INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/279

ZIMBABWE

October 2015

SECOND REVIEW OF THE STAFF-MONITORED PROGRAM—PRESS RELEASE; AND STAFF REPORT

In the context of the Second Review Under the Staff-Monitor Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's information following discussions that ended on September 11, 2015, 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 October 1, 2015.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Zimbabwe*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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October 2, 2015

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Washington, D.C. 20431 USA

Zimbabwe—IMF Management Completes Second Review of Staff-Monitored Program

On September 30, 2015, the Management of the International Monetary Fund (IMF) completed the second review under the Staff-Monitored Program (SMP)[1] with Zimbabwe.

The authorities continue to see the SMP as a crucial tool in building a strong track record toward normalizing their relationship with creditors, mobilizing development partners' support, and for supporting macroeconomic policies and laying the foundation for addressing Zimbabwe's deep seated structural issues.

Zimbabwe's economic and financial conditions remain difficult. Growth has slowed, unemployment is rising and economic activity is increasingly shifting to the informal sector. The external position remains precarious. In light of their arrears to creditors, low commodity prices, and an appreciating U.S. dollar, external inflows remain highly constrained, the levels of international reserves very low, and the country is in debt distress. Risks to the outlook stem mainly from fiscal challenges, weak global commodity prices, adverse weather conditions, and policy implementation in a difficult political environment. However, further advancing the ongoing reforms and reengaging with the international community could reopen Zimbabwe's access to financial support and lift the economic outlook. The Zimbabwean authorities remain committed to implementing sound macroeconomic and structural policies.

Despite increasing economic and financial difficulties, the Zimbabwean authorities have demonstrated strong commitment to the program by taking important steps to advance their macroeconomic and structural reforms. They have made significant progress in implementing their reform agenda, particularly in financial sector and labor-market reforms. In addition, they are starting to take steps to rationalize public expenditure and reduce public sector employment costs. The policy reform agenda for the remainder of the SMP consists of: (a) mitigating the impact of this year's adverse shocks on the external position and

[1] An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

growth; (b) improving the investment climate; (c) restoring confidence in the financial sector; and (d) garnering support for a strategy to clear arrears to the international financial institutions (IFIs).

The authorities have intensified their reengagement with the international community, with the immediate objective of resolving arrears with the IFIs. They have developed a strategy for clearing Zimbabwe's external arrears to IFIs, for which they will seek the support of creditors and development partners at a meeting on the sidelines of the October 2015 Annual Meetings of the IMF and World Bank in Lima, Peru.

Going forward, strong support at the Lima meeting, a successful completion of the SMP and a deepening of ongoing reforms would set the stage for advancing the reengagement process with the IFIs and bilateral creditors.

IMF staff will continue to support Zimbabwe's economic reforms and their pursuit towards arrears clearance and debt relief. Staff will remain engaged with the authorities to monitor progress in the implementation of their economic program, and will continue providing targeted technical assistance in order to support Zimbabwe's capacity-building efforts and its adjustment and ongoing reform process.

INTERNATIONAL MONETARY FUND

ZIMBABWE

SECOND REVIEW OF THE STAFF-MONITORED PROGRAM

October 1, 2015

EXECUTIVE SUMMARY

Context: The authorities have demonstrated their commitment to the program by taking important steps towards advancing their macroeconomic and structural reforms, despite increasing economic and financial difficulties. The policy reform agenda for the remainder of the Staff-Monitored Program (SMP) consists of: (a) mitigating the impact of this year's adverse shocks on the external position and growth; (b) improving the investment climate; (c) restoring confidence in the financial sector; and (d) garnering support for a strategy to clear arrears to the international financial institutions (IFIs).

Recent developments, outlook, and risks: Zimbabwe's economic and financial conditions remain difficult because of inadequate external inflows given the arrears situation, low commodity prices which have kept liquidity conditions tight, and an appreciating U.S. dollar. Growth has slowed, unemployment is rising and increasingly there is a shift in economic activity to the informal sector. The external position remains precarious with very low levels of international reserves, and the country is in debt distress. Risks to the outlook stem mainly from fiscal challenges, weak global commodity prices, adverse weather conditions, and policy implementation in a difficult political environment. However, further advancing the reforms and reengaging with creditors could reopen Zimbabwe's access to financial support that could reverse the adverse economic trend and lift the economic outlook.

Program performance: The program is on track. Four of the five quantitative targets for end-June 2015, and all the structural benchmarks for the second review were met. Although a recently contracted $200 million nonconcessional loan breached the quantitative target on nonconcessional borrowing, it avoided the accumulation of additional external arrears. The authorities have made significant progress in implementing their reform agenda, particularly in financial sector and labor-market reforms. They are starting to take steps to rationalize public expenditure and reduce public sector employment costs. The authorities continue to see the SMP as a crucial tool in building a track record toward normalizing relations with creditors and addressing Zimbabwe's deep seated structural issues.

Reengagement with creditors: The authorities have intensified their reengagement with the international community, with the immediate objective of resolving arrears with the IFIs, and eventually seeking debt rescheduling under the umbrella of the Paris Club. To this end, they have developed a strategy for clearing Zimbabwe's external arrears to IFIs, for which they intend to seek the support of creditors and development partners at a meeting on the sidelines of the 2015 annual meetings in Lima, Peru. Strong support from the Lima meeting, successful completion of the SMP and continued commitment by the authorities would set the stage for advancing the reengagement process with the IFIs and bilateral creditors.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Luis Cubeddu (SPR)

Discussions took place in Harare from August 31 to September 11, 2015. The staff team comprised of Mr. Fanizza (head), Ms. Morgan, Ms. Koliadina, Mr. Ruggiero (all AFR), Mr. Al-Sadiq (FIN), and Ms. Teferra (SPR). Mr. Beddies (Resident Representative) and Ms. Chishawa (local economist) assisted the mission. Mr. Sitimawina (Advisor to Executive Director) participated in the discussions. The mission met with Minister of Finance and Economic Development Patrick Chinamasa, Chief Secretary to the President and Cabinet Misheck Sibanda, RBZ Governor John Mangudya, members of the Parliamentary Committee on Finance and Economic Development, other senior government officials, and representatives of the private sector, civil society and development partners.

CONTENTS

RECENT DEVELOPMENTS AND OUTLOOK

A. Background

1. **The Zimbabwean authorities have advanced their reform agenda, and remain firmly committed to the SMP[1].** Despite the very challenging economic financial and political conditions, the authorities have reiterated their commitment to the program, which they see as a critical tool in building a track record toward normalizing relations with creditors. They have made significant progress in strengthening the financial sector and liberalizing the labor market. They have also prepared plans to rationalize public expenditure and reduce public employment costs.

2. **The authorities have reaffirmed their commitment to reengaging with the international community, with a view to eventually mobilizing much-needed external financing.** They acknowledged that there is no alternative to addressing Zimbabwe's challenges without access to external financing. Accordingly, they have been making *pari passu* payments to all the IFIs and have intensified efforts to advance their reengagement process with the objective of clearing arrears to the IFIs (IMF, World Bank Group and the African Development Bank (AfDB), as a first step to eventually seek debt rescheduling under the umbrella of the Paris Club. They have developed a strategy for resolving the country's external arrears to the IFIs, for which they will seek the support of creditors and development partners at a stakeholders meeting to be held on the sidelines of the October 2015 Annual Meetings of the IMF and World Bank in Lima, Peru. Progress in the reengagement process, successful completion of the SMP, and continued commitment matched by deepening of reforms would pave the way for Zimbabwe's return to the international financial community.

B. Recent Developments and Outlook

3. **A drought-induced decline in agriculture output has significantly slowed GDP growth for 2015.[2]** In addition, continued decline in mining output due to adverse price developments and electricity shortages offset the strong performance in construction and the modest recovery in manufacturing. Tight liquidity conditions resulting from inadequate external inflows and lower commodity prices have further dampened economic activity. Unemployment is on the rise and economic activity has shifted to the informal sector. Inflation has remained in negative territory, reflecting the combined effects of the continued deprecation of the South African rand,[3] weak domestic demand, and lower commodity prices. The outlook is for a modest recovery in 2016,

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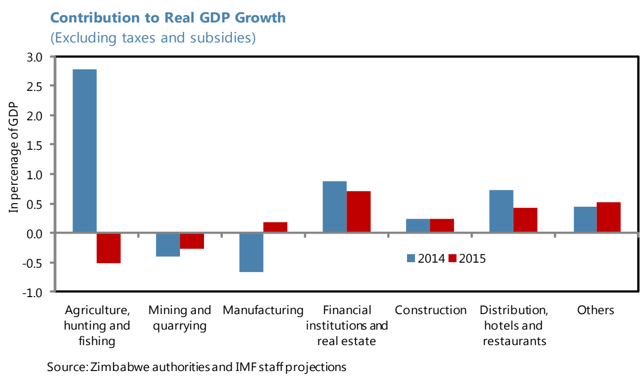
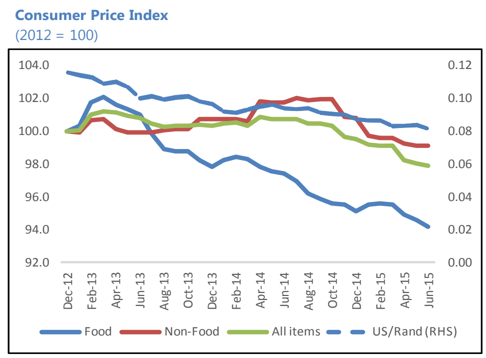
[1] The 15-month SMP was approved by Fund Management in November 2014. The third and final review of the SMP is scheduled for early-2016.

[2] Agriculture accounts for 13 percent share of real GDP.

[3] South Africa is Zimbabwe's major trading partner, accounting for 68 percent of exports and 40 percent of imports.

spurred by a return to normal agricultural conditions. Inflation is likely to stay in negative territory both in 2015 and 2016, mainly as a result of the U.S. dollar appreciation. (Zimbabwe has a multicurrency regime).



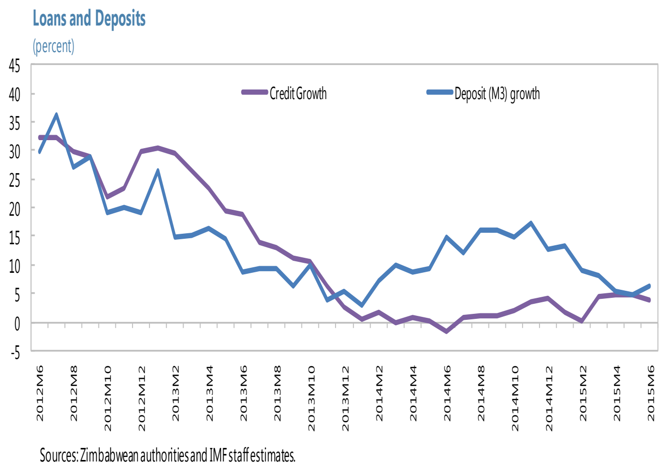


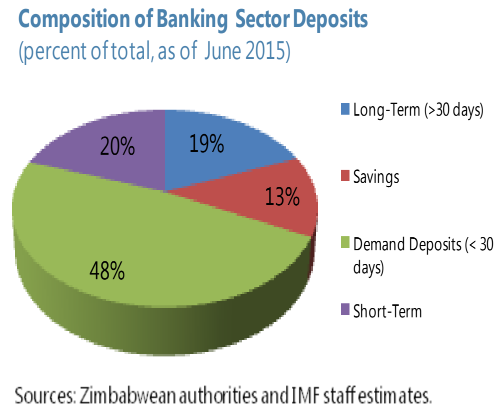
4. **The external position remains weak, with very low levels of international reserves, and the country is in debt distress.** The current account is projected to improve in 2015, but weaker capital inflows are likely to widen the overall deficit. The adverse impact of the drought, the depreciation of the rand and lower export prices have been mitigated by the decline in oil prices, higher remittances, and higher net investment income. Weaker economic activity has translated into lower private-sector external borrowing.

