



ZIMBABWE

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZIMBABWE

July 2014

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 2014 Article IV consultation with Zimbabwe, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 18, 2014, following discussions that ended on March 26, 2014, 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 29, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the views of the Executive Board as expressed during its June 18, 2014 consideration of the staff report that concluded the Article IV consultation with Zimbabwe
- A **Statement by the Executive Director** for Zimbabwe

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ZIMBABWE

STAFF REPORT FOR THE ARTICLE IV CONSULTATION

May 29, 2014

EXECUTIVE SUMMARY

Outlook. The economic rebound experienced since 2009 has ended, with economic growth decelerating in 2013. The external position is vulnerable, with a wide current account deficit, an overvalued exchange rate, and low international reserves. The baseline scenario is marked by sluggish growth in 2014 and over the medium term, with risks clearly to the downside in the near term. Key risks to the outlook include lower than programmed tax collections, policy slippages, financial sector stress, and global commodity prices. Zimbabwe faces these risks with very thin buffers.

Performance under the staff-monitored program (SMP). The SMP provided a useful anchor for Zimbabwe in an election year. However, progress in implementing the program was complicated by a long electoral process and a protracted post-election transition, as well as an adverse external environment. Thus, a number of quantitative targets and structural benchmarks were not met. Discussions on the first and second reviews are at an advanced stage.

Macroeconomic policies in the near term. The economic environment remains difficult, posing significant risks to the budget and to financial stability. Policy efforts should continue to aim to restore fiscal and external sustainability and reduce financial vulnerabilities.

Medium-term challenges. Zimbabwe faces serious medium-term challenges, and a vigorous reform program is needed to put the country on a sustainable, inclusive growth path. In particular, a fiscal strategy aimed at rebalancing the expenditure mix should be a priority—including to prevent the accumulation of domestic arrears. Significant financing is needed to address the infrastructure deficit and widespread poverty, as targeted under the government's own development plans. To attract much-needed FDI and access affordable financing, the authorities need to improve the business environment.

Resolving external payment arrears. Zimbabwe's debt situation remains a serious impediment to external sustainability and economic development. Addressing this issue will require a comprehensive arrears clearance framework underpinned by strong macro policies, in what will likely be a protracted process.

Approved By
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 and **Vivek Arora**

Discussions took place in Harare from March 12 to 26, 2014. The staff team comprised Mr. Cuevas (head), Ms. Morgan, Mr. Slavov (all AFR), Mr. Cipollone (SPR), and Ms. Mendez (FIN).

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BACKGROUND AND RECENT DEVELOPMENTS

- 1. The year 2013 was characterized by a protracted political season which reshaped the political landscape.** After long negotiations, in January 2013 the main political parties reached agreement on a new constitution, leading to a constitutional referendum in March and to national elections in July. The elections gave President Mugabe a new term and his ZANU-PF party a super-majority in Parliament. This change prompted a major reshuffle of key policy-makers, with a new cabinet announced only in September 2013. The new government has expressed a commitment to the policies and reforms in the staff-monitored program (SMP), which had been initiated under the previous government. The new government has also unveiled a development blueprint for the next five years, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET, see ¶ 46 for further details).
- 2. With the post-2009 rebound over, sustained growth and poverty reduction will require determined and comprehensive reforms.** Economic stabilization under the multicurrency system and efforts at policy reform during the coalition government spurred vigorous growth, mainly in mining and services (see Figure 1). GDP growth averaged 10.5 percent during 2009-2012. The economy that emerged from the ashes of hyperinflation is quite different structurally from the one that preceded it (Figure 2). Over the past decade, little progress has been made towards the Millennium Development Goals, particularly in improving gender equality (Figure 10). At 72 percent in 2011, the poverty rate remains unacceptably high (Figure 11). Formal employment has been shrinking, with an increasing fraction of the labor force in the informal economy. There has been little reduction in inequality, with the Gini coefficient at 0.42 in 2011.
- 3. Adverse weather conditions, weak demand for key exports, and election-year uncertainty impacted economic activity during 2013.** Real GDP growth is estimated to have decelerated to 3.3 percent (from 10.6 percent in 2012). Erratic rainfalls affected agriculture while manufacturing faced liquidity shortages and a weaker South African rand that undercut competitiveness. Although buoyant, mining activity has been affected by easing global commodity prices and domestic infrastructure challenges. Election-year uncertainty affected private investment and, at critical moments during the year, led to the tightening of liquidity conditions, which affected economic activity.
- 4. Inflation has recently dipped into negative territory (-0.3 percent year-on-year in April 2014).** Amid weak domestic demand, the appreciation of the US dollar against the South African rand (the currency of Zimbabwe's main trading partner) contributed to an easing of the price level during 2013.
- 5. The current account deficit deteriorated in 2013 (Figure 3), while reserves remain woefully inadequate.** The deterioration reflects lower mining exports, as gold prices and diamond production both declined. Manufacturing exports have continued to shrink reflecting the sector's declining competitiveness. The current account deficit was mostly financed by private capital inflows. Errors and omissions remain large, although they are on a declining path. The authorities and Fund

staff agree that those reflect under-recorded exports, remittances, and FDI inflows. Usable reserves remained below two weeks of imports at end-December (Table 1).

Text Table 1. Zimbabwe: Government Domestic Payment Arrears
(in millions of U.S. dollars)

	2012		2013
	End-Dec.	Net	End-Dec.
	stocks	flows	stocks
Goods and Service Providers	171	-80	91
Agricultural Input Suppliers	30	-30	0
Capital Certificates	11	56	67
Total	213	-55	158

Sources: MoFED and IMF staff estimates.

6. On the spending side of the 2013 budget, the government had to accommodate large election-related spending (1.4 percent of GDP, mostly unbudgeted) and employment cost overruns (0.8 percent of GDP). The political process was funded by one-off revenue measures, cuts in other spending, and accumulation of new arrears to service providers. The government granted only one salary increase during the year. Nevertheless, promotion drift in the civil service and overspending on certain allowances resulted in employment costs exceeding budget levels (Figure 5). The silver lining was the higher-than-budgeted clearance of pre-2013 domestic arrears (Text Table 1).

7. Revenues underperformed, and collections deteriorated markedly toward the end of 2013. Despite some measures taken to cover the costs of the political process, revenue came in lower than budgeted, with an exceptionally low Q4 performance (Figure 4). This was driven by general weakness in the economy and by a liquidity crunch in December, which probably hurt tax compliance. Corporate income tax, VAT, and customs performed particularly badly. Personal income tax and excises held up better, with the latter getting a boost from increases to fuel excises implemented in March 2013. Non-tax revenues were boosted by telecom license fees mobilized to finance the referendum and elections. The government was able to collect only US\$18 million in diamond dividends in 2013, compared to a budget estimate of US\$70 million. The fiscal year 2013 ended with an overall budget deficit (on a cash basis) of 2.2 percent of GDP. The government's net issuance of domestic debt securities was equivalent to about 1 percent of GDP in 2013. To close the financing gap, particularly toward the end of the year, the government drew down its deposits in the banking sector, which fell by US\$157 million (1.2 percent of GDP) in 2013.

8. The 2014 budget is facing headwinds due to sluggish growth and large salary increases for the civil service. Weak revenue performance carried over into 2014, with the preliminary fiscal outturn for Q1 of 2014 showing total revenues 8 percent below budget projections. The agreement on salary increases reached between the government and its partners in the National Joint Negotiating Council in January 2014 is estimated to result in a 14 percent increase in the overall wage bill this year (assuming broadly unchanged numbers of civil servants), exceeding both budget projections and inflation. Excluding grant-aided institutions and pensions, the civil service wage bill is now projected to claim 53 percent of government expenditures in 2014, placing Zimbabwe at the top in Sub-Saharan Africa (Figure 6).

9. Growth in bank deposits and credit slowed down in 2013, with liquidity conditions tightening around the middle and the end of the year (Figure 7). Banks experienced a liquidity crunch in June-August 2013, amid political and policy uncertainty related to the election and its immediate aftermath. There was also a sharp post-election drop in the stock exchange. A second liquidity crunch in November and December, related in part to withdrawals of year-end bonuses, was most pronounced in a few troubled banks.¹ In early 2014, deposits are slowly returning to the banking system, but liquidity conditions remain tight. In March 2014 Afreximbank launched a US\$100 million interbank facility (AFTRADES) to help the authorities address some of the liquidity challenges among solvent banks.²

Text Table 2. Zimbabwe: Selected Financial Sector Indicators, December 2013

	Share of assets	Share of deposits	Loan/ Deposits	Liquidity Ratio ^{1/}	NPLs/ Total Loans	Capital Adequacy Ratio ^{2/}	ROA	ROE
Commercial Banks (16)	82.8	81.5	104.4	37.0	15.4	12.3	-0.3	-3.3
<i>Top five</i>	53.2	53.0	96.2	34.8	7.1	17.2	1.7	11.8
<i>Top domestic bank</i>	23.5	20.0	129.0	31.7	5.0	13.8	1.1	9.2
<i>Top foreign-owned banks</i>	29.7	33.0	76.4	32.0	9.2	19.1	2.2	12.9
Merchant banks (2)	2.1	2.5	93.2	5.2	84.4	-10.8	-17.6	-131.1
Building societies (4)	13.7	14.1	98.1	36.8	8.1	29.3	3.3	14.4
Post Office Bank (1)	1.4	1.9	58.9	39.9	13.6	14.1	0.8	5.3
Total Banking sector	100.0	100.0	102.4	37.4	15.9	14.0	0.1	-0.8
<i>of which: Troubled Banks</i>	9.8	9.9	119.9	7.7	68.2	-24.2	-9.5	-148.4

1/ Excludes Interfin which is under curatorship.
2/ The minimum capital adequacy ratio was increased from 10 percent to 12 percent effective August 1, 2012.
Source: Reserve Bank of Zimbabwe.

10. The financial sector is marked by poor asset quality and low capitalization, with wide differentiation across banks (Text Table 2; Figure 8). Average non-performing loans (NPLs) rose from 13.8 percent at end-2012 to 15.9 percent at end-2013 (and to 16.6 percent in March 2014). The economic downturn and the impact of temporary measures introduced in March 2013 to reduce the cost of banking services³ further stressed average bank profitability. Capital adequacy ratios averaged 12.4 percent in March 2014, just over the 12 percent minimum requirement. However, there is large variation among banks in all these dimensions (Text Table 2). At end-December 2013, only 14 out of 21 operating financial institutions were compliant with the minimum capital

¹ There are several "troubled banks" on the RBZ's watch list, jointly accounting for 15 percent of total banking sector assets and 10 percent of deposits at end-2013.

² The government's maximum contingent exposure would be US\$20 million over two years if this facility was used in full.

³ In early 2013, the Reserve Bank of Zimbabwe (RBZ) and the Bankers Association of Zimbabwe (BAZ) signed a Memorandum of Understanding (MOU) on a package of measures aimed at promoting savings and strengthening consumer protection, including caps on the fees for various services and floors on the rates paid on time deposits. Following a review of the operating environment and consultation with representatives of the BAZ, the RBZ decided not to renew the MOU, which expired at end-2013.

requirements prescribed in December 2012.⁴ In January 2014, the authorities reaffirmed the current minimum capital requirement (US\$25 million) and extended the deadline for meeting the US\$100 million minimum from June 2014 to December 2020. With most banks unable to meet the June 2014 deadline, there was a risk of a gap in the regulatory framework, unless a more extended timeframe was adopted. By end-June 2014, all banks are required to submit recapitalization plans, including interim milestones toward meeting the new deadline.

11. The authorities have reiterated their commitment to the multicurrency system, which is dominated by the US dollar in practice, and have recently added four new currencies as legal tender.⁵ They stressed that the regime will remain in place over the medium term (until at least 2018) to ensure macroeconomic stability. The authorities agreed that the full restoration of fiscal, financial, and external sustainability is a pre-requisite before any substantive changes to the exchange rate regime are considered.

12. The record of implementing recommendations from the previous Article IV consultation is mixed. In concluding the 2012 consultation, Executive Directors urged strengthening fiscal management, improving the expenditure mix, increasing diamond sector transparency, containing financial sector vulnerabilities, and resuming payments to external creditors. The authorities' 2013 budget was based on prudent revenue projections, including diamond dividends. However, revenue under-performed as growth decelerated at year's end. Old domestic arrears were aggressively resolved in 2013, even as higher-than-budgeted expenditures contributed to the accumulation of new arrears. The wage bill continues to claim a disproportionate share of total spending, crowding out capital and social expenditures. Progress on structural reforms, including measures to increase diamond sector transparency, has been slow. The Reserve Bank of Zimbabwe (RBZ) has intensified monitoring of troubled banks, but vulnerabilities persist. Since 2013, Zimbabwe has been making regular payments to the Poverty Reduction and Growth Trust (PRGT) and to other IFIs.

PERFORMANCE UNDER THE SMP

13. Discussions on the first and second reviews are at an advanced stage. Program performance has been mixed, and the SMP period, originally scheduled to expire at end-2013, was extended by Fund Management through end-June 2014 to allow time to strengthen policies.⁶ Of the six quantitative targets for the first review, three were met and three were missed for the end-June 2013 test date (Table 9), although most deviations were moderate. The floor on the primary fiscal balance was missed by 1.3 percent of GDP. The continuous zero ceiling on new domestic arrears was

⁴ As of end-December 2012, minimum capital requirements are US\$25 million for commercial and merchant banks, and US\$20 million for building societies. There is no minimum capital requirement for People's Own Saving Bank (POSB).

⁵ The currencies of China, India, Japan, and Australia were added as legal tender in February 2014.

⁶ Fund Management granted the extension in December 2013, prior to the expiration of the SMP period, and the Board was informed via EBS/14/1.

missed, in part because the authorities prioritized the clearance of old verified arrears over payment of unverified new bills. Reflecting fiscal constraints, the floor on usable international reserves was missed by a small margin, as reserves stayed unchanged rather than show the small increase targeted. Non-concessional external debt met the continuous ceiling at end-June, but exceeded it by a relatively small amount at end-November 2013, following the signing of a US\$319 million non-concessional loan with China Eximbank to finance an essential infrastructure project (the overhaul of the Kariba hydroelectric plant).

14. For the end-December 2013 test date, the authorities met three of the six revised quantitative targets. They met the floors on the stock of usable international reserves and on PRGT payments, and the continuous ceiling on the stock of new non-concessional external debt. They missed the target for the primary fiscal balance on a cash basis by about 1.6 percent of GDP, due to significant weakness in tax revenues in the last quarter of 2013 (Figure 4). Given the very tight fiscal space in Q4 of 2013, the authorities missed the floor on protected social spending by about 0.3 percent of GDP and the stock of domestic arrears overshot its ceiling by a similar margin.

15. The electoral process and the post-election transition delayed the implementation of structural reforms. Eventually, three of the five structural benchmarks for the first review were met, as was one of the five structural benchmarks for the second review (Table 10):

- The new Income Tax Bill was submitted to Parliament in May 2013 and passed in June 2013;
- the new framework for contingency planning and systemic risk management was submitted to the RBZ Board and approved in October 2013;
- the time-bound action plan by the Public Service Commission⁷ on measures to modernize human resource management and payroll systems was submitted to the Ministry of Finance and Economic Development (MoFED) in mid-December 2013; and
- the RBZ Debt Assumption Bill (formerly the RBZ Debt Relief Bill) was approved by Cabinet in November 2013 and submitted to Parliament in April 2014.

16. The report on the stock of verified pre-2013 domestic arrears was finalized in mid-December 2013. While the report itself was not published on MoFED's website, the total stock of domestic arrears and the strategy to clear it were both made public in the 2014 National Budget Statement submitted to Parliament in December 2013.

17. Regarding a new Mines and Minerals Act, the new government decided to accomplish its objectives through amendments to the Act. After extensive consultations with stakeholders, the amendments will be submitted to Cabinet in June 2014. The authorities also decided to prioritize these amendments over amendments to the Precious Stones Trade Act, which are now expected to be completed in the second half of 2014.

⁷ The Public Service Commission was renamed the Civil Service Commission under the new Constitution.

18. The new government is reviewing the amendments to the Banking Act, for which a draft was at an advanced state. The principles for the amendments will be submitted to Cabinet in June 2014 and to Parliament in July 2014.

19. The statutory instrument establishing a formula for diamond dividends was not issued due to the lack of enabling legislation, but broadly equivalent measures have been introduced in 2014 to increase diamond revenues and boost transparency in the industry. First, the 2014 Finance Act, signed into law in April 2014, introduced the withholding of a special dividend equal to 15 percent of the gross proceeds from diamond sales.⁸ Second, the authorities constituted a joint task force composed of technical staff from MoFED, the Ministry of Mines and Mining Development (MoMMD), and the Zimbabwe Revenue Authority to forecast and monitor diamond-related revenue flows. Third, the authorities submitted to Parliament the 2012 audited financial accounts of the Zimbabwe Mining Development Corporation (ZMDC) and published them online in May 2014. Finally, following the lifting of EU sanctions against the ZMDC, the Minerals Marketing Corporation of Zimbabwe successfully conducted two diamond auctions in Antwerp (in December 2013 and February 2014) and one in Dubai (March 2014). Going forward, the authorities intend to ensure that all diamonds are sold through auctions at international trading centers. More fundamentally, the authorities are analyzing the structure of the diamond sector to streamline the number of companies in it. They also intend to undertake a thorough reassessment of the fiscal regime for mining, including diamond mining.

OUTLOOK AND RISKS

20. Growth is projected to be sluggish over the short to medium term (Figure 9). A comprehensive and determined reform program would be necessary to foster investment, especially foreign, and boost productivity beyond the baseline. Given the weak momentum coming out of 2013, it is hard to see a vigorous economic recovery in 2014. Agricultural and mining exports are projected to accelerate in 2014, due to another strong tobacco season and increased output of gold and platinum. This will offset the continued shrinking of the industrial sector, under pressure from competing imports from South Africa. (A key fact is that, despite the status of the South African rand as legal tender under the multi-currency regime, labor contracts in Zimbabwe are universally denominated in U.S. dollars.) The current account balance should improve over the medium term as export capacity increases, but the current account deficit is expected to remain high, averaging around 15 percent of GDP in the medium term. Fiscal consolidation should permit a modest rebuilding of international reserves. Inflation is projected to remain very low during 2014 (0.2 percent), picking up to 1.2 percent in 2015.

⁸ The withholding has been suspended until further consultations with mining companies are completed.

Box 1. Zimbabwe: Deflation Risks

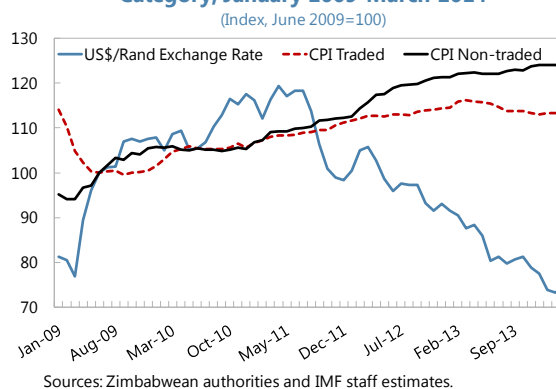
Zimbabwe's 12-month inflation rate decelerated from 2.9 percent at end-2012 to -0.3 percent in April 2014. The deceleration is partly driven by weak aggregate demand. A closer inspection of CPI components indicates that deflationary pressures have been stronger in traded sectors (Box Figure 1), suggesting that pass-through from a depreciating rand also plays an important role. There are benefits and costs from deflation for Zimbabwe.

On the upside, temporarily falling prices benefit consumers with job security. By delivering a boost to aggregate demand, falling prices may contribute to eroding the country's negative output gap. Deflation could also correct the existing overvaluation in the real exchange rate, although that would require prices of non-traded inputs (notably labor) and final goods to fall faster than the prices of traded goods, which has not been the case so far. Finally, falling prices boost the real money supply and could alleviate somewhat the persistent liquidity shortages.

On the downside, persistent deflation may increase the real burden of existing debt in a country that is already under financial stress. However, Zimbabwe's financial underdevelopment (low stocks of loans and deposits, with short maturities) may mitigate this effect. Deflation hurts producers and might reduce Zimbabwe's productive capacity, if it leads to widespread company downsizing and closures, given downward wage rigidity.

In the medium term, structural reforms that improve the business environment and stimulate domestic and foreign investment could offset the deflationary impulse. In the near term, in the absence of monetary policy tools, the authorities must avoid exacerbating the distortions and imbalances, for example, by resisting the impulse to restrict imports and by avoiding further public sector wage increases, which put pressure on salary negotiations elsewhere in the economy.

Box Figure 1. Zimbabwe: Consumer Price Index by Category, January 2009-March 2014
(Index, June 2009=100)



21. Risks to the outlook remain tilted to the downside (see Risk Assessment Matrix, Table 7). The most immediate risk is failure to set government finances on a sustainable path. Absent measures to re-prioritize government spending, vital government functions could suffer and stability may be jeopardized. Significant uncertainty still surrounds the implementation of the indigenization policy, which has a chilling effect on foreign investment. While the rhetoric on this issue has been toned down somewhat and a new approach has been mooted, it is still not clear what this will imply outside the extractive sectors, as a case-by-case approach seems to be the government's preferred choice. Financial sector vulnerabilities and adverse weather conditions present other significant domestic risks. A protracted period of lower growth in advanced and emerging economies (particularly Europe and China) could lower global demand for key mineral exports (gold, platinum, diamonds) and dampen growth. Real spillovers from South Africa are unlikely to be significant, although persistent weakness in the rand would hurt Zimbabwean light manufacturing, already under stress. There are also risks of sustained deflation in Zimbabwe (Box 1).

Authorities' views**22. The authorities broadly agreed with staff's medium-term outlook and risk assessment.**

However, the authorities remained confident that the timely and full implementation of ZIM ASSET, their development blueprint for the next five years, could result in better growth prospects over the medium term. The authorities expressed their commitment to set government finances on a sustainable footing, implement financial sector reforms, and clarify their indigenization and empowerment policy. They reaffirmed their commitment to continued engagement with the IFIs and their interest in a successor SMP.

RESTORING FISCAL SUSTAINABILITY AND ADVANCING THE FISCAL REFORM AGENDA

23. The 2014 budget targets are in doubt in the context of the weaker economic forecast and wage pressures.

The target for total revenue in the 2014 budget statement (US\$4,120 million or 30.6 percent of GDP, including US\$96 million in diamond dividends) is at risk following weak revenue performance in Q1 and the downward revision in growth projections for 2014. The agreed 14 percent increase to the overall wage bill is another source of stress to the budget. Finally, the need to rebuild depleted government deposits, amortize domestic and selected external debt, and modestly increase international reserves all raise the government's gross financing requirements in 2014.

24. To offset these pressures, the government has identified revenue and expenditure measures, and plans on a modest amount of net domestic financing.

The Minister of Finance and Economic Development is expected to present the fiscal adjustment package to Cabinet in early-June 2014. The revenue measures are worth about 2.8 percent of GDP and include selective increases in customs duties, targeted tax compliance operations, non-tax revenues (surplus resources generated by several extra-budgetary funds), as well as additional customs revenues from a determined effort to address identified leakages. Expenditure measures are worth 1.8 percent of GDP and include re-prioritizing non-personnel, non-interest current expenditure, while ring-fencing high-value social spending. As a result of these measures, the authorities now project total revenues to reach a conservative US\$4,014 million (29.8 percent of GDP) in 2014, while total cash expenditures are projected at US\$4,092 (30.4 percent of GDP). If fully implemented, these measures could result in a small budget deficit of US\$78 million (around 0.6 percent of GDP) in 2014, on a cash basis.

25. The main degree of freedom left relates to diamond dividends.

Unlocking this revenue source will require full and prompt implementation of the measures announced in the 2014 budget. These measures include disallowing royalty as a deductible expense against taxable income, withholding a 2.5 percent depletion fee, withholding royalties on diamond sales (15 percent of gross sales), and withholding 15 percent of gross proceeds from diamond sales as interim ("special") dividends for direct payment to the Treasury. All these measures were included in the 2014 Finance Act signed by the President in April. The implementation of the 15 percent special dividend

withholding has been suspended for now, pending further consultations with mining companies, which are resisting it on grounds that it would reduce their ability to invest in new production. The consultations are scheduled for June, and the authorities are keen to start collecting these dividends soon. As a result, the authorities still project diamond dividends of US\$82 million in 2014 (versus the original US\$96 million in the 2014 budget), but there are risks of further delays.

Staff recommendations

26. Staff sees the revised fiscal target for 2014 (a cash deficit of 0.6 percent of GDP) as broadly appropriate. It represents a significant fiscal adjustment relative to 2013 (which closed with a deficit of 2.2 percent of GDP). Staff welcomes recent steps to increase diamond revenue transparency and urges the authorities to speedily implement the announced measures to mobilize diamond dividends, including by defining a clear date to lift the current suspension on them. Staff encourages the authorities to also consider tax reforms in line with previous Fund TA recommendations (for example, by increasing excises on some alcoholic beverages and by changing the VAT status of some goods from zero-rated to exempt). Staff further encourages the authorities to identify additional potential revenue and financing sources which may need to be mobilized if risks to current revenue projections materialize.

27. Rebalancing the expenditure mix and advancing public financial management (PFM) reforms remain critical for medium-term fiscal sustainability. With employment costs (including grant-aided institutions and pensions) accounting for 79 percent of projected total revenue and a similar fraction of proposed spending in 2014, the expenditure mix is clearly unsustainable. A large public sector wage bill and unclear remuneration policies going forward put at risk the government's ability to achieve its objectives under ZIM ASSET. Staff urges the adoption of a medium-term fiscal strategy aimed at rebalancing expenditure away from employment costs in order to increase capital investment and spending on social programs. Going forward, staff supports the authorities' commitment to hold nominal wage increases in line with inflation and to maintain the hiring freeze, except in critical areas and only if these vacancies cannot be filled through internal mobility. To minimize the risk of additional fiscal stress in 2014, it is also essential that the authorities refrain from further wage increases this year. If these recommendations are implemented, total employment costs (including pensions and grant-aided institutions) could decline under 20 percent of GDP by 2019. The authorities should also continue to protect high-value, high-impact social spending, and they should aim to gradually raise capital spending and net lending to around 4-5 percent of GDP in the medium term.

28. Staff encourages targeting a gradual strengthening of the fiscal balances over the medium term. Targeting a medium-term primary cash balance between 1.5 and 2 percent of GDP will help the government rebuild fiscal and external buffers and generate debt servicing capacity, which will be needed to move ahead with debt restructuring. Staff welcomes the authorities' plans to strengthen financial monitoring and oversight of state-owned enterprises (SOEs) and local authorities.

29. Tackling the stock of domestic payments arrears should remain a priority, but significant progress in 2014 is unlikely. Given the very tight resource constraints in 2014, the authorities plan to prioritize the clearance of pre-2013 domestic arrears (some \$23 million) by year-end. On the other hand, given the inadequate provisions for service providers in the 2014 budget (US\$56 million versus projected bills of US\$126 million), 2014 is likely to see a net accumulation of domestic arrears of about 0.8 percent of GDP. There is a risk that arrears will grow further if tax and nontax collections fall short of projections and the authorities are unable to take offsetting revenue and financing measures. The authorities are committed to eliminating the total stock of end-2014 domestic arrears by end-2016. Going forward, progress on this issue will require more realistic budgeting, combined with improved expenditure controls and measures to curb consumption.

