

**Zimbabwe: 2003 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Zimbabwe**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Zimbabwe, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **March 13, 2003**, with the officials of Zimbabwe on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 19, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **June 6, 2003** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its June 6, 2003 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Zimbabwe.

The document(s) listed below will be separately released.

**Selected Issues and Statistical Appendix**

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

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# INTERNATIONAL MONETARY FUND

## ZIMBABWE

### Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the  
2003 Consultation with Zimbabwe

Approved by Anupam Basu and Liam P. Ebrill

May 19, 2003

- Discussions were held in Harare during February 26–March 13, 2003. The staff met with the Ministers of Finance and Economic Development, Energy and Power Development, Industry and International Trade, and Privatization, the Governor of the Reserve Bank of Zimbabwe, and other senior government officials. It also met with representatives of NGOs, the business and financial sector, political parties, trade unions, and the diplomatic community.
- The team consisted of Ms. Ross (head), Messrs. Kovanen, Erasmus, Surti, Bagattini (AFR), Ilahi (PDR), and Ms. Treichel (FIN). Mr. Johnson, the Fund's Senior Resident Representative in Harare, assisted the mission, and Mr. Mafarikwa, Advisor to the Executive Director for Zimbabwe, participated in some of the discussions. The mission worked closely with a visiting World Bank team.
- Zimbabwe is on the standard 12-month consultation cycle. At the conclusion of the 2001 Article IV consultation on December 12, 2001, Executive Directors expressed deep concern about the sharp decline in economic activity and per capita income, the rise in poverty and human suffering, the acceleration of inflation, and the accumulation of domestic and external payments arrears, all of which had gathered pace in 2001. They noted that the deteriorating situation was the result of inappropriate economic policies, aggravated by violence and disruptions to productive activity related to the government's fast-track land reform program. They urged the authorities to implement policy changes to prevent a worsening of the situation.
- Zimbabwe has accumulated overdue financial obligations to the Fund since February 2001; these arrears totaled SDR 159 million as of end-April 2003. Following a series of other remedial measures, on September 11, 2002, the Board decided to initiate the procedure to suspend Zimbabwe's voting and related rights in the Fund (EBS/02/15, 8/20/02). The Managing Director issued a complaint on October 17, 2002 regarding Zimbabwe's persistent failure to fulfill its obligations. A companion paper discusses the arrears issue in more detail.
- Zimbabwe accepted the obligations of Article VIII, Sections 2, 3, and 4, but maintains exchange restrictions and multiple currency practices subject to Fund approval. It has incurred external payments arrears on official debt. In the absence of a timetable to remove the restrictions, the staff does not recommend their approval by the Fund.
- Zimbabwe's economic data suffer from poor coverage, time lags, and worsening reliability of reporting units, all of which hamper Fund surveillance. GDDS metadata for Zimbabwe were posted on the Fund's Dissemination Standards Bulletin Board in November 2002.

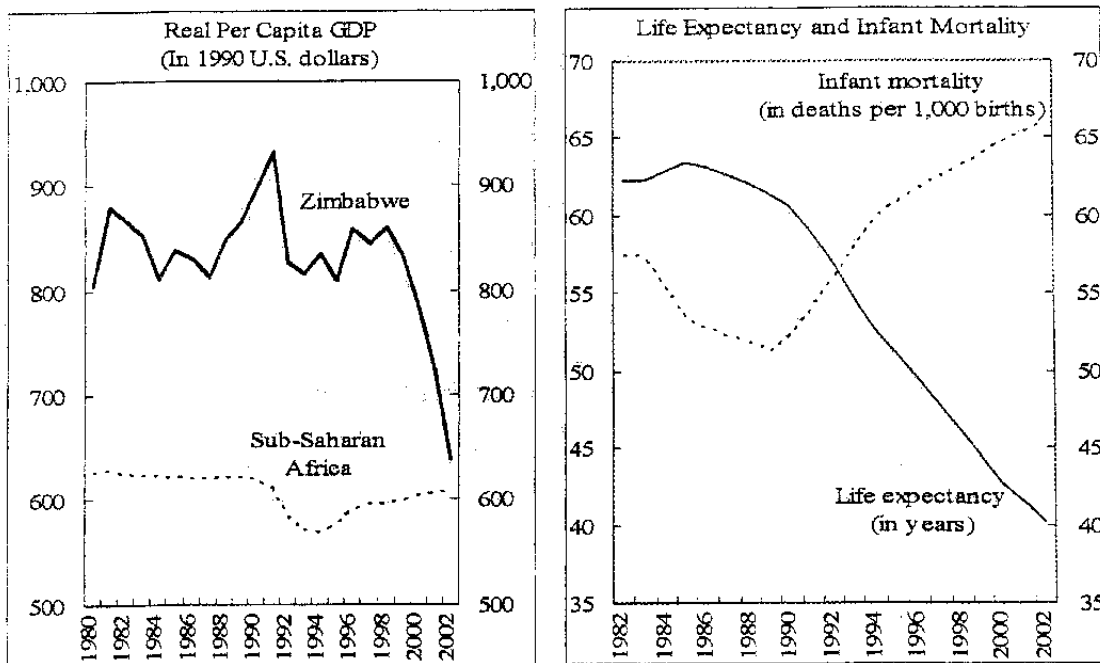
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### **Executive Summary**

- The deterioration in economic conditions continued in 2002 and early 2003. Inappropriate economic policies have been the main cause of these difficulties, and were exacerbated by the land reform program, drought and the HIV/AIDS pandemic. Real GDP has declined by one-third since 1999, and is projected to show another double-digit drop in 2003. Loose financial policies have been reflected in a rise in inflation to 228 percent in the year through March 2003, highly negative real interest rates, and pressure on the parallel exchange rate, notwithstanding a major devaluation of the official exchange rate at end-February 2003. Increasing regulation and government intervention have driven activity underground and contributed to chronic shortages of many goods and of foreign exchange in the official market.
- As a result, poverty and unemployment are increasing. Severe food shortages, reflecting adverse weather, as well as the effect of the land reform on agricultural production and import restrictions, have necessitated massive food imports and donor assistance; two-thirds of the population have required food aid in 2002/03. With poor prospects for the 2003/04 harvest, continued food aid is likely to be needed this year. These problems have led to smuggling, capital flight and emigration, with repercussions for other countries in the region.
- The Article IV discussions concentrated on how to halt the unsustainable output decline and rise in prices and how to put the economy back on a growth path. While the authorities agreed with the mission on the general direction of the macroeconomic policies needed—both immediate stabilization policies aimed at reducing inflation and urgent structural measures aimed at restarting growth in the near term and supporting growth over the medium term—they emphasized the roles of the National Economic Revival Program (NERP) and the Tripartite Negotiating Forum (TNF) in guiding the formulation of economic policies. Recent adjustments in the exchange rate, interest rates, fuel prices and easing of price controls were products of this process. While the staff welcomed the broad-based support for reforms in the context of the TNF, it emphasized that, in order for the reforms to succeed, they should be part of a consistent and comprehensive macroeconomic framework. More determined efforts were needed to follow up on the measures already announced.

## I. RECENT DEVELOPMENTS

1. **Zimbabwe's economy has deteriorated sharply in recent years.** Real output has declined by about one-third in the four-year period since 1999, with the pace of decline accelerating to an estimated 13 percent in 2002 and affecting all key sectors (Table 1). Per capita GDP dropped to an estimated US\$640 in 2002, slightly above the average for sub-Saharan African countries.<sup>1</sup> Inflation rose steadily to 228 percent in the year through March 2003, and prices in the parallel markets have risen even faster. Shortages of basic goods, fuel, electricity, and foreign exchange have become pervasive. There is little productive investment, and there are reports of significant capital flight, emigration of unskilled and especially skilled labor, and smuggling of price-controlled goods to neighboring countries. The balance of payments has been under severe pressure since 1999, when Zimbabwe started to accumulate external payments arrears. Severe food shortages—reflecting in part the droughts in early 2002 and early 2003—have necessitated massive food imports and donor assistance, and two-thirds of the population has required food aid (Box 1). The social consequences of the economic collapse are dire: poverty and unemployment have risen, and the HIV/AIDS pandemic (Box 2) is worsening as a vicious circle of malnourishment and disease has developed. Life expectancy has fallen to 40 years, and the child mortality rate has risen sharply.



<sup>1</sup> See forthcoming Selected Issues Paper for a more detailed discussion of recent macroeconomic developments.

**Box 1. Food Security in Zimbabwe, 2001/02-2003/04<sup>1</sup>**

Zimbabwe's population continues to face a severe food shortage as the production of food crops remains low. The production of maize, the main food staple, peaked at 2.1 million tons in 1999/2000, but then fell to an estimated 0.5 million tons in 2001/02 and 0.6-0.8 million tons in 2002/03. Overall agricultural production declined by 22 percent in 2002 and was down 31 percent from the 2000 level.

The main factors causing this decline include two years of drought, the government's fast-track land reform program, and a lack of inputs. The drought affecting most of southern Africa in 2001/02 was among the five longest and most severe droughts since 1900.<sup>2</sup> The 2002/03 drought was almost as severe; the moderate rainfall in the first quarter of 2003 came too late for a significant improvement in the 2003/04 season crop. The land reform program has also contributed substantially to the loss of output and exports, as large-scale commercial farming has been severely disrupted and the newly resettled farmers lack the knowledge and material support to utilize the land efficiently. The shortage of foreign exchange has exacerbated the unavailability of inputs, such as seeds, fertilizers, fuel, and farming equipment.

Some 7-8 million people (two-thirds of the population) required food aid during the 2002/03 marketing season, especially in the second half of the year. The government launched an appeal for food assistance for vulnerable communal sector populations in October 2001. In April 2002, President Mugabe declared a state of disaster in all communal lands, resettlement and urban areas. In June 2002, the United Nations launched a massive appeal for food aid for southern Africa, including Zimbabwe. Donors responded to the crisis, despite Zimbabwe's poor relations with them, and food aid received to date amounts to over 0.3 million tons. Government imports are reported at some 0.7 million tons, but the Grain Marketing Board's monopoly over the procurement, pricing, and distribution of maize and wheat continues to hinder the country's ability to import sufficient quantities of grain and distribute it efficiently. Price controls in the official market have aggravated the shortages of basic commodities and driven up prices in the parallel market. Government imports, food aid from donors, and early consumption of the 2003/04 season's crop have improved the food security situation in some areas of the country in early 2003.

Owing to the poor harvest projected for 2003/04 and low stock levels, it is estimated that continued food aid will be needed beyond March 2003. The uncovered cereal import requirement (taking into account planned imports and pledged food aid) will be between 0.8 and 1.3 million tons, equivalent to 40-60 percent of total domestic requirements.

