrears	Total Debt
Total	**2,873**	**5,950**	**3,605**	**8,823**
MLT Debt	1,880	4,891	2,708	**6,770**
Bilateral Creditors	747	2,296	1,307	**3,043**
of which:				
Paris Club	532	2,117	1,183	**2,649**
Non-Paris Club	215	179	124	**394**
Multilateral institutions	637	2,015	1,265	**2,652**
IMF	0	134	109	**134**
AfDB	72	510	278	**582**
WB	438	807	499	**1,246**
EIB	67	239	145	**306**
Others	59	325	233	**384**
Private Creditors	496	580	135	**1,076**
Short-Term Debt	993	678	611	**1,671**
Suppliers credits	0	313	286	**313**

Sources: WB, AfDB, Zimbabwean authorities, and staff estimates.
1/ For the multilateral institutions, short-term debt, and suppliers credits, estimates reflect compound factor; late interest is included under interest arrears.

2. **While domestic public debt remains a comparatively small component of the total, it is, nevertheless, another source of vulnerability.** The domestic debt incurred by the Reserve Bank of Zimbabwe (RBZ) is estimated at about $690 million at end-February 2011. This figure is only an estimate, and could prove to be larger, if new liabilities of the central bank and its subsidiaries are identified. Unidentified domestic contingent liabilities within the parastatal sector are another source of potential downside risks.

3. **Zimbabwe's debt sustainability analysis (DSA) suffers from significant data shortcomings.** The authorities are currently reconciling their debt stock and debt service data with individual creditors, with significant differences remaining. As a result, this DSA is largely based on non-reconciled official debt numbers, and where available, data collected directly from individual creditors, as well as staff estimates of accrued interest and penalties on arrears. In light of these factors, the results of this exercise should be treated with caution.

MACROECONOMIC AND FINANCING ASSUMPTIONS

4. The baseline scenario assumes a more positive macroeconomic outlook largely due to more favorable external environment compared with the previous DSA, but a weakening policy stance is increasing downside risks.[2] Significantly higher export commodity prices and the resumption of official diamond trade have improved the outlook for real GDP and export growth. However, somewhat weaker fiscal discipline, the fast-track approach to mining indigenization,[3] and uncertainties on ownership requirements in other sectors may undermine investors' confidence and discourage new private capital inflows. The government's contracting of non-concessional loans[4] would continue to worsen the debt outlook and complicate the normalization of the authorities' relationship with the donor community. Annual real GDP growth is projected to average about 4.7 percent for the period 2010–15 and about 3 percent for 2016–30 (Box 1). The external current account deficit, net of interest, is projected to improve from 18 percent of GDP in 2010 to about 3 percent in 2015, in part due to the impact of higher commodity prices on exports and volumes.[5]

5. It is assumed that the central government would run deficits in 2011 and 2012, financed by recently contracted non-concessional loans, but would maintain a balanced cash budget in the medium and long terms. *Central government revenues* are projected to be broadly stable at around 28 percent of GDP over the long term, slightly below the current level. Customs revenues are anticipated to decline, as Zimbabwe simplifies its tariff structure in line with its commitments under regional trade agreements. Other revenues are expected to remain broadly unchanged relative to GDP. *On the expenditure side*, the baseline scenario projects only a very marginal increase in fiscal space for nonwage expenditures, and the continuation of large financial support for parastatals. Although the employment costs to GDP ratio is projected to decline slightly, it would continue to claim a high ratio of total revenues. Therefore, both nonwage current expenditure and public investment would remain constrained over the medium to long term.

[2] See SM/10/108, Supplement 1. Albeit not a joint World Bank-IMF DSA, this analysis compares with the previous analysis included in the 2010 Article IV report. The baseline scenario is referred to as the unchanged policies scenario in the 2011 Article IV report.

[3] Under the Indigenization legislation, in the mining sector, a sector-specific ownership threshold of 51 percent should be met by September 25, 2011 for all firms regardless of their value.

[4] On March 21, 2011, the government contracted nonconcessional loans from the China Exim Bank amounting to US$566 million for agricultural equipment, medical equipment and supplies, and rehabilitation of water and sewage treatment plants. The terms of these loans are: i) interest rate of 6 months LIBOR plus 3 percent; ii) down payment of 10 percent; iii) management fee of 0.375 percent; and iv) commitment fee of 0.375 percent.

[5] There is a structural break in the trade data in 2010. The Reserve Bank of Zimbabwe (RBZ) shifted to the use of customs data for exports and imports. In prior years, the main source of trade data was the Exchange Control Department of the RBZ.

Box 1 Key Macroeconomic Assumptions: Baseline Scenario

- Real GDP is projected to grow by about 4.7 percent in the medium term and 3 percent in the long term. Growth is projected to decelerate mainly due to a sharp slowdown in mining, which would be caused by the recently announced fast-track indigenization. Slow progress in addressing structural bottlenecks, including relatively high public wage costs, poorly maintained infrastructure, and a poor business climate, is expected to pose constraints to higher growth in other sectors. Inflation would remain contained at an average of about 5 percent in the medium to long term.

- Donor support is assumed to be confined to humanitarian assistance. It is also assumed that the end-2010 arrears will remain unresolved and new projected debt service payments on PPG external debt will fall into arrears over the entire projection period.1/ No debt relief is expected under the baseline scenario.

- FDI, portfolio investment, and private sector borrowing will remain limited in the medium and long term.

- Import growth would gradually decline over the long term constrained by a slackening in export growth and limited private capital inflows and lack of access to non-humanitarian assistance.

- On the fiscal sector, a financing gap of about 4.4 percent of GDP is projected in 2011 due to a likely revenue shortfall and higher-than-budgeted expenditure, to be covered mostly by further accumulation of expenditure arrears and cuts in capital expenditure.

1/ The DSA is conducted on an accrual basis.

RESULTS OF THE BASELINE DEBT SUSTAINABILITY ANALYSIS

Public and Publicly-Guaranteed External Debt Sustainability

6. **Under the baseline scenario, at end-2010, all PPG external debt indicators exceed thresholds for LICs that have low Country Policy and Institutional Assessment (CPIA) scores, except the two debt service ratios (Figure 1).**[6] Most ratios are projected to continue to exceed their respective thresholds by a wide margin in the medium term, and decline only gradually over the long term.

7. **The sensitivity analysis illustrates that Zimbabwe's unsustainable debt situation could worsen further** (Table 4)**.** Historical analysis shows that all external debt indicators could deteriorate rapidly in the medium to long term compared to the baseline scenario reflecting the country's poor macroeconomic performance in the past decade and the volatility of commodity prices. Results of the most extreme stress test

[6] Zimbabwe is considered as a country with weak institutions for the purpose of this LIC DSA with a CPIA of 2.0. The policy-based thresholds for the present value (PV) of PPG external debt are as follows: 200 percent of revenue; 100 percent of exports; and 30 percent of GDP. For debt service indicators, the ratios are 15 percent of exports and 25 percent of revenue.

show that the present value of debt-to-GDP could more than double by 2012.[7]

Public Debt Sustainability

8. **While Zimbabwe's overall public debt indicators are expected to improve over the long term, they will remain elevated.** The schedule of debt service payments will remain high. The authorities are unlikely to generate sizable primary surpluses, which would be necessary to achieve public debt sustainability. Reflecting assumed real GDP growth, the debt-to-GDP ratio is projected to gradually decline from 104 percent of GDP in 2010 to about 96 percent of GDP in 2015. The present value of public debt will fall from 119 percent of GDP to about 104 percent in 2015. Nevertheless, these ratios would remain elevated, well above sustainable levels. Debt service, including arrears, would remain unaffordable due to the large size of arrears. Results of the most extreme stress test show that the present value of the public debt-to-GDP ratio more than doubles by 2030 (Table 3).[8]

ALTERNATIVE SCENARIO

9. **An alternative scenario assumes that the government would implement strong policy measures to address existing impediments to sustainable growth.**[9] Under this scenario, debt burden indicators would decline faster than under the baseline scenario, but the country's external debt ratios would still remain above the indicative thresholds. If the government strengthens fiscal discipline, improves the quality of expenditures, ensures that the implementation of the indigenization legislation takes into account investors' concerns, presses ahead with key structural reforms, and takes forceful steps to address financial sector vulnerabilities, the country could potentially boost growth performance by about 3 percentage points relative to the baseline scenario over the medium term. This would allow debt indicators to decline faster (Tables 5-8 and Figures 3 and 4). Higher growth would be supported by a positive response of private investment in mining and industry to a better business climate. In addition, a lower wage bill would help contain wage costs and leave more resources for higher public spending on infrastructure.

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[7] The most extreme stress test is a combination shock which assumes that real GDP and export growth, the GDP deflator and net non-debt creating flows would be at their historical averages less ½ standard deviation.

[8] The most extreme stress test assumes that real GDP growth is at historical average minus one standard deviation in 2011-12.

[9] The alternative scenario is referred to as the recommended policies scenario in the 2011 Article IV report.

CONCLUSION

10. Zimbabwe is likely to remain in debt distress for the foreseeable future. Achieving debt sustainability will require a further considerable strengthening of economic policies and debt relief, which would necessitate normalization of relations with the international community. The realization of contingent liabilities, including related to the RBZ restructuring, financial sector vulnerabilities, and SOEs, could make the debt situation even worse.