5. **The end-June primary cash deficit was in line with the program target, despite a significant revenue shortfall.** Savings in employment costs, and lower other-current spending and capital outlays offset the revenue shortfall. Income tax and VAT collections have suffered from lower domestic economic activity, company closures and retrenchments, growing tax arrears by state-owned enterprises (SOEs) and other large taxpayers, and nontax revenue suffered from the drop in mining exports. The decline in VAT may also reflect issues with its design (including mushrooming of exemptions) and its administration.

6. **Deposit growth continued to slow in the face of subdued economic activity.** Domestic credit has been rising, mainly reflecting increased debt issuance by government to address legacy obligations.[4] Private-sector credit growth remained subdued, constrained by the weak economy, tight liquidity conditions and a cautious approach by banks to lending. Deposit growth is expected to continue, albeit at a slow pace, on the heels of the ongoing financial reforms.

[4] This includes in particular the recapitalization of the RBZ, assumption of RBZ noncore debt and the financing of ZAMCO. Overall domestic debt remains low (12 percent of GDP).





7. **Downside risks to the outlook** stem mainly from fiscal challenges, weak global commodity prices, adverse weather conditions, and difficulties in policy implementation that could hamper the reform efforts and derail the program. Public finances could deteriorate further if the economic slowdown is more pronounced. Continued decline in commodity prices could further undermine the performance of the mining sector, with negative implications for government revenues and export earnings. Weak domestic demand and competitiveness could further erode corporate profits, and rising unemployment could lead to further expansion of the informal sector. Uneven policy implementation amidst the economic and financial challenges, together with opposition from vested interest, could undermine the authorities' efforts regarding the reengagement and arrears clearance process.

8. **On the upside**, strong implementation and deepening of economic reforms, and progress in reengaging with creditors could reopen access to financial support that could reverse the adverse economic trend and improve the economic outlook.

C. Performance under the Program

9. **Four of the five quantitative targets for the end-June 2015 test date were met,** despite the economic and financial difficulties, demonstrating the authorities' strong commitment to the program. On the quantitative targets, the adjusted floor on the primary budget balance of the central government was met by a small margin, and expenditure on priority social spending was on target. The authorities exceeded the target for the floor on the stock of international reserves. The floor on payments to the PRGT was also met. However, the authorities contracted a $200 million nonconcessional loan and used it mainly to restructure existing obligations —including for key

economic sectors. While this loan helped avoid the accumulation of additional external arrears, it resulted in a breach of the quantitative target for new nonconcessional debt.[5] (LOI, Table 1).

10. **All the structural benchmarks for the second review were met (LOI, Table 2):**

- The report recommending reforms to the fiscal regime for the mining sector was submitted to the cabinet and the principles for drafting legislation for the new regime approved;
- The strategy paper on reducing the wage bill was also submitted to the cabinet;
- The operational framework for the Zimbabwe Asset Management Corporation (Pvt.) Limited (ZAMCO) has been developed and mostly implemented; and
- The amendments to the Reserve Bank and the Banking Acts have been submitted to the parliament through the Banking Amendment Bill.

In addition, the authorities have made meaningful progress in implementing their overall structural reform agenda, including the early implementation of two of the five benchmarks scheduled for the third review (LOI, Table 3).

POLICY DISCUSSIONS AND RISKS

A. Addressing Fiscal Challenges and Advancing Reforms

11. **Further fiscal consolidation remains vital for restoring fiscal sustainability, and addressing developmental needs.** The authorities intend to reduce the primary fiscal deficit (on a cash basis) to achieve a balance in 2016. The worsening economic conditions with its impact on government revenues have in fact made it unrealistic to achieve this balance in 2015, as originally planned.

12. **Rationalizing public expenditure and employment costs constitutes the lynchpin of the authorities' fiscal consolidation strategy (LOI, ¶6).** The authorities have started to eliminate duplications and redundancies, in line with the recently completed audit of the civil service. The cabinet is considering the report on proposals to streamline public sector employment, and a Wage Bill Management Committee has been established to develop proposals for reducing the wage bill to 40 percent of expenditure over the next few years. Meanwhile, the authorities intend to keep employment costs well below the budgeted level in 2015, by maintaining their policy of no

[5] As defined in the Technical Memorandum of Understanding (¶12), new non-concessional debt can be contracted or guaranteed only to finance critical growth-enhancing projects that can improve the country's capacity to repay. These projects would be consistent with the key sectors expected to drive economic growth under ZIM ASSET, including mining, agriculture, infrastructure, transport, tourism, ICT, SMEs and cooperatives, supported by investment in education and health facilities.

wage increase, hiring and promotion freeze, and eliminating redundancies. In addition, for 2016, the effects of the ongoing work of the Civil Service Commission should start to favorably impact the size of the wage bill. The authorities have committed to take additional measures to meet the objectives of the SMP.

13. **In response to the weakening revenue performance, the authorities intend to step up revenue mobilization efforts.** They have announced measures which would generate additional revenues by raising selected tax rates, and extending the VAT to parts of the insurance sector. These measures are expected to reduce the revenue shortfall by about one-third. They plan to implement measures to strengthen VAT administration to avoid further erosion of VAT revenues as a share of GDP. The authorities, with Fund technical assistance (TA), also plan to review the design of the tax system to make it more business friendly and to halt the recent slide in tax collection as a percent of GDP (LOI, ¶4).

14. **The mining legislation is to be overhauled (LOI, ¶5).** The amendments to the Mines and Minerals Act are being discussed by cabinet and are expected to be submitted to parliament by end-September. The cabinet has agreed on the principles of the fiscal regime for the mining sector aimed at generating additional revenue without undermining investors' incentives, while enhancing transparency. The authorities, with the support of development partners, have started working on the specific proposals for mining taxation and plan to request Fund TA to help prepare the mining taxation proposals.

15. **The reform of public financial management (PFM) and the restructuring of SOEs have moved forward.** The draft amendments to the PFM Act to strengthen Treasury's financial oversight of SOEs will be submitted to the cabinet by end-December. Following the first round of discussions with the stakeholders, the authorities are revising amendments to the Procurement Act which will be submitted to cabinet by end-December. The authorities plan to enhance the capacity of procurement agencies and implement the amended framework with the support of the World Bank. The authorities have made progress in reviewing the performance of SOEs and have been working on their turnaround strategies (LOI, ¶7-9).

16. **Strengthening government's debt management capacity is important for achieving fiscal sustainability and effective budgeting.** This would also require developing a fully-integrated debt management strategy. Developing a well-functioning liquid and deep debt market will be important for reducing the cost of borrowing. To this end, the authorities plan to request Fund TA in developing debt management framework and for capacity building.

B. Restoring Confidence in the Financial Sector

17. **The authorities have advanced financial sector reforms to promote financial stability and boost confidence (LOI, ¶10, 12–13).** The RBZ acted on its commitment to take decisive actions

against distressed banks by end-June 2015. Of the two remaining distressed banks at end-March, one has been successfully recapitalized,[6] and in early-July the other was placed under the judicial management of the Deposit Protection Corporation. The level of nonperforming loans (NPLs) continued to decline, reflecting bank closures, and other initiatives by banks, such as loan restructuring, refining of underwriting standards, and establishing loan recovery units. At end-June, all operating financial institutions complied with the prescribed minimum capital requirements. Banking sector capitalization has improved, reflecting increased retained earnings and capital injections—including the recapitalization of two state-controlled banks. However, in a weak economic context and with increased provisioning, banking sector profitability continued to decline. The Afreximbank-supported interbank liquidity facility is now functioning; and the clean-up of the RBZ balance sheet is well underway. However, notwithstanding the progress, strong proactive banking supervision and fast-tracking of the financial legislative reforms remain keys to strengthening the sector.

Text Table 1. Zimbabwe: Selected Financial Indicators December 2013-June 2015

	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Capital Adequacy							
Regulatory capital to risk-weighted assets	14.0	13.6	12.3	12.4	17.9	17.9	19.7
Asset Quality							
Total NPLs/Total loans	15.9	16.9	18.5	20.5	15.7	15.1	14.5
Provisions as percent of NPLs	70.9	47.4	43.8	46.8	55.5	61.3	64.3
Earnings/profitability							
Return on assets	0.1	0.4	0.3	0.1	0.9	0.1	0.6
Return on equity	0.5	3.0	1.7	0.9	5.2	0.4	3.3
Liquidity							
Liquid assets/total assets	37.4	40.4	38.2	33.3	39.3	32.5	38.1

Source. Reserve Bank of Zimbabwe

18. **ZAMCO, which is now functional, has begun acquiring eligible NPLs, financed by long-term government securities (LOI, ¶11).** This should help restore financial sector viability by strengthening banks' balance sheets and providing them with much-needed liquidity. ZAMCO is developing a recovery strategy. The work of ZAMCO is being complemented by the recently introduced credit registry and reference system. To cement financial stability and reinforce confidence, NPLs need to decline further. The authorities expect that their multipronged approach will further reduce NPLs to 5 percent by end-2016.

[6] Measures to improve the bank's capital and liquidity position included strategic alignment (merger of bank and building societies), balance sheet restructuring, liquidity mobilization and cost containment strategies.

19. **Tight liquidity conditions have allowed some banks to charge very high interest rates, with adverse consequences on the quality of their portfolios.** To discourage risky lending and safeguard the sector, the RBZ and the Bankers Association of Zimbabwe agreed on nonbinding guidelines for interest rates, covering three different bands depending on creditor risks (LOI, ¶14).

20. **In June 2015, the RBZ started to remove the legal status of the Zimbabwe dollar (Z$).** The process will convert Z$ cash held by the public and all deposits in the banking sector at end-December 2008 (LOI, ¶15). This demonetization process is expected to provide greater credibility to the multicurrency system.