Cereal Balance Sheet, 2002/03-2003/04  
(In thousands of metric tons, unless otherwise indicated)

	Five-Year Average 1/	2002/03	2003/04
		Feb/03 Estimate 2/	Feb/03 Estimate 3/
Opening stock	555	183	85
Production	2,164	706	793
Total availability	2,719	889	878
Domestic requirements	2,888	2,194	2,170
Domestic cereal gap	-169	-1,305	-1,292
Government imports (projected)	198	815	230
<i>Of which: received</i>	...	695	...
Other imports	0	30	0
Food aid (expected)	1	325	113
<i>Of which: received</i>	...	172	...
Unfilled cereal gap (-)/surplus (+)	30	-135	-949
Memorandum item:			
Population assumption (in millions)	13.7	11.6	11.8

1/ 1997/98-2001/02.

2/ World Food Program, February 1, 2003.

3/ Famine Early Warning Systems Network (FEWS NET), *Zimbabwe Monthly Food Security Update*, February 27, 2003.

<sup>1</sup> April-March crop years.

<sup>2</sup> FAO/WFP, Crops and Food Supply Assessment, May 29, 2002.

### Box 2. HIV/AIDS Pandemic<sup>1</sup>

**Incidence.** Zimbabwe has one of the highest HIV/AIDS prevalence rates in the world, currently estimated at between 26 to 30 percent of the adult population. The latest joint United Nations Program on HIV/AIDS (UNAIDS) report estimates some 2.3 million adults and children were infected including 600,000 cases of full-blown AIDS. Over 750,000 children are estimated to have been orphaned by AIDS in Zimbabwe. The infection rates recorded at antenatal clinics and hospitals indicate that prevalence rates are higher in border areas and among young women in the 15 to 19 age group. Mother-to-child transmission was largely responsible for the increase in the under-5 mortality rate from 59 to 102 per 1,000 over the 1990s. Life expectancy declined from 56 years in 1975 to 40 years at end-2000. These statistics will almost certainly worsen in the future, with infections claiming on average 2,500 lives per week in 2002, according to the Ministry of Health and Child Welfare (MOHCW).

**Impact on the health sector.** The annual health expenditure in Zimbabwe was 6.2 percent of GDP in 2000 (or US\$127 per capita, according to Haacker (2002)) and will increase as HIV matures into full-blown AIDS as an increasing number of patients over the next few years. In addition, MOHCW estimates that the annual cost of anti-retroviral (ARV) treatment (excluding equipment and other overheads) would be approximately US\$300 per patient. Zimbabwe's health care system is severely constrained by a shortage of medical specialists, generated by loss of staff to AIDS and to emigration. The government's inability to provide essential drugs, owing to the lack of foreign exchange is another major problem. According to UNAIDS, heavily subsidized government-run voluntary counseling and testing (VCT) centers may be shut down because of such shortages. The private cost of accessing VCTs is quite high relative to the average Zimbabwean household income, and hence, terminating subsidies would make these facilities inaccessible to most Zimbabweans.

**HIV/AIDS and the food situation.** Maintaining adequate nutritional standards is an important factor in mitigating some of the costs incurred by families with HIV/AIDS patients. The food shortages are, therefore, likely to exacerbate the adverse economic impact of HIV/AIDS in Zimbabwe. In addition, according to UNAIDS, the land reform program has severely eroded the coping mechanisms of a significant proportion of the population.

**Fiscal burden and overall macroeconomic impact.** Assuming modest coverage rates of 30, 20, and 10 percent of the population, respectively, for palliative care, treatment of opportunistic infections, and ARV, Haacker (2002) estimates that HIV-related public health expenditure in Zimbabwe will rise to 3.5 percent of GDP by 2010. Labor productivity and labor force size are projected to be affected adversely. A recent study (FAO, 2001) estimated that the pandemic had claimed the lives of 10 percent of Zimbabwe's agricultural labor force by 2000, and projected that up to 23 percent of agricultural labor may be lost by 2010. The impact on economic growth could be devastating: Haacker projects a potential HIV/AIDS-induced medium-term decline in GDP per capita of up to 7 percent by 2015.

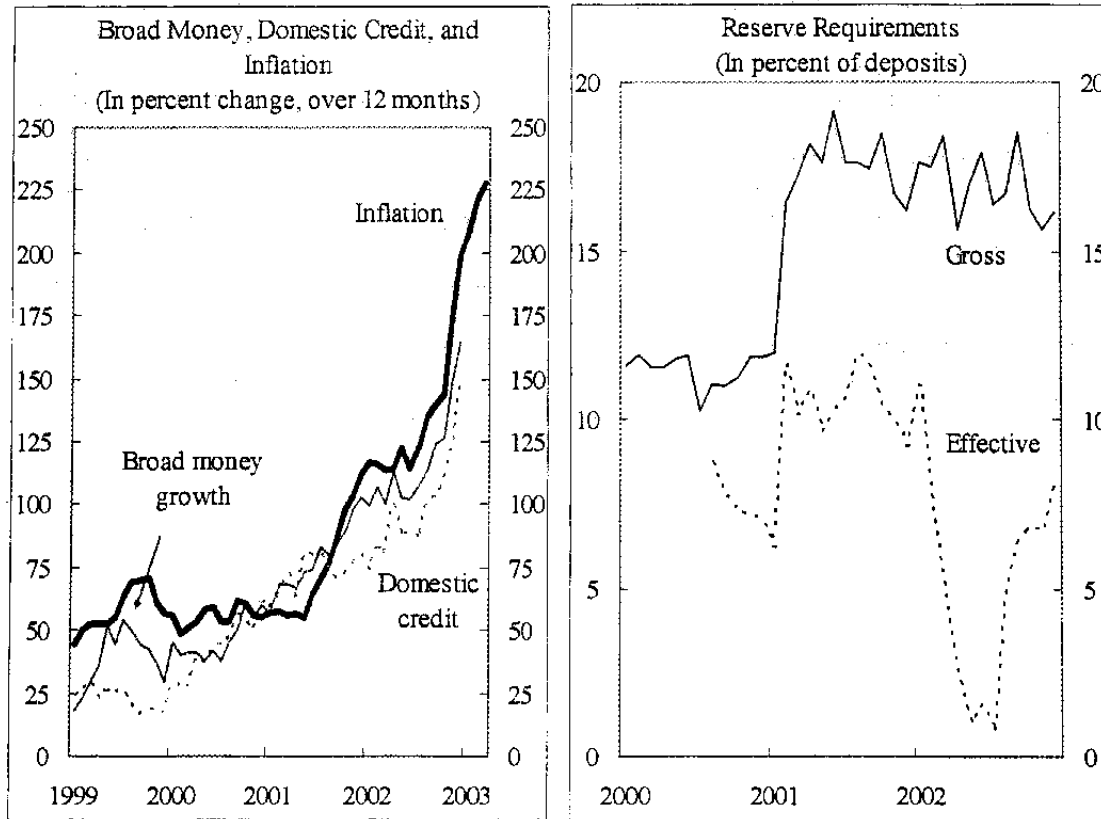
**Government strategy to combat HIV/AIDS.** The government has adopted a multipronged strategy, spearheaded by a National AIDS Council (NAC), which implements programs through District AIDS Councils (DACs). The main source of funds for the NAC is the AIDS levy, a 3 percent surcharge on assessed income tax obligations. With the aim of speeding up program implementation, disbursements are currently made in proportion to the rate at which the DACs are able to spend the money on programs. However, a lack of accountability and transparency regarding the disbursement of these funds has been a serious issue since the inception of the levy in 2000. For example, the authorities reported that the first round of disbursements has yet to be accounted for by the NAC, which has led the Ministry of Finance to consider discontinuation of the levy from 2004 onward. A multiagency mission under the UN Relief and Recovery Unit visited Zimbabwe in March 2003, and in its report (UN, 2003) acknowledged that the government had successfully initiated the creation of a supportive environment for HIV/AIDS prevention, mitigation, and care. It also identified certain key areas where a more vigorous effort would bear considerable fruit, including prevention of new infections, extension of care for people living with HIV/AIDS, an increase in the responses to the needs of orphans and vulnerable children, and more operational engagement of leadership within the government. The report also stressed the importance of enhancing coordination among the various agencies working in Zimbabwe, including the government; in this context, the joint public awareness project being discussed by the NAC and UNAIDS may be a step in the right direction.

<sup>1</sup> Sources: Markus Haacker, "The Economic Consequences of HIV/AIDS in Southern Africa," IMF Working Paper 02/38 (Washington: IMF, 2002); FAO, "The Impact of HIV/AIDS on Food Security," (Rome: Food and Agriculture Organization, 2001); UN, "Zimbabwe Humanitarian Situation Report," UN Relief and Recovery Unit (March 2003).

**2. Inappropriate economic policies have been at the forefront of these difficulties.**

The impact of loose fiscal and monetary policies, the maintenance of a fixed exchange rate, and the imposition of administrative controls have been exacerbated by the land reform program, drought, and the HIV/AIDS pandemic. Contrary to past Fund policy advice to tighten fiscal and monetary policies to contain inflation, and to correct the overvaluation of the official exchange rate and ease restrictions, the authorities have pursued policies that have led to a widening of imbalances in the economy. In particular, highly negative real interest rates have fed credit growth and inflation. Increased regulations and government intervention have driven activity underground. Investor confidence at home and abroad has been eroded by concerns over political developments (Box 3), weak governance and corruption, problems related to the implementation of the fast-track land reform program (Box 4), the push for increased indigenization of the business sector, and the selective enforcement of regulations.

**3. Monetary policy has fueled inflation.** Nominal interest rates were kept at artificially low levels and, with inflation rising, interest rates became increasingly negative in real terms. Broad money growth accelerated to 165 percent in 2002 from 103 percent in 2001, as effective reserve requirements were lowered by allowing banks to on-lend their required reserves at very low interest rates, resulting in a rapid expansion of credit to the private sector; these concessional facilities peaked at Z\$42 billion in July 2002 before declining





### Box 3. Political Situation and Relations with Donors

**Political turmoil in Zimbabwe intensified in February 2000, when a referendum on constitutional amendments proposed by the Zimbabwe African National Union–Patriotic Front (ZANU-PF) government was defeated.** Rising opposition from the Movement for Democratic Change (MDC), visibly supported by white farmers, led to the adoption of the fast-track land reform program. In the June 2000 parliamentary elections, with reports of political violence and intimidation against the opposition, the MDC won 57 of the 120 seats at stake.