Table 1 Zimbabwe: External Debt Sustainability Framework, Baseline Scenario, 2007–30 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
(1) External debt (nominal) 2/	**102.8**	**143.9**	**130.1**			**118.0**	**107.9**	**111.4**	**111.5**	**113.1**	**113.6**		**102.7**	**80.6**	
(2) o/w public and publicly guaranteed (PPG)	95.7	133.0	114.1			95.2	86.8	89.4	88.7	89.1	88.8		78.2	61.5	
(3) Change in external debt	10.1	41.2	-13.8			-12.1	-10.1	3.5	0.1	1.6	0.5		-2.6	-1.9	
(4) Identified net debt-creating flows	8.8	43.3	-11.7			13.0	8.1	8.9	5.4	5.6	5.7		4.5	2.6	
Non-interest current account deficit	**2.9**	**14.9**	**18.3**	**9.7**	**6.6**	**18.0**	**8.3**	**6.8**	**3.2**	**3.2**	**2.8**		**1.0**	**-0.5**	0.7
Deficit in balance of goods and services	8.6	26.6	31.9			29.7	21.9	18.2	14.0	13.5	12.6		7.5	2.1	
Exports	37.8	41.5	30.8			48.3	51.7	51.0	49.8	49.2	48.5		37.2	22.4	
Imports	46.4	68.1	62.7			78.0	73.6	69.2	63.7	62.7	61.1		44.8	24.5	
Net current transfers (negative = inflow)	-8.3	-14.2	-15.1	-9.7	5.0	-13.0	-16.1	-13.8	-13.2	-12.7	-12.1		-8.4	-3.9	-7.0
o/w official	-6.4	-10.8	-10.3			-8.4	-6.0	-4.0	-3.4	-2.8	-2.4		-1.6	-0.7	
Other current account flows (negative = net inflow)	2.6	2.5	1.4			1.3	2.5	2.4	2.4	2.4	2.3		1.9	1.2	
Net FDI (negative = inflow)	**-1.2**	**-1.0**	**-1.8**	**-1.3**	**0.5**	**-1.6**	**-0.8**	**-0.7**	**-0.6**	**-0.6**	**-0.6**		**-0.4**	**-0.2**	-0.3
Endogenous debt dynamics 3/	**7.1**	**29.4**	**-28.2**			**-3.4**	**0.6**	**2.8**	**2.8**	**3.0**	**3.4**		**3.8**	**3.3**	
Contribution from nominal interest rate	4.5	9.0	6.9			5.8	6.0	6.4	6.5	6.7	7.0		6.7	5.6	
Contribution from real GDP growth	3.5	21.8	-6.5			-9.2	-5.4	-3.6	-3.7	-3.8	-3.6		-2.9	-2.3	
Contribution from price and exchange rate changes	-0.8	-1.4	-28.5			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**1.3**	**-2.1**	**-2.1**			**-25.1**	**-18.2**	**-5.5**	**-5.2**	**-4.1**	**-5.2**		**-7.1**	**-4.5**	
o/w exceptional financing	-8.6	-24.1	-18.7			-8.8	-5.6	-5.3	-5.2	-5.2	-5.7		-4.2	-3.5	
PV of external debt 5/	…	…	149.0			133.5	120.1	122.4	121.5	122.2	121.9		107.6	80.9	
In percent of exports	…	…	483.6			276.5	232.3	240.0	244.2	248.6	251.4		289.2	362.0	
PV of PPG external debt	**…**	**…**	**132.9**			**110.6**	**99.0**	**100.4**	**98.6**	**98.2**	**97.1**		**83.1**	**61.8**	
In percent of exports	**…**	**…**	**431.5**			**229.2**	**191.4**	**196.8**	**198.2**	**199.7**	**200.3**		**223.4**	**276.5**	
In percent of government revenues	**…**	**…**	**830.9**			**376.1**	**339.7**	**350.5**	**345.8**	**345.4**	**342.3**		**294.0**	**218.6**	
Debt service-to-exports ratio (in percent)	**24.0**	**37.0**	**33.1**			**16.2**	**16.6**	**14.9**	**14.6**	**14.4**	**15.9**		**15.7**	**20.1**	
PPG debt service-to-exports ratio (in percent)	**23.4**	**34.7**	**26.6**			**14.6**	**13.0**	**11.3**	**11.5**	**11.7**	**13.1**		**12.9**	**16.7**	
PPG debt service-to-revenue ratio (in percent)	**231.6**	**477.6**	**51.3**			**24.0**	**23.0**	**20.2**	**20.1**	**20.2**	**22.5**		**17.0**	**13.2**	
Total gross financing need (Billions of U.S. dollars)	0.8	1.7	2.2			2.6	2.6	2.7	2.6	2.8	3.1		4.0	6.5	
Non-interest current account deficit that stabilizes debt ratio	-7.3	-26.2	32.0			30.1	18.4	3.3	3.1	1.7	2.3		3.6	1.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-3.7	-17.7	6.0	-5.5	7.7	9.0	5.5	3.5	3.5	3.5	3.3	4.7	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	0.9	1.3	24.7	6.2	12.4	17.5	13.1	1.4	1.9	0.7	1.9	6.1	5.0	5.0	4.9
Effective interest rate (percent) 6/	4.7	7.3	6.3	4.7	1.3	5.7	6.1	6.2	6.1	6.3	6.5	6.1	6.9	7.3	6.9
Growth of exports of G&S (US dollar terms, in percent)	2.2	-8.4	-1.8	-3.3	6.5	100.6	27.8	3.5	2.9	3.0	3.7	23.6	2.1	3.3	2.6
Growth of imports of G&S (US dollar terms, in percent)	-3.8	22.4	21.8	5.2	10.2	59.2	12.6	-1.3	-2.9	2.6	2.5	12.1	1.1	2.2	1.6
Grant element of new public sector borrowing (in percent)	…	…	…	…	…	…	18.0	…	…	…	…	18.0	…	…	…
Government revenues (excluding grants, in percent of GDP)	3.8	3.0	16.0			29.4	29.1	28.6	28.5	28.4	28.4		28.3	28.3	28.3
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	…	…	…			0.0	0.8	0.6	0.0	0.0	0.0		0.0	0.0	…
Grant-equivalent financing (in percent of external financing) 8/	…	…	…			…	18.6	…	…	…	…		…	…	…
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.3	4.4	5.8			7.5	8.9	9.4	9.9	10.3	10.8		15.8	34.5	
Nominal dollar GDP growth	-2.8	-16.6	32.2			28.1	19.3	5.0	5.5	4.3	5.3	11.2	8.1	8.1	8.0
PV of PPG external debt (in Billions of US dollars)			7.8			8.3	8.8	9.4	9.7	10.1	10.5		13.1	21.3	
(PVt-PVt-1)/GDPt-1 (in percent)						8.7	7.5	6.4	3.6	3.8	3.9		4.0	3.5	
Gross remittances (Billions of US dollars)	0.0	0.1	0.2			0.3	0.8	0.8	0.8	0.9	0.9		0.9	0.9	
PV of PPG external debt (in percent of GDP + remittances)	…	…	128.6			106.9	91.0	92.4	90.9	90.6	89.6		78.6	60.2	
PV of PPG external debt (in percent of exports + remittances)	…	…	388.6			213.6	163.6	168.2	169.3	170.5	170.9		193.6	247.6	
Debt service of PPG external debt (in percent of exports + remittances)	…	…	24.0			13.6	11.1	9.7	9.8	10.0	11.2		11.2	14.9	

Sources: Country authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability. Data on external debt was estimated based on information from the authorities, Paris Club, WB, and EIB.
2/ External private debt, and public and publicly guaranteed debt.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ Residuals are accounted for by the following factors: (i) portfolio and equity investment, (ii) capital transfers, and (iii) errors and omissions. Exceptional financing consists primarily of the accumulation of arrears.
From 2010 onwards, residuals include contributions to price and exchange rate changes.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief coursed through the central government budget. Except for very small amounts, all grants to Zimbabwe from 2010 onwards are assumed to be off-budget grants.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2 Zimbabwe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2007	2008	2009	Average 6/	Standard Deviation	2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	95.7	142.9	123.4			103.8	95.4	97.6	96.5	96.6	95.9		82.6	63.5	
o/w foreign-currency denominated	95.7	142.9	123.4			103.8	95.4	97.6	96.5	96.6	95.9		82.6	63.5	
Change in public sector debt	8.0	47.3	-19.5			-19.5	-8.4	2.2	-1.1	0.1	-0.7		-2.6	-1.5	
Identified debt-creating flows	6.5	26.8	-29.6			-22.5	-8.6	2.4	-0.9	0.4	-0.4		-2.0	-1.2	
Primary deficit	-0.3	-0.3	-0.5	0.1	2.0	0.0	4.1	2.5	-0.3	-0.3	-0.4	0.9	-0.1	0.0	-0.2
Revenue and grants	3.8	3.0	16.7			29.4	29.2	28.7	28.6	28.5	28.4		28.3	28.3	
of which: grants	0.0	0.0	0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	3.5	2.7	16.2			29.4	33.2	31.1	28.2	28.1	28.0		28.2	28.3	
Automatic debt dynamics	6.8	27.1	-29.1			-22.5	-12.7	-0.1	-0.6	0.7	0.0		-2.0	-1.2	
Contribution from interest rate/growth differential	6.8	27.1	-29.1			-22.5	-12.7	-0.1	-0.6	0.7	0.0		-2.0	-1.2	
of which: contribution from average real interest rate	3.4	6.6	-21.0			-12.3	-7.3	3.1	2.7	4.0	3.1		0.5	0.7	
of which: contribution from real GDP growth	3.3	20.5	-8.1			-10.2	-5.4	-3.2	-3.3	-3.3	-3.1		-2.5	-1.9	
Contribution from real exchange rate depreciation	0.0	0.0	0.0			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 2/	1.5	20.5	10.1			3.0	0.2	-0.2	-0.2	-0.2	-0.2		-0.6	-0.2	
Other Sustainability Indicators															
PV of public sector debt	0.0	9.9	142.2			119.3	107.6	108.6	106.4	105.7	104.2		87.5	63.8	
o/w foreign-currency denominated	0.0	9.9	142.2			119.3	107.6	108.6	106.4	105.7	104.2		87.5	63.8	
o/w external	...	...	132.9			110.6	99.0	100.4	98.6	98.2	97.1		83.1	61.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	10.8	18.5	13.3			7.0	10.8	8.3	5.4	5.4	6.0		4.8	3.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	0.0	328.7	851.3			405.3	369.0	378.8	372.8	371.3	367.0		309.3	225.5	
PV of public sector debt-to-revenue ratio (in percent)	0.0	328.7	888.9			405.5	369.4	379.2	373.2	371.7	367.4		309.6	225.8	
o/w external 4/	...	...	830.9			376.1	339.7	350.5	345.8	345.4	342.3		294.0	218.6	
Debt service-to-revenue and grants ratio (in percent) 5/	232.9	478.4	49.5			24.0	23.0	20.2	20.0	20.2	22.4		17.0	13.2	
Debt service-to-revenue ratio (in percent) 5/	232.9	478.4	51.6			24.0	23.0	20.2	20.1	20.2	22.5		17.0	13.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-8.3	-47.6	19.0			19.5	12.5	0.3	0.8	-0.5	0.3		2.5	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-3.7	-17.7	6.0	-5.5	7.7	9.0	5.5	3.5	3.5	3.5	3.3	4.7	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	4.7	7.1	5.3	4.5	1.2	4.7	4.7	4.8	4.8	5.0	5.2	4.9	5.7	6.2	5.7
Average real interest rate on domestic debt (in percent)	...	...	-20.4	...	...	...	-11.6	-1.4	-1.8	-0.7	-1.8	...	-4.8	-4.8	...
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	1.3	24.7	6.2	12.4	17.5	13.1	1.4	1.9	0.7	1.9	6.1	5.0	5.0	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.6	-0.4	5.4	1.0	3.0	1.0	0.2	0.0	-0.1	0.0	0.0	0.2	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	18.0	16.6	...	...	...	...	...	...	...

