

International Monetary Fund

Creating Fiscal Space Perspectives from the IMF

Harare, February 19, 2015

Christian Beddies
IMF Office in Harare





Roadmap

- Why a lack of fiscal space
- Why lack of fiscal space
- Quality of fiscal space
- What are the options
- Creating fiscal space for Zimbabwe
- How does the IMF help



Why a lack of fiscal space

- Fiscal space is the room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy

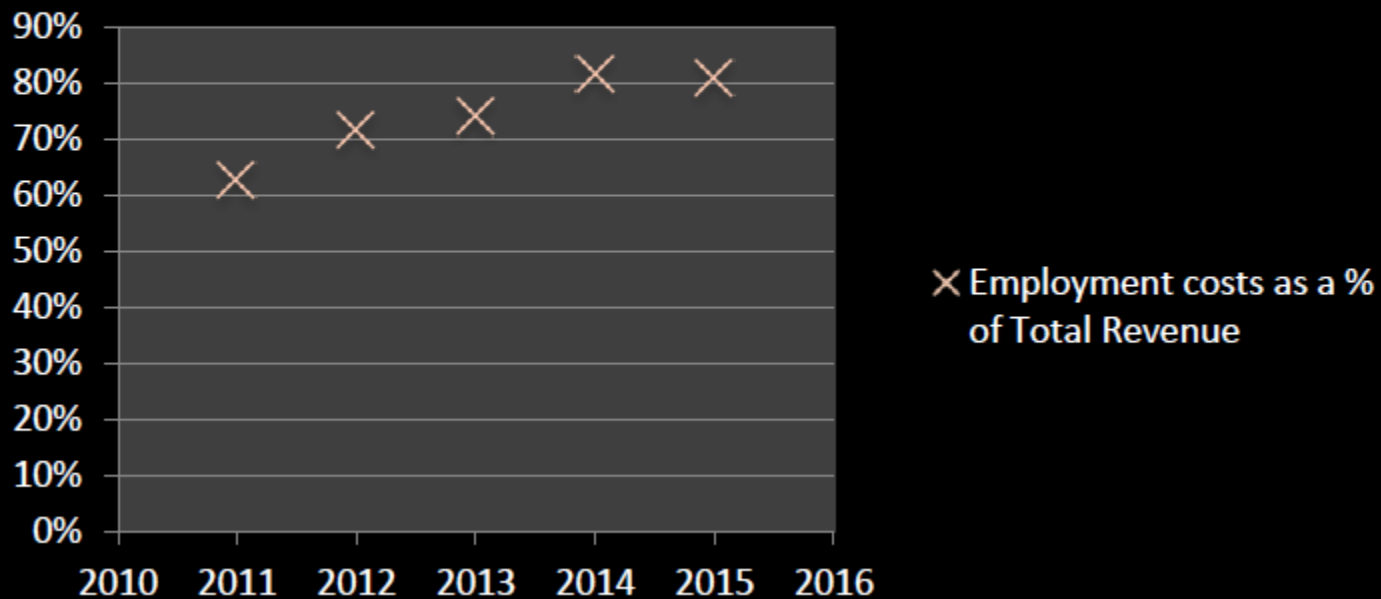
Why a lack of fiscal space

- Shrinking revenue base due to challenging economic conditions
- High wages; budget currently highly consumptive
- Lack of access to external financing
- Underdeveloped domestic financial markets
- Sustainability concerns: expenditures, contingent liabilities and domestic debt continue to grow