**The presidential election of March 2002 was viewed by many observers as neither free nor fair, and involved violence and voter intimidation.** The official tally gave President Mugabe 56 percent of the votes. After the election, the MDC filed suit to overturn the result, but the case has not yet been heard. Various mediators have tried to encourage reconciliation between the two political parties, but these efforts have not been successful.

**Legislative and procedural changes have had the effect of disenfranchising opposition voters.<sup>1</sup>** Political violence and intimidation has reportedly continued, and the government has won virtually all parliamentary by-elections, although the MDC won two seats in Harare in March 2003. The opposition and labor unions organized general strikes in March and in April, respectively, which brought activity in urban areas to a halt. Further mass action has been threatened.

**The international community has expressed grave concern over Zimbabwe's lack of respect for basic human rights, democratic principles, good governance, and the rule of law.** Virtually all aid to Zimbabwe, other than humanitarian assistance, has been halted. In the context of the 2002 presidential election, and after a prolonged effort to engage Zimbabwe to address these issues under the provisions of the Cotonou agreement, the European Union in February 2002 imposed targeted sanctions, including a travel ban for a number of senior officials, while freezing the assets of key Zimbabweans considered responsible for human rights violations. The United States followed suit with similar measures. Zimbabwe has been suspended from the Commonwealth until end-2003. A Southern African Development Committee (SADC) Ministers' meeting in early April agreed that a SADC mission should visit Zimbabwe later that month and invite "all different stakeholders to voice their opinions about the current situation in the country." In late April the head of the SADC taskforce visited Zimbabwe to prepare the taskforce visit. The Presidents of South Africa, Nigeria, and Malawi visited Harare in early May in an attempt to restart discussions between the government and the MDC.

<sup>1</sup> These include the Public Order and Security Act (POSA) of 2002, which has been used to break up political gatherings. Changes in voter registration and citizenship laws also appear to have made it difficult for many to cast their ballots.

#### Box 4. Recent Developments in Land Reform<sup>1</sup>

**Land reform has been a contentious issue since independence in 1980.** Prime farm land was mainly owned by about 4,000 white commercial farmers (about 11 million hectares), while the majority of the indigenous population engaged in subsistence farming on poor soils (about 16 million hectares). Commercial farms also accounted for the lion's share of export earnings, besides being the main source of rural formal employment. By the late 1990s, the government had purchased or otherwise acquired about 3.5 million hectares. The listing of 1,471 commercial farms for acquisition in 1997 marked the beginning of a more active approach by the government in subsequent years. A donor-government conference in 1998 reached general agreement on a phased acquisition of 5 million hectares with donor support, but no disbursements were made in the absence of subsequent agreement on detailed modalities and the government's push ahead in ways inconsistent with the agreed principles, UNDP proposals of December 2000, and agreements in September 2001 at Commonwealth and Southern African Development Community (SADC) meetings in Harare. Consequently, international donors have progressively withdrawn their involvement in and support for this process.

**The fast-track land reform program was launched in 2000 and expanded to 8.3 million hectares in July 2001.** In December 2001, the government introduced a limit on farm size of 250-2,000 hectares, depending on the location (some farms had been as large as 90,000 hectares). By late 2002, almost all white-owned farms had been designated for acquisition by the state. Although the government has stated that it would compensate farmers for capital improvements, but not for the land itself, it has not done so on a significant scale, in part owing to budget constraints.

**The government has used legislative powers to validate its program.** In November 2001, President Mugabe used presidential powers to amend the Land Acquisition Act, giving the government rights to take immediate ownership of targeted farms and thereby undermining due process. Parliament approved these amendments on May 8, 2002. Based on this, the government announced that work on these farms should be suspended immediately and issued eviction orders that gave the owners three months to vacate their properties, setting August 8, 2002 as a deadline for compulsory acquisition.

**Several court rulings tested the legality of the government's program.** In December 2000, the Supreme Court declared the program to be unconstitutional and inconsistent with the government's own policies; it also asked the government to remove illegal occupants and restore the rule of law on the farms. After several judges were replaced, the Supreme Court overturned the ruling in December 2001 and stated that the process was consistent with the current laws. In August 2002, a High Court judge ruled that eviction orders issued by the government were invalid because banks holding mortgage titles to farms were not notified by the government. The government then amended the Land Acquisition Act and obtained parliamentary approval in September 2002 to validate the eviction orders, and substantially increased the penalties for noncompliance.

**By early 2003, the majority of farmers had complied with the eviction orders; there were some violent incidents of eviction by armed militias and the government had stepped up its efforts to enforce the eviction orders in September 2002.** The resettled farmers' lack of seed stock, fertilizers, and know-how and the displacement of an estimated 1-2 million farm workers and their families further disrupted planting activity in late 2002. Combined with delayed rains, these developments are expected to result in a further decline in agricultural output, activity in processing sectors, and exports in 2003. The government has allocated Z\$29 billion for agricultural support in the 2003 budget.

**In light of reports (some official) about irregularities in the implementation of the fast-track land reform, the government initiated in April 2003 a new audit of the land reform.** The audit is to determine whether people who have been allocated land have actually taken up their plots, whether the land is actually being farmed, and what would be required to make the land more productive. In March 2003, the UNDP proposed a joint government-UN comprehensive agricultural survey as a first step toward identifying long-term strategies for raising Zimbabwe's agricultural production, but the government has not accepted the proposal.

<sup>1</sup> See Box 4 of SM/01/356 (11/30/01) for background on land reform in Zimbabwe.

gradually thereafter (Table 2).<sup>2</sup> Quasi-fiscal operations represented another important source of liquidity expansion. The Reserve Bank of Zimbabwe (RBZ) provided preferential exchange rates to tobacco and gold producers that involved a subsidy in 2002 equivalent to the level of end-2001 reserve money. In the poor economic climate, the loose monetary stance failed to generate a supply response, and virtually no productive investment took place in the economy. Instead, prices rose rapidly, causing a depreciation of the parallel market exchange rate, discouraging financial savings, and driving up prices of assets, such as real estate, stocks, and consumer durables.

4. **Prudential indicators mask an increase in the underlying risks to the soundness of the banking sector.** Reported capital adequacy ratios at end-2002 exceeded prudential requirements, which are in accordance with Basel Core Principles. However, their effectiveness has been sharply reduced by underprovisioning and erosion of minimum capital requirements by inflation. Nonperforming asset ratios are generally low (7 percent in 2002), largely reflecting sharply negative real interest rates. Higher interest rates could quickly weaken loan performance and require recapitalization.<sup>3</sup> The land reform had little impact on banks' balance sheets as banks had scaled down their exposure to the farm sector for some time and many farmers repaid loans in order to retain sole title to the land.

5. **In an attempt to contain the rise in basic goods prices, the government imposed and widened price controls.** In October 2001, price controls were introduced on selected food items; these were broadened in scope and expanded to a six-month price freeze in mid-November 2002 (Box 5). The controlled prices were often below production costs. While some businesses found innovative ways to circumvent the price controls, a number of companies were forced to close, and this contributed to a decline in employment in the formal sector.<sup>4</sup> Predictably, the main impact of the price controls was to drive up prices in the informal markets. The Grain Marketing Board (GMB), which in 2001 was given a monopoly on grain marketing and imports, incurred large losses as its selling prices for wheat and

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<sup>2</sup> Applicable interest rates were 15 percent and 30 percent for exporters and "productive sectors," respectively, until November 2002, and 5 percent and 15 percent, respectively, since then.

<sup>3</sup> The reported capital adequacy ratios (CARs) of banks would decline significantly if banks were to provide for nonperforming loans (NPLs) according to regulations, and if—following the implementation of corrective macroeconomic policies—the ratio of NPLs rose from their end-2002 levels to those that prevailed at end-2000. Under such a scenario, the CAR of commercial banks and finance houses would decline below the prudential level of 10 percent, and requiring recapitalization amounting to 0.8 percent of GDP. While minimum capital requirements were raised by 400 percent as of January 2003, cumulative inflation since the previous increase in August 1999 was 1,123 percent.

<sup>4</sup> There are no comprehensive statistics on unemployment in Zimbabwe.

#### Box 5. Price Controls<sup>1</sup>

**In order to rein in high inflation, especially in the prices of food and other basic consumption items, the government in 2001 established a Price Surveillance and Monitoring Unit.** The unit comprises representatives of government, labor, and business; its tasks are to closely monitor prices of basic consumption items, recommend reasonable increases, and identify businesses that deviate from these prices. **As prices continued to rise, the government introduced direct price controls in October 2001** on a number of items, such as bread, maize meal, sugar, cooking oil, margarine, salt, washing powder, bar soap, fresh milk, meat, and generic drugs.<sup>2</sup>

**As inflation continued to accelerate, the government announced in November 2002 a temporary price freeze** that (i) fixed the prices of commodities subject to the October 2001 order for a period of six months; (ii) extended the coverage of the price freeze to a large number of other items, including some beverages, all household utensils and equipment, new cars, and entertainment services; and (iii) prohibited both the rebranding and repackaging of items to avoid price controls.<sup>3</sup> With the introduction of these new controls, close to 70 percent of items in the consumer price index (CPI) basket became subject to administered pricing.

**The authorities issued a Prices and Incomes Stabilization Protocol in January 2003.** Under the protocol, prices were to be negotiated within the context of the Tripartite Negotiating Forum (TNF); the items covered included mealie meal, cooking oil, salt, milk, sugar, bread, flour, beef, paraffin, sanitary pads, water charges, rentals and rates, and transport fares. Prices would then be pegged at negotiated levels until June 30, 2003. The protocol also provided a one-month window for negotiation of wage increases via collective bargaining agreements, following which negotiated wages would also be pegged through June 30.

**The devaluation at end-February 2003 has necessitated a corresponding pass-through in domestic prices.** Fuel prices were doubled in March and again in April, although these were not sufficient to cover costs. The government is considering further increases in fuel and other controlled prices; it has stated its intention of ultimately moving toward price liberalization for all goods except for a small group of basic consumer items, which will remain subject to administered pricing.

**On May 6, the government announced further price adjustments and an easing of price controls:**

- prices for subsidized commodities (maize, maize meal, wheat, flour and bread) continue to be controlled;
- monitored prices were introduced for essential goods (agricultural chemicals and implements, seeds, beef, coal, cement, cooking oil, drugs, fertilizers, milk, packaging, stockfeeds, sugar, salt and tires). Producers have to make their case for price increases to the Ministry of Industry and International Trade (MIIT) with profit margins not exceeding 20 percent; and
- all other prices were decontrolled, but made subject to MIIT surveillance and (unspecified) "corrective measures to prevent profiteering."