Sources: Country authorities; and staff estimates and projections.

1/ Public and publicly guaranteed debt and residents' claims on the RBZ denominated in foreign currency. For 2007, excludes local-currency denominated debt of about 1 percent of GDP.

2/ Includes accumulation of arrears. The residuals for 2007-2008 in part reflect RBZ's quasi-fiscal activities. In 2010, the residual in part reflects use of the SDR allocation. Residuals also reflect the difference in coverage between the public debt stock (PPG) and the flow variables (central government only). State-owned enterprise (SOE) debt is included only if guaranteed by the government.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3 Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Estimate	Projections						
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	119	108	109	106	106	104	88	64
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	119	116	125	135	147	159	214	373
A2. Primary balance is unchanged from 2010	119	104	102	100	100	99	86	63
A3. Permanently lower GDP growth 1/	119	110	114	115	118	120	129	184
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2011-2012	119	137	177	187	198	208	233	271
B2. Primary balance is at historical average minus one standard deviation in 2011-2012	119	106	106	104	104	102	86	63
B3. Combination of B1-B2 using one half standard deviation shocks	119	122	138	144	153	160	177	204
B4. One-time 30 percent real depreciation in 2011	119	153	154	151	151	149	129	101
B5. 10 percent of GDP increase in other debt-creating flows in 2011	119	118	119	116	115	114	96	69
PV of Debt-to-Revenue Ratio 1/								
Baseline	405	369	379	373	371	367	309	226
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	405	397	436	472	517	561	756	1310
A2. Primary balance is unchanged from 2010	405	355	356	351	351	348	303	221
A3. Permanently lower GDP growth 1/	405	376	396	401	413	423	454	649
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2011-2012	405	469	618	653	696	733	824	958
B2. Primary balance is at historical average minus one standard deviation in 2011-2012	405	362	371	365	364	359	303	221
B3. Combination of B1-B2 using one half standard deviation shocks	405	417	481	506	537	563	626	721
B4. One-time 30 percent real depreciation in 2011	405	525	536	529	529	525	456	356
B5. 10 percent of GDP increase in other debt-creating flows in 2011	405	403	413	407	406	401	338	245
Debt Service-to-Revenue Ratio 1/ 2/								
Baseline	24	23	20	20	20	22	17	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	26	24	26	28	35	42	76
A2. Primary balance is unchanged from 2010	24	23	20	19	19	22	17	13
A3. Permanently lower GDP growth 1/	24	23	21	21	22	25	23	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2011-2012	24	28	30	32	34	39	38	57
B2. Primary balance is at historical average minus one standard deviation in 2011-2012	24	23	20	20	20	22	17	13
B3. Combination of B1-B2 using one half standard deviation shocks	24	27	26	26	27	32	30	41
B4. One-time 30 percent real depreciation in 2011	24	28	29	29	30	33	27	26
B5. 10 percent of GDP increase in other debt-creating flows in 2011	24	23	22	22	22	24	18	15

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 4 Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030

(In percent)

	Estimate	Projections						
	2010	2011	2012	2013	2014	2015	2020	2030
PV of debt-to GDP ratio								
Baseline	111	99	100	99	98	97	83	62
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	111	116	123	131	139	148	191	277
A2. New public sector loans on less favorable terms in 2010-2030 2	111	101	103	101	101	100	86	66
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	111	121	147	143	140	137	113	82
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	111	115	138	133	126	119	80	55
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	111	118	128	125	123	120	99	72
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	111	111	122	117	113	107	78	55
B5. Combination of B1-B4 using one-half standard deviation shocks	111	166	239	229	216	200	125	85
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	111	133	134	130	128	125	103	75
PV of debt-to-exports ratio								
Baseline	229	191	197	198	200	200	223	277
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	229	224	240	263	284	306	512	1239
A2. New public sector loans on less favorable terms in 2010-2030 2	229	194	202	203	205	206	232	294
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	229	190	193	192	192	190	204	247
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	229	316	441	435	418	399	349	402
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	229	190	193	192	192	190	204	247
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	229	215	238	235	229	221	210	247
B5. Combination of B1-B4 using one-half standard deviation shocks	229	333	465	456	434	408	332	374
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	229	190	193	192	192	190	204	247
PV of debt-to-revenue ratio								
Baseline	376	340	351	346	345	342	294	219
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	376	398	428	459	490	522	675	980
A2. New public sector loans on less favorable terms in 2010-2030 2	376	345	359	354	355	352	305	233
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	376	415	512	500	494	484	400	291
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	376	396	482	466	444	419	283	195
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	376	406	448	437	432	423	350	254
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	376	381	424	410	396	378	276	195
B5. Combination of B1-B4 using one-half standard deviation shocks	376	570	836	803	758	705	442	299
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	376	458	468	456	451	442	366	265

Table 4a Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030

(In percent)

	Estimate	Projections 7/						
	2010	2011	2012	2013	2014	2015	2020	2030
(In percent)								
Debt service-to-exports ratio								
Baseline	15	13	11	11	12	13	13	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	15	10	7	7	7	11	25	64
A2. New public sector loans on less favorable terms in 2010-2030 2	15	8	8	8	7	8	6	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	15	8	6	5	4	5	…	…
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	15	12	13	24	32	33	4	…
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	15	8	6	5	4	5	…	…
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	15	8	7	12	13	14	1	…
B5. Combination of B1-B4 using one-half standard deviation shocks	15	11	14	30	41	41	7	…
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	15	8	6	5	4	5	…	…
Debt service-to-revenue ratio								
Baseline	24	23	20	20	20	22	17	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	24	17	13	12	13	19	33	51
A2. New public sector loans on less favorable terms in 2010-2030 2	24	14	15	14	12	14	8	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	24	18	16	13	11	11	…	…
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	24	14	14	26	34	34	3	…
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	24	17	14	12	9	10	…	…
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	24	14	13	20	23	23	1	…
B5. Combination of B1-B4 using one-half standard deviation shocks	24	19	25	53	72	71	9	…
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	24	20	14	12	10	10	…	…
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-14	-14	-14	-14	-14	-14	-14	-14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
For real GDP growth, historical period covers only from 2005 onwards due to unavailability of reliable data prior to this period.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