Authorities' views

30. The authorities acknowledged that 2013 was a difficult year, agreed that their fiscal plans face significant short-term risks, and concurred that strengthening fiscal balances in the medium term is an important objective. They are determined to unlock diamond revenues and make the sector more transparent. They emphasized that they have considered advice from previous TA on tax policy and have implemented many of the recommendations. Making further progress in this area is conditioned on a stronger economic outlook. The authorities welcome further Fund TA on reforming the fiscal regime for extractive industries and on medium-term expenditure frameworks. Although agreeing that the wage bill represents a large fraction of overall spending, the authorities indicated that the new government had campaigned on the promise of higher pay for civil servants, which needed to be fulfilled this year. They have expressed their intention to reduce the weight of the public sector wage bill in total spending over time, noting that the speed with which they can achieve this objective will be affected in part by the growth rate of the economy. The authorities are prepared to implement further expenditure reprioritization measures, in case revenues underperform, relative to revised 2014 projections. Finally, they have expressed their determination to improve the oversight of SOEs and local authorities, which are a significant source of fiscal risk.

REDUCING FINANCIAL SECTOR VULNERABILITIES

31. Despite efforts to enhance the legal and regulatory framework, financial sector vulnerabilities persist. The RBZ has intensified monitoring of troubled banks, with a particular focus on loan provisioning practices and risk management. Most of these banks are insolvent, but continue to intermediate. While the troubled banks are not systemically important, there is a risk of disorderly resolution of these banks, which could further affect already weak confidence in the system. The new framework for contingency planning and systemic crisis management, which was approved by the RBZ Board in October 2013, will provide a set of policies and processes necessary for prevention and management of banking crises. The framework is to be shared with the Multidisciplinary Financial Stability Committee. Furthermore, the planned amendments to the Banking Act, which are aimed at improving corporate governance and strengthening the Troubled and Insolvent Bank Resolution Framework, will help to enhance stability.

32. To address deteriorating asset quality and restore confidence, serious consideration should be given to closing troubled banks (if non-systemic), or at least ring-fencing them, for example, by restricting their ability to take new deposits from the public. With the help of outside consultants, the RBZ is developing a framework for NPL resolution. Any strategy to deal with this issue should avoid rewarding poor past lending decisions and should be accompanied by a strong focus on the risk that current economic conditions and poor lending practices could result in further growth in NPLs. In January 2014, the RBZ announced an immediate end to new insider and related-party loans: banks' boards are required to review the levels of insider loans, ensure adequate provisioning, and report regularly to the RBZ.⁹ The RBZ's decision to allow more time to meet the increase in the minimum capital requirements is justified, as the June 2014 deadline for reaching a minimum capital of US\$100 million was looming with most banks being far below that level. In the period ahead, the RBZ will need to closely monitor observance of the interim milestones for progress towards the December 2020 minimum capital requirements. The AFTRADES interbank liquidity facility is a worthwhile policy experiment and offers potential for improving the operations of the interbank market without significant fiscal risks.

33. Steps are being taken to recapitalize the RBZ, to allow it to resume some of its core functions. The authorities announced plans for the central government to assume all of RBZ's non-core debt (some 10 percent of GDP, largely non-performing). In addition, they announced plans for the RBZ to resume its function as banker to the government, and to establish a fully-funded lender-of-last resort (LOLR) facility to accommodate solvent banks. As an initial step, in March and April 2014 the authorities issued \$146 million in debt instruments to settle RBZ legacy debts related to old foreign currency accounts. The authorities believe that these measures will strengthen financial stability. Staff recommends that the timing of the implementation of these steps take into account fiscal pressures. In particular, the LOLR facility should be implemented only after the present period of high fiscal stress is over, and liquidity support should only be provided to solvent banks.

34. Staff supports a cautious and gradual approach to the transfer of the treasury account from the Commercial Bank of Zimbabwe (CBZ) to the RBZ. The transfer carries implementation risk, as the RBZ has not performed this function for several years, is not able to provide an overdraft facility, and its information systems are still not fully linked to the Treasury systems. Thus, it should take place only after the RBZ balance sheet has been sufficiently strengthened and its IT systems have been linked to the government's own public financial management information system. There should be a sufficiently long transition period during which clear arrangements are maintained with CBZ to back-stop and cover any cash-flow gaps. Furthermore, this change will require of MoFED and RBZ close coordination and stronger cash management.

35. In designing and implementing the indigenization policy for the financial sector, priority must be given to financial sector stability. Staff urges the authorities to ensure that the application of the indigenization policy is consistent with existing financial sector laws and prudential regulations, in order not to endanger bank access to external sources of financing.

⁹ Out of a total of US\$175.3 million in insider loans at end-December 2013, US\$117.4 million (67 percent) are NPLs.

Authorities' views

36. The authorities concurred that financial sector vulnerabilities remain but emphasized that recently announced initiatives should enhance stability. The RBZ considers the financial sector to be generally stable, despite the challenging macroeconomic environment and institution-specific deficiencies. The RBZ plans to request Fund TA on its NPL resolution strategy. Work is under way to finalize the framework for a credit reference bureau which is expected to reduce asymmetric information and improve credit risk management. The authorities emphasized that the troubled banks are not systemic, but agreed that disorderly unwinding of any of these banks would further undermine confidence. The authorities indicated that the efficient resolution of troubled banks is hampered by the RBZ's lack of direct administrative authority to take necessary actions. For both curatorships and liquidations, the RBZ must consult with MoFED, and banks have the right to appeal to the finance minister, all of which tend to cause delays. (The Fund is providing TA in these areas.) The authorities expect financial institutions facing challenges to raise capital, consolidate their operations, merge with healthier banks, or convert their banking licenses to become deposit-taking microfinance institutions.

37. The authorities remain committed to restoring the role of the central bank in their efforts to enhance financial intermediation. They emphasized that the recapitalization of the RBZ is a precondition for the safe transfer of the treasury account to the RBZ. These steps in turn will enable the RBZ to support the reactivation of the interbank market, thereby enhancing stability and increasing confidence. On indigenization of the banking system, the authorities remain committed to implementing this policy in a flexible way that safeguards financial stability.

RESOLVING EXTERNAL PAYMENTS ARREARS, RESTORING EXTERNAL SUSTAINABILITY AND COMPETITIVENESS

38. Zimbabwe's external arrears are large and increasing. Estimated external debt obligations at end-2013 amount to US\$10.6 billion (over 80 percent of GDP, of which more than half represents arrears). The authorities have concluded a second round of debt data assessment as of end-2012. Following their first reconciliation exercise in 2011, all official creditors were contacted, but only one creditor responded and agreed with the results. Greater effort is needed to seek agreements with all official creditors, including multilaterals. At the authorities' request, the African Development Bank (AfDB) is providing technical assistance to explore the path to re-engagement with international creditors.

39. The authorities have continued to make regular payments to the IFIs. The authorities have been making monthly payments of US\$150,000 to the PRGT. The authorities are also making quarterly payments to the World Bank (US\$900,000) and to the AfDB (US\$500,000). The authorities have continued the discussion with the IFIs on the appropriate size of payments going forward. They remain committed to gradually increasing the size of IFI payments as the country's capacity to pay improves. While the authorities are committed to avoid selective debt servicing, they will continue to make payments to those creditors providing positive net financing.

40. Since the approval of the SMP in June 2013, two new external loans for infrastructure development have been signed. The new loans are with China Eximbank (US\$319 million) and with India Eximbank (US\$28.6 million). The weighted average concessionality of the loans is 26.5 percent, falling short of the minimum 35 percent requirement.¹⁰ Although the authorities needed to urgently address energy and water supply constraints, a more proactive collaboration with Fund staff could have prevented the marginal breach of the SMP continuous ceiling on non-concessional external debt of \$330 million in November 2013. Moreover, new non-concessional borrowing poses risks for debt relief discussions with creditors down the road.

41. Given the large outstanding external arrears, Zimbabwe will remain in debt distress in the absence of debt relief. The updated Debt Sustainability Analysis (DSA, EBS 14/139, Supplement 2) confirmed that debt indicators exceed the relevant indicative thresholds. Zimbabwe's debt situation remains vulnerable to shocks, particularly to lower export and GDP growth. The country's debt outlook is also sensitive to negative shocks to financial terms and to non-debt creating flows.

42. The authorities have expressed their commitment to re-engaging with all creditors and to minimizing new non-concessional external debt. With regard to possible external financing options, they will primarily seek grants and concessional borrowing to finance critical development projects with high economic returns. If grants and concessional borrowing are not available or insufficient, limited new non-concessional external debt could be considered for growth-enhancing projects, subject to a continuous ceiling of 3 percent of GDP in 2014 (unchanged from 2013). Currently, the authorities are discussing with China Eximbank another loan of about US\$220 million to expand telecommunication coverage. The authorities have re-affirmed their commitment to seek independent assessment of the economic and social impact of projects funded with non-concessional loans. They will also consult with Fund staff if and when new feasible projects and borrowing opportunities emerge.

43. Continued strengthening of debt management legislation is critical. The first step is Cabinet approval of the principles for a Public Debt Management Bill. When enacted, the new bill will provide MoFED with a stronger and more effective mandate to plan, negotiate, and monitor external borrowing operations. It will also bolster the institutional role of the Debt Management Office at MoFED.

44. Zimbabwe's external position remains precarious (Appendix I). In the last few years, the current account deficit has been very large, but it is projected to moderate in the medium term as mining production accelerates. Long-term external borrowing is likely to remain the key source of financing for the current account. IMF staff estimates an overvaluation of Zimbabwe's real exchange rate of between 21 and 23 percent. In a fully dollarized economy, macroeconomic adjustment could come from relative price adjustments or from productivity growth. At less than one month of import

¹⁰ The China Eximbank has a 20-year maturity, with a grace period of 5-7 years, and a 2-percent interest rate, which is equivalent to a grant element of 28.3 percent. The India Eximbank loan has a grant elements of 4.1 percent.

cover, usable international reserves are currently well below the standard 3-month threshold and the Low-Income Country (LIC) metric which indicates that Zimbabwe's foreign reserves should cover 6 to 16 months of imports. A more ambitious pace of reserve accumulation is urgently needed to rebuild external buffers. Zimbabwe's external competitiveness remains weak. Protracted policy uncertainty and poor governance present serious obstacles to foreign investors interested in doing business in Zimbabwe. Obsolete infrastructure and cumbersome administrative barriers undermine the business environment and overburden the private sector. Zimbabwe ranks very low in the World Bank's Doing Business indicators (170th) and below average for Sub-Saharan African countries in the World Economic Forum's Global Competitiveness Index.

Authorities' views

45. The authorities reaffirmed their strategy to continue to seek non-concessional external financing for critical development projects only, while pointing out how challenging it is to obtain grants and concessional loans for their development agenda in the context of their large external arrears. They reaffirmed their objective to reach agreements with creditors on reconciled external debt data, ideally before September 2014. The authorities also shared staff's views about the need to speed up the implementation of structural reforms, particularly those which do not incur significant budgetary costs, in order to regain external competitiveness.

UNLOCKING POTENTIAL FOR SUSTAINED INCLUSIVE GROWTH AND POVERTY REDUCTION

46. The new government has formulated an ambitious agenda for development (ZIM ASSET). The plan is built around four main clusters: food security and nutrition, social services and poverty eradication, infrastructure and utilities, and value addition and beneficiation. ZIM ASSET targets a medium-term growth rate of around 6 percent, driven by large infrastructure investments. However, large levels of financing would be needed to implement ZIM ASSET. Implementation is also likely to run into domestic capacity constraints. The authorities' financing plan is premised on joint ventures, diaspora resources, external financing, and, most importantly, an abundance of domestic mineral resources, some of which would be channeled via a Sovereign Wealth Fund (SWF). However, access to external financing is very limited and recourse to new non-concessional external debt to fund these projects would exacerbate debt distress and complicate the process of arrears clearance and debt restructuring. In addition, while the beneficiation objectives of ZIM ASSET contain positive elements, sufficient consideration should be given to domestic capacity constraints.¹¹

47. Staff recommends delaying the introduction of the SWF. The authorities propose a SWF funded with 25 percent of mining royalties and dedicated to financing selective investment projects

¹¹ For example, domestic smelting of minerals in Zimbabwe could backfire because smelting is energy-intensive whereas Zimbabwe suffers from limited generation capacity, resulting already in frequent power shortages.

and accumulating financial assets. Although such a mechanism might be helpful over the medium term, the present fiscal stress makes it imperative that the government avoid tying its hands by earmarking revenues. Staff encourages the authorities to re-examine the fiscal regime for extractive industries before launching the SWF.

48. Addressing infrastructure deficits, enhancing the business climate, and improving governance and policy consistency are critical for boosting productivity and competitiveness.

Uncertainty about the implementation of the indigenization and empowerment policy, together with weak enforcement of property rights remain powerful deterrents to private investment, both foreign and domestic. More clarity about land property rights could enhance agricultural productivity by facilitating access to credit. Staff welcomes the authorities' increased emphasis on the empowerment component of the indigenization and empowerment policy, and encourages them to enhance the predictability and transparency of the indigenization component. Staff welcomes recent announcements about the authorities' intention to reform labor laws in order to make them more flexible and to link compensation to productivity. In pursuing these reforms, care should be taken not to undermine basic labor protections.

Authorities' views

49. The authorities agree that the business climate continues to be constrained by policy inconsistency and uncertainty, as well as by slow progress in implementing key policies, while adding that external sanctions also affect Zimbabwean businesses.

To ensure the effective implementation, monitoring, and evaluation of ZIM ASSET, overall leadership and guidance is provided by the Office of the President and Cabinet. The authorities plan to implement reforms to improve procedures for starting a business, registering property, paying taxes, resolving insolvency, and trading across borders. They are determined to improve contract enforcement and reform the labor market to make it more flexible. They have decided to postpone further steps on creating a SWF until the macroeconomic outlook improves. The authorities are also concerned that power shortages might thwart the beneficiation objectives of ZIM ASSET, and plan to require that future beneficiation projects include new power-generating capacity for their own use. They also point out that external sanctions have a chilling effect that, in practice, reaches well beyond the individuals and firms specifically designated as their targets.

STAFF APPRAISAL

50. Sustaining growth will require a renewed commitment to reform. As the rebound effect wanes, achieving fast and inclusive growth over the medium term will require a determined push to strengthen macroeconomic and financial policies, create an enabling business environment, and normalize relations with creditors. Staff welcomes the authorities' plans to preserve the multicurrency system until at least 2018, which will help reduce uncertainty. On the indigenization and empowerment policy, the more differentiated approach (by sector) and the de-emphasizing of equity-holding targets mooted by the authorities seem positive steps, but the current case-by-case negotiated approach is still problematic. More predictability and clarity on sector-specific policies are needed to attract foreign investment.

51. External imbalances and vulnerabilities remain high. The persistent large current account deficit, continued unresolved arrears, and insufficient international reserves are all clear signs of a precarious and fragile external position. It is further complicated by an overvalued real exchange rate. Staff supports the authorities' strategy to primarily seek grants and highly concessional resources while limiting non-concessional financing to a few critical development projects. Staff continues to recommend early consultation on proposals for new non-concessional external debt.

52. The SMP provided a useful macroeconomic anchor for Zimbabwe in a difficult election year, and the new authorities' commitment to the program is welcome. In the context of a lengthy electoral process and post-election transition, progress in implementing the policies under the SMP was limited, as many policy decisions were postponed. Nevertheless, budgetary stability, although tested, was broadly preserved, usable external reserves were maintained, important structural reforms took place, and others have been restarted in early 2014. A successor SMP should build on past achievements, be anchored on significant progress in the implementation of key structural reforms, and support a stronger policy framework.

53. The immediate challenge for the authorities is to execute their revised fiscal plan for 2014. The authorities must implement their adjustment program fully, and be ready to take additional actions should revenue fall short of revised projections, while protecting priority infrastructure and social spending. Good progress was made in 2013 in reducing the stock of domestic arrears. Unfortunately, 2014 is likely to bring new domestic arrears. To prevent the accumulation of future domestic arrears, the authorities need to further strengthen expenditure controls, implement measures to curb consumption, and ensure adequate budgetary provisions for domestic service providers.

54. Addressing the unsustainable expenditure mix is the key medium-term challenge in the fiscal sector, with implications that go beyond the public finances. Large employment costs are crowding out social and investment spending—in fact, competing for resources with ZIM ASSET. High salary increases in the public sector influence wage negotiations elsewhere, exacerbating imbalances in the real exchange rate. While this situation cannot be resolved overnight, it is essential to begin addressing it as soon as possible and to maintain the focus over the medium term.

55. Increasing transparency in the diamond sector remains critical for improving fiscal management and good governance. Recent measures to increase diamond sector transparency are steps in the right direction. The authorities should follow through on their commitments to modernize mining legislation and implement the withholding of interim diamond dividends.

56. Enhancing financial sector stability and restoring confidence in the banking system must remain a priority. Staff urges continued vigilance in monitoring weak banks and a proactive approach to avoid the disorderly resolution of insolvent, non-systemic banks. Advancing the restructuring of the financially distressed RBZ will help mitigate financial sector vulnerabilities and bolster the medium-term viability of the multicurrency system. Staff strongly urges the authorities to give priority to financial stability in designing and implementing the indigenization policy for the financial sector.

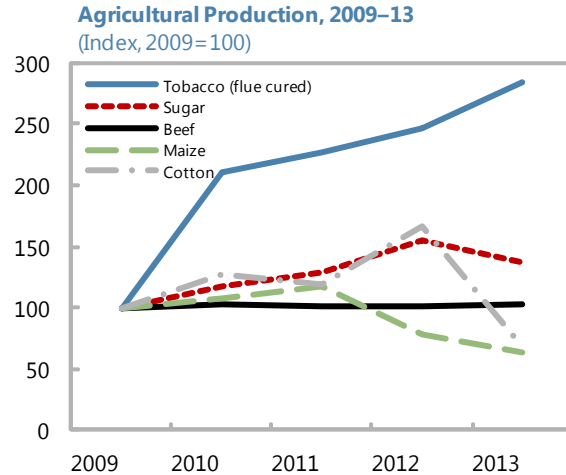
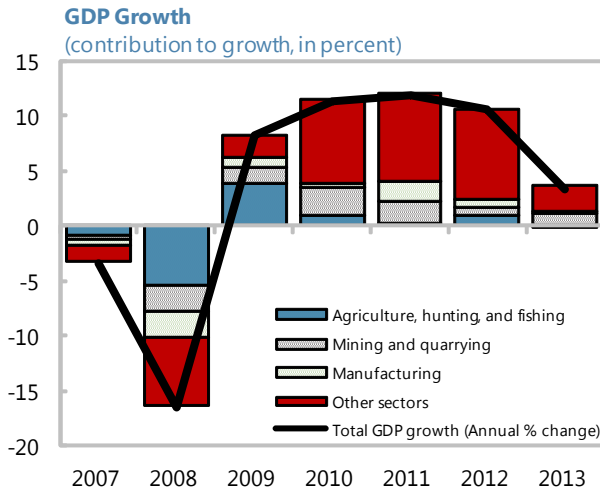
57. While Zimbabwe remains in debt distress, staff welcomes the authorities' commitment to continue making regular payments to the PRGT, to rebuild external buffers, and to refrain from drawing down their remaining SDR holdings. Strong macroeconomic policies and a comprehensive arrears clearance framework, supported by development partners, will be essential to addressing Zimbabwe's debt problems. Staff urges the authorities to engage in coordinated discussions with the World Bank Group and the other IFIs on future payments, to increase the size of payments as capacity to repay improves, and to respect the preferred creditor status of the IFIs. Selective debt service to bilateral creditors should be avoided, as this will complicate reaching an agreement with creditors on a debt resolution strategy. Staff encourages the authorities to continue to minimize new non-concessional external debt and to seek external financing on terms as favorable as possible for critical development projects with high economic returns.

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

Figure 1. Zimbabwe: Recent Economic Performance

Growth decelerated in 2013, due to policy uncertainty and weakness in agriculture and manufacturing.

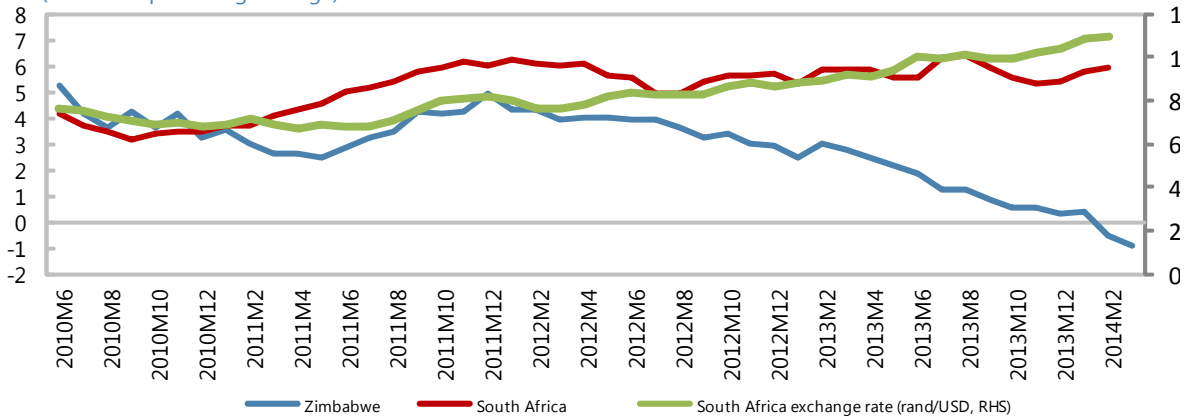
Erratic weather contributed to a marked contraction in maize and cotton production.



Inflation has dipped into negative territory, driven by appreciation against the rand and a weak economy.

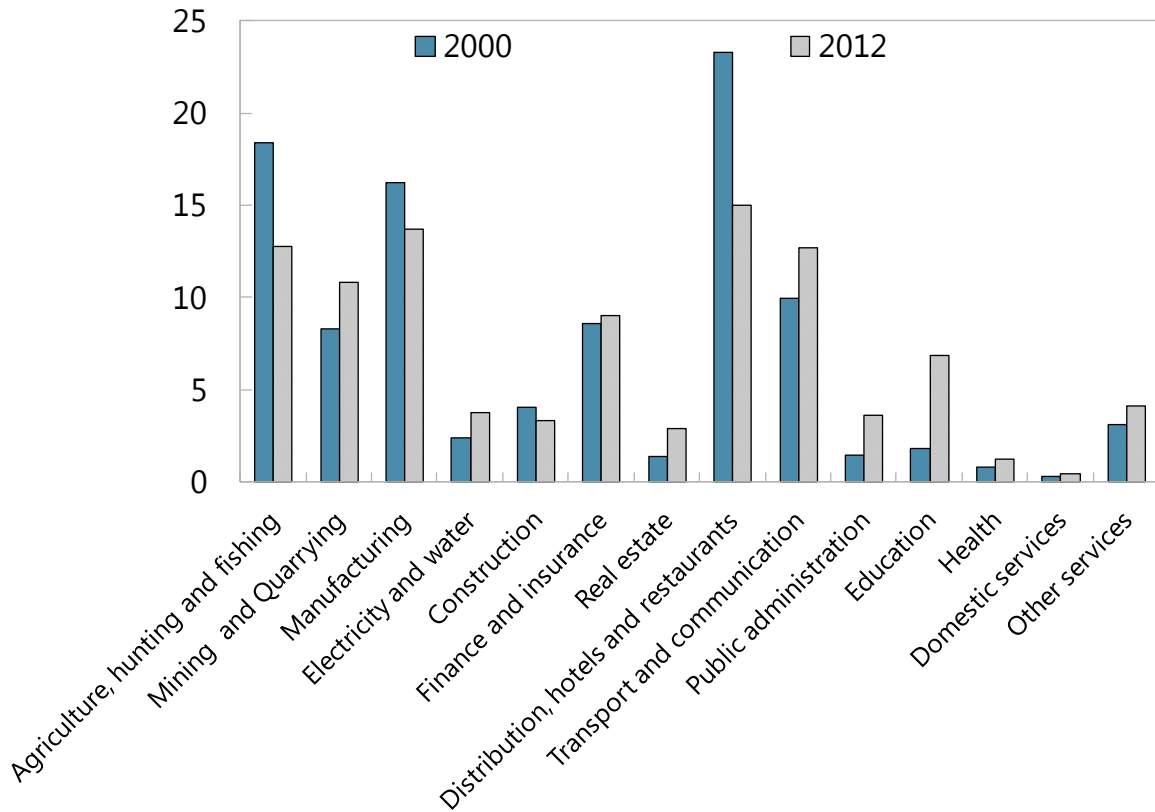
Consumer Price Inflation

(12-month percentage change)



Sources: Zimbabwean authorities and IMF staff estimates.

Figure 2. Zimbabwe: Composition of Real GDP, 2000 and 2012

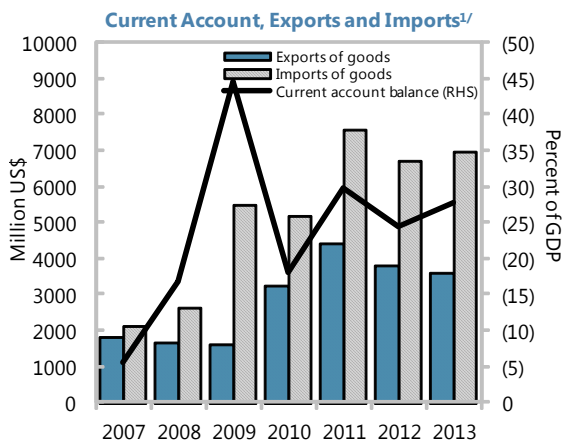


Sources: Zimbabwean authorities and IMF staff estimates.

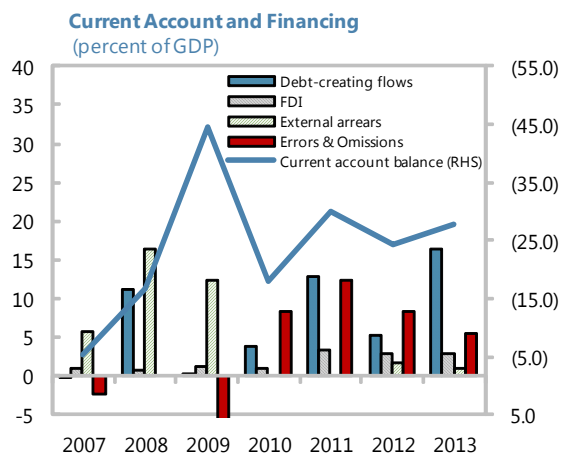
Figure 3. Zimbabwe: External Sector Performance

The current account deficit remained high in 2013, mainly due to lower mining exports.

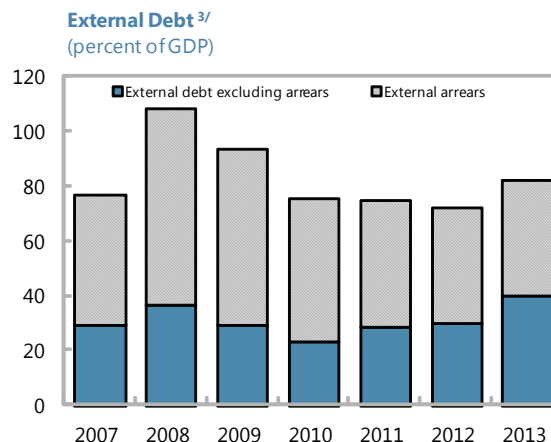
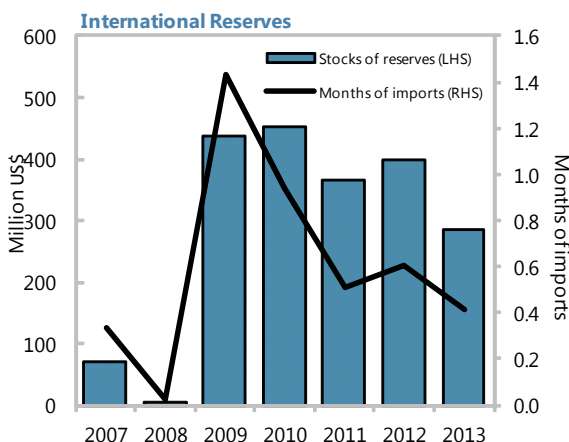
External financing has come to rely more on short-term private sector debt and large flows remain unregistered.^{2/}



International reserves have stabilized at very low levels...