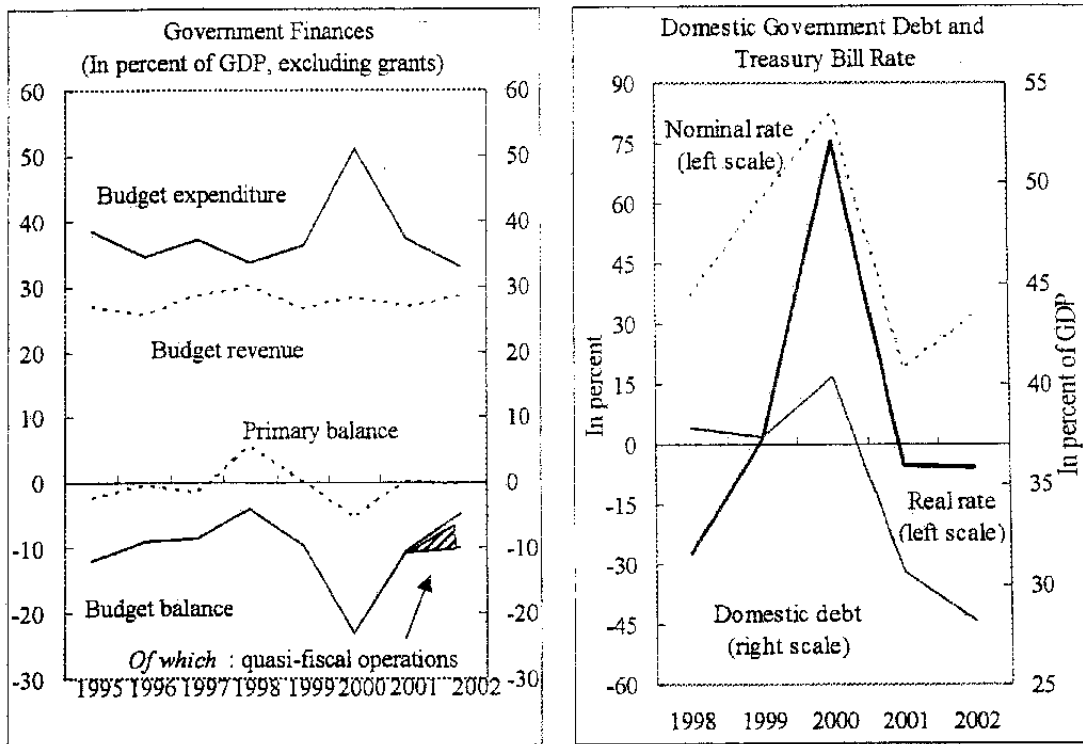
<sup>1</sup> See SM/01/356 (11/30/01), p. 9, para. 14 for background on price controls in Zimbabwe.

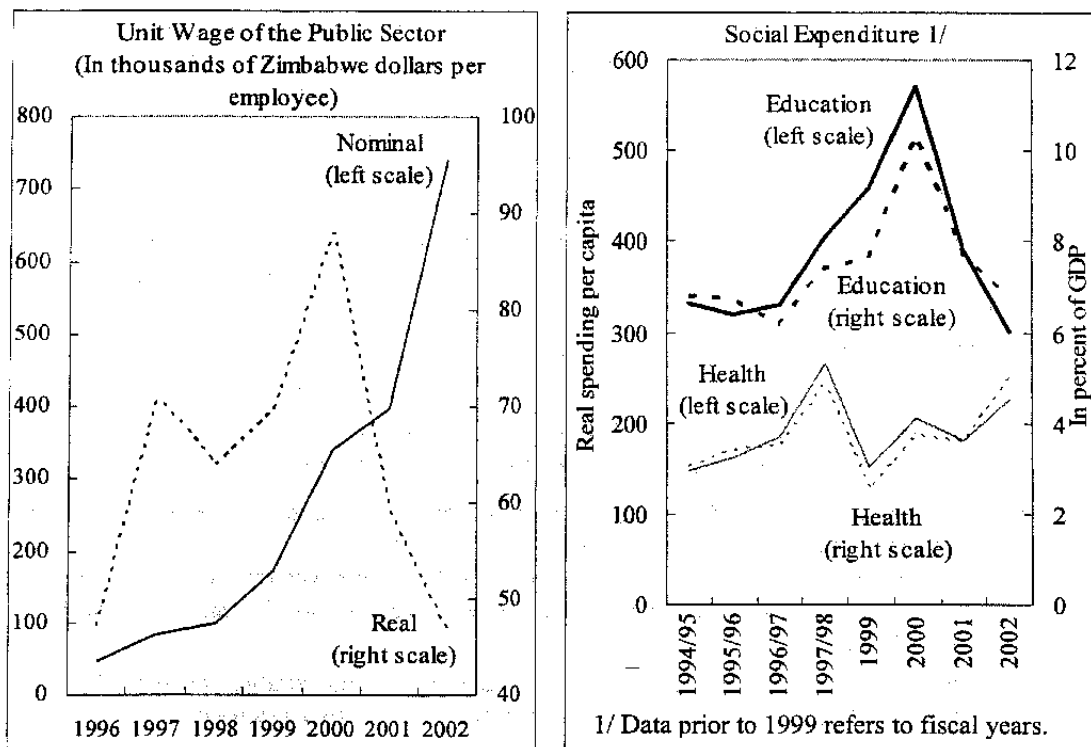
<sup>2</sup> Statutory Instrument No. 334 of October 2001. Other items, such as fuel (petrol, diesel, paraffin, and A1 jet fuel), education, and medical fees, are also subject to administered pricing, and the government periodically adjusts these prices.

<sup>3</sup> Statutory Instrument No. 302 of 2002.

maize were set well below its operating costs; the losses were mostly financed with government-guaranteed bank loans.

6. **Fiscal policy was expansionary in 2002, mainly reflecting the cost of quasi-fiscal operations rather than the government budget outturn.** The budget recorded an overall deficit of 4¼ percent of GDP in 2002, compared with 10½ percent in 2001 (Table 3). This resulted from higher-than-budgeted revenues, which, in turn, were due to significantly higher-than-expected inflation, and a real compression in government expenditure, notably on wages and foreign exchange payments. Moreover, low interest rates kept down debt-service costs and helped lower domestic debt from 52 percent of GDP at end-2000 to 36 percent at end-2002. Quasi-fiscal operations, however, relating to foreign exchange transactions of the RBZ, amounted to 5 percent of GDP.





7. **The main parastatals together posted a net profit of 0.7 percent of GDP in 2002, the same as in 2001.** The financial situation of several of these enterprises is poor, however, as they mostly operate below capacity, undertaking few productive investments for years and accumulating substantial debts (Table 4).

8. **Zimbabwe's external position has become acutely difficult.** A grossly overvalued exchange rate and pervasive shortages of foreign exchange in the official market—reflecting in part a decline in exports of 35 percent in 2002 from a peak in 2000—resulted in a compression of nonfood imports of 15 percent in this period (Table 5). Foreign exchange inflows into the RBZ have been rationed; a joint RBZ/Ministry of Finance committee has been allocating official foreign exchange largely for “critical” imports, such as grain and fuel. In the process, Zimbabwe has accumulated external payments arrears to all creditors, including the Fund. At end-2002, gross usable reserves stood at US\$15 million, equivalent to only three days of imports, while arrears (on both public and private sector debt) amounted to US\$1.5 billion, or 29 percent of total external debt (Table 6). At the same time, the exchange rate premium on the parallel market reached as high as 2,900 percent (Box 6). The government responded to these pressures in November 2002 by further tightening exchange controls, increasing surrender requirements, and closing foreign exchange bureaus. As a result, the inflow of foreign exchange to the RBZ slowed as most transactions moved to the parallel market, where the exchange rate appreciated.

**Box 6. Recent Developments in the Exchange Regime**

With the official exchange rate fixed at Z\$55 per U.S. dollar from October 2000, the currency became increasingly overvalued, and the authorities responded with a series of ad hoc exchange measures. From July 2001, the surrender requirement for most exports had been 40 percent, with the government using the surrendered foreign exchange receipts to finance critical imports (food, fuel, and electricity). Special regimes, frequently modified, applied to tobacco and gold exports. The parallel exchange rate premium increased steadily, and shortages of foreign exchange in the official market persisted.

In November 2002, as the tobacco auction season came to an end and the shortage of official foreign exchange became critical, the authorities raised the surrender requirement for exports and tightened exchange restrictions:

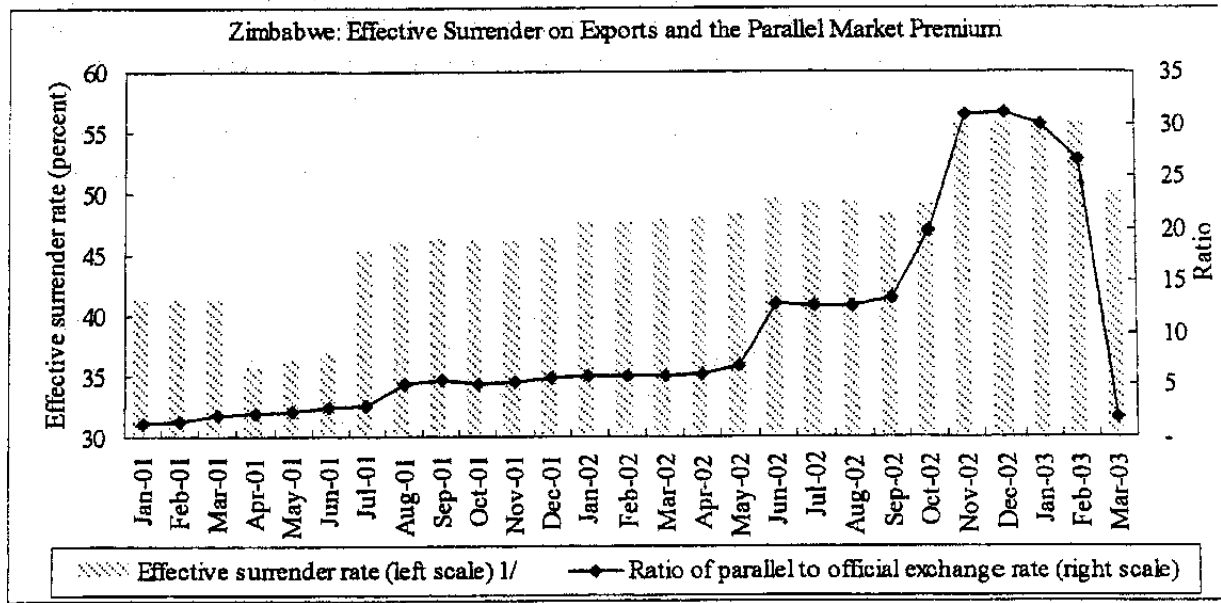
- Foreign currency bureaus were closed, leaving only banks authorized to deal in foreign exchange.
- The surrender requirement was increased from 40 percent to 50 percent.
- The 50 percent of export proceeds that exporters were allowed to retain had to be deposited at the RBZ; its utilization was limited to a priority list and subject to RBZ approval.