C. Resolving External Payments Arrears

21. **Zimbabwe's large external debt constitutes the major impediment to the country's access to external financing and to medium-term macroeconomic stability.** In the absence of a comprehensive debt resolution strategy, the country does not have access to the significant amounts of resources needed to finance its developmental agenda. The authorities reiterated their commitment to contracting or guaranteeing nonconcessional loans to finance critical growth-enhancing projects that can improve the country's capacity to repay only if grants and concessional financing are unavailable. So far in 2015, the authorities have contracted/guaranteed $213 million under the nonconcessional borrowing ceiling (LOI, Table 1). Of the recently contracted nonconcessional borrowing, $200 million was not consistent with the definition under the program. There are several projects for which discussions are underway, or have been concluded and awaiting financing agreements (LOI, ¶19).

22. **The authorities are intensifying their efforts to reengage with creditors and the international community.** As a first step toward normalizing relations with creditors, they have developed a strategy for clearing arrears to the IFIs, for which they will seek the support of creditors and development partners at a meeting on the sidelines of the 2015 Annual Meetings of the IMF and the World Bank in Lima, Peru. The strategy envisions simultaneous clearance of arrears with the IFIs, using: (a) a bridge loan to repay the AfDB and the World Bank's International Development Association (IDA); (b) their SDR allocations to repay the Fund; and (c) a long-term loan from a bilateral lender to repay the Bank's International Bank for Reconstruction and Development (IBRD). Thereafter, the authorities plan to pursue traditional debt rescheduling under the umbrella of the Paris Club. Zimbabwe's progress in program implementation and cooperation on policies and payments has also helped catalyze support from development partners and drawing interest from investors. Moreover, in recent months, there has been renewed interest from, and increased cooperation among Zimbabwe, its bilateral creditors, development partners and investors. Strong support from the Lima meeting for the authorities' strategy, and continued successful implementation of the SMP would set the stage for advancing the reengagement process with creditors. The authorities could also seek Fund financial support for an ambitious medium-term reform program.

23. **The authorities continue to make efforts to cooperate with the Fund on policies and payments, and have been making good use of Fund TA.** They continue to make the agreed monthly payments of $150,000 to the PRGT; as well as the increased *pari passu* payments to the World Bank and the AfDB, and token payments to the European Investment Bank. The authorities have committed to increase payments to all the IFIs as their payment capacity improves. Zimbabwe continues to benefit from Fund TA, in particular in the areas of PFM, tax and custom administration, addressing the high levels of NPLs, and macroeconomic statistics.

D. Creating Conditions for Sustained Growth

24. **Conditions for sustained growth require not only solving the external arrears but also addressing structural impediments, increasing productivity and enhancing competitiveness.** Improving the business climate remains a key objective of the authorities (LOI, ¶ 21), and they have started taking important steps toward this. The labor laws were amended (third review structural benchmark) to allow for labor market flexibility. In addition, the authorities plan to publish guidelines on the indigenization law on the website of the Zimbabwe Investment Authority (ZIA) (third review structural benchmark). The ongoing price adjustments and plans to curb the growth in the public sector wage bill would help enhance competitiveness. Particularly in the context of a multicurrency regime, prudent fiscal policy needs to accompany structural reforms to improve competitiveness.

PROGRAM DESIGN AND MONITORING

25. **The SMP will continue to be monitored based on quantitative targets and structural benchmarks (LOI, Tables 1 and 3).** The authorities have proposed modifications to some of the quantitative targets for end-December and the indicative targets for end-September. The proposed floor on the primary balance accommodates the lower revenue and expenditure projections, in line with the significantly weaker growth outlook for 2015. The floor on the stock of reserves has been adjusted to take account of the lower than originally programmed fiscal balance and external flows. The remaining structural benchmarks continue to focus on further improving fiscal transparency and accountability, enhancing PFM, and improving the business climate.

STAFF APPRAISAL

26. **Achievements:** Zimbabwe has stayed the course of its economic reform agenda, despite major economic and financial difficulties. Fiscal discipline has been maintained. Although at lower pace the earlier envisaged, international reserves continue to rise, even in the presence of major adverse shocks, both global and domestic. Structural reforms have moved forward, with major highlights in the financial sector, labor market liberalization, and public financial management. Overall, signs of increased commitment and broader consensus augur well for the authorities' reform agenda.

27. **Challenges:** Economic conditions are unlikely to improve before the ongoing reforms start to produce their favorable impact. In the absence of a comprehensive medium-term economic reform plan that mobilizes financial support from the international community, it is unlikely the country can raise its growth prospects in a lasting manner. Zimbabwe's debt distress remains the major hurdle for achieving its development objectives. The lack of budgetary financing together with a too high wage bill leaves little room for investing in much-needed infrastructures and protecting the poor. Thus, regaining access to the support of both multilateral and bilateral creditors, and lowering employment costs remain the two main challenges. Moreover, building consensus around a consistent ambitious reform agenda remains a top priority.

28. **Creditor relations:** Staff welcomes the authorities' efforts to reach out to creditors in order to find broad consensus on the strategy to resolve the outstanding arrears with the IFIs. The Lima meeting will constitute an important step in this direction. Together with a successful completion of the SMP, clearing these arrears would pave the way for reengaging with the IFIs. This reengagement would entail a comprehensive reform program that could be supported by the Fund and the World Bank, broad support from bilateral creditors, actual clearance of the arrears, and an agreement on debt treatment under the Paris Club. In this context, it is essential that the authorities redouble their efforts to build consensus among bilateral creditors and development partners.

29. **Fiscal Policy:** The authorities' decision to aim at a further primary deficit reduction in 2015, despite the significant revenue shortfall, demonstrates their commitment to redressing the fiscal position. They have made good on their earlier commitment to seek savings in employment costs in the event a revenue shortfall materialized. It is now clear that the country cannot afford employment costs that absorb 73 percent of the fiscal resources. Their reduction is essential to free up resources for much needed infrastructure investment and social spending. Therefore, there is a pressing need to make their strategy for reducing these costs concrete by indicating the measures and time frame for their implementation. The 2016 budget should include already the savings resulting from an early implementation of these measures, which should help achieve the 2016 fiscal target. On the revenue side, there are concerns that the recent decline in VAT collections reflects not only weakening economic activity, but also issues in its design (e.g. mushrooming exemptions) and administration. Thus, staff welcomes the authorities' intention to seek Fund TA for a comprehensive review of the VAT. The issuance of government securities has risen quickly, despite its relative limited use for deficit financing, because of the need to address legacy debt obligations. There is an urgent need to develop debt management capacity, to fully integrate it into the budget process, and to enhance transparency, with the objective to eventually create a vibrant domestic debt market.

30. **Financial Sector:** The RBZ has taken significant actions to enhance financial stability and boost confidence. The fact that the position of all the troubled banks has been addressed should raise the credibility of banking supervision. The operations of ZAMCO have already helped to lower NPLs, but more work is clearly needed to achieve the RBZ's ambitious 5 percent target. For this purpose, it is key that ZAMCO's operational framework adhere to international best practices. In

addition, continued vigilance in monitoring banks' lending and further tightening of underwriting standards by banks will be essential. To strengthen the regulatory framework, the recently approved amendments to the Banking Act should be implemented quickly. While the recently agreed guidelines on interest rates, may help limit incentives toward risky lending, it is important to maintain market-determined interest rates and promptly address anticompetitive behavior.

31. **Investment Climate:** The recently approved Labour Act constitutes a major step toward reducing labor market rigidities that have stifled economic activity and raised Zimbabwe labor cost above other countries in the region and hurt competitiveness. Staff welcomes the authorities' decision to focus on attracting foreign investment by reducing red tape and creating a one-stop window. These measures to be effective need to be better accompanied by efforts to make the implementation of the policy on indigenization fully transparent. In this sense, the authorities' intention to publish clear and easily accessible guidelines on the ZIA's web site should help improve investors' perception of this policy. In addition, policy consistency and predictability is paramount in building a credible and stable regulatory environment.

32. **Balance of Risks:** If Zimbabwe successfully completes the SMP and obtains a Fund-supported program, it has the chance to re-access support from its multilateral and bilateral official creditors. The implementation of an ambitious reform program could substantially raise the country's economic prospects with substantial benefits for its population. In the event policy slippages and political instability hamper the completion of the SMP, the status quo would prevail with low and unstable growth, which would lead to a further gradual deterioration in living conditions. Thus, on balance the benefits from successful program implementation continue to outweigh the potential costs of policy slippages.

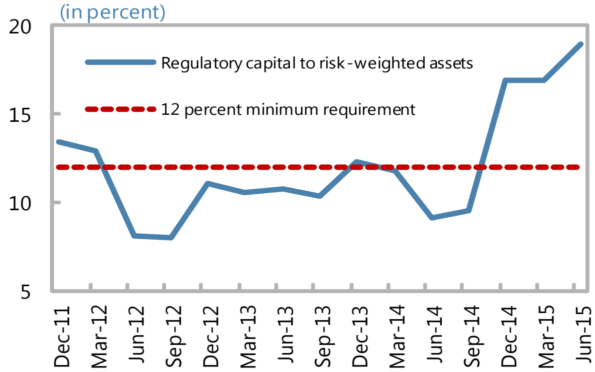
33. **External Loans and Repayments to the IFIs:** Staff welcomes the authorities' intentions to continue seeking financing through grants and loans that are as concessional as possible, and to limit contracting non-concessional loans to within the ceiling set under the program, and to prioritize investment that would eventually raise Zimbabwe's capacity to repay. Staff regrets the recent nonconcessional borrowing outside program commitments, and encourages the authorities to avoid selective debt servicing.

34. **Next steps.** Provided continued strong implementation of the SMP and consensus on the arrears clearance strategy, the authorities should prepare a credible and ambitious reform program to seek the support of the Fund, other IFIs, and bilateral creditors.

Figure 1. Zimbabwe: Banking System Performance and Soundness

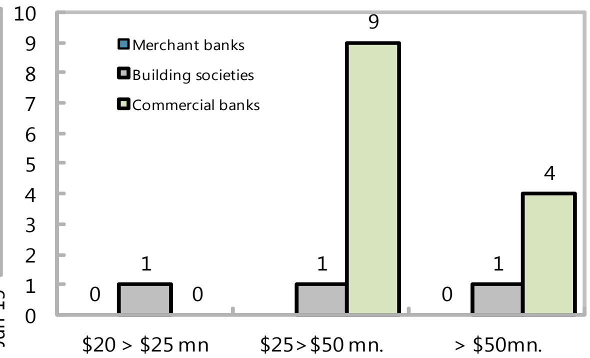
Banking system capital has improved…

Regulatory Capital to Risk-Weighted Assets [1/]
(in percent)



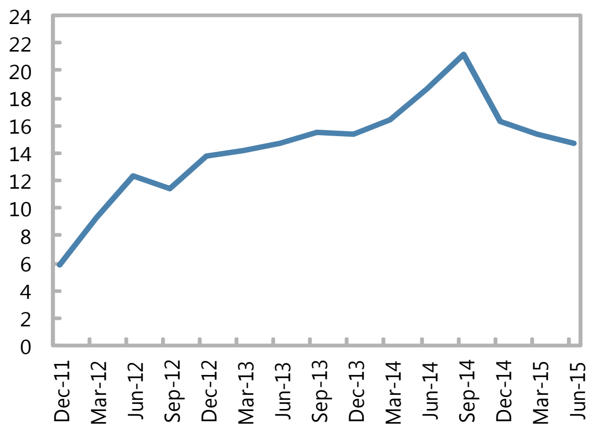
…as all operating banks complied with the minimum capital requirements.