...and the external debt remains unsustainably high.



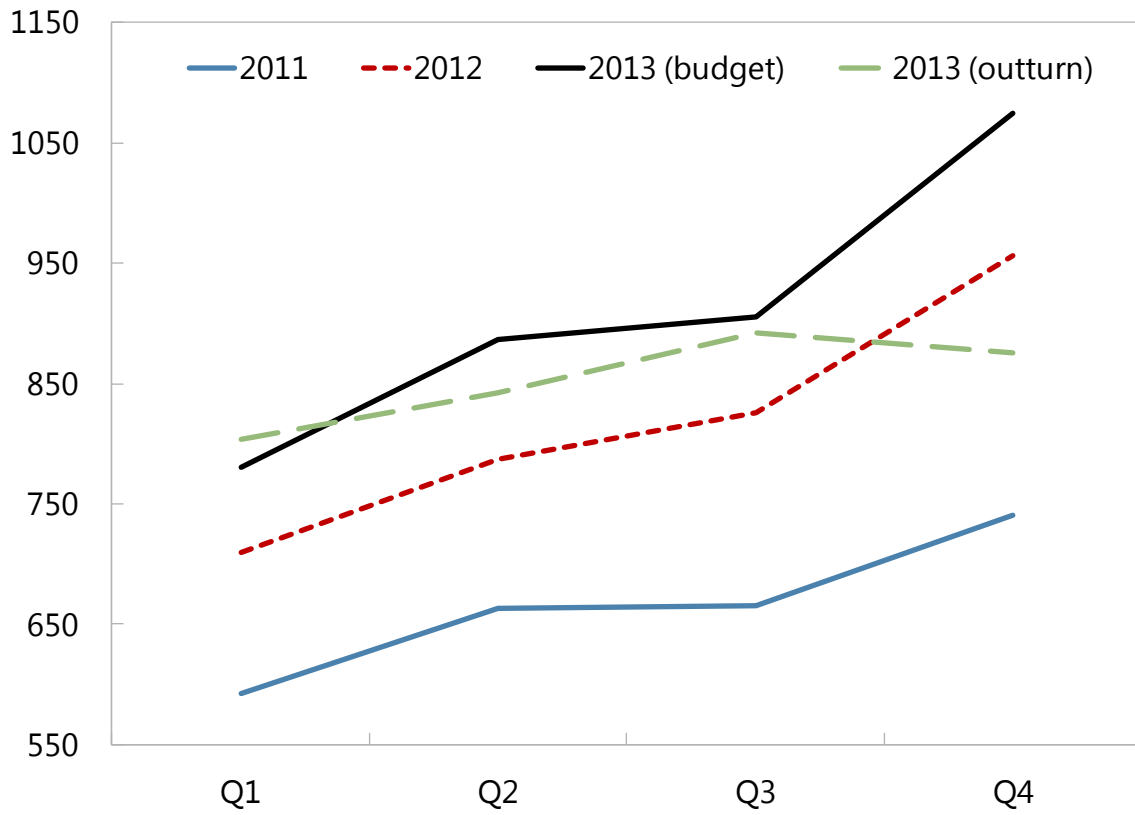
Sources: Zimbabwean authorities and IMF staff estimates.

1/ Structural break in trade data in 2010. Exchange control data are used up to 2009 and customs data are used starting in 2010.

2/ These unregistered flows are likely related to unregistered remittances and exports, which would lower the current account deficit.

3/ Debt stocks and arrears are estimates, except for the 2011 debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise concluded in January 2013.

Figure 4. Zimbabwe: Quarterly Tax Revenues (2011–13)
(millions of U.S. dollars)

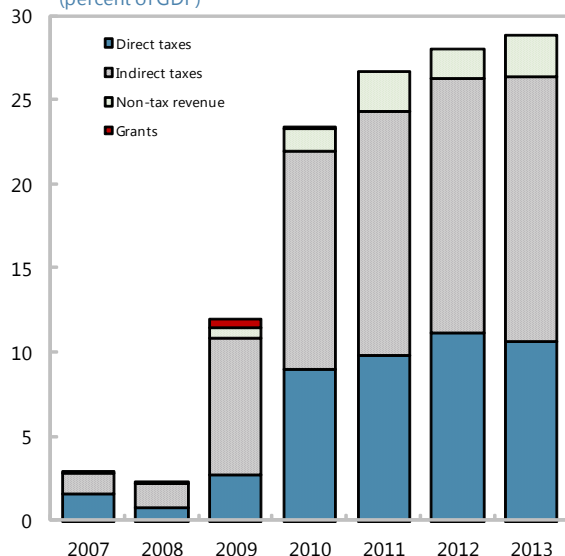


Sources: Zimbabwean authorities and IMF staff estimates.

Figure 5. Zimbabwe: Recent Budgetary Performance

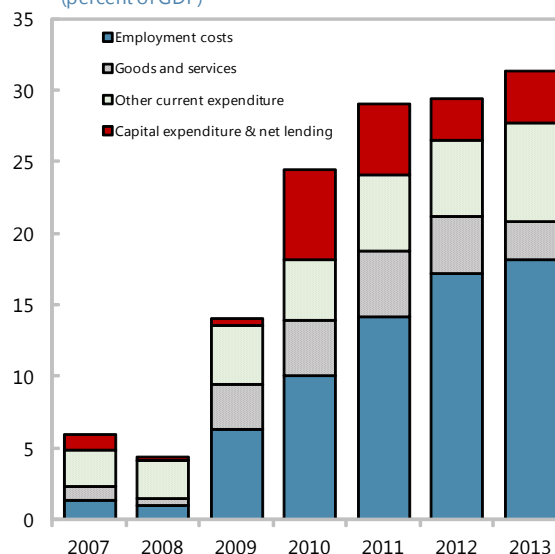
While tax revenues stagnated in 2013...

Fiscal Revenues
(percent of GDP)



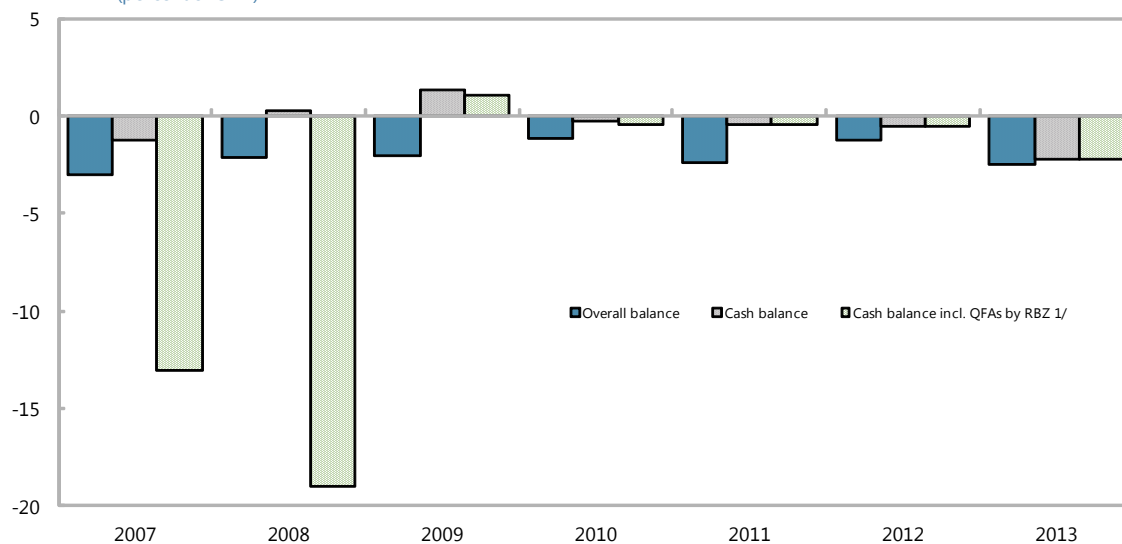
...employment costs have continued to grow, crowding out capital and social expenditures.

Fiscal Expenditures
(percent of GDP)



A cash deficit has emerged since 2010, financed mainly by SDR sales and some domestic debt issuance.

Fiscal Deficit
(percent of GDP)



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.

Figure 6. Sub-Saharan Africa: Civil Servant Wages in 2013
(percent of government expenditure)

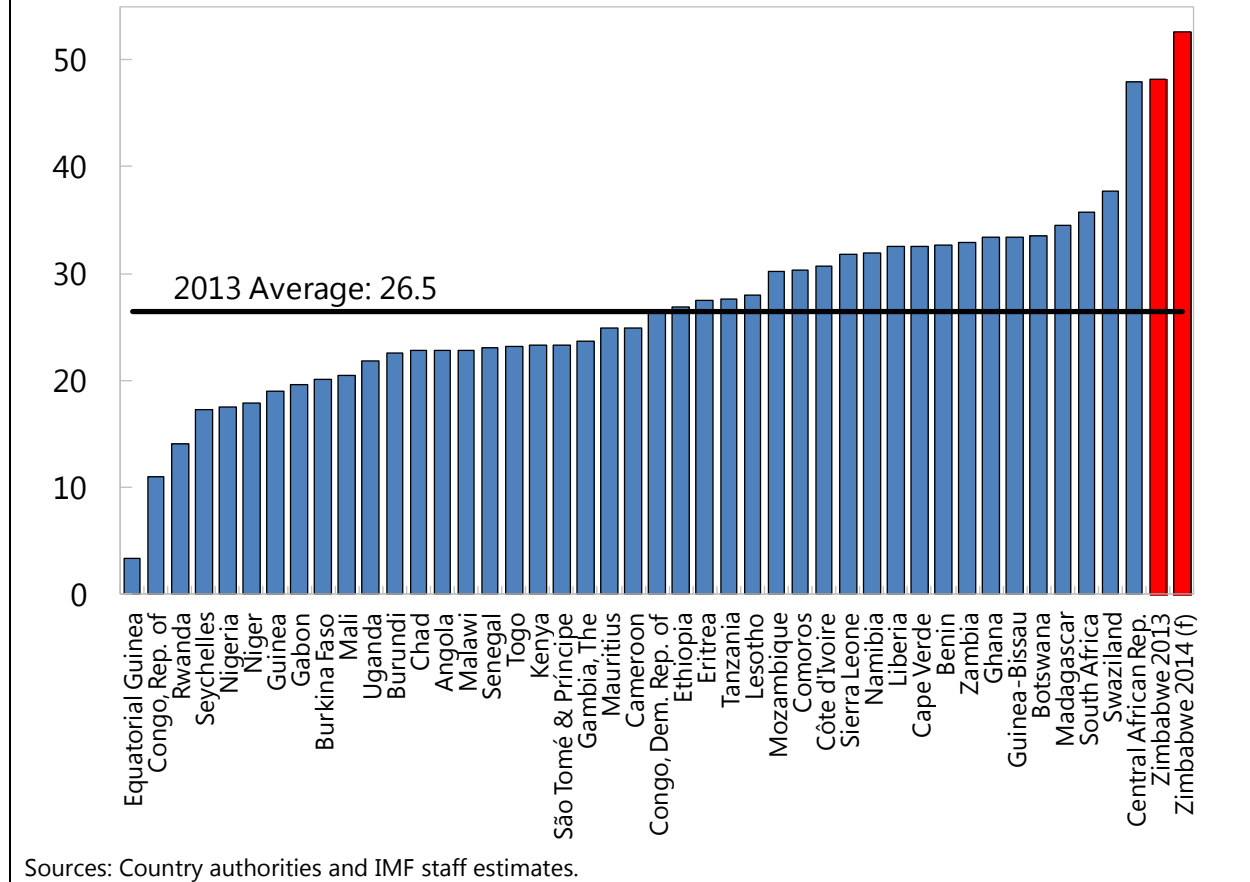
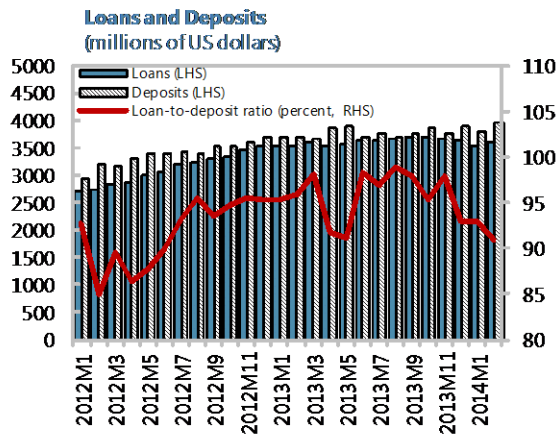
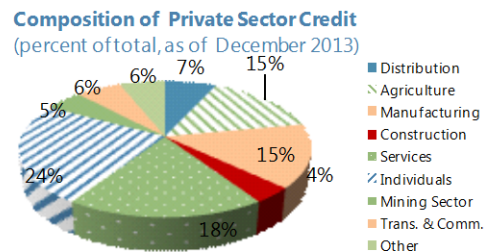
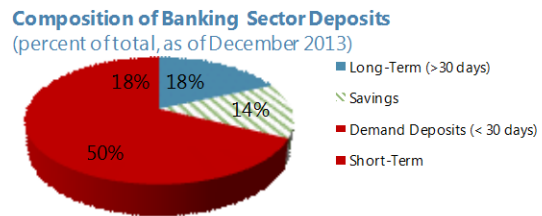


Figure 7. Zimbabwe: Banking System Indicators

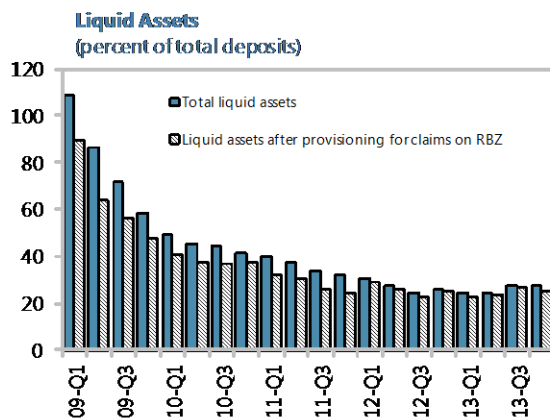
Deposits and credit continue to grow, but the pace is leveling off.



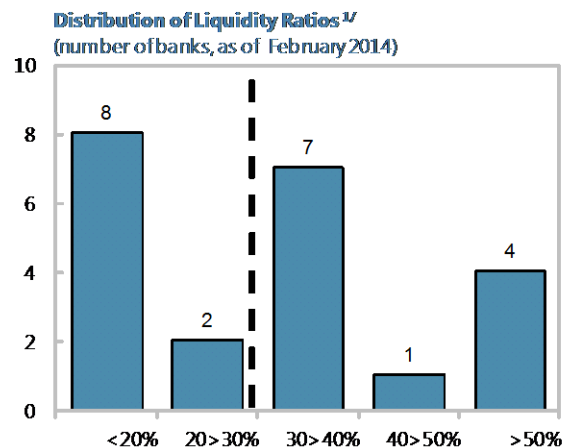
Deposits remain predominantly short-term and credit largely funds consumption.



Liquidity risks remain...



...as 10 out of 22 operating financial institutions face tight liquidity.

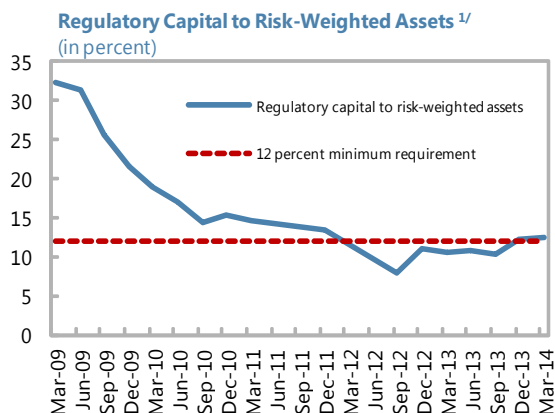


Sources: Zimbabwean authorities and IMF staff estimates.

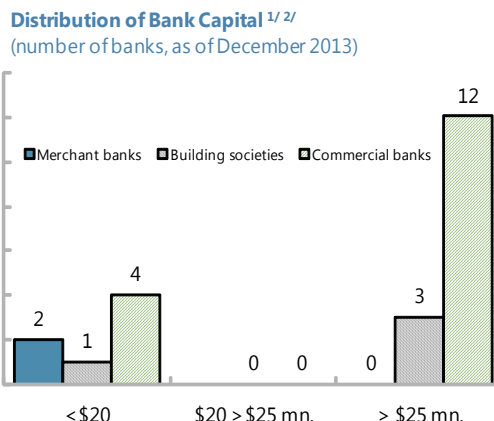
^{1/} The ratio of liquid assets to short-term liabilities. Liquid assets are defined as cash, claims on nonresident banks, interbank claims, and clearing balances at the RBZ. Illiquid claims on the RBZ are excluded. Short-term liabilities comprise all deposits, interbank liabilities, and liabilities to nonresidents. The prudential liquidity ratio was increased from 25% in March 2012 to 30% in June 2012.

Figure 8. Zimbabwe: Banking System Performance and Soundness

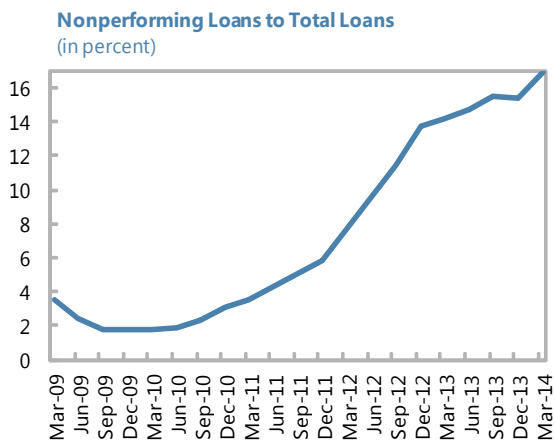
Banking system capital has begun to recover but remains low...



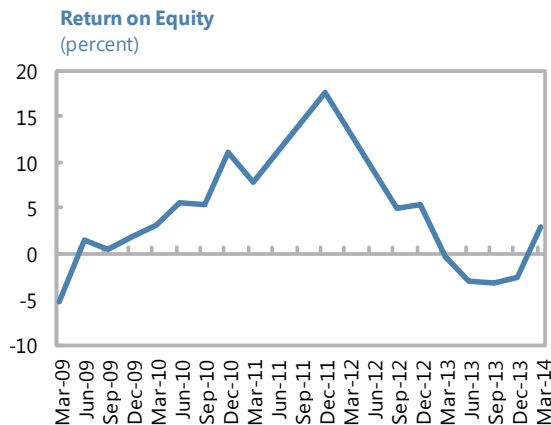
...and solvency remains an issue in a number of small banks.



Assets quality has deteriorated, with high and rising levels of NPLs...



...and this, together with the economic slowdown, has impacted bank profitability.



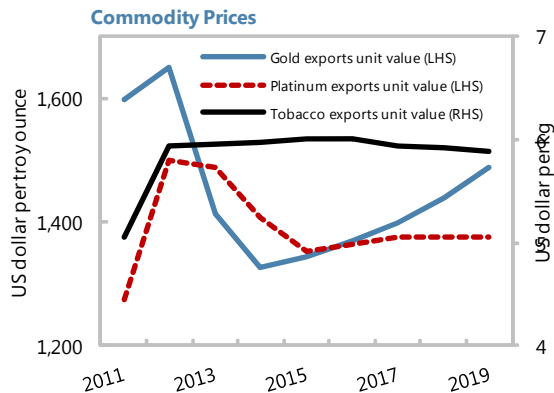
Source: Reserve Bank of Zimbabwe.

^{1/} Illiquid claims on the RBZ count toward capital. The minimum capital ratio was increased from 10 percent to 12 percent in August 2012.

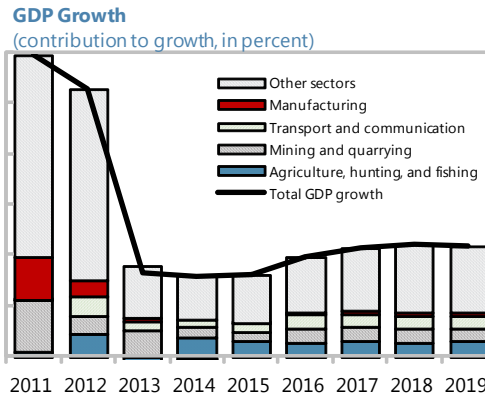
^{2/} Excludes the Post Office Saving Bank. At end-September there were 21 operational banks as of end-December 2012, minimum capital requirements are \$25 million for commercial banks and merchant banks, and \$20 million for building societies.

Figure 9. Zimbabwe: Program Scenario

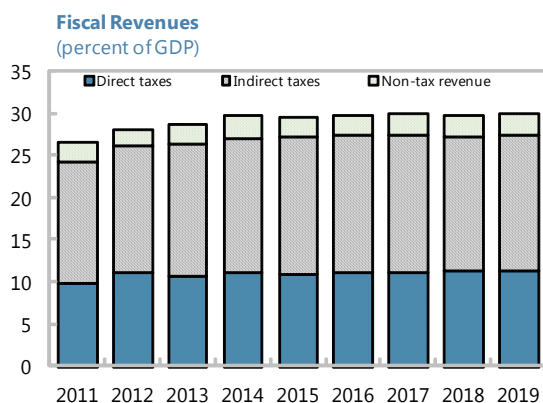
The prices of Zimbabwe's main exports are expected to stabilize at comfortable levels...



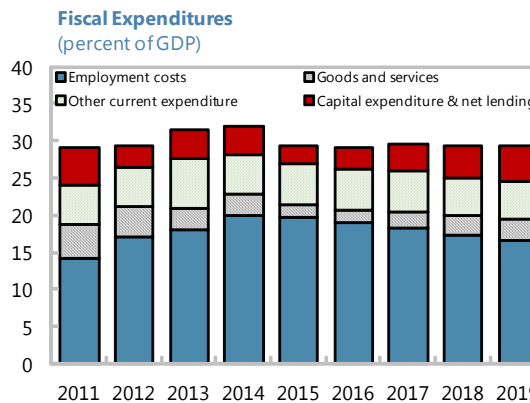
...but growth in 2014 will be weak, led by services, mining, and a recovery in agriculture.



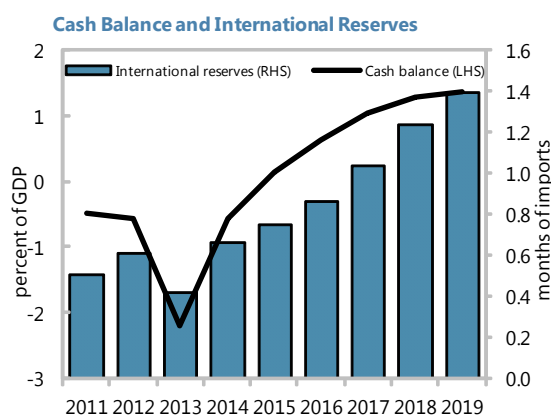
As fiscal revenues are projected to stabilize around 30 percent of GDP...



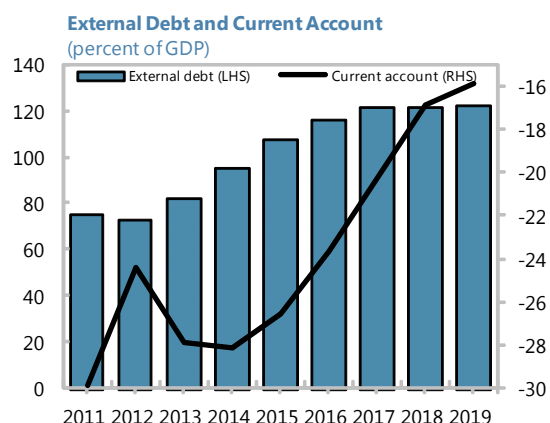
...employment costs need to be contained, to make space for high-priority capital and social spending.



An improved fiscal position will allow for the re-building of buffers against external shocks...



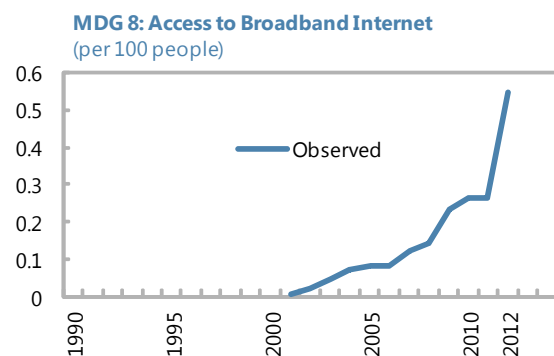
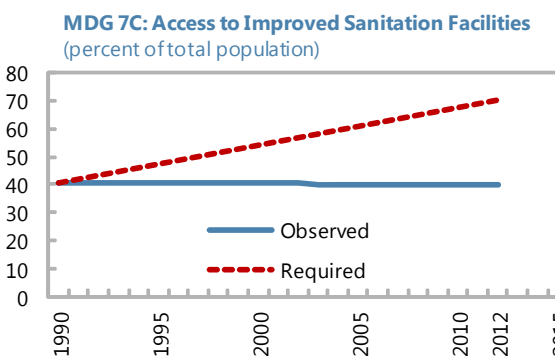
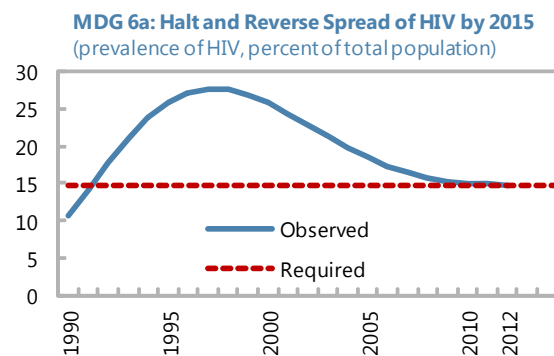
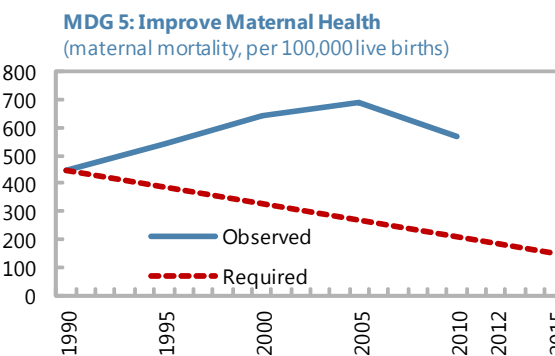
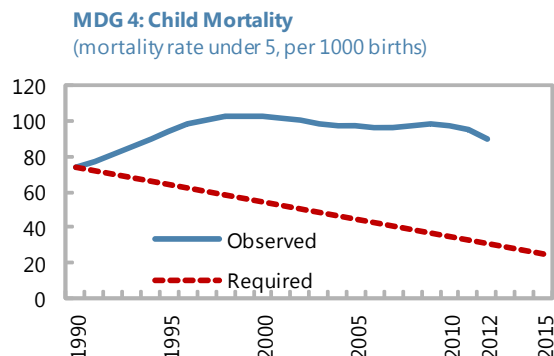
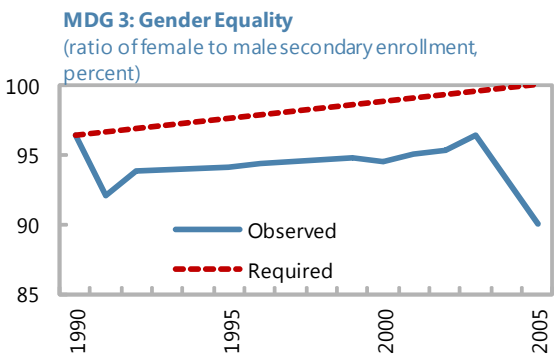
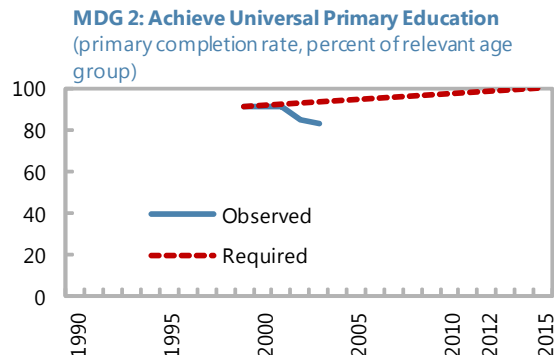
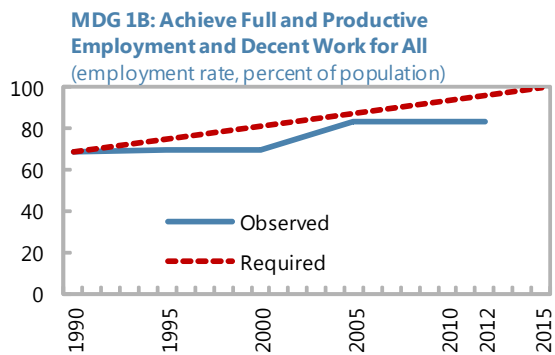
...but the large current account deficit will persist and external debt will remain unsustainable. 1/



Sources: Zimbabwean authorities and IMF staff estimates.