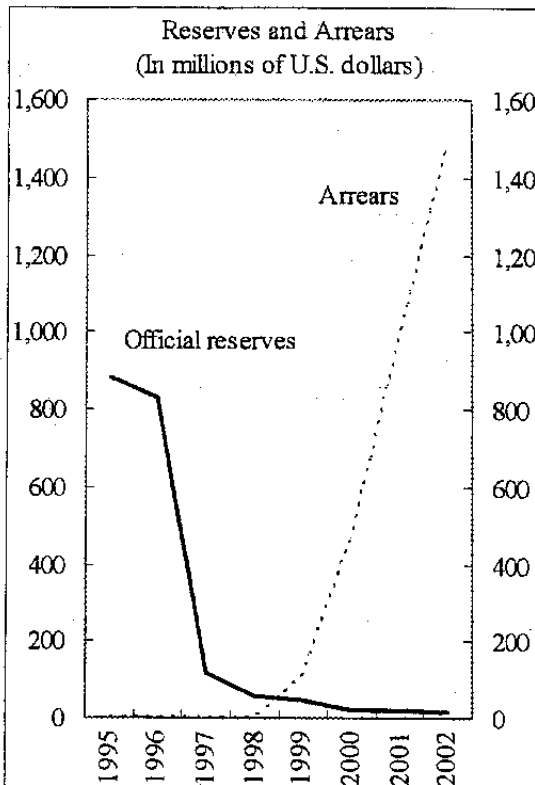
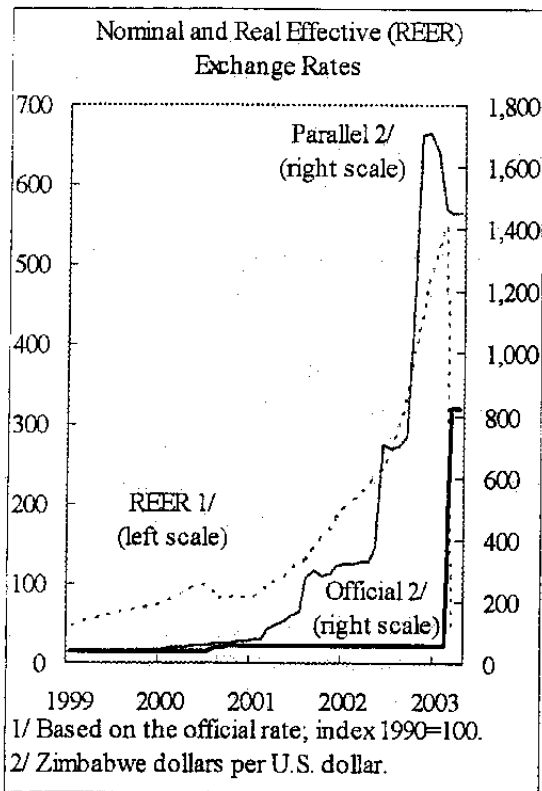
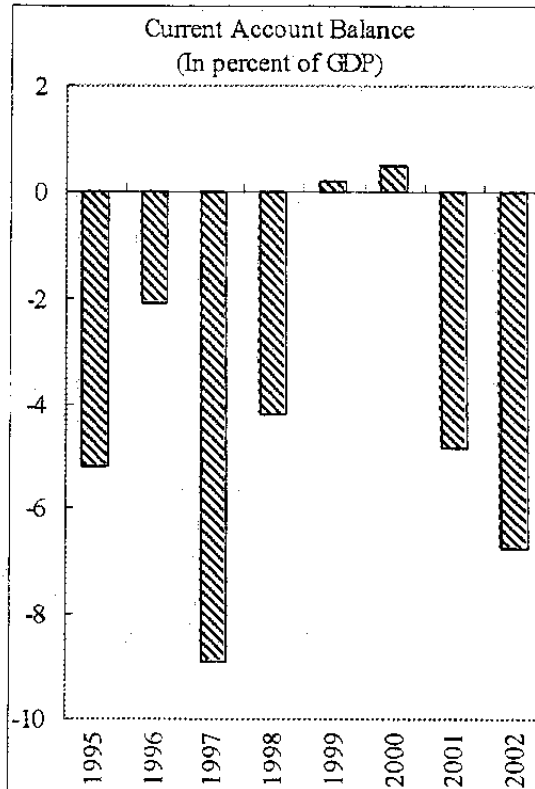
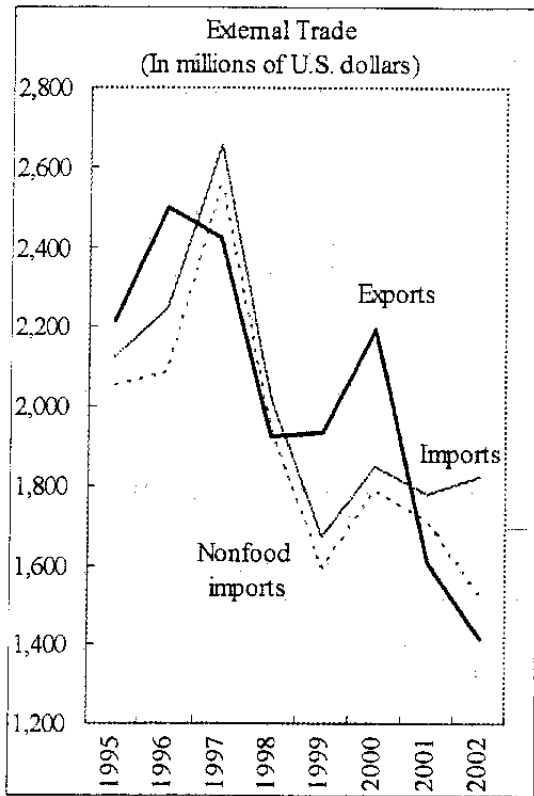
These measures resulted in the virtual drying up of foreign exchange inflows in the official market, while the parallel market rate appreciated somewhat in early 2003 as the majority of export receipts moved to informal channels. Pressure from the business community and the TNF led to the introduction of an Export Incentive Scheme in February 2003, which effectively devalued the exchange rate for most transactions. The scheme has the following features:

- Effective March 1, 2003 the official exchange rate for non-state entities was moved from Z\$55 per U.S. dollar to Z\$824 per U.S. dollar for most transactions in the official market.
- The surrender requirement remained at 50 percent, and exporters could continue to use their retained foreign exchange to import from the priority list.
- The special schemes for tobacco and gold exporters were abolished
- State transactions in foreign exchange continue at the rate of Z\$55 per U.S. dollar. All other importers were to buy foreign exchange at an exchange rate of Z\$848 per U.S. dollar, but the little foreign exchange available had to be rationed by the RBZ.

As a result, the parallel market spread over the official exchange rate narrowed to some 60 percent in March 2003.

With the foreign exchange shortage at the export incentive rate remaining critical, public enterprises purchased some foreign exchange in the parallel market, particularly for imports of fuel and electricity.







9. **In response to the deteriorating economic situation, the government launched the National Economic Revival Program (NERP) at end-February 2003 after consultation with business and labor under the auspices of the Tripartite Negotiating Forum (TNF).** The TNF process has helped the more reform-minded members of government overcome continued resistance from hardliners in cabinet.<sup>5</sup> The measures taken included an “export incentive scheme,” with an exchange rate of Z\$800 per US\$1 for exporters and Z\$848 per US\$1 for imports other than those of the government, for which the rate of Z\$55 per US\$1 still applied. Fuel prices were doubled. The NERP comprises sectoral policies designed to stimulate production, but it has no macroeconomic framework to deal with the current economic situation.<sup>6</sup> Other isolated adjustment measures have followed, including some increases in interest rates since March, producer price increases for grain, and another doubling of fuel prices in mid-April.<sup>7</sup>

10. **The authorities began to raise interest rates in February–March 2003.** Treasury bill rates were under 30 percent per annum in nominal terms in 2002 and moved up gradually to 72 percent in late April, but they remain highly negative in real terms (-48 percent against March 2003 inflation). Regarding other interest rates, the RBZ in November 2002 suspended the bank rate and began using the repurchase rate (on banks’ intraday borrowing from the

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<sup>5</sup> The TNF consists of representatives from the government, organized business, and trade unions. It was established in 1998 in an attempt to achieve consensus on issues of national importance. It is to (i) negotiate and recommend to the cabinet possible solutions to the socioeconomic challenges facing the country, (ii) build confidence and portray a positive image of the country, and (iii) monitor the implementation of policies approved by the cabinet. Negotiations in the TNF, inter alia, led to the adoption of the NERP in February 2003. Cabinet decisions are not bound by TNF recommendations. The largest labor union ceased cooperation with the TNF after the April 2003 fuel price increases.

<sup>6</sup> The NERP recognizes that Zimbabwe is facing severe socioeconomic challenges, as evidenced by prevailing shortages of foreign exchange, critical inputs for productive purposes, and consumer products. It identifies a large number of measures and incentives to stimulate production in agriculture, manufacturing, mining, tourism and the entertainment industry. A majority of these measures, however, still have to be formulated and submitted to the cabinet for approval.

<sup>7</sup> Producer prices for maize were increased in late March 2003 by 365 percent from Z\$28,000 to Z\$130,000 per ton, though consumer prices were left unchanged at Z\$9,600 per ton. Fuel price increases were highest for petrol, so as to cross-subsidize lower increases for diesel and paraffin.

RBZ) as the key monetary policy rate.<sup>8</sup> The repurchase rate was increased to 56 percent in late April 2003.

11. **Droughts in early 2002 and early 2003, and the land reform program contributed to the reduction in agricultural production and the serious food shortages.** During the 2001/02 crop year, domestic production of maize and wheat declined by 60 percent from the previous year. To improve the availability of food, the government and donors imported some 1 million tons of food (mainly maize, the local staple) in the year through early 2003 (Box 1). However, the efforts were hampered by the GMB monopoly and the prohibition of commercial private imports, a chronic shortage of foreign exchange, and by constraints on NGO activities. In late April 2003, the government eased restrictions on private grain sales somewhat.<sup>9</sup>

12. **The way the land reform was implemented has lowered production of food, as well as of cash crops, particularly tobacco.** Large-scale commercial farms used the best farmland, and were the most productive in the country and the main source of agricultural exports. Most of the farms were broken up but resettlement by communal and new commercial farmers was not well-coordinated (Box 4). The pace of the land seizures far exceeded the capacity of the government to provide input and extension support. Much of the land remains idle, and new farmers often do not have the experience or financial resources to maintain previous production levels. Moreover, violence and arbitrary legal changes created great uncertainty on the part of both existing and new farmers. The decline in agricultural production also had a negative impact on the manufacturing sector, which is heavily agriculture-based, and on exports.