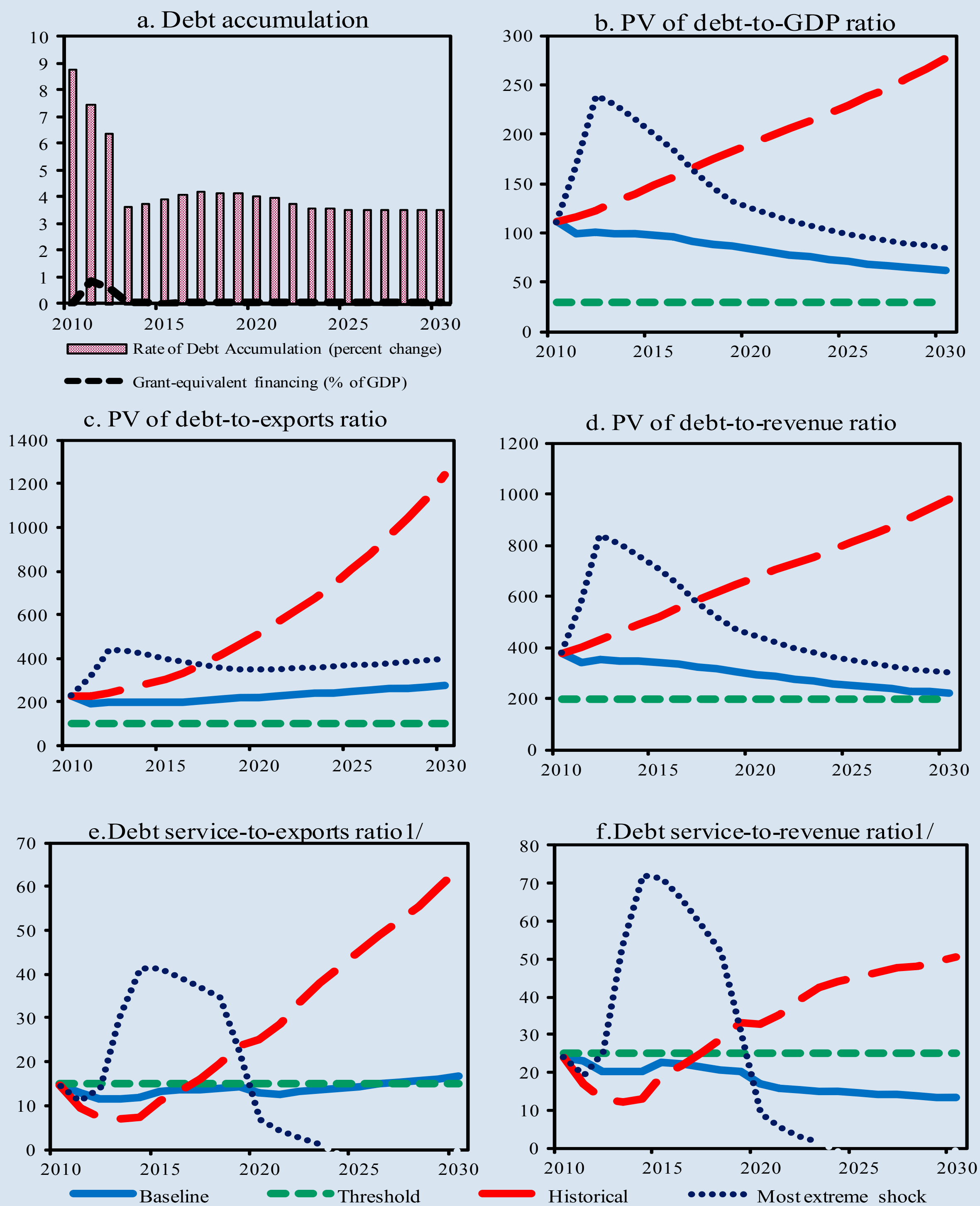
4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

7/ An ellipsis (" … ") indicates a negative value, as generated by the standard template. Negative values reflect the fact that debt service excludes arrears and principal on short-term debt, as well as interest and penalties on arrears in the alternative scenarios and bound tests.

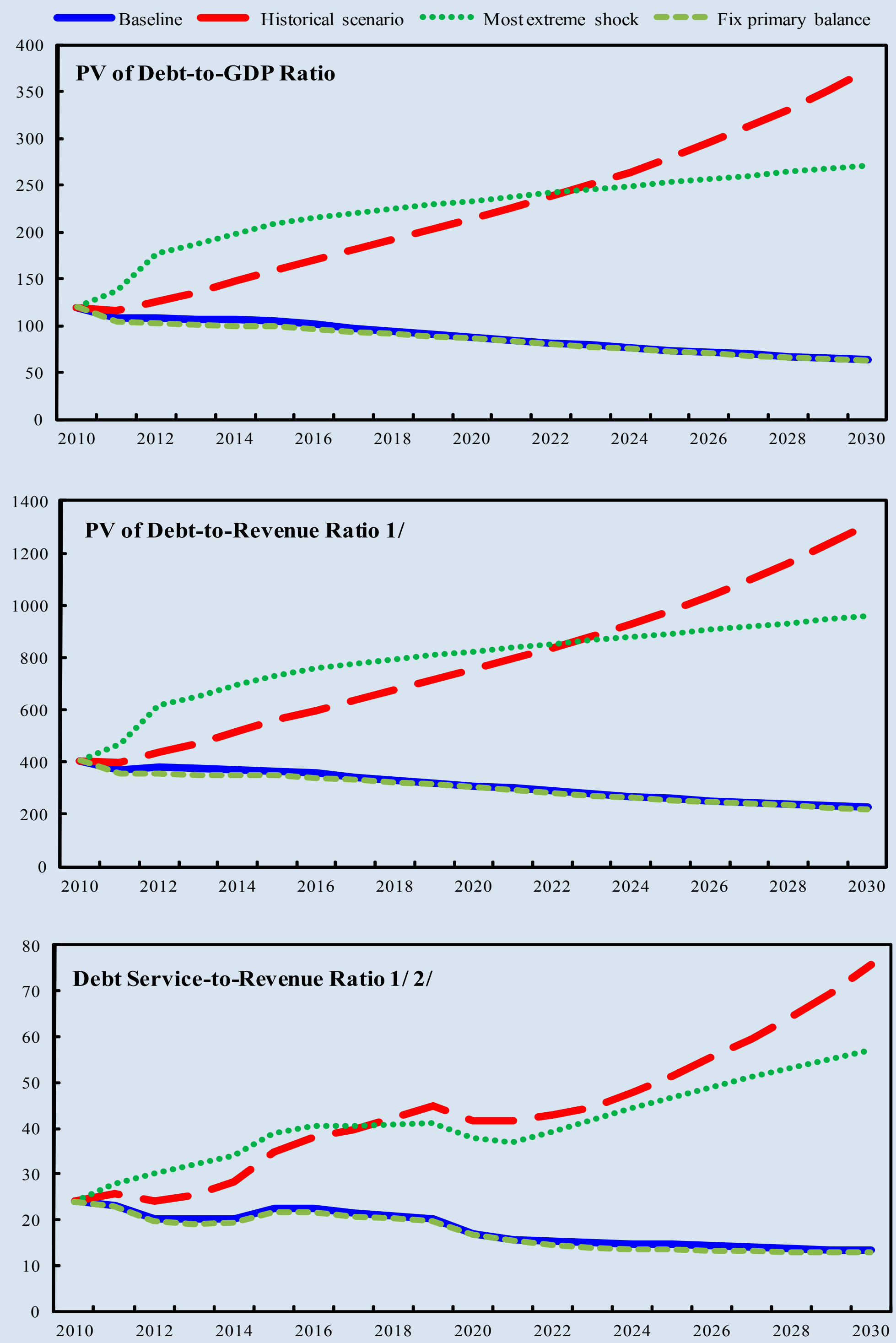
Figure 1 Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2010-2030



Sources: Country authorities; and staff estimates and projections.

1/ Based on the standard template. The baseline scenario excludes arrears and principal on short-term debt. The historical and most extreme shock scenarios exclude arrears and principal on short-term debt, as well as interest and penalties on arrears.

Figure 2 Zimbabwe: Indicators of Public Debt Under Alternative Scenarios, 2010-2030



Sources: Country authorities; and staff estimates and projections.
1/ Revenues are defined inclusive of grants.
2/ Excluding arrears.