Distribution of Bank Capital [1/ 2/]
(number of banks, as of June 2015)



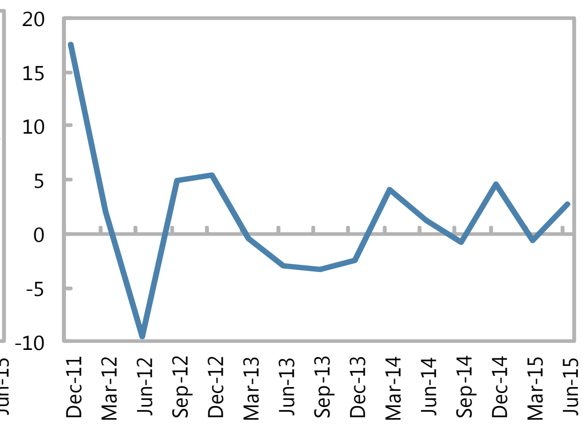
NPLs have been declining, but remains high…

Nonperforming Loans to Total Loans [3/]
(in percent)



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

Return on Equity
(percent)



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.

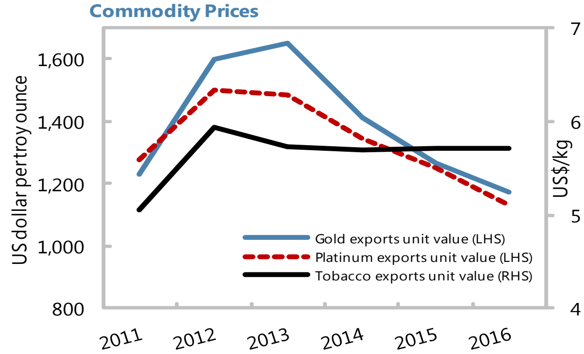
[2/] Excludes the Post Office Saving Bank. As of December 2013, minimum capital requirements are $25 million for commercial banks and merchant banks, and $20 million for building societies.

[3/] Nonperforming loans of commercial banks.

Figure 2. Zimbabwe: Program Scenario

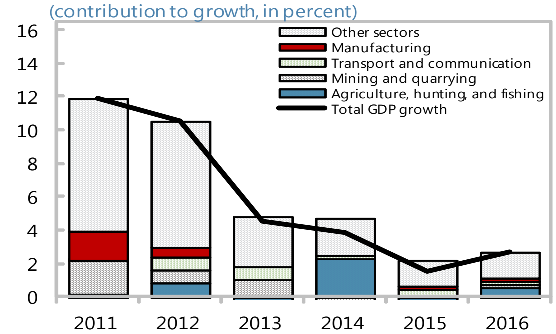
The prices of Zimbabwe's main exports are expected to remain depressed…

Commodity Prices



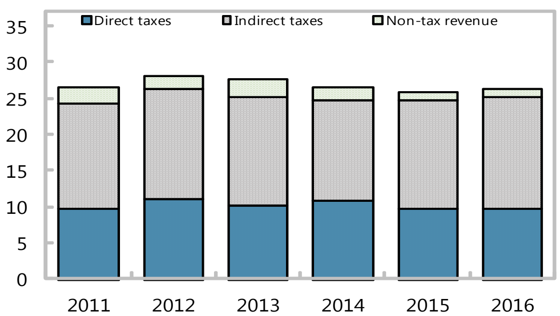
…but growth in 2015 is projected to be weak, led by a drought-induced decline in agriculture; with modest recovery expected in 2016.

GDP Growth
(contribution to growth, in percent)



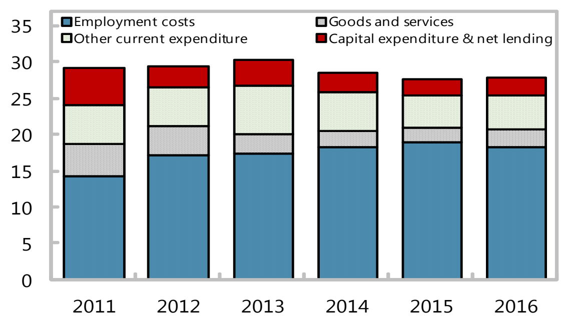
As fiscal revenues are projected to stabilize at about 26 percent of GDP…

Fiscal Revenues
(percent of GDP)



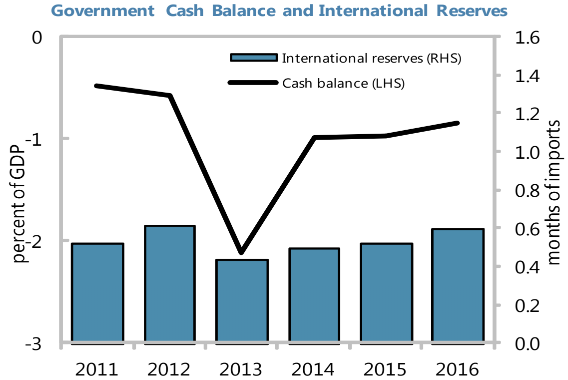
…employment costs need to be contained, to make space for high-priority capital and social spending.

Fiscal Expenditures
(percent of GDP)



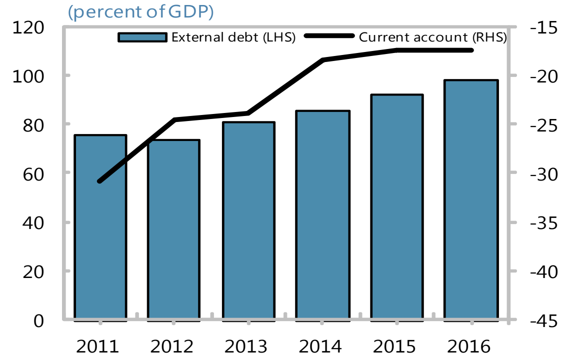
An improved fiscal position will allow for the re-building of external reserves…

Government Cash Balance and International Reserves



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

External Debt and Current Account
(percent of GDP)



Sources: Zimbabwean authorities and IMF staff estimates.

[1/] Total external debt stocks include arrears and are estimates, except for the 2011-2014 public and publicly guaranteed debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise initiated in 2013.

Table 1. Zimbabwe: Selected Economic Indicators, 2012–16

Population (millions):	13.1 (2013)	Per capita GDP:	US$ 1,058 (2014)
Quota (current, SDR millions, % of total):	353.4 (0.15%)	Literacy rate (%):	96 (2011)
Main products and exports:	Tobacco, platinum, gold, diamonds		
Key export markets:	South Africa, Mozambique, United Arab Emirates		

	Actual		Est.	Program	Proj.	Proj.
	2012	2013	2014	2015		2016
Real GDP growth (annual percentage change) 1/	10.6	4.5	3.8	2.8	1.5	2.7
Nominal GDP (US$ millions)	12,472	13,490	14,197	13,973	14,271	14,684
GDP deflator (annual percentage change)	3.0	3.5	1.3	-0.6	-1.0	0.2
Inflation (annual percentage change)						
Consumer price inflation (annual average)	3.7	1.6	-0.2	-1.0	-2.2	-1.2
Consumer price inflation (end-of-period)	2.9	0.3	-0.8	-0.5	-2.0	-1.1
Central government (percent of GDP)						
Revenue and grants	28.0	27.7	26.6	27.9	25.9	26.3
Expenditure and net lending	29.3	30.2	28.4	29.4	27.6	27.8
Of which: cash expenditure and net lending	28.6	29.8	27.6	28.6	26.9	27.1
Of which: employment costs (incl. grants & transfers)	20.1	20.5	21.4	23.4	21.9	21.2
Overall balance (commitment basis)	-1.3	-2.5	-1.9	-1.5	-1.7	-1.6
Overall balance (cash basis)	-0.6	-2.1	-1.0	-0.7	-1.0	-0.8
Primary balance (cash basis)	-0.4	-1.9	-0.7	-0.1	-0.4	-0.1
Money and credit (US$ millions)						
Broad money (M3)	3,694	3,888	4,378	4,676	4,641	4,977
Net foreign assets	-435	-809	-725	-749	-840	-763
Net domestic assets	4,129	4,697	5,103	5,424	5,481	5,740
Domestic credit (net)	3,559	3,993	4,321	4,502	5,122	5,356
Of which: credit to the private sector	3,524	3,618	3,765	3,974	3,943	4,220
Reserve money	273	272	464	495	602	645
Balance of payments (US$ millions; unless otherwise indicated)						
Merchandise exports	3,808	3,694	3,549	3,627	3,291	3,260
Value growth (annual percentage change)	-13.9	-3.0	-3.9	1.0	-7.3	-0.9
Merchandise imports	-6,710	-6,809	-6,306	-6,195	-6,030	-6,153
Value growth (annual percentage change)	-11.3	1.5	-7.4	-1.8	-4.4	2.0
Current account balance (excluding official transfers)	-3,062	-3,222	-2,609	-2,858	-2,488	-2,573
(percent of GDP)	-24.5	-23.9	-18.4	-20.5	-17.4	-17.5
Overall balance 2/	-186	-405	-70	-110	-180	-118
Gross international reserves (US$ millions)	398	284	303	337	308	363
(months of imports of goods and services)	0.6	0.4	0.5	0.6	0.5	0.6
Net international reserves (US$ millions) 2/	259	149	178	214	184	245
Debt (end-of-period)						
Public and publicly guaranteed external debt (US$ millions, e.o.p.) 3/4/5/	6,720	7,025	6,945	7,607	7,123	7,420
Percent of GDP	53.9	52.1	48.9	54.4	49.9	50.5
Of which: Arrears	5,312	5,607	5,641	5,903	5,605	5,731
Percent of GDP	42.6	41.6	39.7	42.2	39.3	39.0

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Based on program exchange rate

3/ Includes errors and omissions through 2014.

4/ Includes arrears. Includes valuation adjustment

5/ Debt stocks are estimates, except for the 2011-14 debt stocks which are based on preliminary results of the authorities' external debt reconciliation exercise initiated in 2013. Includes valuation adjustment.