## II. POLICY DISCUSSIONS

13. **The policy discussions focused upon the grave deterioration in the economic situation and the comprehensive reform strategy needed to reestablish macroeconomic stability and return to economic growth.** Given the magnitude and pervasiveness of economic distortions, steady implementation of sound stabilization policies—aimed at reducing inflation—will need to go hand-in-hand with urgent structural measures—aimed at restarting growth. Monetary tightening is essential early on to rein in inflation, and will require strong support from fiscal policy. At the same time, the major policy impediments to a sustained recovery of economic activities should be removed, especially foreign trade and exchange restrictions, and price controls. A credible strategy to revive production and achieve early improvements of productivity in agriculture will be essential, based on an

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<sup>8</sup> The RBZ also tightened intraday credits, and in March 2003 began overnight lending requiring securities and applying a 20 percent margin over the repurchase rate. A 40 percent margin applies to unsecured overnight borrowing from the RBZ.

<sup>9</sup> It allowed the sale of small quantities of grain (up to 150 kg) without a permit.

objective assessment of the results of the land reform. Other structural issues, such as the privatization of public enterprises, may be addressed over the medium term. Much can be achieved immediately by the authorities themselves with early and decisive actions on key structural reforms, macroeconomic policies and governance issues. For such a reform strategy to be successful, it will clearly require the strong and unambiguous public commitment of the authorities and strong evidence of decisive implementation. This would facilitate a rapprochement with creditors and donors and the eventual mobilization of their support.

14. **The staff welcomed the steps taken since February but underscored the need to follow up decisively within a consistent macroeconomic framework.** The NERP's sectoral focus fell short of removing the key policy impediments to economic recovery in agriculture as well as the other productive sectors. The staff encouraged the authorities to move beyond the short-term reactive mode that presently dominated policy formulation to a more comprehensive and longer-term approach. The early preparation of a medium-term macroeconomic framework and a coherent package of immediate structural reforms is essential, and its implementation needs to be appropriately sequenced in light of the most urgent priorities. It would form the basis for a budget update that should be prepared as soon as possible since the targets and parameters of the 2003 budget are not attainable. This would help to guide inflation expectations and rebuild confidence in the government's policies, both in Zimbabwe and abroad.

#### A. Monetary Policy

15. **Monetary policy needs to be tightened immediately to rein in inflation and alleviate pressures in the foreign exchange market.** The authorities began to raise interest rates in February–March 2003, but they remain highly negative in real terms. The staff noted that the absence of sufficiently firm action had further undermined policy credibility, and urged the authorities to move more quickly and in a more determined manner. The authorities said that they planned to let interest rates rise gradually in order to avoid massive corporate failures and a banking crisis. The staff noted that current economic conditions had led to numerous company closures, and that early price liberalization would help reestablish enterprise viability.

16. **The staff noted that the special credit facilities contributed to the rapid growth of liquidity in 2002 and need to be strictly contained.** The authorities agreed and noted that the NERP had capped these facilities at Z\$50 billion.<sup>10</sup> The staff urged the authorities to reduce the size of the facilities further; in particular, access for exporters should be eliminated in light of the exchange rate adjustment, and interest rates under the facilities (presently at 5-15 percent) should be raised to the level of other interest rates in the economy.

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<sup>10</sup> While the NERP called for this amount to be matched by lending from banks' own resources, commercial bank representatives did not expect this to happen.

The authorities said they would review the export facility but felt that concessional resources were still needed to support economic activity.

17. **Risks to the financial sector have increased.** Low interest rates are discouraging savings, the macroeconomic environment is threatening credit quality, and inflation has eroded the banks' capital base. A significant rise in interest rates would increase the number of nonperforming loans. In this context, the staff stressed that banking supervision needed to be vigilant and to ensure that the banks were adequately capitalized and were building up sufficient loss provisions. The authorities noted that the Troubled and Insolvent Banks' Policy of 2001 had strengthened the RBZ's oversight of the banks, and that it had subsequently tackled a couple of difficult cases successfully. The staff also cautioned the authorities that negative real returns on government paper and portfolio restrictions on institutional investors were exposing the sector to future solvency problems.

18. **The RBZ has introduced a Deposit Protection Scheme (DPS), which is expected to become operational in mid-2003.** Regulations governing the DPS have been published, and a newly appointed board is assessing the banks' contribution to the scheme. The staff stressed that strengthened banking supervision was a critical precondition for the successful introduction of the DPS. An anti-money-laundering bill has been prepared and is awaiting parliamentary approval.<sup>11</sup>

## B. Fiscal Policy

19. **Fiscal policy needs to support the RBZ in its efforts to bring down inflation.** The mission, therefore, expressed concern over the present fiscal stance, which could lead to an increase in the deficit, including quasi-fiscal operations, to 18 percent of GDP in 2003 from 10 percent in 2002. The authorities agreed but noted that the budget was subject to strong expenditure pressures reflecting rising prices and social needs. They expect to submit a supplementary budget to parliament, possibly by midyear, that would be based on an updated macroeconomic framework and would seek to contain the expenditure pressures.

20. **In order to improve revenue collections, the staff suggested that the new exchange rate should be used for customs valuations for all imports.** The authorities indicated that this was not possible, owing to political constraints, including the impact on import prices. In addition to the higher inflation, increased revenues also reflect the work of the Zimbabwe Revenue Authority (ZIMRA), which has become fully operational. ZIMRA is well advanced with preparations for the introduction of a value-added tax (VAT) system in late 2003, which the authorities expect to address weaknesses in the current sales tax system.

21. **The authorities agreed with the staff's views that they will need to contain current expenditures while maintaining critical services, especially in the areas of**

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<sup>11</sup> The draft does not address anti-terrorism issues, and staff provided further background on options for such provisions.

**health and education.** In light of the rise in import costs, additional cost savings may need to be achieved by postponing nonessential spending, and continuing civil service reform, including a further rationalization of government services through commercialization and outsourcing. Nevertheless, the government needs to be mindful of the real wage compression that has already taken place and, within its overall resource envelope, seek to retain staff—the loss of qualified staff is particularly serious in the health and education sectors. Privatization of the parastatals, which has been on hold since 2001, should be carried further, at least in terms of the commercialization of entities in the near term and eventual divestiture.

22. **In light of the continued decline in per capita income and living standards this year, it will be essential to expand support for the poor.** The government's cash-for-work program, other community-based care programs for the sick and orphans, and donor-supported efforts could help alleviate the problems of the poor. Basic food subsidies should be targeted to limit costs and improve effectiveness, and impediments to the delivery of assistance should be addressed. Spending on the HIV/AIDS pandemic needs to be protected and made more transparent and effective.

23. **The government's debt-service costs will rise in response to higher interest rates and exchange rate adjustments.** This impact will be cushioned by the lengthening of maturities of the domestic debt stock over the last two years, and by the erosion of the government's domestic debt stock in real terms as a result of low nominal interest rates and high inflation. Determined stabilization efforts would minimize the period of drastic tightening required to bring down inflation, and thus limit the impact of high interest rates on domestic debt service costs. With respect to external debt service, given current foreign exchange constraints, the government is not in a position to make significant debt-service payments, and arrears are therefore expected to accumulate further in the near term; eventually Zimbabwe will need to restructure its debt, but this will require a normalization of relations with the international community.

### **C. Exchange System and Price Liberalization**

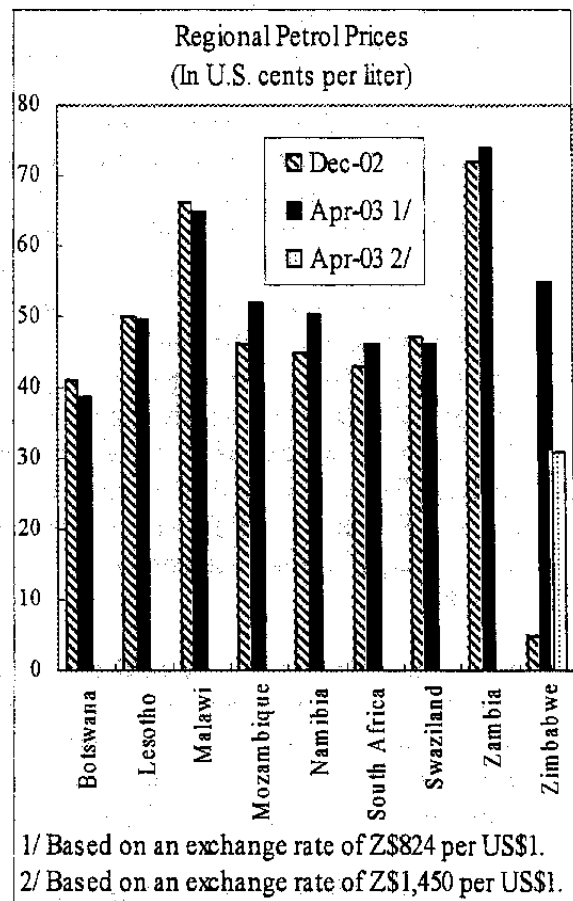
24. **Exchange rate issues in Zimbabwe are highly politicized.** The authorities recognized that the official exchange rate had become increasingly overvalued but said that political factors, including at the highest level, blocked a change. The drying up of official foreign exchange inflows and pressure from the TNF led to the end-February devaluation. The NERP provides for quarterly exchange rate reviews, with the first expected to begin in late May.

25. **The staff welcomed the adjustment in the official exchange rate as a difficult, but necessary, step and supported the planned reviews. It suggested, however, monthly rather than quarterly adjustments in view of the high rate of inflation and the need to narrow the spread with the parallel market.** The mission urged the authorities to allow exporters over time to hold foreign exchange retention accounts with commercial banks, and not the RBZ, and legalize the parallel foreign exchange market. As the conditions in the foreign currency markets become more stable, the gradual reduction in surrender

requirements and their ultimate elimination as well as the liberalization of exchange controls would help strengthen confidence. While the authorities agreed with the ultimate goal of a unified floating exchange rate, they felt that only a gradual approach would be possible and that evidence of a supply response to the measures already taken would facilitate further actions. To date, such a response has remained elusive.

26. **The staff urged the authorities to strictly limit access to foreign exchange at Z\$55 per US\$1 and eliminate the subsidy involved as soon as feasible.** The authorities emphasized that this rate would be used only for budgetary needs, as included in the 2003 budget. The staff underscored the significant distortions arising from a highly subsidized rate for tradable items, such as medicine, and warned that, if applied widely, the related quasi-fiscal losses of the RBZ would be large, fueling money growth and inflation. The staff suggested that any such subsidies should be handled transparently through the budget.