Table 5 Zimbabwe: External Debt Sustainability Framework, Alternative Scenario, 2007–30 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
(1) External debt (nominal) 2/	**102.8**	**143.9**	**130.1**			**118.0**	**108.1**	**110.6**	**109.7**	**110.6**	**109.4**		**92.4**	**62.2**	
(2) o/w public and publicly guaranteed (PPG)	95.7	133.0	114.1			95.2	85.4	85.7	83.0	82.0	79.7		63.3	41.1	
(3) Change in external debt	10.1	41.2	-13.8			-12.1	-9.9	2.5	-0.9	0.9	-1.2		-3.6	-2.5	
(4) Identified net debt-creating flows	8.8	43.3	-11.7			13.0	8.6	8.3	5.0	4.3	3.3		3.3	1.6	
Non-interest current account deficit	**2.9**	**14.9**	**18.3**	**9.7**	**6.6**	**18.0**	**12.0**	**10.4**	**7.3**	**6.4**	**5.7**		**3.5**	**1.8**	3.1
Deficit in balance of goods and services	8.6	26.6	31.9			29.7	25.8	21.8	17.6	16.1	14.6		8.5	3.1	
Exports	37.8	41.5	30.8			48.3	53.6	53.7	53.2	53.8	54.2		47.6	36.0	
Imports	46.4	68.1	62.7			78.0	79.5	75.5	70.8	69.9	68.7		56.1	39.2	
Net current transfers (negative = inflow)	-8.3	-14.2	-15.1	-9.7	5.0	-13.0	-16.9	-14.3	-13.3	-12.7	-11.8		-7.4	-2.8	-6.0
o/w official	-6.4	-10.8	-10.3			-8.4	-5.9	-3.8	-3.1	-2.6	-2.1		-1.3	-0.5	
Other current account flows (negative = net inflow)	2.6	2.5	1.4			1.3	3.1	3.0	3.0	3.0	2.9		2.4	1.5	
Net FDI (negative = inflow)	**-1.2**	**-1.0**	**-1.8**	**-1.3**	**0.5**	**-1.6**	**-2.4**	**-2.4**	**-2.9**	**-2.9**	**-3.0**		**-2.7**	**-2.1**	-2.5
Endogenous debt dynamics 3/	**7.1**	**29.4**	**-28.2**			**-3.4**	**-1.0**	**0.3**	**0.6**	**0.8**	**0.6**		**2.4**	**2.0**	
Contribution from nominal interest rate	4.5	9.0	6.9			5.8	6.0	6.5	6.7	7.1	7.3		6.8	4.9	
Contribution from real GDP growth	3.5	21.8	-6.5			-9.2	-7.0	-6.2	-6.1	-6.2	-6.7		-4.4	-2.9	
Contribution from price and exchange rate changes	-0.8	-1.4	-28.5			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**1.3**	**-2.1**	**-2.1**			**-25.1**	**-18.5**	**-5.8**	**-5.9**	**-3.4**	**-4.5**		**-6.9**	**-4.2**	
o/w exceptional financing	-8.6	-24.1	-18.7			-8.8	-5.5	-5.1	-4.8	-4.7	-5.2		-3.4	-2.3	
PV of external debt 5/	…	…	149.0			133.5	120.0	120.5	117.7	117.7	115.6		95.6	62.1	
In percent of exports	…	…	483.6			276.5	223.8	224.2	221.2	218.7	213.3		200.9	172.2	
PV of PPG external debt	**…**	**…**	**132.9**			**110.6**	**97.4**	**95.6**	**91.0**	**89.0**	**85.8**		**66.5**	**41.0**	
In percent of exports	**…**	**…**	**431.5**			**229.2**	**181.6**	**177.9**	**171.0**	**165.4**	**158.4**		**139.7**	**113.7**	
In percent of government revenues	**…**	**…**	**830.9**			**376.1**	**327.6**	**320.4**	**305.4**	**298.5**	**288.7**		**224.2**	**138.2**	
Debt service-to-exports ratio (in percent)	**24.0**	**37.0**	**33.1**			**16.2**	**15.8**	**14.0**	**13.5**	**13.0**	**13.7**		**11.3**	**9.7**	
PPG debt service-to-exports ratio (in percent)	**23.4**	**34.7**	**26.6**			**14.6**	**12.4**	**10.5**	**10.3**	**10.2**	**10.9**		**8.8**	**7.4**	
PPG debt service-to-revenue ratio (in percent)	**231.6**	**477.6**	**51.3**			**24.0**	**22.3**	**18.9**	**18.4**	**18.3**	**19.9**		**14.1**	**9.0**	
Total gross financing need (Billions of U.S. dollars)	0.8	1.7	2.2			2.6	2.9	3.1	3.2	3.5	3.9		5.6	10.4	
Non-interest current account deficit that stabilizes debt ratio	-7.3	-26.2	32.0			30.1	21.9	8.0	8.2	5.4	6.9		7.2	4.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-3.7	-17.7	6.0	-5.5	7.7	9.0	7.2	6.2	6.0	6.0	6.5	6.8	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	0.9	1.3	24.7	6.2	12.4	17.5	13.1	1.4	2.0	0.1	1.4	5.9	5.0	5.0	4.8
Effective interest rate (percent) 6/	4.7	7.3	6.3	4.7	1.3	5.7	6.1	6.5	6.5	6.8	7.1	6.5	7.8	8.3	7.8
Growth of exports of G&S (US dollar terms, in percent)	2.2	-8.4	-1.8	-3.3	6.5	100.6	34.7	7.9	7.1	7.2	8.7	27.7	6.7	7.6	7.2
Growth of imports of G&S (US dollar terms, in percent)	-3.8	22.4	21.8	5.2	10.2	59.2	23.5	2.3	1.4	4.6	6.2	16.2	5.4	6.9	6.1
Grant element of new public sector borrowing (in percent)	…	…	…	…	…	…	18.0	…	…	…	…	18.0	…	…	…
Government revenues (excluding grants, in percent of GDP)	3.8	3.0	16.0			29.4	29.7	29.8	29.8	29.8	29.7		29.7	29.7	29.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	…	…	…			0.0	0.8	0.6	0.0	0.0	0.0		0.0	0.0	…
Grant-equivalent financing (in percent of external financing) 8/	…	…	…			…	18.6	…	…	…	…		…	…	…
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.3	4.4	5.8			7.5	9.1	9.8	10.5	11.2	12.1		19.5	51.7	
Nominal dollar GDP growth	-2.8	-16.6	32.2			28.1	21.2	7.7	8.1	6.1	8.0	13.2	10.2	10.2	10.2
PV of PPG external debt (in Billions of US dollars)			7.8			8.3	8.8	9.3	9.6	10.0	10.4		12.9	21.2	
(PVt-PVt-1)/GDPt-1 (in percent)						8.7	7.4	5.6	2.8	3.4	3.6		3.3	2.4	
Gross remittances (Billions of US dollars)	0.0	0.1	0.2			0.3	0.9	0.9	0.9	1.0	1.0		1.0	1.0	
PV of PPG external debt (in percent of GDP + remittances)	…	…	128.6			106.9	88.7	87.4	83.5	81.9	79.2		63.2	40.2	
PV of PPG external debt (in percent of exports + remittances)	…	…	388.6			213.6	153.7	151.5	146.3	142.2	137.1		125.9	107.8	
Debt service of PPG external debt (in percent of exports + remittances)	…	…	24.0			13.6	10.5	8.9	8.8	8.7	9.5		7.9	7.0	

Sources: Country authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability. Data on external debt was estimated based on information from the authorities, Paris Club, WB, and EIB.

2/ External private debt, and public and publicly guaranteed debt.

3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

4/ Residuals are accounted for by the following factors: (i) portfolio and equity investment, (ii) capital transfers, and (iii) errors and omissions. Exceptional financing consists primarily of the accumulation of arrears. From 2010 onwards, residuals include contributions to price and exchange rate changes.

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

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

7/ Defined as grants, concessional loans, and debt relief coursed through the central government budget. Except for very small amounts, all grants to Zimbabwe from 2010 onwards are assumed to be off-budget grants.

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

Table 6 Zimbabwe: Public Sector Debt Sustainability Framework, Alternative Scenario, 2007–30 1/

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2007	2008	2009	Average 6/	Standard Deviation	2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	95.7	142.9	123.4			103.8	92.5	92.3	89.1	87.7	85.0		66.2	42.2	
o/w foreign-currency denominated	95.7	142.9	123.4			103.8	92.5	92.3	89.1	87.7	85.0		66.2	42.2	
Change in public sector debt	8.0	47.3	-19.5			-19.5	-11.3	-0.2	-3.2	-1.4	-2.7		-3.4	-1.8	
Identified debt-creating flows	6.5	26.8	-29.6			-22.5	-11.5	-0.7	-3.5	-1.7	-3.0		-2.6	-1.5	
Primary deficit	-0.3	-0.3	-0.5	0.1	2.0	0.0	2.6	1.7	-1.0	-1.0	-1.0	0.2	0.0	0.0	-0.2
Revenue and grants	3.8	3.0	16.7			29.4	29.8	29.9	29.8	29.9	29.8		29.7	29.7	
of which: grants	0.0	0.0	0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	3.5	2.7	16.2			29.4	32.4	31.5	28.9	28.8	28.8		29.6	29.7	
Automatic debt dynamics	6.8	27.1	-29.1			-22.5	-14.1	-2.3	-2.6	-0.6	-2.0		-2.6	-1.5	
Contribution from interest rate/growth differential	6.8	27.1	-29.1			-22.5	-14.1	-2.3	-2.6	-0.6	-2.0		-2.6	-1.5	
of which: contribution from average real interest rate	3.4	6.6	-21.0			-12.3	-7.1	3.1	2.6	4.4	3.4		0.7	0.6	
of which: contribution from real GDP growth	3.3	20.5	-8.1			-10.2	-7.0	-5.4	-5.2	-5.0	-5.4		-3.3	-2.1	
Contribution from real exchange rate depreciation	0.0	0.0	0.0			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 2/	1.5	20.5	10.1			3.0	0.2	0.4	0.3	0.3	0.2		-0.7	-0.3	
Other Sustainability Indicators															
PV of public sector debt	0.0	9.9	142.2			119.3	104.5	102.2	97.2	94.8	91.2		69.4	42.1	
o/w foreign-currency denominated	0.0	9.9	142.2			119.3	104.5	102.2	97.2	94.8	91.2		69.4	42.1	
o/w external	...	...	132.9			110.6	97.4	95.6	91.0	89.0	85.8		66.5	41.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	10.8	18.5	13.3			7.0	9.2	7.3	4.5	4.4	4.9		4.1	2.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	0.0	328.7	851.3			405.3	351.1	342.2	325.6	317.5	306.4		233.8	141.7	
PV of public sector debt-to-revenue ratio (in percent)	0.0	328.7	888.9			405.5	351.5	342.5	325.9	317.8	306.6		234.1	141.9	
o/w external 4/	...	...	830.9			376.1	327.6	320.4	305.4	298.5	288.7		224.2	138.2	
Debt service-to-revenue and grants ratio (in percent) 5/	232.9	478.4	49.5			24.0	22.3	18.9	18.4	18.3	19.9		14.0	8.9	
Debt service-to-revenue ratio (in percent) 5/	232.9	478.4	51.6			24.0	22.3	18.9	18.4	18.3	19.9		14.1	9.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-8.3	-47.6	19.0			19.5	13.9	1.9	2.3	0.3	1.7		3.3	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-3.7	-17.7	6.0	-5.5	7.7	9.0	7.2	6.2	6.0	6.0	6.5	6.8	5.0	5.0	5.1
Average nominal interest rate on forex debt (in percent)	4.7	7.1	5.3	4.5	1.2	4.7	4.8	5.0	5.1	5.3	5.5	5.1	6.2	6.6	6.1
Average real interest rate on domestic debt (in percent)	...	...	-20.4	...	...	...	-11.6	-1.4	-2.0	-0.1	-1.3	...	-4.8	-4.8	...
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	1.3	24.7	6.2	12.4	17.5	13.1	1.4	2.0	0.1	1.4	5.9	5.0	5.0	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.6	-0.4	5.4	1.0	3.0	1.0	0.2	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	18.0	16.6	...	...	...	...	...	...	...