Table 2. Zimbabwe: Balance of Payments, 2012–16

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

	Actual		Estimates	Program	Proj.	Proj.
	2012	2013	2014	2015		2016
Current account (excluding official transfers)	-3,062	-3,222	-2,609	-2,858	-2,488	-2,573
Trade balance	-2,902	-3,115	-2,758	-2,568	-2,740	-2,893
Exports, f.o.b.	3,808	3,694	3,549	3,627	3,291	3,260
Imports, f.o.b.	-6,710	-6,809	-6,306	-6,195	-6,030	-6,153
Nonfactor services (net)	-866	-919	-863	-871	-929	-950
Investment income (net)	-973	-824	-651	-1,118	-581	-597
Interest	123	-89	19	8	25	26
Receipts	294	179	196	216	216	238
Payments	-171	-268	-177	-208	-191	-212
Other	-1,096	-736	-670	-1,126	-607	-622
Current transfers (net)	1,679	1,635	1,663	1,699	1,763	1,868
Remittances	646	764	837	873	879	962
Capital account (including official transfers)	1,772	2,662	2,338	2,748	2,307	2,454
Official transfers	738	251	378	342	449	506
Direct investment	351	390	461	399	418	519
Portfolio investment	99	240	96	200	110	139
Long-term capital	43	959	855	1,126	953	940
Government[1]	-116	81	20	287	356	330
Receipts	20	199	205	456	583	537
Payments	-136	-118	-185	-170	-228	-207
Public enterprises	-28	-4	-4	26	26	6
Private sector	187	882	839	813	572	604
Short-term capital	543	822	547	681	377	350
Private sector (loans mediated outside DMBs)	365	558	484	619	254	373
Change in NFA of DMBs	178	264	63	62	124	-23
Change in assets	2	-62	171	-31	91	-82
Change in liabilities	176	326	-108	93	33	59
Errors and omissions[2]	1,104	155	202	0	0	0
Overall balance	-186	-405	-70	-110	-180	-118
Financing	186	405	70	110	180	118
Central bank (net) (- denotes increase)	-27	111	-113	-33	10	10
Change in gross foreign assets	-34	109	-18	-35	-15	-15
Change in gross official reserves	-32	114	-19	-34	-5	-56
Change in gross foreign liabilities	7	1	-95	2	25	25
Change in short-term official liabilities	8	3	10	2	2	5
Change in net international reserves	-39	111	-29	-36	-7	-61
Change in arrears (– denotes decrease)	212	295	183	143	170	185
Memorandum items:						
Current account balance (percent of GDP)	-24.5	-23.9	-18.4	-20.5	-17.4	-17.5
Gross international reserves (US$ millions, e.o.p.)	398	284	303	337	308	363
Months of imports of goods and services	0.6	0.4	0.5	0.6	0.5	0.6
SDR holdings (US$ millions, e.o.p.)[4]	143	143	134	134	130	131
PPG external debt (US$ millions, e.o.p.)[5]	6,720	7,025	6,945	7,607	7,123	7,420
Percent of GDP	54	52	49	54	50	51
Of which: Arrears	5,312	5,607	5,641	5,903	5,605	5,731
Percent of GDP	43	42	40	42	39	39
Nominal GDP (US$ millions)	12,472	13,490	14,197	13,973	14,271	14,684
Percentage change	13.8	8.2	5.2	2.2	0.5	2.9
Exports of goods and services	4,076	3,972	3,832	3,913	3,554	3,520
Percentage change	-13.2	-2.6	-3.5	1.0	-7.3	-0.9
Imports of goods and services	-7,844	-8,005	-7,453	-7,352	-7,223	-7,364
Percentage change	-8.7	2.1	-6.9	-1.4	-3.1	2.0
Terms of Trade (percentage change)	3.6	-1.5	-1.8	7.8	4.6	-2.5

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 2011-2014 debt stocks which is based on preliminary results of the authorities' external debt reconciliation exercise initiated in 2013. Includes valuation adjustment.

[4] Excludes amounts in SDR escrow account.

[5] Includes arrears. Includes valuation adjustment.

Table 3. Zimbabwe: Central Government Operations, 2012–16
(Millions of U.S. dollars)

	Actual		Estimates	Budget	Program	Proj.	Proj.
	2012	2013	2014	2015			2016
Total revenue & on-budget grants	**3,496**	**3,741**	**3,770**	**3,990**	**3,900**	**3,692**	**3,859**
Tax revenue	3,279	3,414	3,519	3,763	3,747	3,547	3,688
Personal income tax	661	744	900	835	855	814	840
Corporate income tax	445	404	365	448	380	368	378
Other direct taxes	287	227	284	295	295	204	205
Customs	354	361	351	390	391	360	374
Excise	394	510	517	590	628	700	730
VAT	1,086	1,068	972	1,051	1,045	975	1,032
Other indirect taxes	52	98	129	154	154	126	128
Non-tax revenue	217	327	251	227	154	145	170
Total expenditure & net lending	**3,656**	**4,075**	**4,033**	**4,179**	**4,104**	**3,934**	**4,087**
Of which: Cash expenditure	3,568	4,027	3,912	4,065	3,993	3,832	3,983
Current expenditure	3,301	3,592	3,663	3,839	3,762	3,610	3,712
Employment costs	2,134	2,344	2,583	2,798	2,778	2,678	2,677
Wages & salaries	1,732	1,926	2,106	2,320	2,300	2,200	2,200
Pensions	402	418	477	478	478	478	478
Interest payments	115	126	145	188	183	186	208
Foreign	112	120	119	129	124	115	131
Of which: Paid	18	17	17	14	14	14	28
Domestic	3	6	26	59	59	71	77
Of which: Paid	3	6	26	59	59	71	77
Goods & services	505	359	322	344	305	292	340
Grants & transfers	548	763	613	510	496	454	487
Of which: Employment costs	370	423	457	504	490	448	443
Capital expenditure and net lending	355	483	370	340	342	324	375
Overall balance (commitment basis)	**-160**	**-334**	**-263**	**-189**	**-203**	**-242**	**-228**
Primary balance (commitment basis) 1/	-45	-208	-118	-1	-20	-56	-21
Overall balance (cash basis)	**-72**	**-286**	**-142**	**-75**	**-93**	**-140**	**-124**
Primary balance (cash basis) 1/	-51	-262	-98	-1	-20	-55	-20
Financing	**160**	**322**	**263**	**189**	**203**	**242**	**228**
Domestic financing (net)	13	270	197	277	160	208	266
Bank	49	198	304	318	40	118	266
Non-bank	-36	72	-107	-41	120	89	0
Foreign financing (net)	6	-133	-159	-168	-134	-136	-207
Disbursements	0	72	0	10	8	8	0
Amortization due	102	205	159	178	142	144	207
Of which: Paid	49	68	55	54	75	75	141
Change in arrears	141	185	226	80	177	170	170
Domestic	-6	-55	20	-159	0	0	1
Arrears accumulation	116	123	102	0	30	61	27
Arrears clearance	-122	-178	-83	-159	-30	-61	-27
Foreign	147	239	206	239	177	170	170
Interest	94	103	102	115	111	101	103
Principal 2/	53	136	104	124	66	68	66

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

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

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

Table 3 Zimbabwe: Central Government Operations, 2012–16(concluded)

(Percent of GDP)

	Actual			Estimates	Budget	Program	Proj.	Proj.
	2011	2012	2013	2014	2015			2016
Total revenue & on-budget grants	**26.7**	**28.0**	**27.7**	**26.6**	**28.0**	**27.9**	**25.9**	**26.3**
Tax revenue	24.3	26.3	25.3	24.8	26.4	26.8	24.9	25.1
Personal income tax	5.4	5.3	5.5	6.3	5.9	6.1	5.7	5.7
Corporate income tax	2.7	3.6	3.0	2.6	3.1	2.7	2.6	2.6
Other direct taxes	1.7	2.3	1.7	2.0	2.1	2.1	1.4	1.4
Customs	3.0	2.8	2.7	2.5	2.7	2.8	2.5	2.5
Excise	2.8	3.2	3.8	3.6	4.1	4.5	4.9	5.0
VAT	8.3	8.7	7.9	6.8	7.4	7.5	6.8	7.0
Other indirect taxes	0.3	0.4	0.7	0.9	1.1	1.1	0.9	0.9
Non-tax revenue	2.4	1.7	2.4	1.8	1.6	1.1	1.0	1.2
Total expenditure & net lending	**29.0**	**29.3**	**30.2**	**28.4**	**29.3**	**29.4**	**27.6**	**27.8**
Of which: Cash expenditure	27.1	28.6	29.8	27.6	28.5	28.6	26.9	27.1
Current expenditure	24.0	26.5	26.6	25.8	26.9	26.9	25.3	25.3
Employment costs	14.1	17.1	17.4	18.2	19.6	19.9	18.8	18.2
Wages & salaries	11.6	13.9	14.3	14.8	16.3	16.5	15.4	15.0
Pensions	2.5	3.2	3.1	3.4	3.3	3.4	3.3	3.3
Interest payments	1.0	0.9	0.9	1.0	1.3	1.3	1.3	1.4
Foreign	1.0	0.9	0.9	0.8	0.9	0.9	0.8	0.9
Of which: Paid	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Domestic	0.0	0.0	0.0	0.2	0.4	0.4	0.5	0.5
Of which: Paid	0.0	0.0	0.0	0.2	0.4	0.4	0.5	0.5
Goods & services	4.6	4.0	2.7	2.3	2.4	2.2	2.0	2.3
Grants & transfers	4.3	4.4	5.7	4.3	3.6	3.5	3.2	3.3
Of which: Employment costs	2.6	3.0	3.1	3.2	3.5	3.5	3.1	3.0
Capital expenditure and net lending	5.0	2.8	3.6	2.6	2.4	2.4	2.3	2.6
Overall balance (commitment basis)	**-2.4**	**-1.3**	**-2.5**	**-1.9**	**-1.3**	**-1.5**	**-1.7**	**-1.6**
Primary balance (commitment basis) [1/]	-1.3	-0.4	-1.5	-0.8	0.0	-0.1	-0.4	-0.1
Overall balance (cash basis)	-0.5	-0.6	-2.1	-1.0	-0.5	-0.7	-1.0	-0.8
Primary balance (cash basis) [1/]	-0.2	-0.4	-1.9	-0.7	0.0	-0.1	-0.4	-0.1
Financing	**2.4**	**1.3**	**2.4**	**1.9**	**1.3**	**1.5**	**1.7**	**1.6**
Domestic financing (net)	-0.2	0.1	2.0	1.4	1.9	1.1	1.5	1.8
Bank	0.0	0.4	1.5	2.1	2.2	0.3	0.8	1.8
Non-bank	-0.3	-0.3	0.5	-0.8	-0.3	0.9	0.6	0.0
Foreign financing (net)	-0.4	0.1	-1.0	-1.1	-1.2	-1.0	-1.0	-1.4
Disbursements	0.7	0.0	0.5	0.0	0.1	0.1	0.1	0.0
Amortization due	1.2	0.8	1.5	1.1	1.2	1.0	1.0	1.4
Of which: Paid	0.0	0.4	0.5	0.4	0.4	0.5	0.5	1.0
Change in arrears	3.0	1.1	1.4	1.6	0.6	1.3	1.2	1.2
Domestic	1.2	0.0	-0.4	0.1	-1.1	0.0	0.0	0.0
Arrears accumulation	1.2	0.9	0.9	0.7	0.0	0.2	0.4	0.2
Arrears clearance	0.0	-1.0	-1.3	-0.6	-1.1	-0.2	-0.4	-0.2
Foreign	1.9	1.2	1.8	1.4	1.7	1.3	1.2	1.2
Interest	0.7	0.8	0.8	0.7	0.8	0.8	0.7	0.7
Principal	1.2	0.4	1.0	0.7	0.9	0.5	0.5	0.5