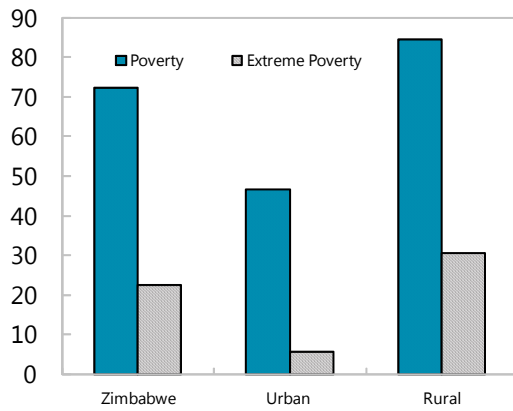
1/ Debt stocks include arrears and are estimates, except for the 2011 debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise concluded in January 2013.

Figure 10. Zimbabwe: Progress Towards the Millennium Development Goals



Source: World Development Indicators.

Figure 11. Zimbabwe: Poverty and Extreme Poverty
(percent of population)



Source: ZIMSTAT, PICES 2011-2012.

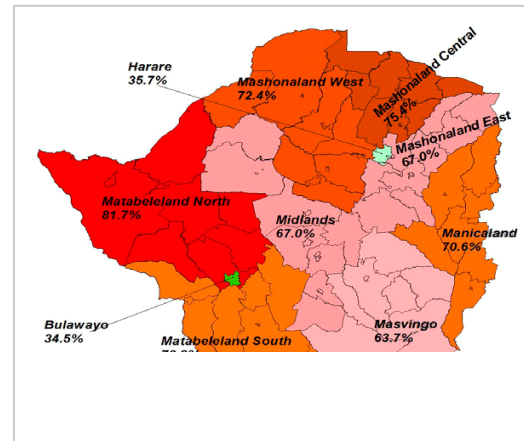
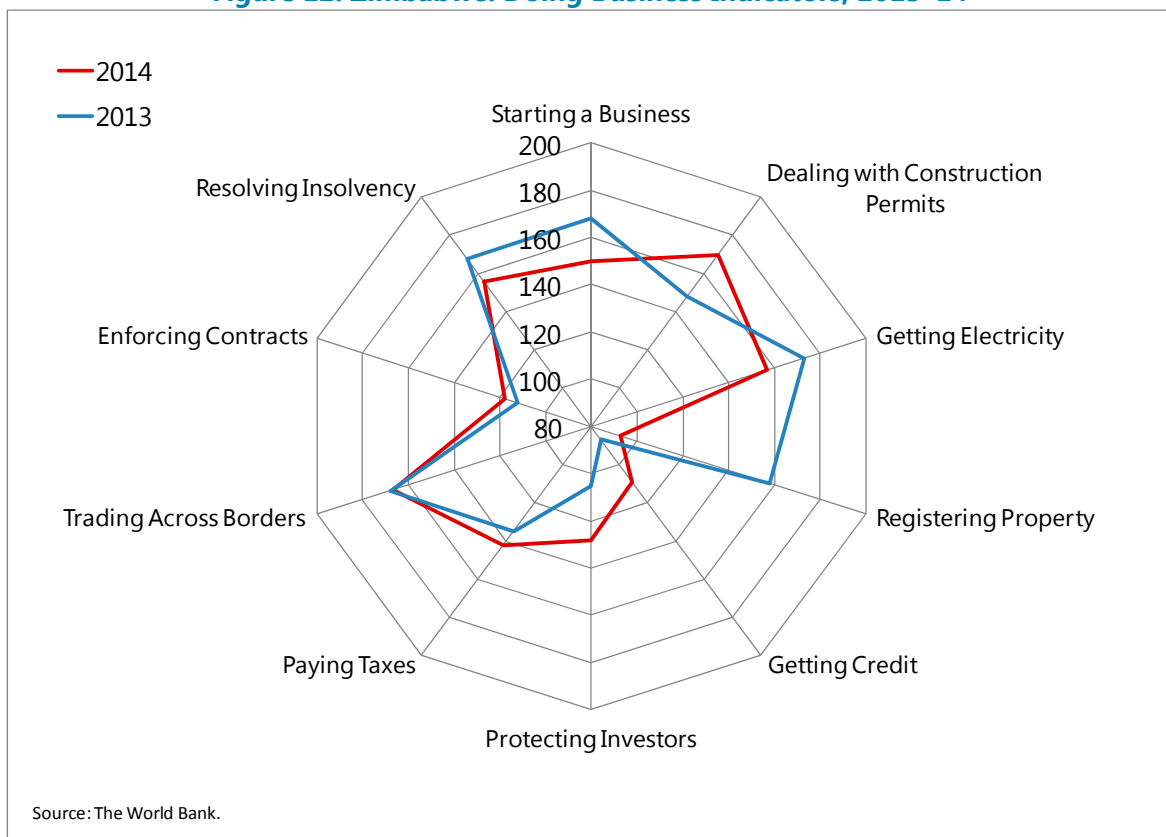


Figure 12. Zimbabwe: Doing Business Indicators, 2013-14



Source: The World Bank.

Table 1. Zimbabwe: Selected Economic Indicators, 2011–19

Population (millions):	13.0 (2012)		Per capita GDP: US\$ 961 (2012)						
Quota (current, SDR millions, % of total)	353.4 (0.15%)		Literacy rate (%): 91.9 (2009)						
Main products and exports:	Platinum, gold, diamonds, tobacco								
Key export markets:	South Africa, European Union								
	Actual		Projected						
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (annual percentage change) ^{1/}	11.9	10.6	3.3	3.1	3.2	3.9	4.3	4.4	4.4
Nominal GDP (US\$ millions) ^{2/}	10,956	12,472	12,974	13,483	14,060	14,974	15,975	17,284	18,491
GDP deflator (annual percentage change)	3.7	3.0	0.7	0.8	1.1	2.5	2.3	3.6	2.5
Inflation (annual percentage change)									
Consumer price inflation (annual average)	3.5	3.7	1.6	0.3	1.2	1.8	2.4	2.5	2.5
Consumer price inflation (end-of-period)	4.9	2.9	0.3	1.2	1.7	2.0	2.5	2.5	2.5
Central government (percent of GDP) ^{2/}									
Revenue and grants	26.7	28.0	28.8	29.8	29.6	29.8	29.9	29.9	30.1
Expenditure and net lending	29.0	29.3	31.4	31.9	29.3	29.0	29.6	29.3	29.4
Of which: cash expenditure and net lending	27.1	28.6	31.0	30.4	29.5	29.1	28.9	28.6	28.7
Of which: employment costs (incl. grants & transfers)	16.7	20.1	21.3	23.4	23.0	22.2	21.3	20.2	19.3
Overall balance (commitment basis)	-2.4	-1.3	-2.5	-2.2	0.3	0.8	0.3	0.6	0.7
Overall balance (cash basis)	-0.5	-0.6	-2.2	-0.6	0.1	0.6	1.0	1.3	1.4
Primary balance (cash basis)	-0.2	-0.4	-2.0	-0.3	0.6	1.1	1.5	1.7	1.8
Money and credit (US\$ millions)									
Broad money (M3)	3,100	3,694	3,888	4,011	4,252	4,478	4,827	5,295	5,762
Net foreign assets	-290	-435	-809	-744	-722	-625	-457	-226	46
Net domestic assets	3,391	4,129	4,697	4,754	4,974	5,102	5,284	5,520	5,716
Domestic credit (net)	2,754	3,559	3,993	3,993	4,172	4,407	4,718	5,121	5,521
Of which: credit to the private sector	2,711	3,524	3,618	3,551	3,821	4,121	4,457	4,854	5,321
Reserve money	186	273	272	280	297	313	337	370	402
Velocity (M3)	3.5	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.2
Balance of payments (US\$ millions; unless otherwise indicated)									
Merchandise exports ^{3/}	4,421	3,808	3,572	3,812	4,091	4,438	4,908	5,563	6,089
Value growth (annual percentage change) ^{3/}	36.1	-13.9	-6.2	6.7	7.3	8.5	10.6	13.4	9.5
Merchandise imports ^{3/}	-7,562	-6,710	-6,952	-7,105	-7,368	-7,615	-7,881	-8,341	-8,889
Value growth (annual percentage change) ^{3/}	46.5	-11.3	3.6	2.2	3.7	3.3	3.5	5.8	6.6
Current account balance (excluding official transfers)	-3,269	-3,048	-3,613	-3,796	-3,737	-3,546	-3,235	-2,912	-2,942
(percent of GDP) ^{2/}	-29.8	-24.4	-27.8	-28.2	-26.6	-23.7	-20.2	-16.8	-15.9
Overall balance ^{4/}	194	-270	-98	-676	-225	-122	-132	-152	-75
Official reserves (end-of-period)									
Usable international reserves (US\$ millions) ^{5/}	366	398	284	464	543	651	809	1,009	1,210
(months of imports of goods and services)	0.5	0.6	0.4	0.7	0.7	0.9	1.0	1.2	1.4
Debt (end-of-period)									
Total external debt (US\$ millions, e.o.p.) ^{6/7/8/}	8,207	9,031	10,632	12,700	15,022	17,312	19,311	20,883	22,600
Percent of GDP ^{2/}	74.9	72.4	82.0	94.2	106.8	115.6	120.9	120.8	122.2
PPG external debt (US\$ millions, e.o.p.) ^{6/}	6,243	6,680	6,835	7,101	7,402	7,603	8,006	8,501	8,860
Percent of GDP ^{2/}	57.0	53.6	52.7	52.7	52.6	50.8	50.1	49.2	47.9
Of which: Arrears	5,076	5,286	5,420	5,575	5,723	5,872	6,016	6,165	6,320
Percent of GDP ^{2/}	46.3	42.4	41.8	41.3	40.7	39.2	37.7	35.7	34.2
Other external debt (US\$ millions, e.o.p.) ^{6/7/8/}	1,964	2,351	3,798	5,599	7,619	9,709	11,306	12,382	13,740
Percent of GDP ^{2/}	17.9	18.9	29.3	41.5	54.2	64.8	70.8	71.6	74.3

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.

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

4/ Includes errors and omissions through 2012.

5/ Defined as the higher of Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves, and amounts in SDR escrow account.

6/ Includes arrears.

7/ Debt stocks are estimates, except for the 2011 debt stock which is based on preliminary results of the authorities' external debt reconciliation exercise concluded in January 2013.

8/ The revisions are due to new information provided by the authorities about their previous projections of withdrawn amounts from approved foreign banks' overdrafts.

Table 2. Zimbabwe: Balance of Payments, 2011–19

	Actual		Projected						
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current account (excluding official transfers)	-3,269	-3,048	-3,613	-3,796	-3,737	-3,546	-3,235	-2,912	-2,942
Trade balance	-3,141	-2,902	-3,379	-3,293	-3,277	-3,176	-2,974	-2,779	-2,801
Exports, f.o.b.	4,421	3,808	3,572	3,812	4,091	4,438	4,908	5,563	6,089
Imports, f.o.b.	-7,562	-6,710	-6,952	-7,105	-7,368	-7,615	-7,881	-8,341	-8,889
Food	-513	-731	-658	-581	-565	-541	-547	-577	-617
Nonfood	-7,050	-5,980	-6,294	-6,524	-6,803	-7,074	-7,334	-7,764	-8,272
Nonfactor services (net)	-759	-866	-941	-1,008	-1,059	-1,070	-1,078	-1,088	-1,136
Investment income (net)	-906	-959	-928	-1,049	-1,085	-1,066	-1,042	-966	-988
Interest	-96	121	93	19	6	-2	-3	-3	0
Receipts	168	294	179	197	217	238	262	287	316
Payments	-265	-173	-87	-178	-210	-240	-265	-290	-316
Other	-810	-1,080	-1,020	-1,068	-1,091	-1,064	-1,038	-963	-988
Private transfers (including transfers to NGOs)	1,538	1,679	1,635	1,555	1,683	1,766	1,858	1,921	1,982
Remittances	570	646	764	764	840	874	909	945	994
Capital account (including official transfers)	2,104	1,740	2,789	3,120	3,511	3,424	3,103	2,760	2,868
Official transfers	0	0	0	0	50	51	52	54	55
Direct investment	360	351	373	347	558	579	604	631	659
Portfolio investment	90	99	114	119	124	132	141	151	162
Long-term capital	684	10	1,095	1,397	1,491	1,534	1,428	1,143	1,137
Government ¹	-154	-116	67	260	342	372	506	574	562
Receipts	0	20	184	336	395	425	559	605	647
Payments	-154	-136	-116	-76	-53	-53	-53	-31	-85
Public enterprises	29	14	13	6	7	8	7	8	8
Private sector	809	113	1,015	1,131	1,142	1,154	915	562	567
Short-term capital	625	543	956	1,000	925	910	653	551	620
Public sector	0	0	0	0	0	0	0	0	0
Private sector (loans mediated outside DMBs)	539	365	692	885	872	903	667	584	654
Cash in circulation (non-banks, - denotes increase)	0	0	0	0	0	0	0	0	0
Other short-term capital	0	0	0	0	0	0	0	0	0
Change in NFA of DMBs	85	178	264	115	53	7	-14	-34	-34
Change in assets	47	2	-62	-16	3	-38	-59	-79	-79
Change in liabilities	39	176	326	131	50	45	45	45	45
SDR Allocation	0	0	0	0	0	0	0	0	0
Errors and omissions ²	1,287	1,124	580	0	0	0	0	0	0
Overall balance	123	-184	-244	-676	-225	-122	-132	-152	-75
Financing	-123	184	244	676	225	122	132	152	75
IMF (net)	0	0	0	0	0	0	0	0	0
Central bank (net)	54	-27	111	-180	-79	-79	-79	-79	-79
Assets	69	-34	109	-180	-79	-79	-79	-79	-79
Change in usable official reserves	86	-32	114	-180	-79	-79	-79	-79	-79
Monetary authorities operations (non-reserve)	-17	-2	-5	0	0	0	0	0	0
Liabilities	-16	7	1	0	0	0	0	0	0
Change in arrears (- denotes decrease)	0	210	134	155	147	149	144	149	155
Debt relief/rescheduling; adjustment for debt reconciliation ³	177	0	0	0	0	0	0	0	0
Unidentified financing ²	0	0	0	701	157	81	145	203	121
<i>Memorandum items:</i>									
Current account balance (percent of GDP) ⁴	-29.8	-24.4	-27.8	-28.2	-26.6	-23.7	-20.2	-16.8	-15.9
Usable international reserves (US\$ millions, e.o.p.)	366	398	284	464	543	651	809	1,009	1,210
Months of imports of goods and services	0.5	0.6	0.4	0.7	0.7	0.9	1.0	1.2	1.4
SDR holdings (US\$ millions, e.o.p.) ⁵	252	143	143	174	236	328	411	414	417
Total external debt (US\$ millions, e.o.p.) ^{3,6}	8,231	9,057	10,646	12,798	15,046	17,283	19,269	20,929	22,530
Percent of GDP ³	75	73	82	95	107	115	121	121	122
PPG external debt (US\$ millions, e.o.p.) ⁶	6,268	6,706	6,862	7,127	7,429	7,629	8,033	8,528	8,888
Percent of GDP ⁴	57	54	53	53	53	51	50	49	48
Of which: Arrears	5,101	5,313	5,448	5,602	5,749	5,898	6,043	6,193	6,348
Percent of GDP ⁴	47	43	42	42	41	39	38	36	34
Other external debt (US\$ millions, e.o.p.) ^{3,6}	1,964	2,351	3,784	5,671	7,618	9,653	11,236	12,402	13,642
Percent of GDP ⁴	18	19	29	42	54	64	70	72	74
Nominal GDP (US\$ millions) ⁴	10,956	12,472	12,974	13,483	14,060	14,974	15,975	17,284	18,491
Percentage change	16.0	13.8	4.0	3.9	4.3	6.5	6.7	8.2	7.0
Exports of goods and services	4,694	4,076	3,849	4,107	4,386	4,758	5,261	5,945	6,498
Percentage change	35.2	-13.2	-5.6	6.7	6.8	8.5	10.6	13.0	9.3
Imports of goods and services	-8,594	-7,844	-8,169	-8,408	-8,721	-9,004	-9,312	-9,812	-10,435
Percentage change	47.9	-8.7	4.1	2.9	3.7	3.2	3.4	5.4	6.3

Sources: Zimbabwean authorities; IMF staff estimates and projections.

¹ May not match data for government external financing in the fiscal table because this line is on an accrual basis.² Large errors and omissions (past data) and unidentified financing (future projections) are likely generated by under-recording of exports, remittances, and FDI.³ Debt stocks are estimates, except for the 2011 debt stock which is based on preliminary results of the authorities' external debt reconciliation exercise concluded in January 2013.⁴ Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.⁵ Excludes amounts in SDR escrow account.⁶ Includes arrears.

Table 3. Zimbabwe: Central Government Operations, 2011–19

(Millions of U.S. dollars)

	Actual		Budget ^{1/}	Prog. ^{1/}	Actual	Budget	Projected					
	2011	2012	2013	2013	2013	2014	2014	2015	2016	2017	2018	2019
Total revenue & on-budget grants	2,921	3,496	3,860	3,828	3,741	4,120	4,014	4,162	4,456	4,783	5,167	5,561
Tax revenue	2,660	3,279	3,646	3,507	3,414	3,825	3,636	3,845	4,099	4,381	4,715	5,061
Personal income tax	588	661	685	765	744	760	803	797	849	906	980	1,048
Corporate income tax	296	445	457	418	404	426	405	436	464	495	536	573
Other direct taxes	188	287	404	242	227	294	284	309	344	383	432	481
Customs	333	354	392	376	361	430	558	449	466	478	497	519
Excise	307	394	483	512	510	569	535	560	596	644	689	737
VAT	912	1,086	1,165	1,111	1,068	1,235	939	1,181	1,260	1,346	1,443	1,555
Other indirect taxes	36	52	61	84	98	111	112	112	120	128	138	148
Non-tax revenue	261	217	214	320	327	295	378	318	357	402	451	499
Of which: Licensing fees	0	40	0	164	158	5	11	0	0	0	0	0
Of which: Diamond dividends	151	44	70	17	18	96	82	107	132	162	192	222
Budget grants	0	0	0	0	0	0	0	0	0	0	0	0
Total expenditure & net lending	3,181	3,658	3,935	3,904	4,069	4,191	4,306	4,120	4,342	4,735	5,067	5,433
Of which: Cash expenditure	2,974	3,568	3,862	3,898	4,027	4,165	4,092	4,144	4,362	4,619	4,945	5,306
Current expenditure	2,629	3,303	3,370	3,521	3,586	3,709	3,791	3,768	3,922	4,128	4,324	4,527
Employment costs	1,544	2,134	2,260	2,340	2,344	2,543	2,696	2,763	2,832	2,903	2,976	3,050
Wages & salaries	1,269	1,733	1,841	1,922	1,926	2,093	2,218	2,274	2,331	2,389	2,449	2,510
Pensions	275	401	419	418	418	450	478	490	502	514	527	540
Interest payments	113	116	118	122	120	142	149	173	186	193	200	206
Foreign	113	114	114	114	114	121	121	131	137	142	149	155
Of which: Paid	34	18	18	15	17	15	16	21	24	25	26	28
Domestic	0	3	4	8	6	21	28	43	49	51	51	51
Of which: Paid	0	3	4	8	6	21	28	43	49	51	51	51
Goods & services	504	505	407	322	359	397	368	225	270	367	449	536
Grants & transfers	468	548	585	737	763	628	579	606	634	664	699	734
Of which: Employment costs	290	370	402	427	423	455	461	473	485	497	509	522
Of which: Referendum costs	0	0	25	46	46	0	0	0	0	0	0	0
Of which: Election costs	0	0	0	132	132	0	0	0	0	0	0	0
Capital expenditure and net lending	551	355	565	382	483	482	515	351	419	607	743	906
Overall balance (commitment basis)	-260	-162	-75	-76	-328	-71	-292	43	114	48	99	128
Primary balance (commitment basis) 2/	-147	-45	43	46	-208	70	-144	216	300	241	299	334
Overall balance (cash basis)	-53	-73	47	-70	-286	-45	-78	19	93	164	222	254
Primary balance (cash basis) 2/	-19	-52	69	-47	-262	-9	-35	83	167	241	299	334
Financing	260	162	26	76	310	71	292	-43	-114	-48	-100	-128
Domestic financing (net)	-25	8	-46	63	265	87	145	95	50	19	-26	36
Bank	4	44	-46	85	193	152	112	192	50	19	-26	36
Non-bank	-30	-36	0	-22	72	-65	33	-98	0	0	0	0
Foreign financing (net)	-48	8	-65	-26	-247	-266	-243	-235	-262	-296	-290	-438
Disbursements	78	0	90	72	72	18	18	0	0	0	0	0
Amortization due	127	101	125	98	319	254	231	175	172	166	125	233
Of which: Paid	0	44	61	65	68	30	54	53	53	53	31	85
Movement in Zimbabwe's SDR holdings (net)	0	109	-30	0	0	-30	-30	-60	-90	-80	0	0
Other	0	0	0	0	0	0	0	0	0	-50	-165	-205
Change in arrears	333	146	137	39	293	250	391	98	99	229	216	274
Domestic	128	-6	-23	-93	-55	-79	109	-134	-134	0	0	0
Arrears accumulation	128	116	0	79	123	0	132	0	0	0	0	0
Arrears clearance	0	-122	-23	-172	-178	-79	-23	-134	-134	0	0	0
Foreign	205	152	160	132	347	329	282	231	232	229	216	274
Interest	79	96	96	99	97	106	105	109	113	116	122	127
Principal	127	57	64	33	251	224	177	122	119	113	94	148
Statistical discrepancy / Financing gap	0	0	-48	0	-17	0	0	0	0	0	0	0

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

1/ Presentation in keeping with the definitions in the Technical Memorandum of Understanding.

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

Table 3. Zimbabwe: Central Government Operations, 2011–19 (concluded)(Percent of GDP) ^{1/}

	Actual		Budget ^{2/}	Prog. ^{2/}	Projected	Budget	Projected					
	2011	2012	2013	2013	2013	2014	2014	2015	2016	2017	2018	2019
Total revenue & on-budget grants	26.7	28.0	29.8	29.5	28.8	30.6	29.8	29.6	29.8	29.9	29.9	30.1
Tax revenue	24.3	26.3	28.1	27.0	26.3	28.4	27.0	27.3	27.4	27.4	27.3	27.4
Personal income tax	5.4	5.3	5.3	5.9	5.7	5.6	6.0	5.7	5.7	5.7	5.7	5.7
Corporate income tax	2.7	3.6	3.5	3.2	3.1	3.2	3.0	3.1	3.1	3.1	3.1	3.1
Other direct taxes	1.7	2.3	3.1	1.9	1.8	2.2	2.1	2.2	2.3	2.4	2.5	2.6
Customs	3.0	2.8	3.0	2.9	2.8	3.2	4.1	3.2	3.1	3.0	2.9	2.8
Excise	2.8	3.2	3.7	3.9	3.9	4.2	4.0	4.0	4.0	4.0	4.0	4.0
VAT	8.3	8.7	9.0	8.6	8.2	9.2	7.0	8.4	8.4	8.4	8.4	8.4
Other indirect taxes	0.3	0.4	0.5	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Non-tax revenue	2.4	1.7	1.6	2.5	2.5	2.2	2.8	2.3	2.4	2.5	2.6	2.7
<i>Of which: Diamond dividends</i>	1.4	0.4	0.5	0.1	0.1	0.7	0.6	0.8	0.9	1.0	1.1	1.2
Budget grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
						-0.9						
Total expenditure & net lending	29.0	29.3	30.3	30.1	31.4	31.1	31.9	29.3	29.0	29.6	29.3	29.4
<i>Of which: Cash expenditure</i>	27.1	28.6	29.8	30.0	31.0	30.9	30.4	29.5	29.1	28.9	28.6	28.7
Current expenditure	24.0	26.5	26.0	27.1	27.6	27.5	28.1	26.8	26.2	25.8	25.0	24.5
Employment costs	14.1	17.1	17.4	18.0	18.1	18.9	20.0	19.7	18.9	18.2	17.2	16.5
Wages & salaries	11.6	13.9	14.2	14.8	14.8	15.5	16.5	16.2	15.6	15.0	14.2	13.6
Pensions	2.5	3.2	3.2	3.2	3.2	3.3	3.5	3.5	3.4	3.2	3.1	2.9
Interest payments	1.0	0.9	0.9	0.9	0.9	1.1	1.1	1.2	1.2	1.2	1.2	1.1
Foreign	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8
<i>Of which: Paid</i>	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Domestic	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
<i>Of which: Paid</i>	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Goods & services	4.6	4.0	3.1	2.5	2.8	2.9	2.7	1.6	1.8	2.3	2.6	2.9
Grants & transfers	4.3	4.4	4.5	5.7	5.9	4.7	4.3	4.3	4.2	4.2	4.0	4.0
<i>Of which: Employment costs</i>	2.6	3.0	3.1	3.3	3.3	3.4	3.4	3.4	3.2	3.1	2.9	2.8
<i>Of which: Referendum costs</i>	0.0	0.0	0.2	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Of which: Election costs</i>	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	5.0	2.8	4.4	2.9	3.7	3.6	3.8	2.5	2.8	3.8	4.3	4.9
Overall balance (commitment basis)	-2.4	-1.3	-0.6	-0.6	-2.5	-0.5	-2.2	0.3	0.8	0.3	0.6	0.7
Primary balance (commitment basis) ^{3/}	-1.3	-0.4	0.3	0.4	-1.6	0.5	-1.1	1.5	2.0	1.5	1.7	1.8
Overall balance (cash basis)	-0.5	-0.6	0.4	-0.5	-2.2	-0.3	-0.6	0.1	0.6	1.0	1.3	1.4
Primary balance (cash basis) ^{3/}	-0.2	-0.4	0.5	-0.4	-2.0	-0.1	-0.3	0.6	1.1	1.5	1.7	1.8
Financing	2.4	1.3	0.2	0.6	2.4	0.5	2.2	-0.3	-0.8	-0.3	-0.6	-0.7
Domestic financing (net)	-0.2	0.1	-0.4	0.5	2.0	0.6	1.1	0.7	0.3	0.1	-0.2	0.2
Bank	0.0	0.4	-0.4	0.7	1.5	1.1	0.8	1.4	0.3	0.1	-0.2	0.2
Non-bank	-0.3	-0.3	0.0	-0.2	0.6	-0.5	0.2	-0.7	0.0	0.0	0.0	0.0
Foreign financing (net)	-0.4	0.1	-0.5	-0.2	-1.9	-2.0	-1.8	-1.7	-1.8	-1.9	-1.7	-2.4
Disbursements	0.7	0.0	0.7	0.6	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Amortization due	1.2	0.8	1.0	0.8	2.5	1.9	1.7	1.2	1.2	1.0	0.7	1.3
<i>Of which: Paid</i>	0.0	0.4	0.5	0.5	0.5	0.2	0.4	0.4	0.4	0.3	0.2	0.5
Movement in Zimbabwe's SDR holdings (net)	0.0	0.9	-0.2	0.0	0.0	-0.2	-0.2	-0.4	-0.6	-0.5	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.0	-1.1
Change in arrears	3.0	1.2	1.1	0.3	2.3	1.9	2.9	0.7	0.7	1.4	1.3	1.5
Domestic	1.2	0.0	-0.2	-0.7	-0.4	-0.6	0.8	-0.9	-0.9	0.0	0.0	0.0
Arrears accumulation	1.2	0.9	0.0	0.6	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Arrears clearance	0.0	-1.0	-0.2	-1.3	-1.4	-0.6	-0.2	-0.9	-0.9	0.0	0.0	0.0
Foreign	1.9	1.2	1.2	1.0	2.7	2.4	2.1	1.6	1.6	1.4	1.3	1.5
Interest	0.7	0.8	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Principal	1.2	0.5	0.5	0.3	1.9	1.7	1.3	0.9	0.8	0.7	0.5	0.8
Statistical discrepancy / Financing gap	0.0	0.0	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

^{1/} Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.^{2/} Presentation in keeping with the definitions in the Technical Memorandum of Understanding.^{3/} The difference between the primary balance on a commitment and cash basis is the change in domestic arrears.