Evolution of employment costs

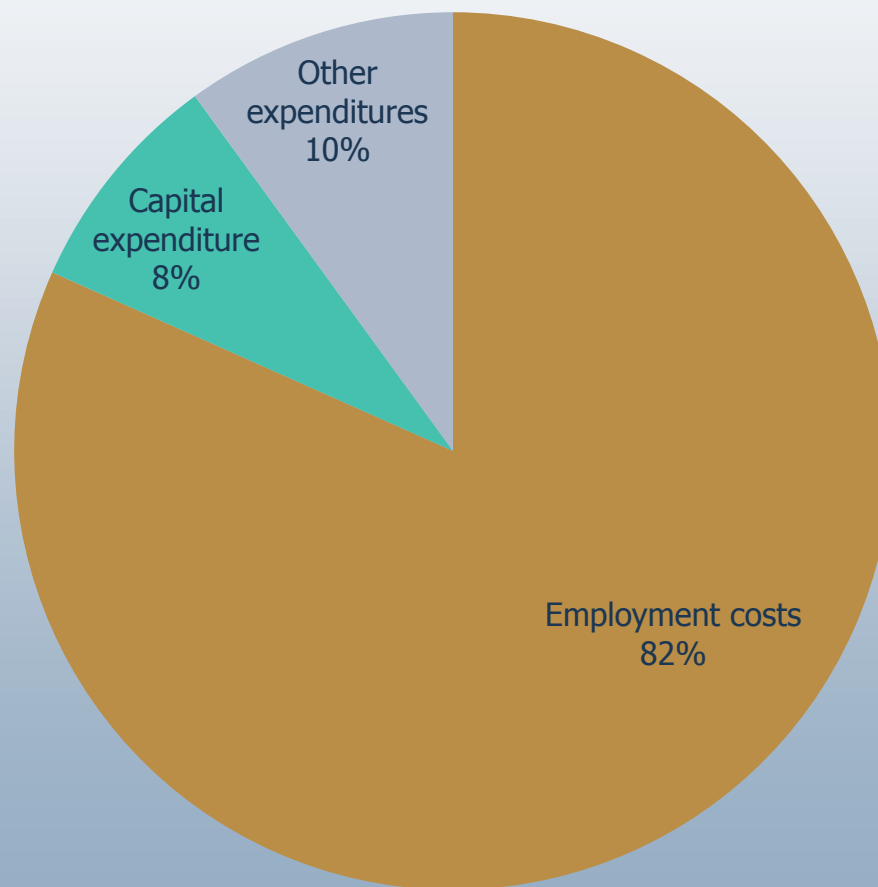
Employment costs as a % of Total Revenue





Composition of expenditures

2014 expenditures in percent of revenue





Impact of lack of fiscal space

- Fiscal volatility
- Budget resources are not as per work plan and therefore you resort to cash budgeting
- Operations financed on a “what’s more pressing today basis”
- Little room for priority social or capital expenditure

Year	2011	2012	2013	2014	2015 est
Capital expenditure as a % of total revenue	19%	10%	13%	8%	8%



Quality of fiscal space

Why does the quality of fiscal space matter?

- Sustainable budget, sufficient and manageable resources
- Where resources are available, they should be used efficiently
- But efficiency does not guarantee resources reach the biggest needs
- Can the goals and objectives be reached within the limited resource envelope?



The IMF's approach

- Higher foreign grant inflows for spending on infrastructure or social programs
 - ◆ Concern if the higher spending jeopardizes macroeconomic stability or debt sustainability
- Scope for greater public savings
 - ◆ Expenditure rationalization
 - ◆ Tax and tax administration reforms
 - ◆ Extra resources that can be mobilized from borrowing (wisely) and grants



What are the options...

Pursuing sound macroeconomic policies

- Countries that manage policies well are likely to have greater potential for creating extra fiscal space

Reprioritizing expenditure

- Curbing unproductive spending should be an important objective e.g., cutting subsidies, wage restraint, or rationalization of elements of the civil service

Securing more external grants

- Important in countries with a debt sustainability issue

Boosting efficiency

- Reduce perception of corruption, and improve governance

Raising revenue

- If government revenue to GDP ratio is low, broadening the tax base and improving tax administration are important

Monetary expansion

- This is not a desirable option...