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

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

Table 4. Zimbabwe: Monetary Survey, 2012–16

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

	Actual			Program	Proj.	Proj.
	Dec.	Dec.	Dec.	Dec.		Dec.
	2012	2013	2014	2015		2016
Monetary authorities						
Net foreign assets	**-700**	**-810**	**-663**	**-625**	**-655**	**-601**
Claims on non-residents	550	441	453	487	468	524
Gross official international reserves	398	284	302.8	337.0	307.5	363
Liabilities to non-residents	-1,250	-1,251	-1,116	-1,112	-1,122	-1,125
Short-term foreign liabilities	-658	-655	-551	-549	-514	-513
Short-term official reserves liabilities	-138	-135	-125.5	-123	-123	-119
Of which: Liabilities to IMF	-127	-126	-116	-112	-113	-112
Other foreign liabilities	-592	-596	-565	-563	-608	-611
Net domestic assets	**973**	**1,082**	**1,127**	**1,120**	**1,257**	**1,246**
Net domestic claims	-8	2	-22	-52	268	202
Net claims on central government	-11	-1	-25	-55	220	153
Claims on other sectors	4	3	3	3	39	39
Claims on private sector	4	3	3	3	38	38
Other items (net)	980	1,080	1,149	1,171	989	1,045
Monetary base	**273**	**272**	**464**	**495**	**602**	**645**
Currency in circulation	0	0	1	0	5	5
Banks' current/RTGS accounts	273	272	463	495	593	636
Deposit money banks and other banking institutions						
Net foreign assets	**266**	**1**	**-62**	**-124**	**-185**	**-162**
Foreign assets	642	704	533	564	442	524
Foreign liabilities	-376	-702	-595	-688	-628	-687
Net domestic assets	**3,428**	**3,886**	**4,438**	**4,799**	**4,808**	**5,121**
Net domestic claims	3,892	4,397	4,822	5,066	5,473	5,816
Claims on RBZ	325	406	479	512	609	652
Deposits	325	406	478	510	608	651
Net claims on central government	-5	315	515	514	912	932
Claims on other sectors	3,572	3,676	3,828	4,040	3,951	4,232
Claims on public non-financial corporations	52	61	67	69	46	50
Claims on private sector	3,520	3,615	3,762	3,971	3,905	4,182
Other items (net)	-463	-510	-383	-266	-665	-695
Deposits included in broad money	**3,694**	**3,888**	**4,377**	**4,675**	**4,632**	**4,968**
Monetary Survey						
Net foreign assets	**-435**	**-809**	**-725**	**-749**	**-840**	**-763**
Net domestic assets	**4,129**	**4,697**	**5,103**	**5,424**	**5,481**	**5,740**
Domestic claims	3,559	3,993	4,321	4,502	5,122	5,356
Net claims on central government	-17	314	489	459	1,132	1,085
Claims on other sectors	3,575	3,679	3,832	4,043	3,990	4,271
Claims on public non-financial corporations	52	61	67	69	47	51
Claims on private sector	3,524	3,618	3,765	3,974	3,943	4,220
Other items (net)	570	704	781	922	359	384
Broad money liabilities (M3)	**3,694**	**3,888**	**4,378**	**4,676**	**4,641**	**4,977**
Currency	0	0	1	0	5	5
Deposits	3,694	3,888	4,377	4,676	4,636	4,972
	(annual percentage change)					
Monetary Base	47	0	71	7	30	7
Broad Money (M3)	19	5	13	7	6	7
Private Sector Credit	30	3	4	6	5	7
Memorandum Items:						
Loan-to-deposit ratio (in percent)	95	93	86	85	84	84
Reserves-to-deposit ratio (in percent)	7	7	11	11	13	13

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

Appendix I. Letter of Intent

September 30, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 2043
United States

Dear Ms. Lagarde:

We thank the International Monetary Fund (IMF) for its continued support of our economic reform programme and valuable technical assistance. This support continues to play a pivotal role in our efforts towards normalizing relations with our creditors and eventually accessing Fund financial resources.

Our continued engagement under the Staff-Monitored Programme (SMP) remains critical for a more stable macroeconomic environment and fostering private sector-led growth. However, the macroeconomic environment remains difficult. Weak domestic demand, lower commodity prices, the appreciation of the dollar, insufficient external inflows and the recent drought have weighed on the economy.

The programme remains on track and the Government is committed to the reforms agreed in the context of the SMP. We have met four of the five end-June 2015 quantitative targets, despite the economic and financial difficulties. In particular we met the end-June primary balance target, while protecting social spending, and managed to improve our international reserve position. However, a recently contracted $200 million nonconcessional loan was not in line with our commitment under the program. The funds were used mainly to restructure existing obligations —including for key economic sectors— to prevent them from becoming non-performing, and to avoid accumulation of additional external arrears (Table 1).

We have made substantial progress in structural reforms. We have met all structural benchmarks for the second review (Table 2):

a) We submitted to Cabinet both the recommendations on reforms to the fiscal regime for the mining sector; and the strategy paper on reducing the wage bill.

b) We submitted to Parliament the amendments to the Reserve Bank and the Banking Acts.

c) We developed the operational framework for the Zimbabwe Asset Management Corporation (Pvt.) Limited (ZAMCO) which specifies an appropriate legal governance structure, including necessary powers; an asset valuation and transfer pricing strategy, and a feasible and sustainable funding strategy.

Moreover, we have already fulfilled two of the structural benchmarks for the third review:

a) We amended the Labour Act to introduce labour market flexibility; and

b) Following the approval by Cabinet of the draft principles for ZAMCO, we submitted the amendments to the Reserve Bank of Zimbabwe Act dealing with ZAMCO to Parliament.

Against this background, we would like you to approve completion of the second review under our 15-month SMP, and the modification of quantitative targets for 2015. The Government believes that the economic and financial policies set forth in our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of November 3, 2014, supplemented with the LOI of April 17, 2015 and this updated LOI are adequate to meet the objectives of the SMP, but stands ready to take additional measures.

Furthermore, we will consult with the IMF staff in advance of any revisions to the policies contained in the LOI and MEFP of November 3, 2014, the LOI of April 17, 2015 and this updated LOI, in accordance with the IMF's policies on such consultations, at the initiative of the Government or the IMF staff.

In line with our commitment to transparency in government operations, which we believe is essential for good governance, we consent to the publication of all SMP-related documents on the IMF's web site.

POLICIES FOR THE REMAINDER OF THE YEAR

1. The current economic situation is increasingly difficult, but we continue to focus on improving the country's growth prospects and capacity to repay:

- Growth has slowed down because of the poor 2014/15 agricultural season, low investment levels, scarce liquidity, and a drop in the international prices for our major exports. Risks remain tilted to the downside. The implementation of our economic blueprint has been delayed by the absence of financing for key infrastructure projects. Over the medium term, we expect that the ongoing efforts to improve the business environment and investor confidence will attract much needed capital and help spur private sector-led growth in a sustainable way.

- The external position remains precarious but international reserves have improved slightly along with the current account. The current account deficit has been mainly financed by short- and long-term loans to the private sector, which has remained current on its payments. External arrears have declined.

- Inflation remains in negative territory, reflecting the effects of the continued depreciation of the South African rand, weak domestic demand, and lower commodity prices.

- A shortfall in revenue collection has intensified fiscal pressures, and has made expenditure rationalization an urgent priority. We are committed to improving our fiscal position by strengthening revenue collection and rationalizing expenditures, including savings on employment costs. The objective is to improve our capacity to service debt, deliver better services and increase funding for critical social and infrastructure projects.

- We have intensified our efforts to mobilize international support for clearing our arrears with the International Financial Institutions (IFIs) as a first step towards normalizing relations with creditors. To this end, we have prepared a strategy paper which will be presented to creditors on the sidelines of this year's Annual Meetings of the IMF and World Bank in Lima, Peru.

- We have made significant progress in stabilizing the financial sector and boosting confidence. Going forward, we will ensure that the sector performs its key role of allocating scarce resources to productive uses.

- We will continue to implement our structural reform agenda to improve the business climate, boost productivity and competitiveness.

2. Over the medium term, we remain committed to implementing sound macro-economic and structural policies. The objectives are to: (a) maintain macro-economic stability, (b) fully harness Zimbabwe's growth potential, (c) tackle fiscal challenges, (d) further hone confidence in the financial sector, (e) improve the external position, and (f) set the stage for strong private sector-led growth.

A. Fiscal Policy

3. We are fully committed to achieving a balanced primary fiscal position but the revenue shortfalls make it difficult this year. Nevertheless, we intend to lower the primary deficit to below 0.5 percent of GDP and aim at a balance in 2016. The shortfall reflects the country's widespread economic difficulties, shrinking corporate profits and earnings, limited ability of companies to pay taxes on time, and an increasingly informal economic activity. In *The 2015 Mid-Year Fiscal Policy Review* we announced measures aimed at generating additional revenues by removing exemptions, raising tax rates, and extending the VAT to parts of the insurance sector. In line with the Cabinet's resolution, we are rationalizing the country's public service establishment in order to generate savings on employment costs. We are seeking cuts in lower priority current and capital spending, and postponing the implementation of new projects while safeguarding priority social spending.

4. We are taking actions to strengthen revenue collections. Specifically, we are enforcing tax payments by agreeing with clients on repayment schedules to eliminate their overdue tax obligations. We are strengthening revenue administration, in collaboration with our international partners. Moreover, we plan to implement the recommendations of the recently completed AFRITAC South technical assistance mission focusing on improving risk mitigation techniques in customs. Going forward, we plan to rationalize the tax expenditure regime. We also plan to review the design of our tax system with a view to making it more business friendly and to halt the recent slide in tax collection as a percentage of GDP. For this purpose, we intend to request Fund technical assistance.

5. Cabinet has agreed on the principles of the fiscal regime for the mining sector which aim at generating additional revenue without undermining investors' incentives. With the support of our international partners, we have started working on the specific proposals for mining taxation. We will seek Fund technical assistance to help prepare the mining taxation proposals. We developed a fiscal model for mining sector revenue monitoring and projections and, in collaboration with the mining companies, we are working towards implementing it. The amendments to the Mines and Minerals Act (MMA) , together with the new mining fiscal regime, will be submitted to Cabinet once stakeholder consultations have been completed.

6. We have made efforts to reduce our employment costs by tightening controls and starting to rationalize the civil service. We will keep the 2015 employment costs below budget projections. Cabinet is currently considering the report by the Civil Service Commission (CSC), containing proposals to streamline public sector employment. In line with the recently completed audit of the civil service, we have started to eliminate duplications and redundancies. We have set up a Wage Bill Management Committee to make proposals to reduce the wage bill to the accepted level of 40 percent of expenditure over the next few years. Moreover, by end-2015 we expect to complete decentralization and modernization of the Salary Service Bureau, which would place a payroll assistant in every district, strengthening control over the wage bill and minimizing irregularities. We remain committed to reducing domestic arrears and improving service delivery.