27. **The staff stated that exchange rate adjustments needed to be allowed to be passed through.** The authorities agreed with this, and noted that the TNF was discussing follow-up price changes and pricing mechanisms. Through late-April, two such adjustments were implemented. First, **fuel prices**—long the lowest in the region—were doubled on average at end-February, and again in mid-April, but the prices still fell short of cost recovery at the new exchange rate. The mission noted that, in order to eliminate the ubiquitous fuel queues and improve the efficiency of fuel distribution, it would be necessary to allow private sector operators to import fuels to Zimbabwe profitably, which, in turn, required retail prices to be raised. Second, in March (the beginning of the maize harvest period), **producer prices for grain** to be offered by the GMB were raised sharply; as consumer prices have been left unchanged so far, this could result in sizable quasi-fiscal losses of about 2-3 percent of GDP.<sup>12</sup>



<sup>12</sup> This includes an exchange rate subsidy element if the GMB is given access to the Z\$55 per US\$1 exchange rate for its imports. However, food security projections for 2003 are still very preliminary, and the staff scenario assumed little change in the food situation from 2002.

28. **Price controls have proven ineffective in containing inflation or protecting consumers and should be abolished.** The authorities have indicated their plan to maintain strict controls only for a limited basket of basic consumer goods, and to move to a more liberal system for other items currently subject to controls. The staff welcomed this as an interim step, but urged the authorities to dismantle the price controls altogether, thereby eliminating distortions and shortages. An early tightening of financial policies would dampen the inevitable inflationary impact of price liberalization, which would largely capture the extent of hidden inflation in the economy—prices prevailing in informal markets are a multiple of those on official price lists and are not captured in the official price statistics. The staff suggested that social concerns would be better addressed through targeted income support to the poorest. Price liberalization would bring activity from the informal markets back into the tax net, and would narrow the incentives for rent seeking and corruption. The authorities noted that political constraints and the need to forge a consensus among all stakeholders in the TNF had slowed the speed of adjustment. In early May, the cabinet approved some easing of price controls (see Box 5).

29. **Zimbabwe currently has restrictions on the making of payments and transfers for current international transactions, and multiple currency practices,** inconsistent, respectively, with Article VIII sections 2(a) and 3 of the Fund's Articles of Agreement. Zimbabwe maintains multiple currency practices arising from the lack of a mechanism to prevent a divergence of more than 2 percent between (i) the exchange rates in the official and parallel markets, and (ii) the exchange rates applicable for private sector imports and state entities' imports. Zimbabwe also maintains exchange restrictions arising from (i) limitations on the availability of foreign exchange, in the form of priority lists that limit the provision of foreign exchange for certain specified transactions which are subject to the approval of the RBZ, and (ii) the existence of private sector external payment arrears inconsistent with Article VIII section 2(a). Exchange restrictions arising from certain outstanding contracts under a discontinued RBZ scheme for foreign exchange cover have been discontinued.<sup>13</sup> The mission urged the authorities to remove the remaining exchange restrictions as early as possible.

30. **Zimbabwe's trade regime is highly restrictive.** The average tariff in Zimbabwe is substantially higher than that in neighboring countries (Mozambique, South Africa and Zambia) and the overall trade regime (with both tariff and non-tariff barriers) has a current rating of 8 on the Fund's Trade Restrictiveness Index (ranging from 1 through 10, with 1 being the least restrictive).<sup>14</sup> There are also significant non-tariff barriers to trade, some

<sup>13</sup> Staff was informed of the existence of bilateral payments arrangements with Fund members, which may raise issues of compliance by Zimbabwe with Article VIII obligations. Staff is seeking clarifications from the authorities in order to assess these issues.

<sup>14</sup> Customs duties, under broad categories, are as follows: raw materials, 5 percent; capital goods, 0 percent; intermediate goods, 20-30 percent; finished goods, 40-85 percent and fuels, 0-45 percent. In addition, a 10 percent import surtax is also levied on some goods.

reflecting government monopolies and price controls as well as exchange restrictions. Staff urged the authorities to ease trade barriers over the medium term.

#### **D. Other Structural Policies and Relations with the Fund**

31. **The authorities agreed that decisive actions were needed to improve agricultural production and regularize the food situation.** The NERP contains specific measures to strengthen the agricultural sector, including proposals for land tenure, contract farming, and irrigation systems. The staff underscored the importance of clarifying as soon as possible the legal status of new settlers and establishing clearly defined property rights. This would help ensure farmers' access to financing. Early price liberalization and the elimination of the GMB monopoly would encourage food production and investment in agriculture. The staff shared the concerns of the international community about the way in which the land reform program had been implemented. It encouraged the authorities to cooperate with the World Bank and the United Nations Development Program (UNDP) as a way to reestablish a dialogue on the way forward and eventually restore relations with donors.

32. **The NERP focused on sectoral measures, but the staff thought it should have accorded greater prominence to the implementation of prudent macroeconomic policies and the need to eliminate unduly restrictive controls and regulations.** The staff further noted the need to address weak governance and strengthen the rule of law. The authorities have recognized the economic costs of corruption and plan to set up an Anti-Corruption Commission. The NERP also emphasizes the need to develop an indigenous entrepreneurial base in manufacturing, mining, and tourism. **The staff suggested that indigenization should be based on market principles and implemented in an equitable and fully transparent manner.**

33. **Zimbabwe's economic data continue to suffer from incomplete coverage and timeliness, which hamper the decision-making process and Fund surveillance (Appendix III).**

34. **The Executive Board will be considering the suspension of Zimbabwe's voting and related rights in the Fund.**<sup>15</sup> To demonstrate strengthened cooperation, the staff urged the authorities to address Zimbabwe's serious economic difficulties in light of the staff's recommendations and lay the foundation for regularizing its overdue obligations. The staff welcomed the authorities' intention to resume small regular payments to the Fund.

#### **E. Medium-Term Outlook**

35. **The staff's illustrative medium-term scenario assumes a continuation of current policies in 2003, but much tighter financial policies and more decisive implementation**

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<sup>15</sup> See EBS/03/62 for a more detailed discussion of issues related to Zimbabwe's overdue payments to the Fund.



**of the structural reforms needed to start the process of economic recovery in 2004 and beyond.** With more normal weather patterns, such actions should be accompanied by an increase in output—real growth of 4-5 percent is projected over the medium term—and sharply lower inflation (Box 7 and Table 7). These outcomes would allow the government to reduce its overall deficit from 18 percent of GDP in 2003 to 6½ percent in 2004, and to gradually improve it further over the medium term. On this basis, and with a unification of the exchange system, the current account deficit would narrow from 7 percent of GDP in 2003 to 4-5 percent of GDP over the medium term. However, reflecting an only gradual rebuilding of exports, external debt would remain high at over 300 percent of exports, indicating the need for a careful assessment of debt sustainability as and when relations with creditors are normalized. It is assumed that determined efforts by the authorities would regain the support of creditors and donors, thereby allowing the restructuring of Zimbabwe's sizable external arrears and providing financial support to help rebuild external reserves and meet urgent social needs.

36. **There are significant risks in the medium term.** Political constraints could well lead to a more gradual adjustment of policies, thus prolonging the economic decline. Substantial resources will be required to tackle structural issues, particularly land reform and indigenization, but also the HIV/AIDS pandemic. It may take more time to strengthen confidence domestically and abroad, and to return the economy to a path of sustained low inflation and positive real growth.

### III. STAFF APPRAISAL

37. **The accelerated pace of economic decline over the last four years reflects mainly the economic and structural policies implemented, in particular loose financial policies and the government's land reform program.** Inclement weather also adversely affected agricultural production and food security. These problems have been exacerbated by concerns over governance issues. As a consequence, confidence has further weakened, investment has dropped off, and there has been capital flight, emigration, and smuggling. These spillover effects have been felt in other countries in the region. The social consequences have been dire: poverty and unemployment have risen, and the HIV/AIDS pandemic is worsening.

38. **The government has tried to tackle these problems through a number of ad hoc measures, most recently the National Economic Revival Program.** The staff welcomes the efforts to address the economic crisis by involving all social partners in the policymaking process and thus overcome resistance to reforms from within the government. It will be essential, however, to integrate the initial actions that have been taken into a consistent overall macroeconomic framework, and to follow up with further determined stabilization measures as well as key structural reforms, moving beyond the short-term reactive mode

### **Box 7. Medium-Term Outlook**

Two scenarios are presented in Tables 1-3 and 5 for 2003. The **current policy scenario** assumes some adjustment, as indicated by the authorities, but too little to make a dent in inflation. The **adjustment scenario** assumes a tightening of financial policies from April 2003 onward, and the taking of gradual but determined steps toward price liberalization and exchange rate unification by end-2003.

The current policy scenario for 2003 is the basis for the staff's **medium-term projections**. The imbalances in the economy would continue to widen this year, with inflation of 500 percent and an overall fiscal deficit of 18 percent of GDP. Without significantly tighter financial policies and gradual liberalization, the economic decline would likely continue over the medium term.

In contrast, **the staff's scenario assumes that the authorities will launch a comprehensive adjustment package in early 2004** (Table 7). In particular, they would significantly tighten financial policies, liberalize prices, and unify the exchange rates. With a return to normal weather conditions agricultural output could recover, and mining exports would likely respond quickly to a devaluation. Price liberalization and an easing of foreign trade and exchange restrictions would help to restore confidence and rebuild investment, supported by a beginning reflow of flight capital. Real growth of 4-5 percent should be possible over the medium term, and inflation would be reduced to single digits. The budget would benefit from tax collections boosted by a more depreciated exchange rate for all customs duties, and a strengthening of the tax base as activity returned to the formal markets. At the same time, the government will need to prioritize spending to address pressing social needs within the constraints imposed by monetary tightening to rein in inflation. Assuming progress is made in cooperation with international partners on agricultural reform, and on political and economic governance issues, the support of the international community could be restored and arrears could be restructured; in the staff's scenario, this is assumed for late 2004. These developments would unlock further financial support from the international community, thereby allowing the government to tackle pressing social needs and gradually rebuild foreign exchange reserves.

that is dominating the government's policy decisions. A comprehensive policy package comprising short-term measures to both reduce inflation and restart growth, and medium-term reform plans to support growth and macroeconomic stability should be adopted and implemented as soon as possible to guide expectations and regain public confidence. In the absence of such an approach, the economy will further deteriorate, thereby undermining the actions already taken and leading to further increases in inflation.