Table 4. Zimbabwe: Central Government Operations (GFSM 2001 Classification), 2011–19
(millions of U.S. dollars)

	Actual			Projected					
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,921	3,496	3,741	4,014	4,162	4,456	4,783	5,167	5,561
Taxes	2,660	3,279	3,414	3,636	3,845	4,099	4,381	4,715	5,061
Taxes on income, profits, and capital gain	884	1,105	1,149	1,208	1,233	1,313	1,401	1,516	1,622
Income Tax on Profits	296	445	404	405	436	464	495	536	573
Income Tax on wages and salaries	588	661	744	803	797	849	906	980	1,048
Income Tax on interest income, & capital gains	...	...	...	...	...	...	...	...	...
Penalties on Income Tax	0	0	0	0	0	0	0	0	0
Taxes on goods and services	1,218	1,480	1,579	1,474	1,741	1,856	1,990	2,132	2,292
Net VAT revenues	912	1,086	1,068	939	1,181	1,260	1,346	1,443	1,555
Excises	307	394	510	535	560	596	644	689	737
Taxes on international trade	333	354	361	558	449	466	478	497	519
Other direct and indirect taxes	225	339	326	396	422	464	511	570	629
Grants	0	0	0	0	0	0	0	0	0
Other revenue	261	217	327	378	318	357	402	451	499
Entrepreneurial and property income	...	...	...	...	...	...	...	...	...
Other	...	...	...	...	...	...	...	...	...
Expense	2,629	3,303	3,586	3,791	3,768	3,922	4,128	4,324	4,527
Compensation of employees	1,269	1,733	1,926	2,218	2,274	2,331	2,389	2,449	2,510
Wages and social security payments	...	...	...	...	...	...	...	...	...
Allowances	...	...	...	...	...	...	...	...	...
Purchase of goods and services	504	505	359	368	225	270	367	449	536
Interest payments	113	116	120	149	173	186	193	200	206
Domestic currency debt	0	3	6	28	43	49	51	51	51
of which: paid	0	3	6	28	43	49	51	51	51
Foreign currency debt	113	114	114	121	131	137	142	149	155
of which: paid	34	18	17	16	21	24	25	26	28
Grants	468	548	763	579	606	634	664	699	734
Social benefits	275	401	418	478	490	502	514	527	540
of which: Pensions	275	401	418	478	490	502	514	527	540
Gross Operating Balance	292	193	155	223	394	533	655	843	1,034
Net acquisition of nonfinancial assets	431	266	411	456	311	371	538	659	803
Acquisition of non-financial assets	431	266	411	456	311	371	538	659	803
Domestically financed	431	266	411	456	311	371	538	659	803
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)	-139	-73	-257	-234	83	162	117	184	231
Net transactions in financial assets and liabilities	-135	-73	-239	-234	83	161	117	184	231
Net acquisition of financial assets	150	77	-93	120	150	138	199	250	308
Domestic	150	186	-93	90	90	48	69	85	103
Currency and deposits	30	97	-164	31	50	0	0	0	0
Loans (net lending)	120	89	71	59	40	48	69	85	103
Equity and investment share (privatization proceeds)	...	...	...	...	...	...	...	...	...
Debt cancellation	...	...	...	...	...	...	...	...	...
Foreign	0	-109	0	30	60	90	130	165	205
Currency and deposits (+ increase in assets)	0	0	0	0	0	0	0	0	0
Monetary gold and SDRs	0	-109	0	30	60	90	130	165	205
Equity and investment share	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	-285	-150	-146	-353	-67	24	-82	-65	-77
Domestic	-128	-99	-46	-285	-11	84	-19	26	-36
Currency and deposits	...	...	...	...	...	...	...	...	...
Debt securities	0	-93	-132	-367	-145	-50	-19	26	-36
T-bills	...	...	...	...	...	...	...	...	...
Loans	0	-95	6	89	0	0	0	0	0
Clearance of statutory reserves	0	83	25	103	0	0	0	0	0
Change in domestic arrears	-128	6	55	-109	134	134	0	0	0
Foreign	-157	-51	-101	-69	-56	-60	-63	-91	-41
SDRs	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	48	101	247	213	175	172	166	125	233
Disbursements	-78	0	-72	-18	0	0	0	0	0
Amortization due	127	101	319	231	175	172	166	125	233
of which paid	0	44	68	54	53	53	53	31	85
Change in foreign arrears	-205	-152	-347	-282	-231	-232	-229	-216	-274
Interest	-79	-96	-97	-105	-109	-113	-116	-122	-127
Principal	-127	-57	-251	-177	-122	-119	-113	-94	-148
Memorandum items:									
Overall balance (cash basis)	-53	-73	-286	-78	19	93	164	222	254
Overall balance (commitment basis)	-260	-162	-328	-292	43	114	48	99	128
Cash expenditures	2,974	3,568	4,027	4,092	4,144	4,362	4,619	4,945	5,306
Change in arrears	-333	-146	-293	-391	-98	-99	-229	-216	-274

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

Table 5. Zimbabwe: Integrated Balance Sheet, 2011–19

(millions of U.S. dollars)

	Estimated			Projected					
	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Net worth									
Nonfinancial assets									
Net financial worth	-6,880	-7,501	-7,749	-8,357	-8,579	-8,548	-8,851	-9,250	-9,547
Financial assets	770	810	724	845	998	1,139	1,292	1,381	1,488
Domestic	415	565	479	568	658	706	775	860	963
Currency and deposits	116	176	19	50	100	100	100	100	100
Debt securities	0	0	0	0	0	0	0	0	0
Loans	299	388	459	518	558	606	675	760	863
Equity and investment fund shares	...	...	...	...	...	...	...	...	...
Insurance, pensions, and standardized guarantee schemes	...	...	...	...	...	...	...	...	...
Financial derivatives and employee stock options	...	...	...	...	...	...	...	...	...
Other accounts receivable	...	...	...	...	...	...	...	...	...
Foreign	354	245	245	277	339	432	517	521	525
Monetary gold and SDRs 1/	354	245	245	277	339	432	517	521	525
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	7,650	8,311	8,473	9,202	9,577	9,687	10,142	10,630	11,035
Domestic	887	1,110	1,117	1,576	1,645	1,551	1,599	1,588	1,629
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	93	225	592	737	787	806	780	816
Loans	0	95	89	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	887	922	803	984	909	764	793	808	813
Of which: Debt owed by the RBZ 2/	711	709	645	717	775	764	793	808	813
Foreign	6,763	7,200	7,356	7,625	7,931	8,136	8,543	9,042	9,406
SDRs	520	520	521	524	529	533	538	542	546
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	1,167	1,394	1,415	1,426	1,640	1,731	1,990	2,232	2,540
Equity and investment fund shares	...	...	...	...	...	...	...	...	...
Insurance, pensions, and standardized guarantee schemes	...	...	...	...	...	...	...	...	...
Financial derivatives and employee stock options	...	...	...	...	...	...	...	...	...
Other accounts payable	5,076	5,286	5,420	5,675	5,763	5,872	6,016	6,268	6,320

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

1/ Including about \$100 million of escrowed SDRs, which will become available once arrears to the PRGT Trust have been settled.

2/ About \$150 million of short-term foreign loans reclassified to domestic liabilities

Table 6. Zimbabwe: Monetary Survey, 2011–19

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

	Actual			Projected						
	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	
Monetary authorities										
Net foreign assets	-734	-700	-810	-630	-555	-450	-297	-99	138	
Claims on non-residents	516	550	441	621	700	808	965	1,166	1,407	
Gross international reserves ^{1/}	366	398	284	464	543	651	809	1,009	1,250	
<i>Of which: Other reserve assets</i>	114	255	141	290	307	323	398	595	833	
Liabilities to non-residents	-1,250	-1,250	-1,251	-1,251	-1,255	-1,258	-1,262	-1,265	-1,269	
Short-term foreign liabilities	-662	-658	-655	-652	-651	-651	-650	-649	-648	
<i>Of which: Liabilities to IMF</i>	-134	-127	-126	-123	-122	-121	-120	-120	-119	
Other foreign liabilities	-588	-592	-596	-599	-603	-608	-612	-616	-620	
Net domestic assets	919	973	1,082	910	852	763	634	469	264	
Net domestic claims	-1	-8	143	2	2	2	2	2	2	
Claims on other depository corporations	0	0	141	0	0	0	0	0	0	
Net claims on central government	-2	-11	-1	-1	-1	-1	-1	-1	-1	
Claims on other sectors	1	4	3	4	4	4	4	4	4	
Claims on other financial corporations	0	0	0	0	0	0	0	0	0	
Claims on state and local government	0	0	0	0	0	0	0	0	0	
Claims on public non-financial corporations	0	0	0	0	0	0	0	0	0	
Claims on private sector	1	4	3	4	4	4	4	4	4	
Other items (net)	921	980	939	908	850	761	632	467	262	
Monetary base	186	273	272	280	297	313	337	370	402	
Statutory reserves	83	0	0	0	0	0	0	0	0	
Banks' current/RTGS accounts	102	273	272	280	297	313	337	370	402	
Deposit money banks and other banking institutions										
Net foreign assets	443	266	1	-114	-167	-174	-160	-126	-93	
Foreign assets	644	642	704	720	716	754	813	892	971	
Foreign liabilities	-200	-376	-702	-834	-884	-929	-974	-1,019	-1,064	
Net domestic assets	2,657	3,428	4,027	4,124	4,419	4,652	4,988	5,421	5,854	
Net domestic claims	3,105	3,892	4,337	4,346	4,542	4,793	5,128	5,563	5,996	
Claims on RBZ	349	325	347	355	372	388	412	445	477	
Currency	0	0	0	0	0	0	0	0	0	
Deposits	349	325	347	355	372	388	412	445	477	
Net claims on central government	0	-5	315	382	288	221	193	195	126	
Claims on other sectors	2,755	3,572	3,676	3,609	3,882	4,184	4,523	4,923	5,393	
Claims on public non-financial corporations	45	52	61	62	64	67	70	72	75	
Claims on private sector	2,710	3,520	3,615	3,547	3,817	4,117	4,454	4,851	5,318	
Other items (net)	-448	-463	-310	-222	-123	-141	-141	-142	-142	
Liabilities to RBZ	0	0	141	0	0	0	0	0	0	
Deposits included in broad money	3,100	3,694	3,888	4,011	4,252	4,478	4,827	5,295	5,761	
Monetary Survey										
Net foreign assets	-290	-435	-809	-744	-722	-625	-457	-226	46	
Net domestic assets	3,391	4,129	4,697	4,754	4,974	5,102	5,284	5,520	5,716	
Domestic claims	2,754	3,559	3,993	3,993	4,172	4,407	4,718	5,121	5,521	
Net claims on central government	-2	-17	314	380	287	220	191	194	125	
Claims on other sectors	2,756	3,575	3,679	3,613	3,885	4,188	4,527	4,927	5,396	
Claims on public non-financial corporations	45	52	61	62	64	67	70	72	75	
Claims on private sector	2,711	3,524	3,618	3,551	3,821	4,121	4,457	4,854	5,321	
Other items (net)	636	570	704	761	802	695	566	400	195	
Broad money liabilities (M3)	3,100	3,694	3,888	4,011	4,252	4,478	4,827	5,295	5,762	
Deposits	3,100	3,694	3,888	4,011	4,252	4,478	4,827	5,295	5,762	
				(annual percentage change)						
Monetary Base	-27	47	0	3	6	5	8	10	9	
Broad Money (M3)	33	19	5	3	6	5	8	10	9	
Currency	...	...	...	...	...	...	...	...	...
Deposits	33	19	5	3	6	5	8	10	9	
Private Sector Credit	63	30	3	-2	8	8	8	9	10	
Memorandum Items:										
Usable international reserves ^{2/}	182	128	143	184	246	338	471	640	848	
Loan-to-deposit ratio (in percent)	87	95	93	88	90	92	92	92	92	
Reserves-to-deposit ratio (in percent)	6	7	7	7	7	7	7	7	7	
Money multiplier (M3/monetary base)	17	14	14	14	14	14	14	14	14	
Velocity (GDP/M3) ^{3/}	3.5	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.2	

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

^{1/} Defined as Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves, and amounts in SDRs escrow account.^{2/} Defined as the higher of Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves, and amounts in SDRs escrow account.^{3/} Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.

Table 7. Zimbabwe: Risk Assessment Matrix¹

Source of Risk	Relative Likelihood	Impact if Realized	Policy Advice/Response
Fiscal underperformance (short term)	High	High Further weakening of revenue, whether from lower tax collections or further postponement of the special diamond dividend, or any further increases in civil servants' pay in 2014 could increase fiscal stress, crowd out social spending and capital investment, and cause the unplanned accumulation of new domestic arrears.	Implement the announced measures to mobilize diamond dividends and increase diamond revenue transparency. Refrain from further wage increases in 2014 and maintain the hiring freeze, except in critical areas. Be prepared to take necessary actions should revenue fall short of revised projections, while protecting priority infrastructure and social spending.
Destabilizing effects from the indigenization and empowerment policy (short to medium term)	Medium	Medium Continued uncertainties over implementation would limit FDI inflows. Indigenization in the banking sector could exacerbate existing risks to financial stability.	Clarify the indigenization and empowerment policy and enhance predictability and transparency. Give priority to financial sector stability and ensure application of the policy is consistent with existing financial sector laws and prudential regulations.
Risks to financial stability from incomplete regulatory reforms (medium term)	Medium	Medium to High Delays could aggravate vulnerabilities. Further deterioration in corporate governance, asset quality, and bank capitalization would lead to loss of confidence, worsening liquidity conditions, and possible bank runs.	Take a proactive approach to avoid disorderly resolution of troubled banks. Give serious consideration to closing insolvent, non-systemic banks. Advance the restructuring of the RBZ and other financial sector reforms.
Adverse weather conditions (short term)	Medium	Medium Erratic rainfall and drought have impacted agricultural production in the past. With agriculture accounting for 11 percent of GDP, adverse weather conditions could severely affect growth and food security.	Implement the authorities' development agenda which includes plans to build or rehabilitate irrigation schemes, to increase the availability of affordable energy for irrigation, and to create a self-sufficient agricultural sector.
Protracted period of slow growth in advanced and emerging economies	High	Medium to High A protracted slowdown, particularly in Europe and China, could lower commodity prices and hurt Zimbabwe's key exports. This would undermine the country's external and fiscal positions and reduce near- and long-term growth prospects, as mining capacity might shrink in response. Such a shock could also reduce financial inflows which would exacerbate liquidity shortages and cause BOP difficulties.	Make progress towards fiscal consolidation to build fiscal and external buffers to cushion shocks. Create an enabling business environment, and normalize relations with creditors. Diversify the economy by boosting agriculture, manufacturing, and services.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Table 8. Zimbabwe: Financial Soundness Indicators, December 2009–March 2014¹

(In percent, unless otherwise indicated 1/)

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	
Capital adequacy																			
Regulatory capital to risk-weighted assets	21.6	19.0	17.0	14.3	15.3	14.5	13.7	13.2	13.4	12.9	8.1	7.9	11.1	10.5	10.8	10.3	12.3	12.4	
Capital to assets	12.0	11.4	10.2	9.1	9.4	9.4	9.2	9.0	9.3	8.4	5.9	6.0	6.6	7.2	7.2	6.8	7.3	7.1	
Asset quality																			
Past-due loans to gross loans ^{2/}	19.9	16.9	16.9	18.1	16.1	17.4	19.9	21.5	21.1	26.2	27.2	26.3	30.0	32.2	32.3	33.3	31.6	36.2	
Nonperforming loans ^{3/}	1.8	1.7	1.9	2.3	3.1	3.5	4.0	6.5	5.9	9.2	12.4	11.5	13.8	14.2	14.8	15.5	15.4	16.9	
Watch-listed loans ^{4/}	18.0	15.2	15.1	15.8	13.0	13.9	15.9	15.0	15.2	16.9	14.8	14.9	16.3	18.1	17.5	17.7	16.3	19.3	
Provisions as percent of past-due loans	10.8	7.1	11.9	10.0	10.8	9.9	10.5	12.0	14.0	13.4	25.6	25.6	26.1	25.4	28.1	26.0	26.5	23.7	
Earnings and profitability																			
Net profit (before tax and extraordinary items) to net income	188.1	139.5	127.7	173.3	166.0	111.1	147.8	152.5	139.7	167.6	64.4	208.5	221.0	-41.6	75.2	0.4	-47.1	101.6	
Return on assets	0.5	0.5	0.8	1.0	1.9	1.0	1.5	2.0	2.7	0.4	-0.6	1.0	1.2	0.0	-0.2	0.0	0.1	0.3	
Return on equity	1.9	3.0	5.5	5.4	11.0	7.9	9.5	12.5	17.6	2.1	-9.6	5.0	5.4	-0.4	-2.9	-3.3	-2.5	3.0	
Expenses to income	95.5	84.6	88.3	89.4	84.1	77.5	78.0	80.3	80.2	88.0	109.4	88.7	89.7	99.3	104.2	100.0	98.8	87.6	
Liquidity																			
Liquid assets to total assets	39.6	36.2	33.0	32.0	30.8	28.2	30.4	27.6	27.7	29.5	26.3	24.3	24.9	24.4	26.9	29.1	27.8	28.5	
Liquid assets to short-term liabilities	96.3	47.2	41.4	40.9	37.5	65.0	36.0	32.6	32.6	34.7	32.0	29.7	29.9	30.2	32.9	34.9	34.8	35.1	
Loans to deposits	48.1	57.7	60.7	51.6	79.1	76.8	77.2	86.2	88.0	85.2	88.4	93.8	92.9	105.6	103.9	103.3	104.4	96.9	
Liquid assets to total deposits	60.0	52.8	49.6	51.8	51.8	42.7	44.6	41.2	41.7	44.4	42.5	39.6	39.6	43.3	47.4	51.9	51.2	50.7	
Excess reserves to broad money	2.8	5.3	7.1	5.7	7.4	5.4	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	9.0	7.6	
Sensitivity to market risk																			
funds	5.2	5.2	6.5	-8.9	7.9	33.1	26.6	26.6	26.6	26.6	26.6	26.6	46.9	37.5	45.0	49.5	53.8	53.4	
Interest rates																			
Lending rate minus demand deposit rate	3.0	2.9	2.8	3.3	3.1	2.0	4.2	6.2	9.3	2.6	4.9	7.0	8.9	2.1	4.2	6.2	8.6	2.0	
Commercial banks fixed deposits (12 months average)	10.3	9.9	9.4	9.1	9.0	8.3	8.6	11.5	11.2	11.4	11.5	11.5	11.2	11.4	14.3	12.4	20.1	13.3	
Commercial banks lending rate (weighted average)	11.0	7.2	7.2	7.3	7.5	5.3	18.0	18.0	18.0	18.0	18.0	10.4	10.0	9.8	10.3	11.8	9.4	9.3	
Savings deposit rate	1.0	1.1	1.3	1.3	1.4	1.0	2.6	2.6	2.6	2.6	2.6	3.0	3.2	3.2	3.1	3.1	3.2	4.1	

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, and include RBZ frozen claims.^{3/} Non-performing assets are defined as the aggregate of substandard, doubtful, and loss loans.^{4/} Watch-listed loans are the same as special mention loans.

Table 9. Zimbabwe: Quantitative Targets under the Staff-Monitored Program

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

	2013 ¹									
	March		June ²			Sept.		Dec. ²		Status
	Act.	Prog.	Act.	Status	Prog.	Act.	Prog.	Act.		
1. Floor on primary budget balance of the central government ^{3,4,5,6,7}	-26	18			80		-47	-262		
<i>Adjusted floor</i>		169	-3	Not met	170	-25	-53		Not met	
2. Continuous ceiling on new domestic payment arrears ⁸	n.a.	0	n.a.	Not met	0	n.a.				
3. Floor on protected social spending	18	51	58	Met	93	98	144	100	Not met	
4. Floor on stock of usable international reserves	143	149	143	Not met	169	143	143	143	Met	
5. Floor on payments to the PRGT	0.45	0.90	1.05	Met	1.35	1.50	1.80	1.80	Met	
6. Continuous ceiling on the stock of new non-concessional external debt contracted or guaranteed by the general government with original maturity of one year or more	0	330	29	Met ⁹	330	29	350	348	Met	
7. Ceiling on total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates			171			75	117	158	Not met	
<i>Memorandum Items:</i>										
Broad Money (stock)	3,646	4,043	3,689		4,226	3,757	3,828	3,888		
Reserve Money (stock)	227	232	337		243	276	283	272		
Disbursements on medical equipment and supplies loan	0	90	30		90	30	72	72		
Unbudgeted costs related to the referendum and elections	18	148	47		148	153	153	153		
Unbudgeted revenues from telecom licence fees	0	50	40		50	85	91	85		

¹ Value of cumulative flows for the calendar year, unless otherwise indicated.

² Program performance will be monitored based on the quantitative targets for June and December 2013.

³ To be adjusted downwards in any quarter and subsequent quarters by the full amount of any new borrowing disbursed and utilized by central government for priority infrastructure projects.

⁴ To be adjusted downwards in any quarter and subsequent quarters by the full amount of any domestic debt issuance by central government ring-fenced for clearance of domestic payment arrears.

⁵ To be adjusted upwards (downwards) in Q2 and Q3 of 2013 by the full amount of any shortfall (excess) in unbudgeted costs related to the constitutional referendum and national elections and incurred by central government, relative to programme assumptions.

⁶ To be adjusted downwards (upwards) in any quarter and subsequent quarters in 2013 by the full amount of any shortfall (excess) in unbudgeted revenues from telecom licence fees received by central government, relative to programme assumptions.

⁷ To be adjusted downwards in Q1 of 2013 by the value of the medical equipment and supplies project loan if the loan were disbursed in that quarter. To be adjusted upwards in Q2 and Q3 of 2013 by the shortfall in the cumulative disbursement on the loan effected through these quarters, relative to programme assumptions. To be adjusted downwards (upwards) in Q4 of 2013 by the full amount of any excess (shortfall) in the cumulative disbursement on the loan for the calendar year, relative to programme assumptions.

⁸ For the second SMP review, the continuous ceiling on new domestic payment arrears is replaced with a ceiling on the total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates.

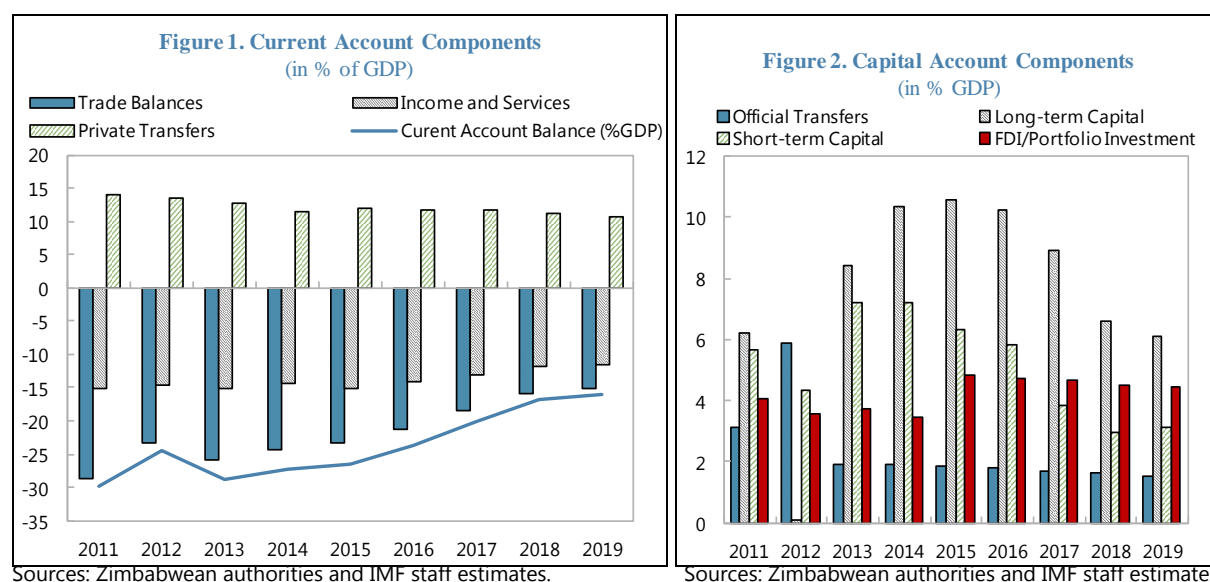
⁹ A US\$ 319 million non-concessional loan was signed with the Export-Import Bank of China in November, thus breaching the continuous US\$ 330 million

Table 10. Zimbabwe: Status of Structural Benchmarks for 1st and 2nd SMP Reviews

Benchmarks	Macroeconomic Rationale	Review	Status
Tax Policy			
1. Submit to Parliament the new Income Tax Bill.	Enhance tax administration.	1 st	Met.
2. Issue a Statutory Instrument establishing a clear formula for the calculation and remittance of dividends from entities in which the Government holds shares.	Increase transparency and accountability.	1 st	Not met.
3. Submit to Cabinet amendments to the Precious Stones Trade Act to incorporate the principles of the Diamond Policy.	Increase transparency and accountability.	2 nd	Not met.
4. Submit to Parliament amendments to the Precious Stones Trade Act.	Increase transparency and accountability.	2 nd	Not met.
5. Submit to Parliament a new Mines and Minerals Act.	Increase transparency and accountability.	2 nd	Not met.
Public Financial Management			
6. PSC to submit to MoFED a time-bound action plan on measures to modernize the human resources and payroll systems.	Enhance public expenditure and financial management.	1 st	Met.
7. Publish a report on the stock of verified arrears and a strategy to clear validated arrears by December 2013 on MoFED's website.	Enhance public expenditure and financial management.	1 st	Not met.
Financial Sector			
8. Submit to the RBZ Board a framework for contingency planning and systemic crisis management.	Reduce financial sector vulnerabilities.	1 st	Met.
9. Submit amendments to the Banking Act to Parliament aimed at strengthening the Troubled Bank Resolution Framework.	Strengthen legal and regulatory framework and reduce systemic liquidity risks.	2 nd	Not met.
10. Submit the RBZ Debt Relief Bill to Parliament to complete the restructuring of the RBZ balance sheet.	Reduce financial sector vulnerabilities.	2 nd	Met

Appendix I. Zimbabwe: Assessment of External Stability and Competitiveness

1. An assessment of Zimbabwe's competitiveness and external stability is complicated by insufficient data availability and large structural changes. Dollarization rules out the nominal exchange rate as a tool of macroeconomic adjustment, and exchange rate misalignment can only be addressed through relative prices changes and productivity gains. In the last few years, the current account deficit has been very large, but it is projected to moderate in the medium term as mining production accelerates (Figure 1). Long-term external borrowing is likely to remain the key source of financing for the current account (Figure 2).