7. We have made progress in amending the Public Finance Management Act to strengthen Treasury oversight of public enterprises and local authorities. The Draft Amendment Bill is currently being drafted and will be submitted to Cabinet before the end of 2015.

8. A first round of discussions with stakeholders of the proposed amendments to the Procurement Act has taken place and we are now incorporating their feedback. We will send the amendments to Cabinet by end December 2015. We will also receive assistance under the World Bank administered Zimbabwe Reconstruction Fund for the implementation of reforms to the procurement framework and building of capacity of procuring agencies.

9. We have started work on restructuring parastatals to reduce fiscal costs, improve accountability and service delivery. To this end, Cabinet has considered turnaround strategies for the Zimbabwe Broadcasting Corporation, Cold Storage Commission, Air Zimbabwe, the National Railways of Zimbabwe and TelOne. The Cabinet has already approved the strategies for Air Zimbabwe and TelOne. The financial situation of the Agricultural and Rural Development Authority has improved following the establishment of joint venture partnerships. Turnaround strategies for Zimbabwe National Water Authority, Industrial Development Corporation and NetOne have been submitted for consideration in the next quarter. We will publish the audited financial statements of the Zimbabwe Mining Development Corporation. In addition, we are working on a Corporate Governance Bill which will establish a Corporate Governance Agency and performance principles for state owned enterprises (SOEs).

B. Raising Confidence in the Financial Sector

10. The policy measures put in place by the Reserve Bank of Zimbabwe (RBZ) to enhance financial stability have begun to yield fruit:

- We cleaned the financial sector of all distressed banks by end-June 2015. Of the two remaining distressed banks at end-March, one has been successfully recapitalized and the other has been placed under the judicial management of the Deposit Protection Corporation.
- The ratio of banking sector non-performing loans (NPLs) to total loans has declined from 20.5 percent in September 2014 to 14.5 percent in June 2015.
- Banking sector capitalization has improved. At the end of June 2015 all operating financial institutions complied with the minimum capital requirements.

11. ZAMCO is now fully functional. Its operational framework has been defined and mostly implemented. This framework, together with ZAMCO's governance structure, is in line with international best practice. To strengthen ZAMCO's mandate, we have developed amendments to the Reserve Bank of Zimbabwe Act which are now before Parliament (third review structural benchmark). The NPL acquisition policy has been approved by ZAMCO Board. ZAMCO has undertaken a phased approach to acquiring NPLs, focusing initially on the top 100 eligible mortgaged-backed NPLs. At the end of August 2015, it had acquired NPLs amounting to US$157 million, financed by long-term government securities. Our asset valuation and pricing policy is in line with Fund TA recommendations. We are also exploring the possibility of private funding. Moreover, ZAMCO has established a sinking fund to help meet the debt servicing obligations for the government securities. In addition to acquiring and resolving NPLs, ZAMCO will also play an instrumental role in redressing potentially viable companies. The credit reference system will complement the work of ZAMCO, toward further reducing NPLs.

12. The interbank liquidity facility underwritten by the Afreximbank is now operational, and has gone a long way in addressing liquidity shortages in the financial sector. At the end of July 2015, a total of US$126 million was mobilized from the surplus banks, of which US$89 million has been accessed by participating banks.

13. The RBZ Debt Assumption Act was enacted on 7 August 2015 and 43 percent of validated non-core RBZ debt has been assumed by Government through the issuance of long-term securities. The amendments to the Reserve Bank and the Banking Acts aimed at enhancing corporate governance, the problem bank resolution framework, risk management and compliance, have been submitted to Parliament.

14. We believe interest rates should be market-determined. However, in the current difficult environment, the quality of banks' portfolios could be compromised by very high interest rates that encourage risky lending. To safeguard the financial sector, the RBZ and the Bankers Association of Zimbabwe agreed on guidelines for interest rates.

15. As part of our effort to provide credibility to the multicurrency system, in June 2015, we promulgated a law demonetizing the Zimbabwe dollar (Z$) through the Reserve Bank of Zimbabwe Demonetisation of Notes and Coins Notice, 2015. This removes the legal status of the Z$. Over a four-month period all Z$ bank deposits on December 31, 2008 and Z$ cash held by the public will have been converted in accordance with the rates stipulated in the above cited Notice.

C. Addressing Zimbabwe's Substantial Debt Burden

16. The large external debt burden and the outstanding payment arrears continue to impede Zimbabwe's access to external finance, hampering its development agenda. We have stepped up our efforts to reengage with creditors to garner support in resolving our external arrears. We have also continued to make payments to the World Bank (WB), in line with its *pari passu* requirement, and to the African Development Bank (AfDB) along the same lines. We have also maintained token payments to the European Investment Bank (EIB). As our payment capacity improves, we will increase our payments to all IFIs. The EIB and the International Finance Corporation (IFC) and business delegations from several countries had scoping visits to Zimbabwe this year.

17. During the remainder of this SMP, we will continue to treat current SDR holdings as our core international reserves, unless used for arrears clearance to the IMF as part of a strategy to clear the arrears to the IFIs. We will avoid selective debt servicing to bilateral creditors, as it may complicate reaching an agreement with creditors on a debt resolution strategy. Nevertheless, we will continue to make repayments to all creditors that are providing us with positive net new financing.

18. In June 2015, we contracted a US$200 million non-concessional loan mainly to restructure our existing obligations, including those of key economic sectors, such as mining and agriculture to prevent these from becoming nonperforming. In addition, this transaction avoided incurring new arrears with a creditor that has provided new net inflows.

19. As reiterated in our 2015 Budget Statement, we will continue to make best efforts to contract or guarantee concessional loans and resort to non-concessional loans only if grants and concessional financing are not available, subject to the limits proposed in Table 1, and for critical growth-enhancing projects that can improve the country's capacity to repay. For large projects, we are committed to consult with reputable and independent institutions, such as the WB or AfDB before signing loan agreements. We have not yet concluded negotiations for the guarantees of two loans for fiber optic expansion and the expansion of power generation in Hwange. We have concluded discussions on the development of Zhove irrigation project (US$30 million) and the construction and rehabilitation of 12 primary and 5 secondary schools in settlement areas. We now await draft loan agreements. In addition, preliminary discussions are currently underway for the financing of the rehabilitation and development of irrigation infrastructure in eight provinces (US$30 million), renovation of Bulawayo Thermal Power plant (US$87 million), and rehabilitation and restoration of water supply schemes (US$34 million). In addition, we may contract non concessional loans for clearing external debt arrears.

20. The newly enacted Public Debt Management Act statutorily establishes the debt management office within the MoFED, and provides the legal and institutional framework that guides debt management operations.

D. Other Structural Reforms

21. Enhancing the business environment remains a key objective. We plan to publish guidelines on the Indigenisation and Economic Empowerment Law on the website of the Zimbabwe Investment Authority (structural benchmark for the third review). Job creation and equal opportunities for all Zimbabweans remain the over-arching goal of ZIM ASSET. In August 2015, we amended the Labour Act which dated back to 1985 (structural benchmark for the third review).

PROGRAMME MONITORING

22. The SMP will continue to be monitored through quantitative targets and structural benchmarks. Updated quantitative targets are set out in Table 1 and the structural benchmarks in Table 3. The third and final review of the SMP will take place in early-2016 based on end-December 2015 quantitative targets. The agreement between Zimbabwe and IMF staff regarding the technical definitions of quantitative targets and structural measures described in this LOI, as well as reporting requirements, are further specified in the attached Technical Memorandum of Understanding (TMU, Attachment 1).

23. The Government of Zimbabwe remains committed to ensuring that the programme remains on track, given its importance as one of the key steps toward a Fund-supported financial programme and hence the importance of establishing a good track record of implementing sound macro-economic policies. To this end, we will continue to monitor the programme at both the technical and political levels. At the political level, the monitoring is coordinated by the Office of the President and Cabinet through monthly meetings. The technical monitoring committee, comprised of officials from the Ministry of Finance and Economic Development, Ministry of Economic Planning and Investment Promotion the Reserve Bank of Zimbabwe, the Zimbabwe National Statistics Agency, and the Zimbabwe Revenue Authority, meets regularly.

Yours sincerely,

/s/	/s/
Hon. Patrick A. Chinamasa, Minister of Finance & Economic Development Government of Zimbabwe	John P. Mangudya, Governor Reserve Bank of Zimbabwe

Table 1. Zimbabwe: Quantitative Targets

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

	2014[1]	2015[1]						
	Dec.[2]	March	March	June[2]			Sept.	Dec.[2]
	Act.	Program	Act.	Program	Act.	Status	Proposed	Proposed
1. Floor on primary budget balance of the central government [3,4]		-10	-36	-142			-91	-55
Adjusted floor	-98			*-148*	-142	Met		
2. Floor on protected social spending	95	15	15	35	35	Met	57	72
3. Floor on stock of net international reserves	178	177	183	189	223	Met	140	184
4. Floor on payments to the PRGT	1.95	0.45	0.45	0.90	0.90	Met	1.35	1.80
5. 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	369	400	13	400	13	Not met [5/]	400	400
Memorandum Items:								
1. Ceiling on total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates	178	304	209	341	225	Met	231	178

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

[2] Program performance will be monitored based on the quantitative targets for December 2014, June 2015 and December 2015.

[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. For end-December 2014, the adjusted floor reflects $76 million borrowed to clear domestic arrears.

[5] The target was not met since a $200 million nonconcessional loan contracted did not meet the program definitions as it is not debt contracted for the financing of critical growth-enhancing projects in accordance with the TMU.

Table 2. Zimbabwe: Structural Benchmarks for the Second Review			
Benchmarks[7]	**Macroeconomic Rationale**	**Review**	**Status**
Tax Policy			
1. Submit to Cabinet a report with MoFED's recommendations on reforms to the fiscal regime for the mining sector.	Enhance tax administration and improve revenue collection	2nd	**Met**.
Public Financial Management			
2. Submit to Cabinet a strategy paper on reducing the wage bill.	To manage the wage bill to allocate more resources towards the capital budget	2nd	**Met**.
Financial Sector			
3. Develop the operational framework for ZAMCO, specifying: • an appropriate legal and governance structure, including necessary powers; • an asset valuation and transfer pricing strategy; and • a feasible and sustainable funding strategy.	Address the problem of NPLs and strengthen banks' balance sheet	2nd	**Met.**
4. Submit to Parliament the amendments to the Reserve Bank of Zimbabwe Act.	Strengthen legal and regulatory framework and reduce financial sector vulnerability	2nd	**Met.**
5. Submit to Parliament the amendments to the Banking Act.	Strengthen legal and regulatory framework and reduce financial sector vulnerability	2nd	**Met.**

[7] Each structural benchmark is to be completed by the earlier of: (i) the time of the relevant review; or (ii) end-December 2015, the end of the SMP.