Increasing borrowing

- Government needs to look into the costs and debt sustainability



Creating fiscal space for Zimbabwe

- Judgments on fiscal space are inherently country specific
- Structural issue of the wage bill
- Revenues are already 30 percent of GDP
- So what to do... in the **short term**...
 - ◆ Strengthening public expenditure management
 - Limit accumulation of arrears
 - Revamping the PFM system
 - Address parallel funds and retention of funds by different arms of government
 - Social services: those that can pay should pay, increase efficiency at government hospitals, country example: Rwanda
 - Rationalization of utility bills, electricity, telephones and water
 - Address parastatals' reliance on the government



Creating fiscal space for Zimbabwe

- What to do...in the **medium term...**
 - ◆ Formalizing the informal sector?
 - ◆ Improve financing for agriculture
 - Need to work on the bankability on the offer letters to farmers to ensure farmers can access funding
 - ◆ Effective mining tax regime (already being worked on)
 - ◆ Improve revenue administration efficiency including in customs



Creating fiscal space for Zimbabwe

● What to do...in the **long term**...

- ◆ Rebuilding the productive sector and expanding the tax base
- ◆ FDI, competitiveness, ease of doing business, property rights
- ◆ Infrastructure financing to address supply side constraints
 - Possible options - PPS, Joint Ventures
- ◆ Moving towards direct budget support
 - There is need to move on PFM reforms to ensure that upon normalization of relations, Zimbabwe can access direct budget support



Tackling wage bill: experiences in other countries

- Review of the functions of the government ; developing a concept for a leaner public sector:
 - ◆ Detailed analysis of the public sector based on which a restructuring strategy of the public service can be developed (currently under way)
- Not circumventing the problem by creation of SOEs as this might reduce the wage bill for the central but not general government
 - ◆ Salaries or terms of service of SOEs are likely to be above the civil service levels



Tackling wage bill: experiences in other countries

● Control over recruitment and staffing

- ◆ Freezing recruitment for about 3-4 years with exception of critical/scarce skill gaps based on clear guidelines on hiring (already underway)
- ◆ Existing vacancies and those attributed to retirement/death should not necessary be filled unless critical skill areas
- ◆ Recruitment should be done by a single ministry (Public Service Commission) in order to impede uncoordinated and ad hoc recruitment which leads to high costs, especially in the long run (already underway and recruitments are being done with Treasury concurrence)

● Freezing of wages and benefits

● Incentives for voluntary retirement

- Some countries combined restructuring with incentives for civil servants to retire voluntarily in order to provide for an easier transition (but resource constraints)



Tackling wage bill: experiences in other countries

● Process

- ◆ Measures to be based on sound analysis
 - Wage structures in general
 - Wage structures in the different departments
 - Comparison of wage level to private sector
 - Country-wide, regionally, and across skill levels to ensure qualified staff can be retained
- ◆ Political support
- ◆ Clear and transparent medium-term implementation strategy
- ◆ The cabinet decision should be an outcome of a consultative process which makes the need for the reduction of wage bills clear and is underpinned by sound analytical work of the Ministries of Finance and the Public Service Commission



Tackling wage bill: experiences in other countries

● Allowances

- ◆ In many African countries, part of the compensation to staff are formally not part of the salary but paid in form of allowances which are accounted for as goods and services
- ◆ This can be a considerable part and should be analyzed in a second step as part of a comprehensive review of the compensation structure

● Once the immediate problems are solved, the government could think about a wage bill rule

- ◆ The wage bill should not exceed a certain proportion of total expenditures
- ◆ A measure for avoiding such problems in the future and not for solving the actual problem



What is the Fund doing

- Assisting with the re-engagement process
 - ◆ Finding ways and means of dealing with the arrears
- Assisting with the implementation of the SMP
 - ◆ Economic policies consistent with the Budget and the Monetary Policy Statement
- Moving toward primary balance – *one of the targets under the SMP*
- PFM Reform TA
- Revenue efficiency and administration TA



Where we are...





Where we want to be...





Thank you!