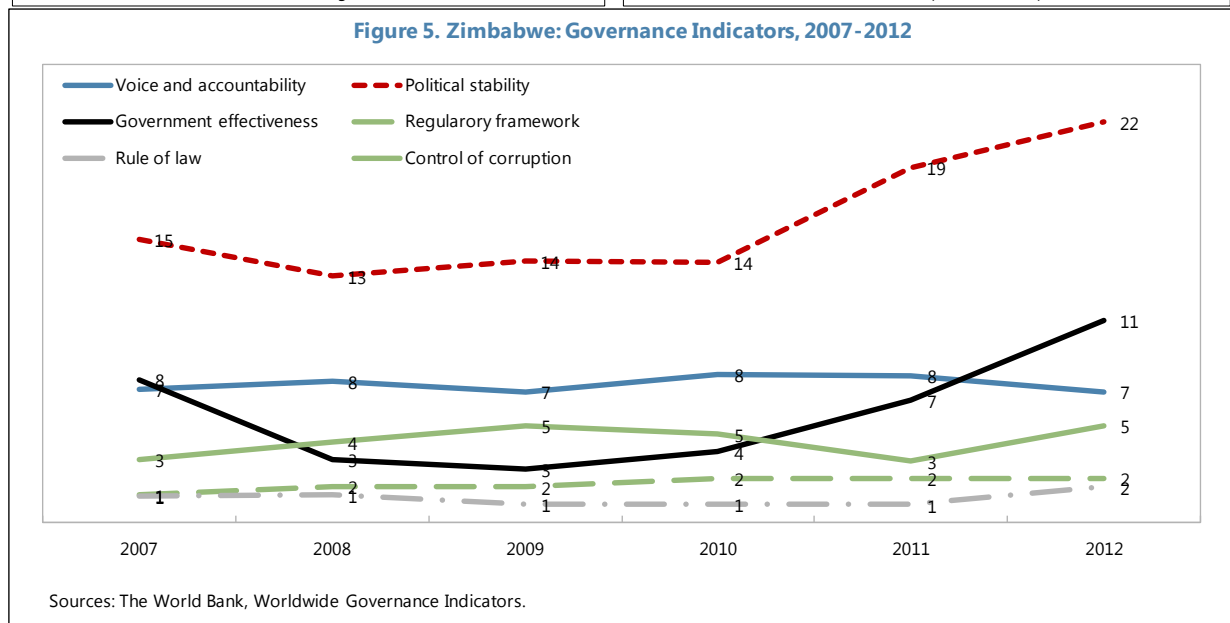
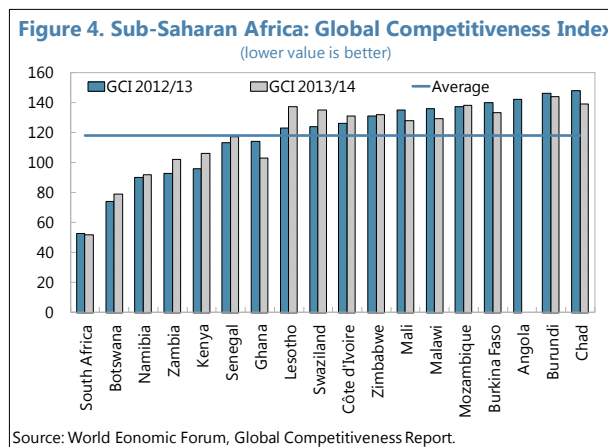
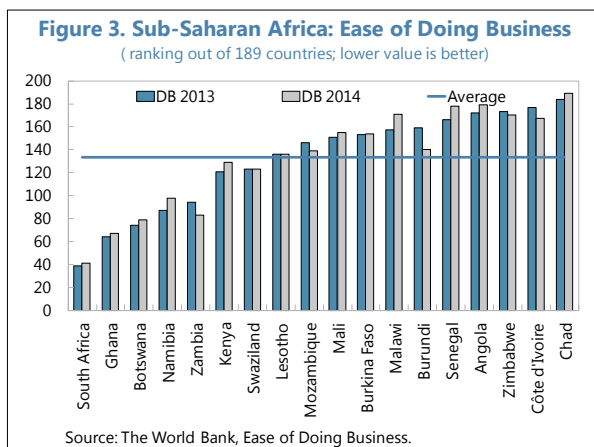
2. Boosting competitiveness requires a strong push to address structural bottlenecks. Substantial efforts are needed to improve the business environment, which plays a crucial role in catalyzing domestic and foreign investment. Improving basic infrastructure and removing legal and regulatory obstacles are essential to creating favorable investment conditions and boosting external competitiveness.

3. Limited progress has been made in boosting competitiveness. Zimbabwe's rank in qualitative competitiveness indicators has remained near the bottom of the list. While Zimbabwe is above the Sub-Saharan Africa average, only marginal gains have been made in The World Bank's Ease of Doing Business rankings (Figure 3).¹ In the case of the World Economic Forum's Global Competitiveness Index (Figure 4), Zimbabwe's ranking deteriorated in 2013-14. Limited progress has been made in improving government effectiveness and perceptions of corruption remain high, with some deterioration in the area of voice and accountability. Governance indicators show limited

¹ These indicators should be interpreted with caution, due to the limited number of respondents, limited geographical coverage, and standardized assumptions on business constraints and information availability.

progress in crucial areas, including the judiciary, property rights, and government effectiveness (Figure 5).

4. The exchange rate assessment confirms substantial risks for competitiveness in the medium term, despite the projected decline in the current account deficit. A more sustainable external position could only be achieved with a strong and timely implementation of structural reforms aimed at expanding productive capacity and diversifying the economy.



5. Standard methodologies² indicate that the real effective exchange rate is overvalued. The macroeconomic balance approach points to an overvaluation of between 21 and 23 percent depending on estimated parameters, while the external sustainability assessment indicates an overvaluation of 23 percent. However, these imbalances are expected to decline in the medium-term,

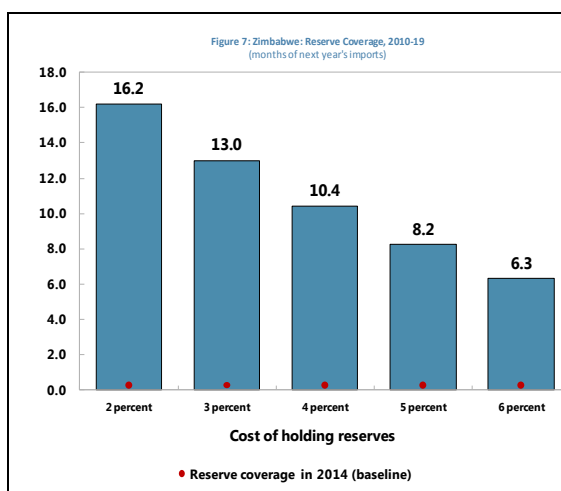
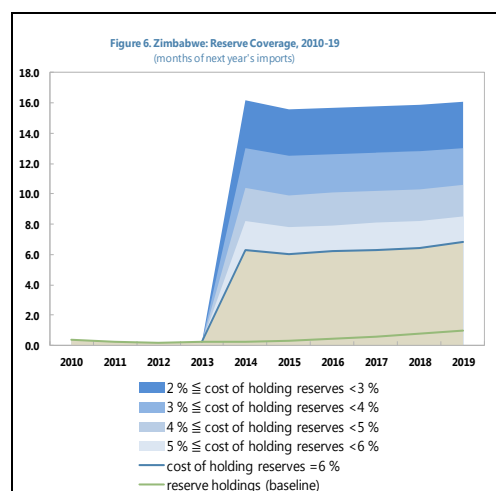
² A. Prati et al., *External Performance in Low-Income Countries*, IMF Occasional Paper 272; J. Lee et al., *Exchange Rate Assessments: CGER Methodologies*, IMF Occasional Paper 261.

due to accelerating exports and slower import growth as domestic production expands. In light of data limitations, these results should be interpreted with caution.

Methodology	Degree of overvaluation
Macro-balance approach	21-23 percent
External sustainability approach	23 percent

6. At less than one month of import cover, Zimbabwe's usable reserves are well below all standard thresholds. The standard minimum is 3 months of import coverage, while the Low-Income Country (LIC) metric³ indicates that reserves should cover 6 to 16 months of imports in Zimbabwe's case, assuming an opportunity cost to holding reserves in the range of 2-6 percent (Figures 6 and 7). Currently, remaining SDR holdings are the main component of usable international reserves. A more ambitious pace of reserve accumulation is urgently needed to rebuild external buffers.

7. The LIC metric might underestimate Zimbabwe's need for external buffers. In a dollarized economy, international reserves play an important role not only in mitigating the impact of external shocks, but also in providing adequate resources to ensure a stable financial system. However, the LIC metric does not take into account this second factor. On the other hand, the opportunity cost to holding reserves in a country like Zimbabwe could be higher than 6 percent, given large infrastructure needs.



Sources: Zimbabwean authorities and IMF staff estimates.

Sources: Zimbabwean authorities and IMF staff estimates.

³ *Assessing Reserve Adequacy: Further Considerations*, SM/13/301.



ZIMBABWE

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 29, 2014

Prepared By

The African Department
(in collaboration with other departments)

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FUND RELATIONS

A. Financial Relations

As of April 30, 2014

Membership Status

Joined: September 29, 1980; Article VIII

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

SDR Department:	SDR Million	%Allocation
<u>Net cumulative allocation</u> ¹	272.18	100.00
<u>Holdings</u> ¹	92.85	34.11

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.

<u>Outstanding Purchases and Loans:</u>	SDR Million	%Quota
ECF arrangements	64.57	18.27

<u>Latest Financial Arrangements:</u>				
<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
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 April 30, 2014	Forthcoming				
		<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Principal	64.57					
Charges/interest	<u>16.51</u>	<u>0.25</u>	<u>0.32</u>	<u>0.32</u>	<u>0.32</u>	<u>0.32</u>
Total	<u>81.08</u>	<u>0.25</u>	<u>0.32</u>	<u>0.32</u>	<u>0.32</u>	<u>0.32</u>

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 (TA) to the country. On June 6, 2003, the Board suspended Zimbabwe's voting and related rights at the Fund. The Managing Director issued a complaint regarding compulsory withdrawal 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 complaint for compulsory withdrawal was withdrawn. 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 also kept in place the decisions taken to address Zimbabwe's arrears to the PRGT Trust—the declaration of noncooperation, the suspension of TA, and the removal of Zimbabwe from the list of PRGT-eligible countries.

On May 4, 2009, the Executive Board lifted the suspension of TA to Zimbabwe in the following areas: (i) tax policy and administration; (ii) payments system; (iii) lender-of-last-resort and banking supervision; and (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 TA. On January 4, 2011, it added public financial management and anti-money laundering and combating the financing of terrorism. On October 23, 2012, the Executive Board further relaxed the restrictions on Fund TA to Zimbabwe to include any other area that would support the formulation and implementation of a comprehensive adjustment and structural reform program that can be monitored by the staff. Zimbabwe's arrears to the PRGT Trust amounted to SDR 81.1 million (US\$125.6 million) as of April 30, 2014.

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 a multi-currency regime, including the U.S. dollar, the South African rand, the British pound, the euro and the Botswana pula—with the U.S. dollar as principal currency. The Australian dollar, the Chinese yuan, the Indian rupee and the Japanese yen were added to the list in February 2014. The use of the Zimbabwean dollar as domestic currency has been discontinued. 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 2012 Article IV consultation on September 21, 2012.

Technical Assistance

Department	Dates	Purpose
FAD	June 2009	Tax policy and mining taxation
	July 2009	Revenue administration
	October 2009	Tax policy (follow-up)
	June 2010	General tax policy and mining taxation
	Sept./Oct. 2010	General tax policy and mining taxation (follow-up)
	June 2011	PFM diagnostic
	Oct./Nov. 2011	Development of PFM regulations
	May/June 2011	Revenue administration (follow-up)
	April/May 2013	Public-private partnerships and fiscal risks
FAD/STA	June 2011	Strengthening PFM and statistics
	July/August 2012	Strategic issues in PFM and the fiscal statistics framework
FAD/AFS	October 2012	VAT compliance
LEG	July 2011	Fiscal law
	August 2011	AML/CFT diagnostic
	October 2011	Fiscal law
	June 2012	AML/CFT diagnostic: Precious metals and stones
	May 2013	AML/CFT diagnostic: Precious metals and stones (follow-up)
MCM	May 2009	Banking supervision, central bank governance and accounting, lender-of-last resort operations, and payments systems
	June 2010	Accounting
	August 2010	Central bank balance sheet restructuring and reporting
	January 2011	Review and enhancement of the stress testing framework
	March 2011	Central bank accounting
	March 2011	Central bank balance sheet restructuring and debt relief
	July 2011	Stress testing
	August 2011	Central bank balance sheet restructuring and debt relief
	August 2011	Systemic liquidity, stress testing, and bank distress resolution
	September 2011	Stress testing
	December 2011	Stress testing
	January 2012	Central bank organization and accounting
	June/July 2012	Central bank debt relief and liquidity support to the banking system
STA	June 2010	Compilation of national accounts
	August 2010	Compilation of monetary statistics for the central bank

	June 2011	Improving fiscal data in line with GFSM 2001 (follow-up)
	October 2011	National accounts
	April/May 2013	Multisector statistics and cross-sector data consistency
	Aug./Sept. 2013	External sector statistics (follow-up)
	October 2013	Government finance statistics (2-week training course)
	January 2014	Monetary data reporting using SRFs
	March/April 2014	Monetary data reporting using SRFs (follow-up)
AFRITAC South	Oct./Nov. 2011	Update of the PFM legal and regulatory framework
	January 2012	Tax administration needs assessment
	August 2012	Update of the PFM legal and regulatory framework
	January 2013	Banking supervision needs assessment
	Feb./March 2013	Strengthening medium-term macro-fiscal and budget frameworks
	June 2013	Strengthening the macro-fiscal framework (follow-up)
	July 2013	Macro-fiscal framework: nominal GDP and private investment forecasting
	Feb/March 2014	Reforming fiscal accounting and reporting
	March/April 2014	Developing the tools and skills for macro fiscal forecasting
	April 2014	Comprehensive, timely, and accurate accounting and financial reporting
ICD	April 2012	Financial programming and policies (2-week training)
	February 2014	Macro diagnostics (2-week training)

Resident Representative

In February 2014, the Fund's management approved the re-opening of a Resident Representative office in Harare and the resident representative will assume the position in July 2014.

WORLD BANK—IMF COLLABORATION

1. The Fund Zimbabwe team led by Mr. A. Cuevas (mission chief) met with the World Bank Zimbabwe team, led by Mr. N. Lenneiye (country manager) on March 17, 2014.

2. The teams were encouraged by the policy dialogue with the new government, and agreed that strong policies and reforms are needed to unlock Zimbabwe’s growth potential and place the country on a sustainable, inclusive growth path. Over the near to medium term, reforms need to be focused on strengthening public financial management, improving payroll and human resource management, raising the productivity of government expenditure, reducing financial sector vulnerabilities, tackling infrastructure bottlenecks, and improving the business environment. In addition, addressing Zimbabwe’s debt overhang and enhancing governance will be essential if the country is to attract much-needed investment and access affordable long-term capital.

3. Based on this assessment, the teams agreed to support the authorities’ efforts with the following division of labor:

- **PFM reform:** The Fund will continue its engagement with the Zimbabwean authorities in their effort to advance the fiscal reform agenda and restore fiscal sustainability. The Fund will offer TA in: (i) macro-fiscal forecasting and budgeting to develop and implement a strategy for an improved medium-term expenditure framework; (ii) cash management, accounting, and fiscal reporting; (iii) improving fiscal oversight at the general government and public sector levels, including SOEs; and (iv) revising the legal and regulatory framework for PFM. The Bank will continue supporting the government in implementing the findings of the Country Integrated Fiduciary Assessment and the Country Procurement Assessment Report. Specifically, the Bank will: (i) expand (to phase II) its TA to strengthen the computerized PFM system and enhance its functionality; (ii) support strengthening of the legal framework for PFM to increase compliance; and (iii) provide TA to strengthen and decentralize public procurement.
- **Tax reform:** The authorities have made progress on tax reform. The Fund will continue to offer TA in tax policy and tax administration reform, including in the areas of risk management and post control audit.
- **Diamond sector reform:** The lack of transparency in the diamond sector is a major concern, reinforced by the significant underperformance of diamond revenue in the last two years. Based on the 2012 diagnostic Fund TA mission on AML/CFT standards in the diamond and precious metal sectors, the Fund developed detailed recommendations to increase transparency and revenue collection. The Bank is providing initial technical support for improved management of the mineral sector. In March 2014 the Bank launched a project on fiscal modeling and capacity building for mining with the Ministry of Mines and Mining Development (MoMMD) and the Ministry of Finance and Economic Development (MoFED). The Bank will provide TA aimed at optimizing diamond development, and a better understanding of different fiscal and ownership systems, including production-sharing agreements.

- **Delivery of basic services and social safety nets:** The Bank delivered TA to support preparation of the 2014 budget, and prepared a series of short policy notes in support of the socio-economic recovery. The Bank is implementing the second phase of a results-based financing program for maternal and child health, and a public works rapid social response program. Analytical support is being provided for a safety nets tracking survey, a health financing issues note, and the design of a social transfer framework. A safety-net pilot program will be launched in late-2014, in the context of a new programmatic trust fund, currently under preparation. The IMF will continue to provide policy advice and TA support to the budget preparation.
 - **Business environment reform:** The Bank has completed a micro-small-medium enterprise survey, a trade and integration diagnostic study, and has launched the second phase of a trade facilitation assessment. The Bank/IFC provided the government with an updated Doing Business Reform Memorandum, and has responded to the government's request for knowledge sharing on Special Economic Zones.
 - **Financial sector reform:** Financial sector vulnerabilities persist, despite ongoing efforts to enhance the financial regulatory framework. There is a need to further strengthen banking supervision and make it more proactive. Fund staff will continue to provide TA to: further strengthen the legal and regulatory framework, enhance risk-based supervision and solvency stress testing, and help to develop a strategy for addressing the high levels of nonperforming loans in the financial sector. The Bank has finalized the FINSCOPE survey to assess access to finance. The IFC is launching advisory services on a credit reference bureau.
 - **Central bank reform:** The authorities are implementing plans to recapitalize the Reserve Bank of Zimbabwe (RBZ), thereby paving the way for resumption of such core functions as banker to the government and establishment of a lender-of-last-resort facility. The Fund will offer additional TA in governance and central bank accounting and financial controls.
 - **Reform of the statistical system:** The Bank assisted ZIMSTAT in developing a poverty report and starting poverty mapping. The Fund will continue to offer TA in national accounts, monetary statistics, and government finance statistics.
 - **Debt and arrears strategy:** In the context of the 2014 Article IV Consultation, Bank and Fund staffs produced a joint DSA, and are carrying out a joint loan-by-loan debt reconciliation exercise.
 - **Poverty Analysis and Poverty Reduction Strategy:** The Bank provided technical guidance to analyze the 2011 household survey data and produce a poverty report. The Bank will deliver TA to support the preparation of a poverty reduction strategy as part of the implementation of Zimbabwe's development agenda (ZIM ASSET).
- 4. The teams agreed to the following sharing of information:**
- The Fund team requests to be kept informed about the timing of Bank missions and about progress in the above macrocritical structural reform areas. The Fund team also requests from the Bank team to share outputs, as requested.

- The Bank team requests to be kept informed of progress in the above cited areas where the Fund takes the lead. The Bank team also requests from the Fund team to share outputs, as requested.

The appendix lists the teams' work programs over the period June 2014–June 2015. The Bank team noted that a Zimbabwe Interim Strategy Note was issued April 2013. The Bank's engagement in 2014/15 will strongly be influenced by programs under the new programmatic trust fund, and the program listed here represents the teams' best judgment at this stage.

Joint Bank-Fund Work Program June 2014-June 2015			
Title	Products	Provisional Timing of Missions	Expected Delivery Dates
A. Mutual information on relevant work programs			
Bank work program in next 12 months	<ul style="list-style-type: none"> • PFM reform • Private Sector Development Program • TA on Mineral Sector Development • Doing Business Reform Memorandum 	<p>Apr.-Sept. 2014 Q1-Q2 of FY15 May-July 2014</p> <p>Q1-Q2 of FY15</p>	<p>September 2014 June 2015</p> <p>December 2014 June 2015</p>
IMF work program in next 12 months	<p>Macroeconomic policy analysis and policy advice</p> <ul style="list-style-type: none"> • Support the formulation and implementation of a comprehensive adjustment and reform program • [Third review of the SMP] • [Discussion of a successor SMP] <p>Technical Assistance</p> <ul style="list-style-type: none"> • Medium-term macro-fiscal and budget frameworks • Customs and tax administrations • Comprehensive, timely, and accurate accounting and financial reporting • Tax compliance and risk management • Strengthening data compilation and dissemination 	<p>Ongoing</p> <p>Late 2014 Late 2014</p> <p>Q3-Q4:2014, Q1:2015 Q3:2014, Q2:2015 Q3:2014, Q1:2015</p> <p>Q4:2014</p> <p>Q4:2014, Q2:2015</p>	
B. Requests for work program inputs			
Fund requests to Bank	<ul style="list-style-type: none"> • Updates on policy reform work: increasing diamond sector transparency, strengthening human resource and payroll management, PFM reform, improving the business climate, I-PRSP. 	Ongoing	

	<ul style="list-style-type: none"> • Macro framework • Timing and scope of Bank's missions 	Ongoing Ongoing	
Bank requests to Fund	<ul style="list-style-type: none"> • Updates on the SMP • Updates on policy reform work: PFM, tax and financial sector reforms • Timing and scope of missions 	Ongoing Ongoing Ongoing	
C. Agreements on joint products and missions			
Joint products and missions in next 12 months	<ul style="list-style-type: none"> • Debt sustainability analysis • Updates on the SMP 	Q4:2014 Ongoing	

STATISTICAL ISSUES

(As of May 29, 2014)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings but data are broadly adequate for surveillance. Despite recent improvements in timeliness and coverage, there are some shortcomings stemming from weak data sources, insufficient coverage, and capacity constraints. In May 2010, the Executive Board approved a list of targeted TA, including macro statistics. The authorities are committed to improving statistics to facilitate policymaking and monitoring. They have adopted a National Strategy for the Development of Statistics (NSDS) for 2011–15, laying out a comprehensive framework for improving statistical capacity and coordination across institutions over this period.

During April-May 2013, a STA multisector statistics mission was undertaken to: (i) assess Zimbabwe's external sector statistics (ESS), monetary and financial statistics (MFS), national accounts (NA) statistics, and price statistics; (ii) identify key issues and priorities to address over the next two to three years, develop a strategy for delivery of future TA and training, and provide recommendations for improving statistical compilation in line with international standards; (iii) examine cross-sector data consistency; and (iv) update Zimbabwe's General Data Dissemination System (GDDS) metadata to reflect the current statistical practices in the country. There were a number of follow-up missions to further the work. TA on government financial statistics (GFS) has been covered in the context of PFM TA. Good progress has been made in implementing the recommendations, particularly in the areas of MFS, ESS, and GFS. Capacity constraints have limited the implementation of recommendations on improving NA and price statistics.

Zimbabwe has several regular statistical publications. Since April 2012, ZIMSTAT resumed publishing the *Quarterly Digest of Statistics*, a comprehensive source of economic and social data. In addition, the consumer and producer price indices are disseminated monthly and quarterly, respectively. The report for the 2012 census was published in December 2012. Some labor market statistics, such as employment and earnings by sector, are published quarterly. The RBZ produces monthly MFS which are published in the *Monthly Review* on their website. MoFED publishes a *Monthly State of the Economy* and a *Quarterly Treasury Bulletin* on its website. With TA from STA, the GDDS metadata have been updated and posted on the IMF website.

National Accounts: Zimbabwe's National Statistics Agency (ZIMSTAT) revised NA data based on the Poverty Income Consumption and Expenditure Survey (PICES) conducted from June 2011 to May 2012. This resulted in an upward revision of GDP data for 2009–12, published in September 2013. ZIMSTAT also conducts surveys of agriculture, livestock, industrial production, and manufacturing, as well as a quarterly employment survey and a survey of non-profit institutions. The NA compilation system and the statistical infrastructure are being upgraded, in line with the latest international standards (e.g., 2008 SNA). The scope of NA statistics is being expanded, including the compilation of quarterly national accounts. However, staff resources are inadequate to keep up.

Price statistics: ZIMSTAT compiles and disseminates a monthly consumer price index (CPI), with weights based on data from the 2011/12 Household Budget Survey (HBS) with a December 2012 base.

In the new CPI compiled since January 2013, ZIMSTAT also expanded the geographical coverage to include price developments in both urban and rural areas, and increased the number of items in the basket. ZIMSTAT also compiles and disseminates a quarterly producer price index (PPI), based on December 2009 with December 2008 weights. The 2013 STA TA mission recommendations to further improve the index included updating the CPI basket to replace outdated products, increasing the frequency of data collection for perishable items from monthly to weekly, and expanding PPI coverage to include exports.

Government finance statistics: Reporting of GFS for the central government has improved significantly since 2009. The MoFED collects data on revenue and expenditure, which are published on its website on a monthly basis, along with the annual budget statements. Data on government financing are limited. The MoFED does not yet compile GFS in line with the Government Finance Statistics Manual (GFSM) 2001, but is in the process of moving to GFSM 2001, with IMF TA. Budget data are compiled only for the budgetary central government.

Monetary statistics: Data on MFS are timely but are based on the 1984 IMF guidelines for MFS compilation. The 2013 STA TA mission assisted the RBZ in starting the compilation of data covering the operations of the central bank and commercial banks using the new standardized reporting forms (SRFs), consistent with current international standards. The mission made several recommendations for improving the compilation and dissemination of MFS, including improving the classification and valuation of financial instruments, and expanding coverage beyond commercial banks to other financial corporations—including merchant banks, building societies, and the People’s Own Savings Bank. There was a follow-up mission in March/April 2014 to further advance this work. [In May 2014, the RBZ published the annual reports and audited financial statements for 2009-2012. Prior to this, the last annual report or audited financial statement was published in 2008.] The audited 2010 financial statement carried a qualified audit opinion and presented a negative equity position of [US\$1,235.9] million. The basis of the qualification relates to disputed liabilities totaling US\$20.5 million, which have been reduced to US\$8 million at end-December 2013. MCM and STA TA and the Article IV missions have made recommendations on central bank accounting and reporting.