Sources: Country authorities; and staff estimates and projections.

1/ Public and publicly guaranteed debt and residents' claims on the RBZ denominated in foreign currency. For 2007, excludes local-currency denominated debt of about 1 percent of GDP.

2/ Includes accumulation of arrears. The residuals for 2007-2008 in part reflect RBZ's quasi-fiscal activities. In 2010, the residual in part reflects use of the SDR allocation. Residuals also reflect the difference in coverage between the public debt stock (PPG) and the flow variables (central government only). State-owned enterprise (SOE) debt is included only if guaranteed by the government.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 7 Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt, (Alternative Scenario) 2010–2030

	Estimate	Projections						
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	119	104	102	97	95	91	69	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	119	116	125	135	149	164	224	391
A2. Primary balance is unchanged from 2010	119	102	98	94	93	90	71	43
A3. Permanently lower GDP growth 1/	119	107	107	105	106	106	106	146
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	119	136	178	184	195	203	222	247
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	119	104	102	97	95	91	69	42
B3. Combination of B1-B2 using one half standard deviation shocks	119	122	138	143	151	156	170	188
B4. One-time 30 percent real depreciation in 2011	119	149	145	139	136	131	104	68
B5. 10 percent of GDP increase in other debt-creating flows in 2011	119	114	112	106	104	100	76	46
PV of Debt-to-Revenue Ratio 1/								
Baseline	405	351	342	326	318	306	234	142
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	405	389	419	452	500	550	753	1306
A2. Primary balance is unchanged from 2010	405	342	328	315	311	303	241	145
A3. Permanently lower GDP growth 1/	405	358	358	351	354	356	357	490
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	405	457	594	617	654	682	746	830
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	405	350	342	326	318	307	234	142
B3. Combination of B1-B2 using one half standard deviation shocks	405	408	462	478	505	526	572	634
B4. One-time 30 percent real depreciation in 2011	405	502	486	464	455	441	349	228
B5. 10 percent of GDP increase in other debt-creating flows in 2011	405	385	375	357	348	336	256	154
Debt Service-to-Revenue Ratio 1/ 2/								
Baseline	24	22	19	18	18	20	14	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	25	24	25	29	36	45	84
A2. Primary balance is unchanged from 2010	24	22	19	18	18	20	14	9
A3. Permanently lower GDP growth 1/	24	23	20	19	20	22	19	25
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	24	28	30	31	33	37	35	48
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	24	22	19	18	18	20	14	9
B3. Combination of B1-B2 using one half standard deviation shocks	24	26	26	25	26	30	28	36
B4. One-time 30 percent real depreciation in 2011	24	27	27	27	27	30	22	17
B5. 10 percent of GDP increase in other debt-creating flows in 2011	24	22	20	20	20	21	15	10

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 8 Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, (Alternative Scenario) 2010–2030

(In percent)

	Estimate	Projections						
	2010	2011	2012	2013	2014	2015	2020	2030
PV of debt-to GDP ratio								
Baseline	111	97	96	91	89	86	66	41
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	111	113	116	121	128	136	180	267
A2. New public sector loans on less favorable terms in 2010-2030 2	111	99	98	93	91	88	69	44
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	111	121	145	136	131	124	89	51
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	111	117	140	130	121	109	61	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	111	116	122	114	110	104	75	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	111	112	122	113	106	97	60	33
B5. Combination of B1-B4 using one-half standard deviation shocks	111	174	262	242	221	198	101	52
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	111	131	127	119	115	109	78	45
PV of debt-to-exports ratio								
Baseline	229	182	178	171	165	158	140	114
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	229	211	216	226	237	250	378	741
A2. New public sector loans on less favorable terms in 2010-2030 2	229	184	182	175	170	163	145	121
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	229	180	174	165	157	148	121	91
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	229	325	466	438	401	360	230	163
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	229	180	174	165	157	148	121	91
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	229	209	226	212	197	179	125	91
B5. Combination of B1-B4 using one-half standard deviation shocks	229	350	508	475	429	380	221	152
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	229	180	174	165	157	148	121	91
PV of debt-to-revenue ratio								
Baseline	376	328	320	305	299	289	224	138
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	376	380	388	404	428	456	607	901
A2. New public sector loans on less favorable terms in 2010-2030 2	376	333	328	313	307	297	233	147
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	376	407	487	458	440	418	301	172
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	376	392	470	438	405	368	207	111
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	376	391	408	383	369	351	252	144
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	376	377	408	379	355	327	201	111
B5. Combination of B1-B4 using one-half standard deviation shocks	376	587	877	813	743	665	341	177
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	376	442	426	401	385	366	264	150

Table 8a Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, (Alternative Scenario) 2010–2030 (continued)

(In percent)

	Estimate	Projections 7/						
	2010	2011	2012	2013	2014	2015	2020	2030
(In percent)								
Debt service-to-exports ratio								
Baseline	15	12	11	10	10	11	9	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	15	9	7	5	4	6	14	33
A2. New public sector loans on less favorable terms in 2010-2030 2	15	8	8	7	6	6	4	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	15	8	5	4	3	3	…	…
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	15	12	14	26	35	33	2	…
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	15	8	5	4	3	3	…	…
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	15	8	7	11	13	12	0	…
B5. Combination of B1-B4 using one-half standard deviation shocks	15	11	15	34	46	44	4	…
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	15	8	5	4	3	3	…	…
Debt service-to-revenue ratio								
Baseline	24	22	19	18	18	20	14	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	24	17	12	9	7	11	22	41
A2. New public sector loans on less favorable terms in 2010-2030 2	24	14	14	12	10	12	6	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	24	17	15	12	9	9	…	…
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	24	14	14	26	35	34	1	…
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	24	17	13	10	8	8	…	…
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	24	14	13	20	24	23	…	…
B5. Combination of B1-B4 using one-half standard deviation shocks	24	19	26	59	80	77	7	…
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	24	19	13	11	8	8	…	…
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-14	-14	-14	-14	-14	-14	-14	-14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
For real GDP growth, historical period covers only from 2005 onwards due to unavailability of reliable data prior to this period.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

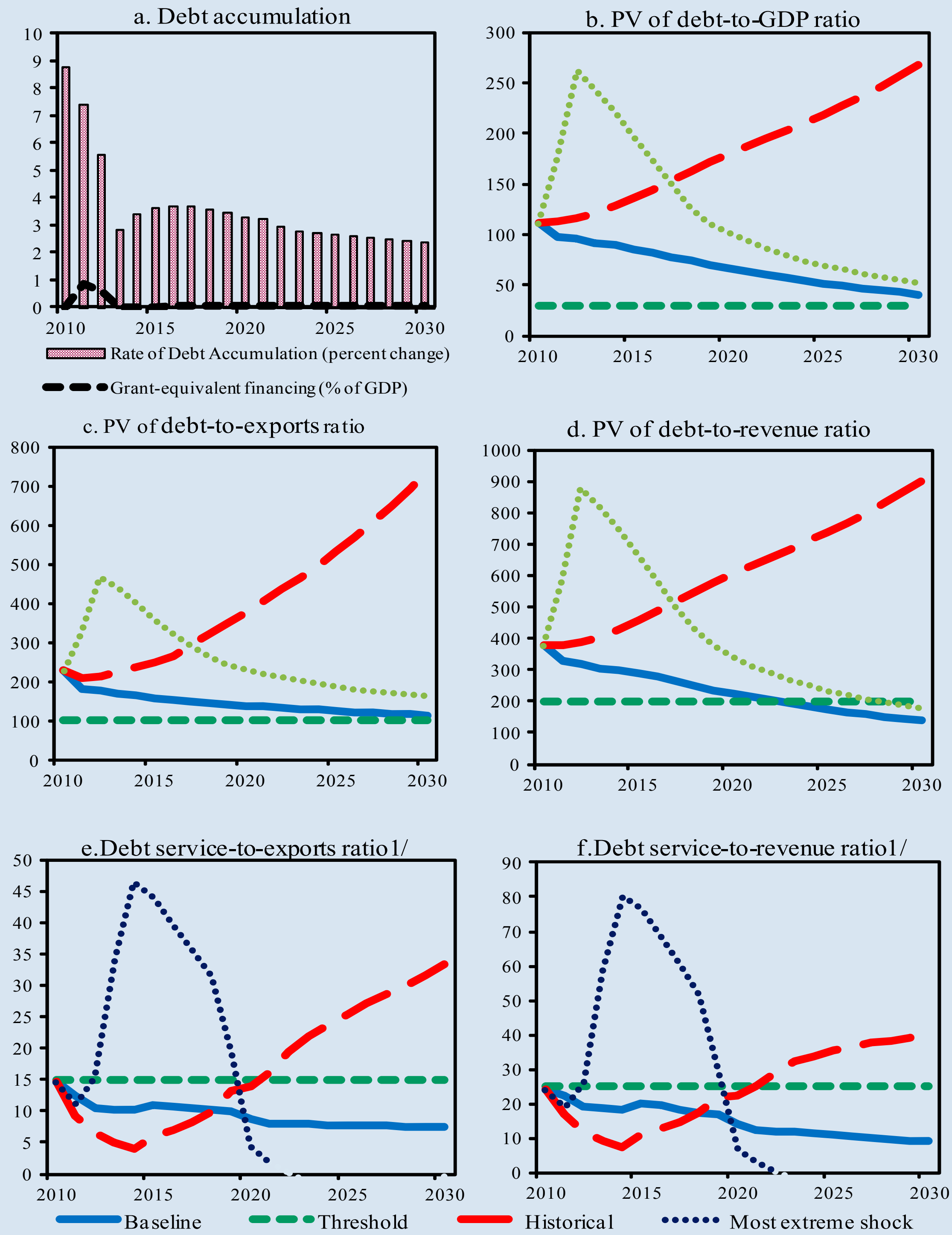
4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

7/ An ellipsis ("…") indicates a negative value, as generated by the standard template. Negative values reflect the fact that debt service excludes arrears and principal on short-term debt, as well as interest and penalties on arrears in the alternative scenarios and bound tests.