Table 3. Zimbabwe: Structural Benchmarks 2015			
Benchmarks[8]	**Macroeconomic Rationale**	**Review**	**Status**
Public Financial Management			
1. Submit to Cabinet amendments to the Public Finance Management Act to strengthen Treasury's financial oversight of SOEs and local authorities.	Enhance public expenditure and financial management	3rd	
2. Submit to Cabinet amendments to the Procurement Act to tighten the public procurement framework and make it more efficient and transparent.	Strengthen governance and accountability	3rd	
Financial Sector			
3. Develop draft principles of the ZAMCO Bill for submission to Cabinet.	Strengthen the mandate of ZAMCO	3rd	Met
Investment Climate			
4. Produce a guide on the Indigenisation and Economic Empowerment Law for publication on the ZIA website.	Increase transparency and boost investor confidence	3rd	
5. Submit to Cabinet amendments to the Labour Relations Act.	Improve the business climate by promoting labour market flexibility, as well as enhancing productivity and competitiveness	3rd	Met

[8] Each structural benchmark is to be completed by the earlier of: (i) the time of the relevant review; or (ii) end-December 2015, the end of the SMP.

Attachment I. Technical Memorandum of Understanding

INTRODUCTION

1. This memorandum sets forth the understandings between the Government of Zimbabwe and the IMF staff regarding the definitions of the quantitative targets, the structural benchmarks, the applicable adjusters, and the respective reporting requirements for the Staff- Monitored Programme (SMP). The quantitative targets and structural benchmarks are reported in Table 1 of the Government's Letter of Intent (LOI).

DEFINITIONS

2. **Central government** represents a single institutional unit consolidating all the accounts whose total revenues and expenditures are authorized through the Blue Book (including line ministries, the Parliament of Zimbabwe, the Auditor General's Office, and Vote of Credit). The definition excludes public entities with autonomous legal personae whose own budgets are not included in the central government budget.

3. **The general government** comprises the central government, the Reserve Bank of Zimbabwe (RBZ), extra-budgetary funds, social security, and local governments.

4. **The public sector** comprises the general government and all state-owned enterprises.

5. **Non-interest expenditures** are measured on a cash basis. Non-interest expenditures include current expenditures (wages and salaries, pensions, goods and services, grants and transfers), capital expenditures, and net lending. Net lending comprises loans granted by the central government, except in the case of on-lending of externally borrowed funds, which is included as a negative domestic financing item ("below the line"). All expenditures and net lending financed with loans to be serviced by the central government fall within the programme's definition of expenditures and net lending, even if the cash did not transit through the treasury. Non-interest expenditures will be measured from the budget execution data.

6. **Domestic arrears** are defined as overdue domestic payment obligations of the central government, whether verified or not, to domestic service providers, agricultural input suppliers, and on capital certificates. Payments for goods and services are in arrears if they have not been made within 90 days after invoice receipt from service providers; and after the invoice date for contractors executing capital projects for the government. Arrears will be monitored using the monthly Fiscal Monitor. Domestic service providers are defined to comprise the Central Mechanical Equipment Department (CMED), NetOne, TelOne, ZESA Holdings, ZINWA (water authority), and the local authorities.

QUANTITATIVE TARGETS

A. Floor on the Primary Budget Balance of the Central Government

7. **The primary budget balance of the central government** is measured on a cash basis and is defined as revenues and grants minus non-interest expenditures. The central government primary balance will be measured from above the line using budget execution data.

B. Floor on Protected Social Spending

8. **Protected social spending** is measured on a cash basis and comprises central government spending in the following areas:

- **education** (recurrent spending on teaching and learning materials, on student stipend support from the National Education and Training Fund; and capital spending on upgrading of schools and other facilities);
- **health** (recurrent spending on government hospitals and health centres, on grant-aided institutions such as Parirenyatwa Hospital, mission hospitals, and local authorities, on maternal and child health, on results-based financing, on preventive health programmes, on procurement of ARVs and TB drugs; and capital spending on revitalization of health institutions, on medical equipment, and on procurement of ambulances and service vehicles);
- **social protection** (recurrent spending on the Basic Education Assistance Module (BEAM), on the harmonized cash transfer, on health assistance, on rehabilitation of disabled persons, on government social protection institutions; and capital spending on refurbishment of rehabilitation centres);
- **water and sanitation** (capital spending on water and sewer infrastructure for local authorities, on water supply infrastructure for small towns and growth points, and on water and sanitation for rural areas);
- **agriculture** (recurrent spending on animal diseases and risk management, and capital spending on irrigation rehabilitation and development and on input support for disadvantaged households); and
- **other** (capital spending on construction and rehabilitation of rural roads).

C. Floor on the Stock of Net Official International Reserves

9. **Net official international reserves (NIR)** are defined as the difference between the RBZ's liquid, convertible gross official foreign reserve assets and its short-term official foreign reserve liabilities. For the purpose of the programme, SDR-denominated accounts will be valued at the programme exchange rate of US$ 1.52 per SDR.

- **Gross official reserve assets** of the RBZ are defined as the sum of: (i) Zimbabwe's SDR holdings (excluding SDRs allocated under the Fourth Amendment of the IMF's Articles of agreement and placed in escrow account at the IMF (SDR 66.4 million); (ii) refined gold: (iii) balances with foreign banks; (iv) foreign treasury bills, securities and investments, and foreign currency held by the Reserve Bank of Zimbabwe; and (v) Zimbabwe's reserve position in the Fund. Pledged or otherwise encumbered assets, including but not limited to, assets used as collateral or as guarantee for third-party external liabilities are excluded from official reserve assets.

- **Short-term official reserve liabilities** of the RBZ are defined as: (i) outstanding credit from the IMF; (ii) and short-term foreign currency liabilities to non-residents with maturity of up to and including one year. Official foreign liabilities used to calculate the NIR do not include long-term liabilities such as SDR allocations.

D. Ceiling on the Amount of New Non-concessional External Debt Contracted or Guaranteed by the General Government with Original Maturity of One Year or More

10. **Contracting or guaranteeing of new external debt by the general government** applies to debt to non-residents with original maturity of one year or more. For the purposes of the programme, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis for the prevailing calendar year.

11. Debt is defined as concessional if, at the time of its contracting, the ratio between the present value (PV) and the face value of debt is less than 65 percent (equivalent to a grant element of at least 35 percent). The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

12. New non-concessional debt will be contracted or guaranteed only as financing for critical growth-enhancing projects that can improve the country's capacity to repay. These projects would be consistent with the key sectors expected to drive economic growth under ZIM ASSET, including mining, agriculture, infrastructure, transport, tourism, ICT, SMEs and cooperatives, supported by investment in education and health facilities. Large projects (above $100 million) will be assessed in consultation with a reputable and independent financial institution, such as the African Development Bank, the Development Bank of Southern Africa, or the World Bank, prior to the signing of the loan agreement and project documents.

E. Adjusters

13. The quantitative target on the primary budget balance of the central government specified under the programme is subject to the following adjusters:

- The floor on the cumulative primary budget balance in any quarter and subsequent quarters will be adjusted downwards by the full amount of any new borrowing disbursed and utilized by central government for priority infrastructure projects.

- The floor on the cumulative primary budget balance in any quarter and subsequent quarters will be adjusted downwards by the full amount of any domestic debt issued by central government ring-fenced for clearance of domestic payment arrears.

DATA REPORTING

14. To facilitate the monitoring of programme implementation, the Government of Zimbabwe will prepare and forward to the Fund staff electronically information in accordance with the agreed reporting framework contained in Table 1.

Table 1. Zimbabwe: Data Reporting for Programme Monitoring

Data Description	Reporting Institution	Reporting Frequency	Submission Lag
Monetary and Financial Sector			
NIR, NFA, monetary control programme	RBZ	Weekly	1 week
Broad money survey	RBZ	Monthly	2 months
RTGS transactions	RBZ	Monthly	1 month
Prudential liquid asset ratios	RBZ	Monthly	1 month
Cash flow of the RBZ	RBZ	Monthly	1 month
Balance sheets and income statements for financial institutions	RBZ	Quarterly	2 months
Financial soundness indicators (aggregate and by bank)	RBZ	Quarterly	2 months
Lending activity of banks (by sector)	RBZ	Quarterly	2 months
Commercial bank interest rates	RBZ	Monthly	1 month
External Sector			
RBZ purchases and sales of foreign currency	RBZ	Monthly	1 month
Balance of payments (incl. revised outturn for previous quarters)	RBZ/ZIMSTAT	Quarterly	3 months
Import and export data, for aggregated sectors	RBZ/ZIMSTAT	Monthly	1 month
Net international reserves (incl. reserve assets/liabilities by currency)	RBZ	Monthly	1 week
Foreign exchange flow data (by type of flow)	RBZ	Monthly	1 month
Diamond production, exports, and prices	RBZ	Quarterly	1 month
RBZ Monthly Economic Review	RBZ	Monthly	6 weeks
Quarterly report on macroeconomic developments	MoFED	Quarterly	1 month
Detailed terms and conditions of all new contracted and government-guaranteed external borrowing (concessional and non-concessional); and committed undisbursed balances (by creditor)	MoFED	Monthly	1 month
External debt stock, disbursements, amortization, interest, other fees and charges, and repayment (by creditor and currency)	MOFED	Quarterly	1 month

Table 1. Zimbabwe: Data Reporting for Programme Monitoring (concluded)			
Data Description	**Reporting Institution**	**Reporting Frequency**	**Submission Lag**
Fiscal Sector			
Central government operations – revenue, expenditure, and financing	MoFED	Monthly	1 month
Detailed data on the execution of the recurrent budget (by economic and administrative classification and by line ministry)	MoFED	Monthly	1 month
Total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates at end-Month	MoFED	Monthly	1 month
Stock of domestic debt, disbursements, amortization, interest, and other fees and charges; face value, maturity, interest rate, and payments schedule for new domestic loans and securities	MoFED	Monthly	1 month
Employment data for each ministry	MoFED	Monthly	1 month
Detailed data on resource revenue (by type)	MoFED	Quarterly	1 month
Detailed data on the budget execution of protected social spending (as defined in this document)	MoFED	Quarterly	1 month
Details of disbursed external budget support and project grants and loans	MoFED	Quarterly	1 month
Real Sector			
Consumer Price Index	ZIMSTAT	Monthly	1 month
Fuel price indices, including Petrol, Diesel, and Paraffin	ZIMSTAT	Monthly	1 month
Producer Price Index; Building Materials Price Index; Poverty Datum Lines; and Civil Engineering Materials Index	ZIMSTAT	Quarterly	6 weeks
Agricultural production data (volume/value of major products)	ZIMSTAT	Semi-annually	6 months
Mining production data (volume/value by minerals), excluding production from sand and stone quarries	ZIMSTAT	Quarterly	6 weeks
National Accounts (breakdowns of production and expenditure side in real and nominal terms)	ZIMSTAT	Annually	8 months
Quarterly Digest of Statistics	ZIMSTAT	Quarterly	3 months
Structural Benchmarks			
Update on the status of implementation of the structural benchmarks specified in Table 3 of the LOI	MoFED/RBZ	Quarterly	3 weeks

Guidelines on External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

  (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

  (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.