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. For years prior to 2010, the source is the Exchange Control Department of the RBZ, and for 2010 and onwards, the source is customs data. For 2010 and 2011, there are very large unidentified credits in the BOP which are financing imports, probably due to under-recorded export receipts and FDI. Labor income and workers’ remittances do not include estimates of cash and in-kind transfers from Zimbabweans working abroad. Interest payments are not yet reconciled with creditors’ records and do not contain accrued interest on overdue financial obligations. The 2013 STA TA mission identified gaps with respect to international trade in services, direct investment and portfolio investment income, transactions involving assets and liabilities of direct investment, portfolio investment, trade credit and advances, currency and deposit assets and liabilities of banks, and other sector deposit assets. Gaps in services arose due to the fact that a number of service items are not covered, since the RBZ follows *BPM4* methodology. The mission provided training in *BPM6* methodology and assisted in mapping tables from *BPM4* to *BPM6*. Recommendations for improving the compilation and quality of the data included: migrating from *BPM4* to *BPM6*

compilation methodology; expanding coverage of exports to include estimates for unrecorded mineral exports, informal exports of artisanal products and other items by pedestrians and small cars crossing borders; improving coverage of service exports and imports; and separating capital account from financial account transactions.

The authorities have finalized their first debt reconciliation exercise and a joint Fund/Bank mission visited Harare in May/June for a loan-by-loan assessment. 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 stocks and flows of gross international reserves and its NFA position often require some adjustments. Exceptional financing does not fully capture the flow of overdue financial obligations.

International Investment Position (IIP): The compilation of the IIP is not possible due to the lack of reliable information on private sector stocks of foreign assets and liabilities and due to the lack of appropriate categorization of the available stock data into the required instruments. However, the authorities have committed to preparing a preliminary IIP once results of the first foreign private capital stocks and flows survey are made available.

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 NA, price, BOP, government finance statistics or its IIP to STA for dissemination in the International Financial Statistics, the BOP Statistics Yearbook, or the GFS Yearbook. NA data have not been reported since 2005 and no data are being reported for the new CPI. Since May 2014, the RBZ resumed monthly reporting of monetary and financial statistics to STA.

Table 1. Zimbabwe: Common Indicators Required for Surveillance

	Date of latest observation	Date received	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	Mar. 2014	Apr. 2014	W	W	M
Reserve/base money	Mar. 2014	Apr. 2014	W	W	M
Broad money	Mar. 2014	Apr. 2014	M	M	M
Central bank balance sheet	Mar. 2014	Apr. 2014	W	M	M
Consolidated balance sheet of the banking system	Dec. 2013	Mar. 2014	Q	Q	NA
Interest rates ⁴	Mar. 2014	Apr. 2014	M	M	M
Consumer price index	Mar. 2014	Apr. 2014	M	M	M
Revenue, expenditure, balance and composition of financing ⁵ — General government ⁶	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing ⁵ —Central government	Mar. 2014	Apr. 2014	M	M	M
Stocks of central government and central government-guaranteed debt ⁷	2012	Nov. 2013	M	I	I
External current account balance	2013	Mar. 2014	A	I	I
External capital and financial account	2013	Mar. 2014	Q	I	I
Exports and imports of goods	Dec. 2013	Mar. 2014	M	I	I
GDP/GNP	2012	Sept. 2013	A	A	A
Gross external debt	2013	Mar. 2014	A	I	I
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.



ZIMBABWE

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

May 29, 2014

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Prepared by staffs of the International Monetary Fund and
the International Development Association

The debt sustainability analysis (DSA) was prepared jointly by Bank and Fund staffs in accordance with the standardized Debt Sustainability Framework (DSF) methodology for Low-Income Countries (LICs).¹ Zimbabwe remains in debt distress

¹ Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (<http://www.imf.org/external/np/pp/eng/2013/110513.pdf>).

BACKGROUND

- 1. Following the recent debt reconciliation exercise by the authorities for end-2011 and end-2012, Zimbabwe's total external debt has been estimated at about 70 percent of GDP (Text Tables 1 and 2).** The Public and Publicly Guaranteed (PPG) external debt is broadly divided between bilateral creditors (60 percent) and multilateral creditors (40 percent). External private sector debt represents roughly 18 percent of total external debt. Compared to the 2012 DSA, there is a sharp downward revision of the total external debt stock (\$2.5 billion), mainly driven by short-term private debt and supplier credits. The sharp revision to short-term private debt is caused by a change in assumptions: the BoP financing gap is no longer assumed to be covered with new short-term debt financing at the end of each year.
- 2. This change in assumptions for the financing gap follows a recent IMF technical assistance mission on multi-sector statistics.** This mission recommended that any unidentified financing or financing gap left at the end of each year be consolidated in the errors and omissions line. Errors and omissions are driven by large under-recorded exports (mainly minerals, owing to efforts to avoid international restrictive measures), remittances through non-banking channels, and certain FDI-related imports (mining companies recapitalized in kind by parents who send in equipment but do not report the related financing).
- 3. Zimbabwe has improved its debt management capacity and the Debt Management Office (DMO) established at the Ministry of Finance and Economic Development (MoFED) is now fully staffed.** The unit has developed a database for external debt that should facilitate debt management and promote information sharing between all government entities involved. However, decisions on new external borrowing continue to be taken with limited involvement of technical staff, with substantial risks of making sub-optimal choices with implications for medium-term sustainability.

Text Table 1. Zimbabwe: Total External Debt Stock by Creditor, 2011-12 ^{1/}

	2011		2012	
	In millions of USD	In percent of GDP	In millions of USD	In percent of GDP
Total	8232	75.1	9031	72.4
Public and Publicly Guaranteed Debt	6268	57.2	6603	52.9
Bilateral Creditors	3225	29.4	3476	27.9
Paris Club	2811	25.7	2881	23.1
Non-Paris Club	414	3.8	595	4.8
Multilateral institutions	2448	22.3	2525	20.2
IMF	135	1.2	127	1.0
AfDB	633	5.8	660	5.3
WB	1297	11.8	1348	10.8
EIB	305	2.8	313	2.5
Others	78	0.7	77	0.6
Short-term debt RBZ	595	5.4	603	4.8
Private Sector	1964	17.9	2428	19.5

Sources: WB, AfDB, Zimbabwean authorities, and staff estimates.

1/ For multilateral institutions, short-term debt, and suppliers' credits, estimates reflect a compound factor. Late interest is included under interest arrears.

Text Table 2. Zimbabwe: 2012 External Debt Stock by Servicing Status (in millions of US dollars) ^{1/}

	Remaining Principal Due	Total Arrears	Principal Arrears	Total Debt
Total	3792	5240	3191	9031
Public and Publicly Guaranteed Debt	1364	5240	3191	6603
Bilateral Creditors	838	2638	1432	3476
Paris Club	367	2513	1348	2881
Non-Paris Club	471	125	84	595
Multilateral institutions	525	1999	1157	2525
IMF	0	127	100	127
AfDB	55	606	306	660
WB	410	937	564	1348
EIB	34	279	152	313
Others	26	51	34	77
Short-term debt RBZ	0	603	603	603
Private Creditors	2428	0	0	2428

Sources: WB, AfDB, Zimbabwean authorities, and staff estimates.

1/ For multilateral institutions, short-term debt, and suppliers' credits, estimates reflect a compound factor. Late interest is included under interest arrears.

Box 1. Zimbabwe: Key Baseline Macroeconomic Assumptions

- The baseline scenario assumes average annual **real GDP growth** of about 4 percent for the projection period (2014–33), with somewhat lower growth at the beginning of the projection period (3 percent in 2014–15). In the medium term, uncertainty around the potential of diamond resources, constrained public finances, and the severe bottlenecks facing Zimbabwe would result in lower growth than in the recent past. Mining investment projects (especially in gold and platinum) should contribute to a change in the composition of growth and make up for sluggish growth in agriculture and manufacturing. The baseline assumes macroeconomic stabilization, but does not assume normalized access to finance or scaled-up public or private investment.
- **Inflation** is expected to be 2.5 percent over the medium term, accelerating from 0.2 percent in 2014.
- **Exports** are projected to grow at 7 percent over the medium term, in nominal terms.
- **Import** growth is projected to average 4 percent annually for the period 2014–19, and then increase to 5.5 percent until 2033.
- **The non-interest current account deficit is expected** to remain above 25 percent of GDP in 2014. Thereafter, it would decline to 15 percent in 2019 and stabilize to an average of 13 percent throughout the remaining projection period.
- **Tax revenues** are projected to remain broadly stable at around 27–28 percent of GDP. Gradual decline in customs revenues is expected to be offset by increases in other revenue sources.
- **External grants** are assumed to remain confined to humanitarian assistance, estimated in the range of 0.5 percent of GDP *per annum*. Under the baseline scenario, policies are unchanged and there is no debt relief.
- New **non-concessional borrowing** is assumed to average 1 percent of GDP annually during 2013–2016 and 2 percent of GDP from 2017 onwards,¹ with a grant element of about 27 percent. The assumption here is that Zimbabwe will continue to receive limited financing from non-traditional creditors in exchange for regular payments to them.
- While outstanding **external arrears** continue to be rolled over, the DSA assumes no accumulation of new external arrears.

1/ This assumption is based on loan disbursements, while the SMP ceiling monitors new non-concessional external borrowing contracted or guaranteed by the general government.

ASSUMPTIONS

4. The macroeconomic framework underpinning medium to long-term debt sustainability takes into account recent economic developments and progress in structural reforms pursued under the 2013-2014 Staff-Monitored Program (SMP). The medium-term projections are broadly consistent with the 2012 DSA, but some updates have been made to better reflect the consequences of the recent slowdown in emerging market economies (such as South Africa) and its impact on exports and FDI. The baseline scenario assumes no debt relief given limited progress in re-engaging with the main traditional creditors to date and the complexities inherent in making any other assumption. Therefore, in the baseline new external borrowing is expected to remain limited to resources provided by non-traditional creditors, mainly Brazil, China, and India (Box 1). Zimbabwe's CPIA rating has marginally improved since the 2012 DSA from 1.7 to 2.1.

5. Significant revisions have been made to the total external debt stock. The new estimates of external debt are based on the first results of the debt reconciliation exercise undertaken by the authorities. At end-2011, PPG external debt amounted to US\$ 5.7 billion while private external debt reached US\$ 1.7 billion after the change in the treatment of unidentified financing explained above. Compared to the 2012 DSA, total debt thus declined substantially, from 113 to 74 percent of GDP, largely due to this methodological change and to the recent substantial revision to the nominal GDP series.²

EXTERNAL DEBT SUSTAINABILITY

6. Even starting from a lower base than in the 2012 DSA, the PPG external debt overhang remains large (Table 1). Under the baseline, external debt is expected to continue to grow from 82 percent of GDP in 2013 to 122 percent in 2023, before declining to 108 percent in 2033. The present value (PV) of the PPG external debt will remain well above the 30 percent of GDP threshold during the entire projection period.³ The PV of the PPG external debt-to-exports ratio will reach 171 percent in 2013 and decline to 119 percent 2023, and to 98 percent by the end of the projection period. The PV of the external debt-to-revenue ratio shows a downward trend, declining steadily from almost 176 percent in 2013 to about 138 percent in 2023 and to 114 in 2033. This is driven by the assumption of moderate debt accumulation on non-concessional terms (2 percent of GDP) mentioned above.

7. Debt service as a share of exports and revenues will remain below the respective thresholds throughout the entire projection period. The overall debt service-to-exports ratio will

² Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25–30 percent higher than the old ones.

³ The large residual is explained by the new assumption that any remaining financing gap in the balance of payments is treated as part of errors and omissions for both past and future years, rather than as generating new borrowing (as in the 2012 DSA).

remain close to 5 percent throughout the projection period, while the PPG debt service-to-exports ratio will remain around 2 percent until 2018, before slowly increasing to 3 percent in 2033.

8. These results remain broadly unchanged under alternative scenarios. The PV of the PPG external debt-to-GDP ratio is sensitive to lower GDP growth, reaching 69 percent in 2015 under the related bound test (Table 2a). In the case of a combined shock, the ratio will reach 88 percent in 2015, before declining to 44 percent in 2033. Under the lower exports scenario, the PV of the PPG external debt-to-exports ratio will reach almost 400 percent in 2015, before declining to just below 190 percent in 2033. Assuming lower FDI, the same ratio will reach 217 percent in 2015 and decline to around 102 percent by the end of the projection period. Similar results are obtained for all indicators under the lower GDP growth scenario and the less favorable borrowing terms scenario.

PUBLIC SECTOR DEBT SUSTAINABILITY

9. While public debt remains at high levels, the outlook is expected to improve (Table 3). The PPG debt-to-GDP ratio is projected to decline modestly from 62 percent in 2013 to 51 percent in 2023, and then to 41 percent in 2033. The PV of the PPG debt-to-revenue ratio shows a similar profile, declining from 206 percent in 2013 to 123 percent in 2033. The debt service-to-revenue ratio will remain around 3 percent until 2023 and then gradually increase to 5 percent by the end of the projection period.

Box 2. Domestic Public Debt in Zimbabwe

Overall domestic public debt in Zimbabwe is low and stable, at around 8-9 percent of GDP.

However, this masks the diverging paths of its components. While the domestic debt of the Reserve Bank of Zimbabwe (RBZ) has been gradually shrinking, the stock of outstanding government securities has expanded, following the end of hyperinflation. Short-term domestic public debt has shrunk from 100 percent of the total in 2011 to 78 percent in 2013, as the government has managed to place securities with maturities of one year or more in the market. Finally, all of Zimbabwe's domestic public debt is denominated in U.S. dollars.

	Actual		
	2011	2012	2013
Total domestic public debt ^{1/}	887	1,110	1,117
Domestic debt of the RBZ	711	709	645
Government securities	0	188	314
Domestic payment arrears	176	213	158
<i>Memorandum items:</i>			
Total domestic public debt (percent of GDP)	8.1	8.9	8.6
Short-term domestic public debt (percent of total) ^{2/}	100.0	83.9	78.1

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

1/ Millions of U.S. Dollars; unless otherwise indicated.

2/ Domestic public debt with original maturity of less than one year.

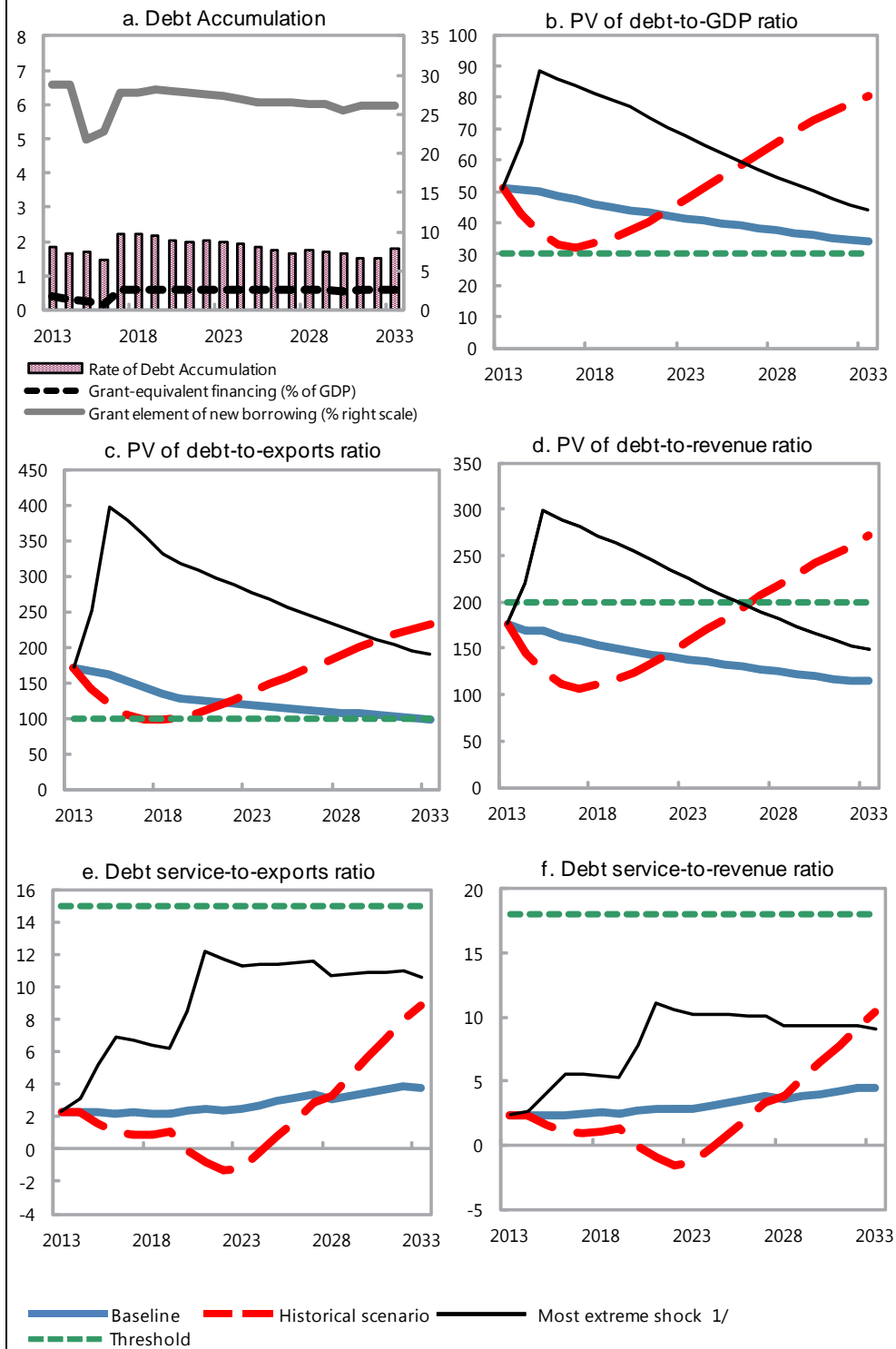
10. Alternative and shock scenarios show a similar gradually rising trend of debt indicators (Table 4). Under the alternative scenario of lower GDP growth and primary balance at historical averages, the PV of the PPG debt-to-GDP ratio will increase from 59 percent in 2013 to 106 percent in 2023, and reach 175 percent by the end of the projection period. The PV of the PPG debt-to-revenue ratio will also deteriorate substantially under a low growth scenario. It goes from 206 percent in 2013 to above 500 percent by the end of the projection period. Finally, the debt service-to-revenue ratio will follow a similar path: a steady increase from 3 percent in 2013 to 32 percent in 2033. This reflects the fact that the scenario is based on historical averages for growth, which in Zimbabwe include a period of steep contraction in economic activity.

CONCLUSIONS

11. Zimbabwe remains in debt distress in the baseline scenario of no debt relief. In the baseline scenario, which includes new non-concessional borrowing of 2 percent of GDP a year on average from 2017 onwards, Zimbabwe's debt indicators remain above the relevant indicative thresholds. Zimbabwe's debt situation is vulnerable to shocks, particularly to exports and GDP growth. Zimbabwe's debt outlook also appears sensitive to FDI flows and to less favorable financial terms.

12. The Zimbabwean authorities share the staff assessment and therefore remain committed to re-engaging with all creditors, multilateral and bilateral. Staff encourages the authorities to continue to primarily seek grants and financing on terms as favorable as possible, ideally at highly concessional terms, to finance critical development projects with high economic returns. Limited non-concessional borrowing could be considered only if grants and concessional resources are unavailable or insufficient to implement critical growth-enhancing projects.

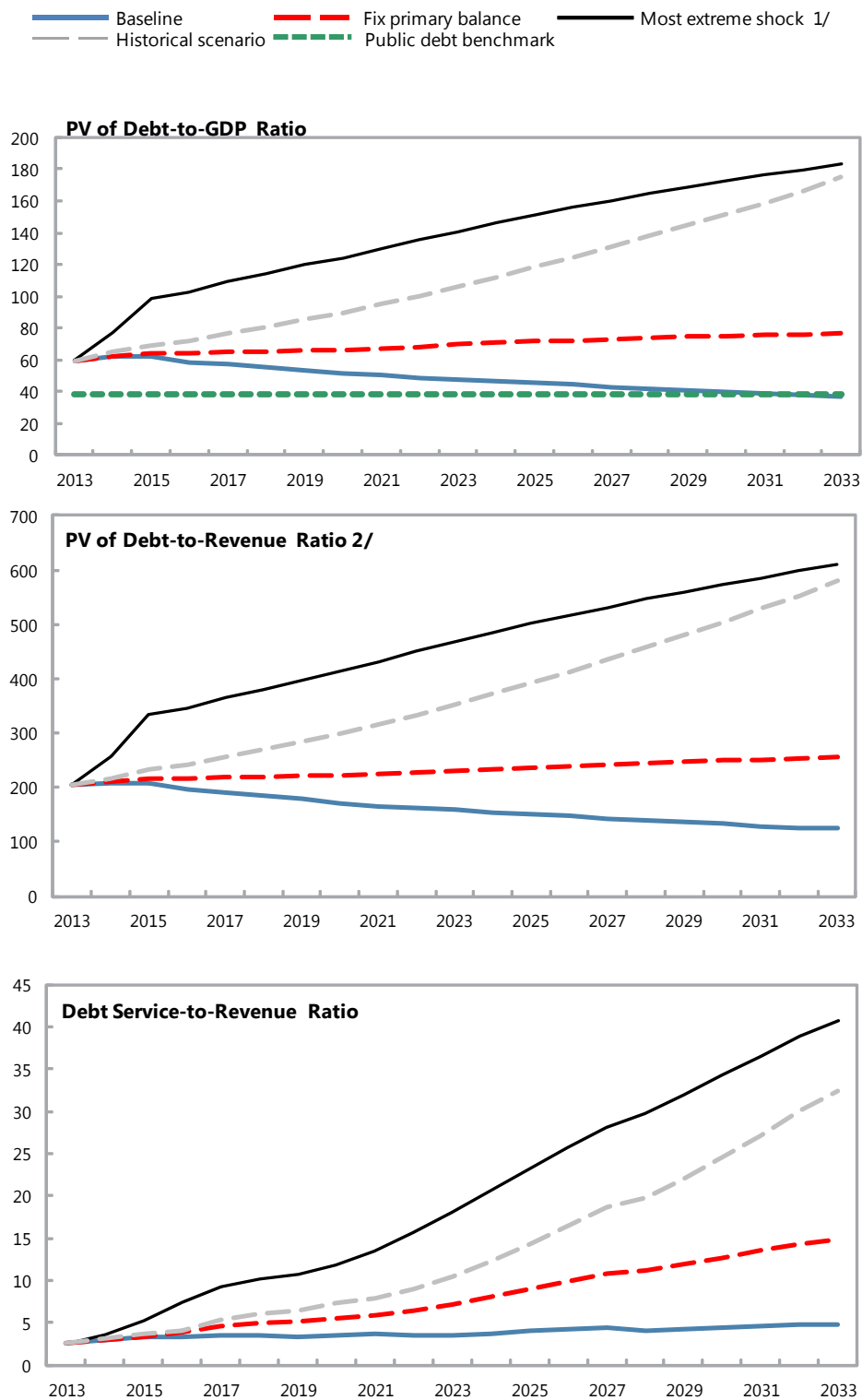
Figure 1. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2023. In figure b. it corresponds to a Combination shock; in figure c. to an Exports shock; in figure d. to a Combination shock; in figure e. to an Exports shock; and in figure f. to a Combination shock.

Figure 2. Zimbabwe: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2023.

2/ Revenues are defined inclusive of grants.

Table 1. Zimbabwe: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent, unless otherwise indicated)

	Actual			Historical ^{6/} Standard ^{6/}		Projections									
	2010	2011	2012	Average	Deviation	2013	2014	2015	2016	2017	2018	2013-2018		2019-2033	
						Average						Average		Average	
External debt (nominal) 1/	71.8	74.9	72.4			82.7	95.0	106.8	115.4	120.8	121.2		122.1	108.7	
<i>of which: public and publicly guaranteed (PPG)</i>	60.6	57.0	53.6			53.4	52.8	52.4	50.6	50.0	48.9		44.9	37.8	
Change in external debt	-17.0	3.1	-2.5			10.3	12.3	11.8	8.6	5.4	0.4		-0.7	-1.3	
Identified net debt-creating flows	4.8	16.6	12.5			23.5	22.3	19.7	15.9	11.8	8.3		6.3	5.2	
Non-interest current account deficit	17.6	29.5	24.3	16.3	13.1	28.5	27.4	26.3	23.3	19.9	16.3		15.0	12.3	
Deficit in balance of goods and services	24.8	35.6	30.2			33.3	31.9	30.8	28.4	25.4	22.4		18.9	13.9	
Exports	36.7	42.8	32.7			29.7	30.5	31.2	31.8	32.9	34.4		34.9	34.7	
Imports	61.5	78.4	62.9			63.0	62.4	62.0	60.1	58.3	56.8		53.7	48.6	
Net current transfers (negative = inflow)	-12.6	-14.0	-13.5	-8.3	5.0	-12.6	-11.5	-12.0	-11.8	-11.6	-11.1		-9.7	-7.6	
<i>of which: official</i>	-2.4	0.0	0.0			0.0	0.0	-0.4	-0.3	-0.3	-0.3		-0.3	-0.2	
Other current account flows (negative = net inflow)	5.5	8.0	7.5			7.8	7.1	7.4	6.8	6.2	5.1		5.7	6.0	
Net FDI (negative = inflow)	-1.0	-3.3	-2.8	-1.2	1.1	-2.9	-2.6	-4.0	-3.9	-3.8	-3.7		-4.4	-3.4	
Endogenous debt dynamics 2/	-11.8	-9.6	-9.0			-2.1	-2.6	-2.6	-3.6	-4.3	-4.4		-4.3	-3.7	
Contribution from nominal interest rate	0.3	0.3	0.1			0.2	-0.1	0.3	0.3	0.4	0.5		0.3	0.4	
Contribution from real GDP growth	-8.7	-7.4	-7.0			-2.3	-2.5	-2.9	-3.9	-4.7	-4.9		-4.6	-4.1	
Contribution from price and exchange rate changes	-3.4	-2.5	-2.2			...	...	...	...	...	...		...	...
Residual (3-4) 3/	-21.8	-13.6	-15.0			-13.2	-9.9	-7.9	-7.3	-6.5	-7.9		-6.9	-6.5	
<i>of which: exceptional financing</i>	2.5	-3.2	-1.7			-1.9	-0.3	-1.0	-1.0	-0.9	-0.9		-0.6	-0.7	
PV of external debt 4/	...	...	69.8			80.1	92.7	104.5	113.2	118.2	118.1		118.7	104.8
In percent of exports	...	...	213.7			269.9	304.5	335.1	356.3	358.9	343.4		340.7	301.9
PV of PPG external debt	...	...	51.0			50.8	50.5	50.1	48.4	47.4	45.9		41.5	34.0
In percent of exports	...	...	156.0			171.2	165.7	160.5	152.2	144.0	133.4		119.0	97.8
In percent of government revenues	...	...	181.9			176.1	169.6	169.1	162.5	158.4	153.5		138.0	114.7
Debt service-to-exports ratio (in percent)	6.5	3.8	3.3			7.9	6.2	5.2	4.9	4.5	3.9		4.1	4.0	
PPG debt service-to-exports ratio (in percent)	0.9	0.7	0.4			2.3	2.3	2.2	2.2	2.2	2.2		2.4	3.8	
PPG debt service-to-revenue ratio (in percent)	1.4	1.2	0.5			2.4	2.3	2.4	2.3	2.4	2.5		2.8	4.5	
Total gross financing need (Billions of U.S. dollars)	2.3	3.7	3.6			4.7	5.1	5.6	6.2	6.8	7.1		10.7	19.6	
Non-interest current account deficit that stabilizes debt ratio	34.6	26.5	26.8			18.3	15.1	14.4	14.7	14.5	16.0		15.6	13.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	11.4	11.9	10.6	-1.2	11.1	3.3	3.1	3.2	3.9	4.3	4.4	3.7	4.0	4.0	
GDP deflator in US dollar terms (change in percent)	4.0	3.7	3.0	5.2	8.5	0.7	0.8	1.1	2.5	2.3	3.6	1.8	2.5	2.5	
Effective interest rate (percent) 5/	0.4	0.5	0.2	0.1	0.2	0.2	-0.1	0.4	0.3	0.3	0.5	0.3	0.3	0.4	
Growth of exports of G&S (US dollar terms, in percent)	92.6	35.2	-13.2	10.4	31.8	-5.6	6.7	6.8	8.5	10.6	13.0	6.7	6.6	6.6	
Growth of imports of G&S (US dollar terms, in percent)	-6.4	47.9	-8.7	17.3	35.7	4.1	2.9	3.7	3.2	3.4	5.4	3.8	4.9	4.5	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	28.9	28.9	21.9	22.9	27.8	27.9	26.4	27.3	26.1
Government revenues (excluding grants, in percent of GDP)	23.3	26.7	28.0			28.8	29.8	29.6	29.8	29.9	29.9		30.1	29.6	
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	
<i>of which: Grants</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
<i>of which: Concessional loans</i>	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/	...	...	...			0.4	0.3	0.2	0.2	0.6	0.6		0.6	0.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			28.9	28.9	21.9	22.9	27.8	27.9		27.3	26.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	9.4	11.0	12.5			13.0	13.5	14.1	15.0	16.0	17.3		24.0	45.5	
Nominal dollar GDP growth	15.8	16.0	13.8			4.0	3.9	4.3	6.5	6.7	8.2	5.6	6.6	6.6	
PV of PPG external debt (in Billions of US dollars)	...	...	6.4			6.6	6.8	7.0	7.2	7.6	7.9		9.9	15.5
(PVt-PVt-1)/GDPT-1 (in percent)	...	...	...			1.9	1.7	1.7	1.5	2.2	2.2	1.9	2.0	1.8
Gross workers' remittances (Billions of US dollars)	0.4	0.6	0.6			0.8	0.8	0.8	0.9	0.9	0.9		1.2	2.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	48.5			48.0	47.8	47.2	45.7	44.9	43.5		39.5	32.5
PV of PPG external debt (in percent of exports + remittances)	...	...	134.6			142.8	139.7	134.7	128.6	122.8	115.1		104.0	86.9
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.4			1.9	1.9	1.9	1.8	1.9	1.9		2.1	3.4

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+g\rho)$ 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.