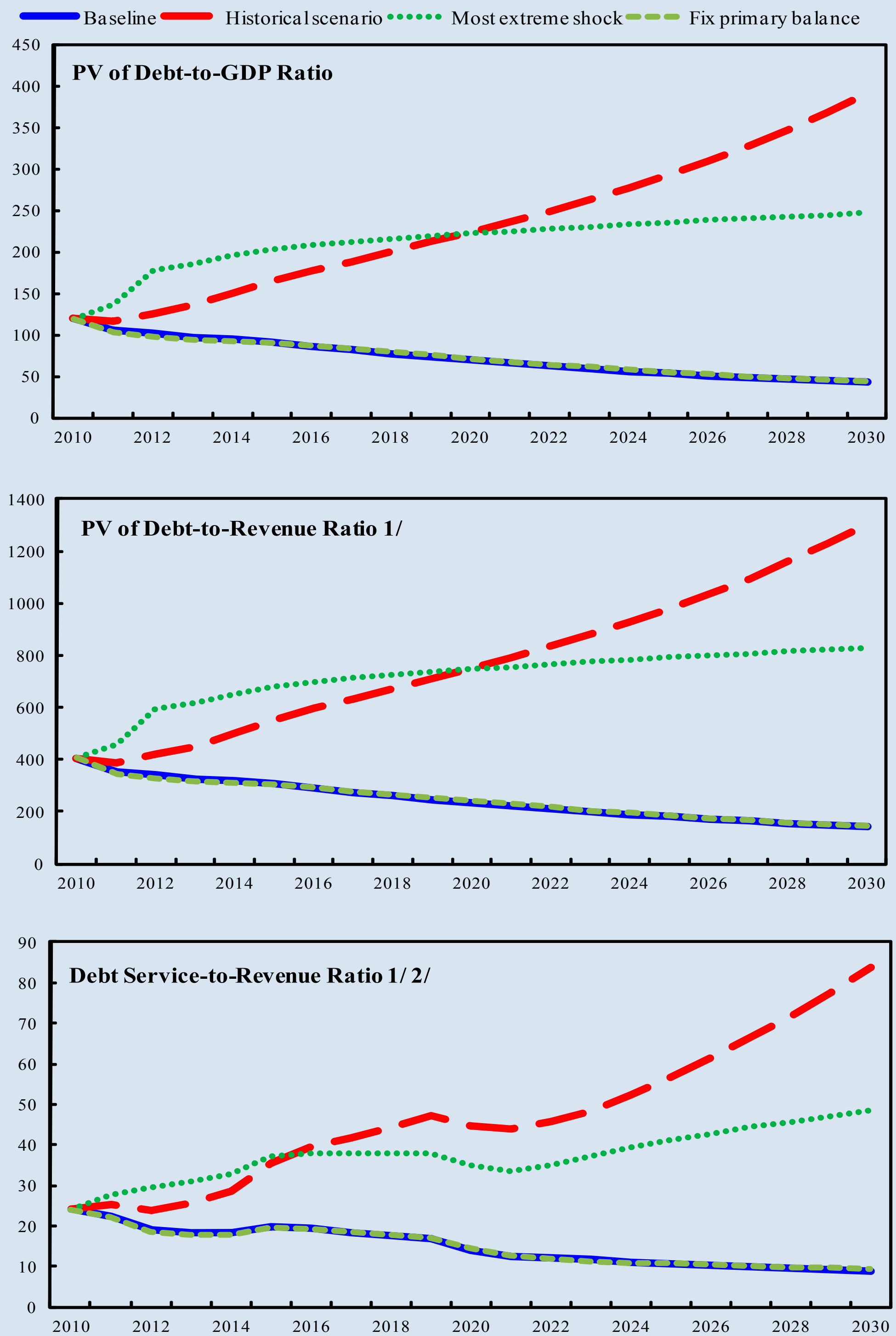
Figure 3 Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2010-2030



Sources: Country authorities; and staff estimates and projections.

1/ Based on the standard template. The baseline scenario excludes arrears and principal on short-term debt. The historical and most extreme shock scenarios exclude arrears and principal on short-term debt, as well as interest and penalties on arrears.

Figure 4 Zimbabwe: Indicators of Public Debt under Alternative Scenarios, 2010-2030



Sources: Country authorities; and staff estimates and projections.
1/ Revenues are defined inclusive of grants.
2/ Excluding arrears.

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IMF Executive Board Concludes 2011 Article IV Consultation with Zimbabwe

On June 1, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Zimbabwe.[1]

Background

Stronger policies and a favorable external environment supported a nascent economic recovery during 2009–10. Real GDP growth accelerated from 6 percent in 2009 to 9 percent in 2010, and officially reported 12-month consumer price index (CPI) in U.S. dollar terms remained contained at 3 percent in December 2010. However, economic growth started from a low base and was concentrated on primary commodity sectors in mining and agriculture, both of which are sensitive to exogenous shocks. Structural impediments weighed heavily on manufacturing and utilities, which used to be the locomotives of growth and employment creation.

The humanitarian situation further improved in 2010. The burgeoning economic recovery, good harvest, donor off-budget support (9 percent of GDP), and increased provision of government services halted the deterioration of human development indicators.

Despite a favorable external environment, the external position remained precarious in 2010. Historically high commodity prices, the resumption in official diamond trade, a significant appreciation of the rand, and capital inflows eased somewhat balance of payments pressures in 2010. However, the current account deficit (23 percent of GDP in 2010) was large and financed in part by short-term capital flows, and the country's usable international reserves amounted to 0.4 months of imports at end-2010. Zimbabwe is in debt distress with a large and unsustainable external debt stock (118 percent of GDP at end-2010), the bulk of which is in arrears (80 percent of GDP at end-2010).

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[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

After generating a small cash fiscal surplus in 2009, the central government had a cash deficit of about 0.4 percent of GDP in 2010. Commendable improvements in tax policy and administration have helped generate increases in fiscal revenues from 3 percent of GDP in 2008 to 29 percent in 2010. However, large employment costs (14.2 percent of GDP or 48 percent of revenues in 2010), the continued financing of weakly supervised state-owned enterprises and challenges in public financial management undermined the quality of expenditures and competitiveness.

The financial sector has grown significantly, but its vulnerabilities have recently increased. The multicurrency system helped jumpstart intermediation with the size of the banking system surpassing the prehyperinflation levels. With the appointment of a Reserve Bank of Zimbabwe (RBZ) governing board in May 2010, the RBZ has strengthened reporting and accounting and has completed staff downsizing. However, the RBZ has not published audited financial statements since 2008, its financial restructuring is at an early stage, and the status of nonperforming liabilities and severance packages remains unclear. Despite a notable strengthening of macroeconomic performance, vulnerabilities in the banking system have recently intensified, in part because of weak enforcement of prudential regulations.

Under the *unchanged policies scenario*, growth will most likely decelerate in 2011. An inefficient composition of expenditure, rising vulnerabilities in the financial system, and the recent announcement of the fast-track indigenization of the mining sector would be a drag on the recovery and cause growth to decelerate to 5.5 percent**.** Addressing these policy challenges in a timely manner could result in better growth outcomes for 2011. Key downside risks include possible political instability and a fall in commodity prices.

Executive Board Assessment

Executive Directors welcomed the continuation of Zimbabwe's economic recovery and the improvement in humanitarian conditions. However, the recovery remains fragile and enormous challenges persist. Directors urged the authorities to take advantage of the favorable external environment and continued technical assistance to strengthen their macroeconomic framework, start rebuilding international reserves, and implement key structural reforms.

Directors concurred that the main fiscal challenge is to create space to tackle pressing social and infrastructure needs and to increase economic resilience to shocks. In the short term, it is important to return to cash budgeting and implement strong expenditure measures, including elimination of ghost workers, aimed at closing the likely financing gap. Over the medium term, generating fiscal surpluses would help raise international reserves and increase resilience to shocks. To meet these challenges, Directors highlighted the need for reducing the wage bill relative to revenues, tightening the budget constraint on state-owned enterprises, and implementing public finance management reforms.

Directors expressed concern about rising vulnerabilities in the banking system. Priorities are the restructuring of the financially distressed Reserve Bank of Zimbabwe (RBZ) to which banks are exposed, and strengthening of prudential regulations and their enforcement to contain liquidity, solvency, and credit risks. These steps will help mitigate financial sector vulnerabilities and ensure the medium-term viability of the multicurrency system. A number of Directors cautioned against using the SDR allocation for addressing the claims of downsized RBZ staff.

Directors underscored that improving the business climate is necessary for strengthening competitiveness and boosting growth potential. They emphasized the importance of aligning indigenization and empowerment objectives with respect for property rights. To attract private investment, Directors stressed the need to maintain the rule of law, ensure security of land tenure, improve governance, particularly in the diamond sector, and increase the flexibility of the labor market.

Directors noted that Zimbabwe is in debt distress. They welcomed the authorities' strategy for arrears clearance and re-engagement with the international community. Directors urged the authorities to refrain from further nonconcessional borrowing and to seek better terms for recently contracted debt. Achieving external sustainability will also require a significant strengthening in policies and debt relief within a comprehensive arrears clearance framework. In this context, Directors welcomed the authorities' commitment to make regular quarterly payments to the PRGT and increasing payments over time as the country's payment capacity increases.