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

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

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

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

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

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 2a. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

(In percent)

	Projections							2033
	2013	2014	2015	2016	2017	2018	2023	
PV of debt-to-GDP ratio								
Baseline	51	50	50	48	47	46	41	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	51	43	37	33	32	34	48	81
A2. New public sector loans on less favorable terms in 2013-2033 2	51	51	50	49	49	47	45	41
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	51	59	69	67	66	63	57	47
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	51	57	67	65	64	62	52	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	51	53	54	53	52	50	45	37
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	51	59	68	66	64	62	52	36
B5. Combination of B1-B4 using one-half standard deviation shocks	51	66	88	86	84	81	68	44
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	51	72	71	69	68	65	59	48
PV of debt-to-exports ratio								
Baseline	171	166	160	152	144	133	119	98
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	171	141	119	104	97	97	136	232
A2. New public sector loans on less favorable terms in 2013-2033 2	171	166	162	154	147	138	129	118
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	171	166	160	152	144	133	119	98
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	171	252	397	377	357	330	276	189
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	171	166	160	152	144	133	119	98
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	171	192	217	207	195	181	151	102
B5. Combination of B1-B4 using one-half standard deviation shocks	171	220	296	282	266	246	203	132
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	171	166	160	152	144	133	119	98
PV of debt-to-revenue ratio								
Baseline	176	170	169	163	158	153	138	115
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	176	145	126	111	107	112	158	272
A2. New public sector loans on less favorable terms in 2013-2033 2	176	170	170	164	162	158	149	138
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	176	199	234	225	219	212	191	159
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	176	190	227	219	213	206	174	120
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	176	177	184	177	172	167	150	125
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	176	197	229	221	215	208	175	120
B5. Combination of B1-B4 using one-half standard deviation shocks	176	220	299	288	281	272	225	149
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	176	241	241	231	226	219	196	163

Table 2b. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (continued)

(In percent)

Debt service-to-exports ratio

Baseline	2	2	2	2	2	2	2	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	2	1	1	1	-1	9
A2. New public sector loans on less favorable terms in 2013-2033 2	2	2	2	2	2	2	3	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	2	4
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	3	5	7	7	6	11	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	2	2	2	2	2	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	3	4	4	4	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	4	5	5	5	9	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	2	2	2	2	2	2	4

Debt service-to-revenue ratio

Baseline	2	2	2	2	2	3	3	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	2	2	2	1	1	1	-1	10
A2. New public sector loans on less favorable terms in 2013-2033 2	2	2	2	2	2	2	4	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	2	3	3	3	3	3	4	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	2	2	3	4	4	4	7	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	2	2	3	3	3	3	3	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	2	2	3	4	4	4	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	4	5	6	5	10	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	2	3	3	3	3	4	4	6
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	24	24

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.

2/ Assumes that the interest rate on new borrowing is higher than in the baseline by 2 percentage points, 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.

Table 3. Zimbabwe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate					Projections			2019-33 Average
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-18 Average	2023		2033
Public sector debt 1/	67.5	65.1	62.5			62.0	64.4	64.1	60.9	60.0	58.1		51.0	41.1
<i>of which: foreign-currency denominated</i>	67.5	65.1	62.5			62.0	64.4	64.1	60.9	60.0	58.1		51.0	41.1
Change in public sector debt	-18.2	-2.5	-2.6			-0.4	2.4	-0.4	-3.1	-0.9	-1.9		-1.1	-0.6
Identified debt-creating flows	-10.5	-6.9	-6.6			0.1	-0.2	-3.0	-4.7	-4.1	-5.1		-3.9	-3.3
Primary deficit	0.8	2.1	1.1	1.9	1.4	2.3	2.1	-0.9	-1.4	-1.0	-1.4	-0.1	-1.2	-1.2
Revenue and grants	23.3	26.7	28.0			28.8	29.8	29.6	29.8	29.9	29.9		30.1	30.1
<i>of which: grants</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Primary (noninterest) expenditure	24.1	28.7	29.2			31.1	31.8	28.7	28.3	29.0	28.5		28.9	28.8
Automatic debt dynamics	-11.4	-9.0	-7.7			-2.2	-2.2	-2.0	-3.3	-3.1	-3.7		-2.7	-2.1
Contribution from interest rate/growth differential	-9.3	-8.0	-7.1			-2.7	-2.7	-2.5	-2.9	-3.0	-2.9		-2.5	-1.9
<i>of which: contribution from average real interest rate</i>	-0.6	-0.8	-0.8			-0.7	-0.8	-0.5	-0.5	-0.5	-0.4		-0.5	-0.3
<i>of which: contribution from real GDP growth</i>	-8.8	-7.2	-6.2			-2.0	-1.9	-2.0	-2.4	-2.5	-2.5		-2.0	-1.6
Contribution from real exchange rate depreciation	-2.0	-1.0	-0.7			0.5	0.4	0.5	-0.3	-0.1	-0.8		...	...
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	-7.7	4.5	4.0			-0.5	2.6	2.6	1.6	3.2	3.2		2.9	2.7
Other Sustainability Indicators														
PV of public sector debt	...	...	59.9			59.4	62.2	61.8	58.7	57.4	55.0		47.7	37.2
<i>of which: foreign-currency denominated</i>	...	...	59.9			59.4	62.2	61.8	58.7	57.4	55.0		47.7	37.2
<i>of which: external</i>	...	...	51.0			50.8	50.5	50.1	48.4	47.4	45.9		41.5	34.0
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	6.6	8.3	8.4			10.2	9.4	8.8	8.2	7.6	6.9		4.7	2.7
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	213.6			206.0	208.8	208.6	197.3	191.8	184.1		158.5	123.8
PV of public sector debt-to-revenue ratio (in percent)	...	...	213.6			206.0	208.8	208.6	197.3	191.8	184.1		158.5	123.8
<i>of which: external 3/</i>	...	...	181.9			176.1	169.6	169.1	162.5	158.4	153.5		138.0	113.0
Debt service-to-revenue and grants ratio (in percent) 4/	1.4	1.2	0.6			2.5	3.0	3.4	3.4	3.5	3.5		3.5	4.8
Debt service-to-revenue ratio (in percent) 4/	1.4	1.2	0.6			2.5	3.0	3.4	3.4	3.5	3.5		3.5	4.8
Primary deficit that stabilizes the debt-to-GDP ratio	19.0	4.5	3.7			2.7	-0.3	-0.5	1.7	-0.1	0.5		-0.2	-0.6
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	11.4	11.9	10.6	-1.2	11.1	3.3	3.1	3.2	3.9	4.3	4.4	3.7	4.0	4.0
Average nominal interest rate on forex debt (in percent)	0.4	0.5	0.3	0.6	0.9	0.4	0.2	1.0	1.1	1.2	1.4	0.9	1.1	1.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.6	-1.6	-1.2	-2.1	8.3	0.8	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	3.7	3.0	5.0	9.6	0.7	0.8	1.1	2.5	2.3	3.6	1.8	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.9	0.3	0.1	0.4	1.0	0.1	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	28.9	28.9	21.9	22.9	27.8	27.9	26.4	27.3	26.1

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

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

Table 4. Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt, 2013-2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	59	62	62	59	57	55	48	37
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	59	65	69	72	77	81	106	175
A2. Primary balance is unchanged from 2013	59	62	64	64	65	65	69	77
A3. Permanently lower GDP growth 1/	59	64	66	66	69	70	92	190
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	59	77	99	103	109	114	141	183
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	59	63	66	63	61	59	51	39
B3. Combination of B1-B2 using one half standard deviation shocks	59	69	79	80	83	85	98	120
B4. One-time 30 percent real depreciation in 2014	59	87	85	81	78	74	62	46
B5. 10 percent of GDP increase in other debt-creating flows in 2014	59	70	69	66	65	62	54	41
PV of Debt-to-Revenue Ratio 2/								
Baseline	206	209	209	197	192	184	158	124
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	206	217	234	243	257	270	352	582
A2. Primary balance is unchanged from 2013	206	209	218	216	218	219	231	256
A3. Permanently lower GDP growth 1/	206	216	224	223	229	235	308	633
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	206	259	334	346	365	381	469	610
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	206	212	223	211	205	197	170	131
B3. Combination of B1-B2 using one half standard deviation shocks	206	232	266	269	278	285	327	400
B4. One-time 30 percent real depreciation in 2014	206	292	289	273	262	249	206	152
B5. 10 percent of GDP increase in other debt-creating flows in 2014	206	234	235	222	216	208	178	137
Debt Service-to-Revenue Ratio 2/								
Baseline	3	3	3	3	3	3	4	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	3	3	4	4	5	6	10	32
A2. Primary balance is unchanged from 2013	3	3	3	4	5	5	7	15
A3. Permanently lower GDP growth 1/	3	3	4	4	4	5	9	36
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	3	4	5	7	9	10	18	41
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	3	3	4	4	5	4	5	6
B3. Combination of B1-B2 using one half standard deviation shocks	3	3	4	5	6	7	11	25
B4. One-time 30 percent real depreciation in 2014	3	4	5	5	5	5	6	8
B5. 10 percent of GDP increase in other debt-creating flows in 2014	3	3	4	6	4	4	6	6

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.



INTERNATIONAL MONETARY FUND



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IMF Executive Board Concludes 2014 Article IV Consultation with Zimbabwe

On June 18, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Zimbabwe.

Background

In July 2013, Zimbabwe held its first general elections under the new constitution approved by referendum in March 2013, and ended the four-year coalition government. The new government has expressed its commitment to continue implementing the policies and reforms agreed with the Fund under the staff-monitored program (SMP), and to stay engaged with the international financial institutions. To achieve sustainable development and social equity, the government has launched a new five-year development plan, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET).

The economic rebound experienced since the end of hyperinflation in 2009 has now ended. After averaging 10 percent over 2009-2012, growth fell to an estimated 3.3 percent in 2013, reflecting tight liquidity conditions, election-year uncertainty, weak demand for key exports, competitiveness pressures, and the impact of adverse weather conditions. Inflation continued its downward trend from 2.9 percent (year-on-year) at end-2012 to -0.3 percent in April 2014, mainly reflecting the appreciation of the US dollar against the South African rand and weak domestic demand.

Zimbabwe's external position remains precarious, with usable international reserves covering less than two weeks of imports. The current account deficit widened to 28.7 percent of GDP in 2013, as the trade deficit deteriorated, reflecting lower mineral exports. The main financing item in the capital account was private loans.

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.

Financial sector vulnerabilities persist, stemming from the high levels of nonperforming loans (16.6 percent on average for banks in March 2014), low capitalization and low liquidity, with wide differentiation across banks. The banking sector experienced liquidity crunches in 2013, amid political and policy uncertainty. Deposits have been slowly returning to the banking system, but liquidity conditions remain generally tight. The Reserve Bank of Zimbabwe (RBZ) has taken steps to enhance the legal and regulatory framework. In January 2014 banks were instructed to immediately end new insider lending, and their boards are now required to ensure adequate provisioning and submit regular reports. In addition, the deadline for meeting the minimum capital requirement of \$100 million was extended to December 2020. Banks are required to submit their recapitalization plans by end-June 2014, with interim milestones to ensure compliance with the \$100 million requirement by December 2020. The authorities, with assistance from the Afreximbank, are taking steps to revitalize the interbank market. They have also started to recapitalize the RBZ to allow it to resume some of its core functions.

Election-related spending and the public sector wage bill were the main factors behind expenditure overruns in 2013. Despite taking several tax and nontax revenue measures to fund election expenses, total revenue fell short of budgeted amounts, with an exceptionally low performance in the fourth quarter, reflecting weak economic activity and tight liquidity conditions. As a result, the budget deficit reached 2.2 percent of GDP in 2013. Fiscal pressures continued into 2014, with the budget targets in doubt in the context of sluggish growth and a 14 percent increase in the wage bill relative to 2013. To offset these pressures, the government has identified various revenue and expenditure measures valued at some 4.6 percent of GDP in 2014. If fully implemented, these measures could result in a reduction in the 2014 budget deficit to 0.6 percent of GDP, consistent with the available financing.

The SMP provided a useful anchor for Zimbabwe in a difficult election year. Progress in implementing the SMP approved by Fund management in June 2013 and extended through June 2014 has been mixed, however, reflecting in part a long electoral process and a protracted post-election transition. Discussions of the first and second reviews under the SMP are nearing conclusion. The Zimbabwean authorities have indicated interest in a successor SMP to build on their achievements and to support a stronger policy framework.

The medium-term outlook, under the baseline scenario, is for growth to average some 4 percent, as large mining sector investments reach full capacity. The current account deficit is expected to improve but will remain high, averaging 15 percent of GDP. In addition, planned fiscal consolidation should facilitate a modest rebuilding of fiscal and external buffers, including international reserves. Zimbabwe faces serious medium-term challenges and achieving sustainable, inclusive growth will require strong macroeconomic and financial policies, an enabling business environment, and normalized relations with creditors.

The main near-term risks relate to further fiscal underperformance and uncertainty in the external environment which could see lower commodity prices, particularly for key mineral exports. Other

risks relate to policy inconsistencies which could affect investment and financial sector vulnerabilities—specifically, liquidity shortages and disorderly unwinding of troubled banks.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They noted Zimbabwe's fragile economic situation characterized by a growth slowdown, a large external deficit, and low international reserves. With risks on the downside, they highlighted the need to restore fiscal and external sustainability and reduce financial vulnerabilities. They emphasized that achieving sustainable and inclusive growth requires determined and comprehensive reforms. In this regard, they welcomed the authorities' renewed commitment to implementing the staff-monitored program, which has provided a useful anchor for policies during the past year notwithstanding policy delays.

Directors encouraged the authorities to fully implement their revised fiscal plan for 2014 and be ready to take additional actions if needed, while protecting priority infrastructure and social spending. They highlighted the need to mobilize revenue, including from the diamond sector. Directors also stressed the importance of rebalancing the expenditure mix away from employment costs in order to free up resources for development. Strengthening public financial management is also crucial to prevent accumulation of new arrears.

Directors expressed concern that Zimbabwe's external position remains precarious. They welcomed the authorities' commitment to rebuild external buffers. They underscored the need to improve debt management and supported the strategy to seek mainly grants and highly concessional resources, while limiting non-concessional financing to critical development projects with high economic returns. They noted that strong macroeconomic policies and a comprehensive arrears clearance framework supported by development partners are essential to addressing Zimbabwe's debt problems. They encouraged the authorities to engage in coordinated discussions with the World Bank and other international financial institutions (IFIs), and called on them to respect the preferred creditor status of IFIs, avoid selective debt service, and increase payments to the Fund's Poverty Reduction and Growth Trust as capacity to repay improves.

Directors stressed that enhancing financial sector stability remains a priority. They recommended continued vigilance in monitoring weak banks and a proactive approach to ensure an orderly resolution of insolvent non-systemic banks. They noted that restructuring and recapitalizing the Reserve Bank of Zimbabwe would help mitigate vulnerabilities. Directors supported the authorities' plans to preserve the multicurrency system for the time being.

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

Directors took note of the staff's assessment that the real exchange rate is overvalued. They underscored the importance of addressing structural bottlenecks to boost competitiveness and promote a sustainable external position, and highlighted the need to improve the business environment and basic infrastructure. Directors also saw a need to reduce uncertainty regarding the indigenization policy, including in the financial sector, to avoid deterring investment. Directors urged the authorities to fully implement the recent measures to boost transparency in the diamond sector and to modernize mining legislation.

Table 1. Zimbabwe: Selected Economic Indicators, 2011–14

	Actual		Est.	Proj.
	2011	2012	2013	2014
Real GDP growth (annual percentage change) ^{1/}	11.9	10.6	3.3	3.1
Nominal GDP (US\$ millions) ^{2/}	10,956	12,472	12,974	13,483
GDP deflator (annual percentage change)	3.7	3.0	0.7	0.8
Inflation (annual percentage change)				
Consumer price inflation (annual average)	3.5	3.7	1.6	0.3
Consumer price inflation (end-of-period)	4.9	2.9	0.3	1.2
Central government (percent of GDP) ^{2/}				
Revenue and grants	26.7	28.0	28.8	29.8
Expenditure and net lending	29.0	29.3	31.4	31.9
<i>Of which:</i> cash expenditure and net lending	27.1	28.6	31.0	30.4
<i>Of which:</i> employment costs (incl. grants & transfers)	16.7	20.1	21.3	23.4
Overall balance (commitment basis)	-2.4	-1.3	-2.5	-2.2
Overall balance (cash basis)	-0.5	-0.6	-2.2	-0.6
Primary balance (cash basis)	-0.2	-0.4	-2.0	-0.3
Money and credit (US\$ millions)				
Broad money (M3)	3,100	3,694	3,888	4,011
Net foreign assets	-290	-435	-809	-744
Net domestic assets	3,391	4,129	4,697	4,754
Domestic credit (net)	2,754	3,559	3,993	3,993
<i>Of which:</i> credit to the private sector	2,711	3,524	3,618	3,551
Reserve money	123	273	272	280
Velocity (M3)	3.5	3.4	3.3	3.4
Balance of payments (US\$ millions; unless otherwise indicated)				
Merchandise exports ^{3/}	4,421	3,808	3,572	3,812
Value growth (annual percentage change) ^{3/}	36.1	-13.9	-6.2	6.7
Merchandise imports ^{3/}	-7,562	-6,710	-6,952	-7,105
Value growth (annual percentage change) ^{3/}	46.5	-11.3	3.6	2.2
Current account balance (excluding official transfers)	-3,269	-3,048	-3,613	-3,796
(percent of GDP) ^{2/}	-29.8	-24.4	-27.8	-28.2
Overall balance ^{4/}	123	-184	-244	-676
Official reserves (end-of-period)				
Usable international reserves (US\$ millions) ^{5/}	366	398	284	464
(months of imports of goods and services)	0.5	0.6	0.4	0.7
Debt (end-of-period)				
Total external debt (US\$ millions, e.o.p.) ^{6/ 7/ 8/}	8,207	9,031	10,632	12,700
Percent of GDP ^{2/}	74.9	72.4	81.9	94.2
PPG external debt (US\$ millions, e.o.p.) ^{6/}	6,243	6,680	6,834	7,101
Percent of GDP ^{2/}	57.0	53.6	52.7	52.7
<i>Of which: Arrears</i>	5,076	5,286	5,420	5,575
Percent of GDP ^{2/}	46.3	42.4	41.8	41.3
Other external debt (US\$ millions, e.o.p.) ^{6/ 7/ 8/}	1,964	2,351	3,798	5,599
Percent of GDP ^{2/}	17.9	18.8	29.3	41.5

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30

3/ Structural break in trade data in 2010. Trade data based on information from exchange control data in 2009 and customs

4/ Includes errors and omissions through 2012.

5/ Defined as the higher of Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks'

6/ Includes arrears.

7/ Debt stocks are estimates, except for the 2011 debt stock which is based on preliminary results of the authorities'

8/ The revisions are due to new information provided by the authorities about their previous projections of withdrawn

Statement by Mr. Saho, Executive Director for Zimbabwe, June 18, 2014

My authorities are appreciative of the Fund's support on the ongoing reform process and technical assistance in addressing their policy challenges and strengthening their implementation capacity. They remain committed to the on-going macroeconomic policy reforms, under the staff-monitored program (SMP).

In this regard, they fully re-dedicated to strengthening the economy's growth momentum and achieving inclusive growth. Specifically, the Government of Zimbabwe has instituted a program of reforms aimed at improving the quality of public expenditures; increasing revenue; raising overall productivity; reducing financial sector vulnerabilities; and improving competitiveness and the business environment. This reform agenda is anchored on a more cohesive cabinet, appointed in September 2013, which is in a better position to formulate and implement strong policies.

Against this background, the SMP continues to play a pivotal role in assisting the Zimbabwean authorities in their reform efforts. However, the authorities are fully aware of the challenges facing their reform agenda.

Recent economic developments and prospects

Economic developments remain positive, but much weaker than desirable. Output growth decelerated from 10.6 percent in 2012 to 3.3 percent in 2013 and is projected to slow further to 3.1 percent in 2014. Real GDP growth is underpinned by developments in key sectors, such as mining and agriculture. Growth in the agriculture sector has been dampened by poor agricultural harvest particularly, in the production of maize, groundnuts and cotton. Meanwhile, the mining sector has become the leading export sector, driven by strong external demand for primary commodities, mainly, platinum and gold. However, the sector faces challenges mainly from low exploration, lack of capital and weakening commodity prices in the international markets.

Inflationary pressures remain subdued largely on account of domestic liquidity conditions and external factors, such as international prices of oil and food, and exchange rate developments between the South African rand (the currency of Zimbabwe's main trading partner) and the US dollar. Despite a modest increase, the annual rate of inflation, measured by percentage change in the consumer price index, remained negative in April 2014.

In their endeavors to advance Zimbabwe's growth and development agenda, the authorities have formulated a new five-year blueprint, the *Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET)*. This is a results-based development agenda built around four strategic clusters: food security and nutrition; social services and poverty eradication; infrastructure and utilities; and value addition and beneficiation. To finance the implementation of ZIM ASSET, the authorities have approved the establishment of a sovereign wealth fund (SWF) from the country's

mineral resources³. However, given the current macroeconomic outlook, the authorities have decided to postpone further steps in creating the SWF until the outlook becomes favorable.

FISCAL POLICY

Zimbabwe's fiscal space remains severely constrained by revenue under-performance, the multi-currency regime and the country's public debt overhang. The situation has been exacerbated by increased recurrent spending driven by employment costs and spending related to the general elections held in July 2013.

The authorities share staff's view that the wage bill is unsustainable and crowds out spending required for infrastructure development. However, they note that remuneration levels in the public sector are generally inadequate, which affects morale and performance. It is expected that the share of the wage bill in the budget will decline as economic activity improves and the tax base broadens.

Similarly, the Zimbabwean authorities continue to implement reforms aimed at improving revenue performance, including measures to boost diamond-related revenues. As part of these reforms, a joint task force has been constituted, comprising technical staff from the Ministry of Finance and Economic Development, Ministry of Mines and Mining Development, and the Zimbabwe Revenue Authority. The task force is expected to forecast and monitor diamond-related revenues. Furthermore, all diamonds will be sold through auctions at international trading venues to maximize sales revenue.

MONETARY POLICY AND THE FINANCIAL SECTOR DEVELOPMENTS

Since the introduction of the multi-currency regime, which has constrained the use of monetary policy instruments, the Reserve Bank of Zimbabwe (RBZ) has continued to focus on promoting a strong and stable financial system; and ensuring that the multi-currency system is maintained to restore and enhance confidence and credibility. However, the authorities share staff's assessment that vulnerabilities still exist in the financial sector. Nonetheless they believe that the recently announced initiatives, such as finalization of the framework for a credit reference bureau, would improve the sector's performance and stability.

Furthermore, the Zimbabwean authorities have initiated steps to restore the role of the RBZ in the economy, which should enhance financial intermediation. These include the Government's decision to recapitalize RBZ, transfer the treasury account from the Commercial Bank of Zimbabwe, and thereby capacitate RBZ to play its functions as lender of last resort and banker to the government. With a robust lender of last resort facility, RBZ will be in a position to participate more significantly in the development of the inter-bank market and accommodate solvent institutions that experience

³ The government plans to allocate a quarter of the royalties levied on the mining companies to the fund.

temporary liquidity shortages. These measures are expected to stimulate economic activity, in line with the objectives outlined in ZIM ASSET.

In March 2014, a US\$100 million interbank facility by Afreximbank was launched to address the liquidity crunch in the system, in accordance with the authorities' announcement during the 2014 National Budget statement. Through this facility, illiquid but solvent financial institutions will be able to access temporary funding. The authorities hope that this will help restore confidence in the market and encourage interbank activity.

On measures intended to further anchor the multi-currency system, the RBZ in January 2014 added the Australian dollar, Chinese yuan, Indian rupee and Japanese yen to the list of currencies accepted as legal tender alongside the US dollar, South African rand, Botswana pula and British pound. This was prompted by an increase in trade and investment between Zimbabwe and Asia, and is expected to reduce transaction costs and boost trade between Zimbabwe and its partners.

EXTERNAL SECTOR AND DEBT ISSUES

Despite a difficult external environment, the Zimbabwean authorities are determined to address their external debt situation. In this context, they have adopted the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDs), which is aimed at accelerating re-engagement with creditors, including International Financial Institutions (IFIs). ZAADDs is defined as a "hybrid debt resolution strategy, which includes the adoption of traditional debt resolution initiatives combined with leveraging the country's natural resources to achieve sustainable economic development". Under ZAADDs, the Zimbabwean Government, through the Ministry of Finance, has begun a process of re-engaging with its creditors. This process is aimed at finding ways to clear the country's outstanding arrears by mobilizing capital from internal resources. The authorities consider the current SMP as a crucial element of ZAADDs and the Zimbabwe Accelerated Re-engagement Economic Program.

RELATIONS WITH THE IMF AND OTHER IFIS

Given the importance of renormalizing relations with the Fund and other IFIs, my authorities have continued to make regular repayments to the PRGT in line with previous commitments. They have also committed to gradually increase the size of these repayments as the country's capacity to repay improves. In addition, going forward, they remain committed to addressing policy challenges identified under the SMP.

Finally, I would like to reiterate that my Zimbabwean authorities regard the SMP as critical to their reform agenda, to revitalize Zimbabwe's economy and address its external debt arrears.