Directors agreed that a Staff Monitored Program (SMP) would help establish a track record of sound policies. They encouraged the authorities to continue timely data reporting and to take concrete steps toward elimination of ghost workers which would demonstrate their capacity and commitment to implement an SMP. In light of recent policy challenges, clear progress on closing the fiscal financing gap for 2011 and addressing liquidity issues in the banking system would also be important to move toward an SMP. A few Directors considered that an early agreement on an SMP would support the authorities' policy efforts.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Zimbabwe: Selected Economic Indicators, 2009–11

	Estimated		Projected
	2009	2010	2011
Real GDP growth (annual percent change) 1/	6.0	9.0	5.5
Nominal GDP (US$ millions)	5,836	7,474	8,916
GDP deflator (annual percent change) 1/	24.7	17.5	13.1
Inflation (annual percent change)			
Consumer price inflation (annual average) 2/	6.5	3.0	4.8
Consumer price inflation (end-of-period) 2/	-7.7	3.2	7.1
Central government (percent of GDP, measured in US$)			
Revenue and grants	16.7	29.4	29.2
Expenditure and net lending	19.6	32.1	35.7
Of which: cash expenditure and net lending	15.7	29.8	33.1
Of which: employment costs	8.9	14.2	17.3
Overall balance (including quasi-fiscal activity) 3/	-3.3	-2.9	-6.5
Primary balance (including quasi-fiscal activity) 3/	0.1	-0.1	-4.1
Cash balance	1.0	-0.4	-3.9
Money and credit (US$ millions) 4/			
Broad money (M3)	1,322	2,222	2,667
Net foreign assets	-295	-151	-182
Net domestic assets	1,618	2,374	2,849
Domestic credit	649	1,577	1,992
Of which: credit to the private sector	684	1,665	2,080
Reserve money	125	256	251
Velocity (M3)	4.4	3.4	3.3
External trade (US$ millions; annual percent change)			
Merchandise exports	-2.8	109.4	28.5
Merchandise imports	22.2	60.6	14.0
Balance of payments (US$ millions; unless otherwise indicated)			
Merchandise exports 5/	1,616	3,382	4,346
Merchandise imports 5/	-3,213	-5,162	-5,882
Current account balance (excluding official transfers)	-1,426	-1,735	-1,203
(percent of GDP)	-24.4	-23.2	-13.5
Overall balance	96	-649	-516
Official reserves (end-of-period)			
Gross international reserves (US$ millions) 6/	437	453	442
Usable international reserves (US$ millions) 7/	312	197	191
(months of imports of goods and services)	1.0	0.4	0.3
Debt (end-of-period)			
Total external debt (US$ millions) 8/	7,595	8,823	9,624
(percent of GDP)	130.1	118.0	107.9
Total external arrears (US$ millions) 8/	5,289	5,950	6,452
(percent of GDP)	90.6	79.6	72.4

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ In constant 2009 prices. Discrepancies in estimates between IMF staff and the Zimbabwean authorities partly reflect differences in methodology in computing sectoral contributions to growth.

2/ For 2008, annual average January–September 2008, and end-of-period September 2008.

3/ Quasi-fiscal activity includes subsidies provided by the central bank to the public sector and producers/exporters.

4/ Zimbabwe dollar values converted into U.S. dollars at the UN exchange rate at end-2008.

5/ Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.

6/ Excluding encumbered deposits and securities.

7/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.

8/ Includes arrears and amounts for unidentified financing.

Statement by Mr. Majoro on Zimbabwe
June 1, 2011

My Zimbabwean authorities welcome the staff report and are generally agreeable with the staff analysis. Zimbabwe has come a long way in improving its relations with the Fund and in implementing policies in line with Fund's advice in spite of the enormous challenges. The most critical of these challenges is building political consensus for implementing corrective policies which has already begun. In this sense, while acknowledging that much still needs to be done, my authorities feel that the Fund should be more accommodative in handling the request for a Staff Monitored Program (SMP) which would provide a good environment for continued implementation of strong policies and the much desired structural reforms. They will also appreciate Fund's consideration for a debt relief within a comprehensive arrears clearance framework supported by donors.

Economic Performance

Compared to the hyperinflation era, economic growth has resumed in Zimbabwe, particularly during 2009-2010. Real GDP growth increased from 6 percent in 2009 to 9 percent in 2010 due largely to improved policies, a favorable external environment, and sizeable off-budget donor grants. The growth was driven largely by mining and the agricultural sectors which are quite vulnerable to external shocks. Nascent as it may look, it is a demonstration that with good policies occasioned by strong political consensus, macroeconomic outcomes could improve. The commitment of our authorities to this, particularly in addressing the structural impediments weighing on manufacturing and utilities, is not in doubt although it may take a little while. Inflation is still within single digits while the fiscal space has expanded due to improvements in tax policy and administration. The financial sector is growing but highly vulnerable while the rapid recovery in primary commodity exports has helped to dampen the precarious external position.

Outlook

Staff analysis points to the fact that growth in 2011 would decelerate to 5.5 percent if there is no change in policy stance. However, given the commitment of the authorities to implement staff recommendations in a timely manner, buoyed by favorable external conditions, the growth momentum of 2010 might be sustained in 2011. Going forward, growth could be seriously hampered by lack of clear plans for elections to ensure political stability. In this regard, speedy conclusion of the current negotiations for an election roadmap is receiving due attention. We wish to reiterate our authorities' view that lack of access to concessional official financing constitute binding constraints to medium-term growth.

Fiscal Policy

The major challenge before my Zimbabwean authorities is creating fiscal space including rebuilding fiscal buffers and, in particular, generating fiscal surpluses and accumulating international reserves. This is expected to be achieved through a combination of improved tax policy and administration as well as better expenditure quality. On the revenue side, some improvements in tax policy and administration in recent years have led to large increases in fiscal revenue, and the commitment of the authorities to further improvement is underscored by the request for technical assistance (TA) on revenue and tax reforms for June 2011. The authorities are also taking steps to improve expenditure quality as recommended by staff, including through allocation of resources and improvement in public financial management to reduce the accumulated domestic arrears. Already, a request for TA in public financial Management (PFM) has been made to the Fund. In all, the authorities are confident that the revenue targets for 2011 would be met in the absence of deterioration in the political situation.

Financial Sector

The multi-currency system has served Zimbabwe well since its introduction in February, 2009, and the authorities have indicated intention to announce its extension by end-2011. The authorities are also committed to addressing the vulnerabilities in the financial system. The success recorded within the short period the Board of the Reserve Bank of Zimbabwe (RBZ) has existed, the remaining challenges notwithstanding, is a good indication. Financial restructuring of the RBZ has commenced, even though it will take a while to complete. As indicated in the staff report, the authorities remain highly committed to building internal consensus on the speedy resolution of financial distress at the RBZ. The RBZ and the Ministry of Finance (MoF) are looking into other areas of financial sector restructuring raised by staff, particularly, striking a balance between financial stability concerns and credit growth resumption, just as the authorities have constantly indicated their readiness to remain vigilant in monitoring vulnerable institutions.

Structural Reforms

Zimbabwe structural adjustment policies are anchored in the Three Year Macro-Economic Policy and Budget Framework 2010 – 2012 (STERP II) which is being implemented. In addition, the authorities are intensifying efforts to address constraints posed by rising labor costs and structural and governance issues. Empowerment of indigenous Zimbabweans through indigenization of business remains a key objective of government although reasonable flexibility is expected in its implementation, particularly in the mining sector. The authorities also regard improving governance of public enterprises and establishing transparency in the management of diamond revenues as important steps towards revamping the economy. To this end, a formal request for TA on anti-money laundering that will, among others, review the current draft Diamond Revenue Bill, perform diagnostic study of all legal instruments on precious metals, and examine the framework for SMEs in the mining sector, has been made to the Fund. While the authorities are favorably disposed to land reform, the commencement of land audit is being hampered by lack of funds and equipment for which the assistance of cooperating partners is being sought. Labor market reforms, though important, requires consensus building within government.

External Debt

Zimbabwe is in debt distress. As at end-2010, total external debt outstanding stood at US$8.8 billion (118 Percent of GDP) out of which US$5.95 billion or 67.4 percent are arrears. About US$1.69 billion (19 percent of total external debt) is obligations to international financial institutions, IFIs (World Bank, African Development Bank, the International Monetary Fund, and the European Investment Bank). The outstanding debt to the Fund is estimated at US$134 million, and all in arrears. The Zimbabwean authorities paid about US$ 4.05 million to the Fund in 2010 with commitment to make further scaled up payments over time. My authorities need help in this regard since, as indicated in the staff report, without debt relief within a comprehensive arrears clearance framework supported by donors, the external payment arrears cannot be resolved. Already, the public debt sustainability analysis (DSA), suggests that Zimbabwe's overall debt is unsustainable in light of the fiscal policy implementation and the current size and evolution of the debt stock.

Meanwhile, the Government has approved the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy. This is a program aimed at facilitating re-engagement with creditors on arrears clearance, new financing and comprehensive debt relief including debt reconciliation and validation.

Staff Monitored Program (SMP)

My Zimbabwean authorities regard a SMP as very critical to their economic restructuring and medium-term growth efforts. Of the two markers set by staff for the SMP, the authorities have met one (timely data reporting), and are committed to meeting the second (eliminating ghost workers). The concern raised by staff about the sustainability of reform and stabilization policies due to recent policy setbacks is being addressed. My authorities would appreciate favorable consideration by the Executive Board for a Staff Monitored Program.