39. **The most important immediate task is to tighten monetary policy, so as to bring inflation firmly under control and achieve a stable market-determined exchange rate.** The lack of adequate action in this area has undermined policy credibility and the success of the policy measures taken in February–March 2003. Interest rates need to be raised significantly and lending through the concessional facilities sharply curtailed. This would dampen the unavoidable inflationary impact of price liberalization, which would largely capture hidden inflation in the economy.

40. **The RBZ will need to be vigilant in its surveillance over financial institutions, particularly with regard to provisioning and capital adequacy.** Higher interest rates will add to the strain on the banking system since credit quality is likely to deteriorate. The strengthening of banking supervision will also be a precondition for the success of the planned Deposit Protection Scheme.

41. **Fiscal policy must assist in bringing down inflation.** It is critical that the government follows through on tight budget targets and limits the amount of exchange rate subsidies. It should reflect the new exchange rate in all customs valuations and duties, thereby strengthening the tax base. Expenditure will need to be contained through cost savings and the postponement of some low-priority expenditures, but the maintenance of critical health and education services should be given priority.

42. **The authorities urgently need to address structural impediments in order to improve food security.** The monopoly of the GMB has facilitated consumer and producer price distortions, and made the food shortage worse, as it has discouraged domestic production, prevented private sector imports, and hampered humanitarian efforts; the monopoly should be removed and basic food subsidies better targeted. This would help secure the large-scale donor support that Zimbabwe will require in the coming year, in light of the poor crop prospects resulting from the drought, the land reform, and shortages of inputs. While some obstacles to importing and effectively distributing food have been removed, more action is needed to eliminate the remaining impediments.

43. **In order to avoid distortions, inflationary subsidies, and opportunities for rent seeking and corruption, the devalued exchange rate should be used for all operations, including fiscal transactions and customs valuation.** The staff supports the announced periodic reviews of the exchange rate, but proposes that these should be undertaken monthly, with exchange rate unification as the ultimate policy goal. Foreign exchange retention should be simplified and the parallel foreign exchange market legalized early on. Over the medium term, exchange restrictions and surrender requirements should be eased.

This would reduce existing inefficiencies and give greater incentives for foreign exchange inflows.

44. **The staff welcomed the government's intention to pass through the exchange rate adjustment, a process made more complicated by the presence of widespread price controls.** The recent move towards less price controls and more price monitoring for most goods should be a step on the way to full price liberalization in the not too distant future.

45. **Zimbabwe's exchange restrictions need to be removed and its trade regime liberalized.** Zimbabwe has a number of exchange restrictions currently in place and in the absence of a timetable for their removal, staff does not recommend their approval by the Fund. The authorities should take steps to fulfill their earlier commitment to deepen trade liberalization, especially lowering tariffs to more regionally comparable levels. The government needs to normalize relations with external creditors and formulate a plan for the elimination of external payment arrears.

46. **Structural policies will need to lay the foundation for a resumption of economic growth,** focused on increasing agricultural production and raising productivity throughout the economy. A rolling back of unduly restrictive regulations and government intervention would reduce rent-seeking behavior and corruption and bring more economic activities into the formal economy. Furthermore, the government's intention to promote indigenization throughout the economy should be based on market mechanisms and be implemented in an equitable and fully transparent manner. The continued commercialization and eventual privatization of state enterprises, supported by appropriate regulatory changes, would reduce the burden on the government arising from the losses of these enterprises.

47. **Follow-up on the land reform program will be an important part of the rapprochement with the international community.** The necessity of land reform has long been recognized in Zimbabwe and abroad. Various proposals had found broad support, but the fast-track program ultimately adopted by the authorities and the way it was implemented has had a damaging effect on agriculture and the whole economy, at least in the short to medium term. The authorities should follow up, in collaboration with the World Bank and the UNDP, to improve agricultural productivity.

48. **These policies will not be easy to implement, especially when external support is limited to humanitarian assistance/food relief.** Rekindling international support will require sound economic policies, strong governance including an attack on corruption, and improvements in the rule of law. Ultimately, Zimbabwe needs to rebuild confidence both domestically and abroad to bring back the financial flows and foreign direct investment that are so critical for supplementing the low level of domestic savings and reviving the economy, and to deal with its mounting external debt burden.

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

Table 1. Zimbabwe: Selected Economic Indicators, 1999-2003

	1999	2000	2001	2002		2003		
				Est.	Budget	Est.	Budget	
<b>GDP</b>								
Nominal GDP (billions of Zimbabwe dollars)	221.6	311.9	506.8	929.0	1,062.0	2,104	4,977	3,958
Nominal GDP (billions of U.S. dollars)								
At the official exchange rate 1/	5.8	7.0	9.2	...	19.3	...	13.3	3.8
At world prices 2/	9.0	8.6	8.0	...	7.1	...	6.4	6.5
Real GDP (market prices; percentage change)	-4.1	-6.8	-8.8	-12.0	-12.8	-7.2	-11.0	-10.0
Real per capita GDP (percentage change)	-3.1	-5.7	-7.8	-12.2	-11.9	-7.5	-10.0	-9.0
<b>Savings and investment (percent of GDP) 1/</b>								
Gross national savings (excluding grants)	9.1	2.3	-4.0	4.4	-2.1	7.1	-2.4	-5.8
Gross investment	8.9	1.7	0.3	9.1	0.4	8.6	1.1	3.2
<b>Prices and interest and exchange rates (percent)</b>								
Consumer price inflation (annual average)	58.2	55.9	76.7	127.0	140.0	121	421	318
Consumer price inflation (end of period)	56.9	55.2	112.1	186.5	198.9	96	504	273
91-day treasury bills (annualized yield; end of period)	89.7	71.6	25.9	...	26.6	...	50	147
Real effective exchange rate (percentage change)	-8.5	42.7	47.6	...	131.5	...	...	...
<b>Central government budget (percent of GDP)</b>								
Revenue	26.4	28.2	26.8	27.1	28.3	25.7	22.9	33.0
Expenditure and net lending	36.2	51.2	37.3	42.0	33.1	37.2	31.7	43.4
Of which: interest on central government debt	9.8	17.6	10.4	13.5	4.7	7.4	3.0	10.3
Overall balance, excluding grants and arrears	-9.8	-23.0	-10.4	-14.9	-4.8	-11.5	-8.8	-10.4
Primary balance, excluding grants	0.0	-5.4	0.0	-1.4	-0.1	-4.1	-5.8	-0.1
Overall balance, including grants and interest arrears	-8.7	-21.3	-7.6	-14.9	-3.9	-11.5	-8.6	-6.0
Domestic financing (including privatization)	9.8	21.9	7.5	17.9	4.0	13.3	8.6	6.0
External financing (including principal arrears)	-1.0	-0.6	0.1	-3.0	-0.1	-1.8	0.0	0.0
<b>Government balance (percent of GDP; including quasi-fiscal operations of the reserve bank)</b>								
Overall balance	...	...	-10.8	...	-10.0	...	-17.7	-10.7
Primary balance	...	...	-0.4	...	-4.9	...	-14.2	-0.1
<b>Total public debt (percent of GDP; end of period) 1/</b>								
Domestic debt	93.2	114.4	75.7	...	55.4	...	52.5	106.5
External debt (public and publicly guaranteed)	37.3	52.1	36.0	35.5	35.9	...	29.2	25.0
External debt (public and publicly guaranteed)	55.9	62.3	39.7	24.0	19.5	...	23.3	81.5
<b>Money and credit (percentage change; end of period)</b>								
Broad money (M3)	29.8	59.9	102.7	100.0	164.8	91.2	454.9	175.7
Domestic credit	17.1	61.5	80.3	100.8	149.2	97.6	446.2	175.3
Of which: credit to the private sector	10.5	39.1	67.1	103.2	181.0	83.7	450.8	184.5
<b>External trade (percentage change)</b>								
Export volume	5.2	6.2	-19.2	...	-12.7	...	-5.9	0.2
Import volume	-18.3	5.2	1.5	...	1.4	...	-11.1	-4.5
Terms of trade	-6.0	1.9	-4.3	...	-0.1	...	-5.1	-5.1
<b>Balance of payments (billions of U.S. dollars, unless otherwise indicated)</b>								
Exports	1.93	2.19	1.61	1.62	1.42	1.79	1.35	1.44
Imports	-1.68	-1.85	-1.78	2.26	-1.82	2.14	-1.73	-1.86
Current account balance (excluding official transfers)	0.01	0.04	-0.39	-0.84	-0.48	-0.55	-0.47	-0.49
(in percent of GDP at the official exchange rate) 1/	0.3	0.6	-4.2	-4.7	-2.5	-1.5	-3.5	-13.0
(in percent of GDP at world prices) 2/	0.2	0.5	-4.9	...	-6.7	...	-7.3	-7.5
Overall balance	-0.03	-0.21	-0.42	-1.18	-0.42	-0.83	-0.39	-0.38
<b>Official reserves (gold valued at market price)</b>								
Usable reserves (millions of U.S. dollars; end of period)	46.7	22.1	20.0	...	15.1	...	19.0	28.0
(months of imports of goods and services)	0.2	0.1	0.1	...	0.1	...	0.1	0.2
(percent of reserve money)	10.0	5.9	2.0	...	0.6	...	0.9	12.6
<b>External debt and arrears (including private debt)</b>								
Total external debt (percent of GDP at official exchange rate; end of period) 1/	86.5	73.0	55.8	...	26.8	...	39.8	139.3
Of which: total external arrears	1.9	6.7	11.0	...	7.8	...	14.7	51.5
Total external debt (percent of GDP at world prices; end of period) 2/	55.8	59.3	64.0	...	72.8	...	81.8	80.9
Of which: total external arrears	1.2	5.4	12.6	...	21.2	...	30.2	29.9
Debt service (percent of exports of goods and services)	22.8	24.3	29.5	...	31.0	...	28.1	21.2
<b>Social indicators</b>								
Life expectancy at birth (in years)	44.4	42.6	41.4	...	40.2	...	...	...
Infant mortality rate (per 1,000 live births)	63.9	64.7	65.3	...	65.9	...	...	...
Adult illiteracy rate (percent of adults ages 15 and above)	12.1	11.3	10.7	...	...	...	...	...
HIV/AIDS adult infection rate (percent of adults ages 15-49)	...	...	33.7	...	...	...	...	...

Sources: Zimbabwean authorities; U.S. Census Bureau; World Health Organization; and staff estimates and projections.

1/ Foreign currency units are converted into Zimbabwe dollars at the official exchange rate. Variables in the last column thus reflect valuation adjustments.

2/ GDP at world prices using real GDP growth and trading partner countries' inflation (base year is 1996).

Table 2. Zimbabwe: Monetary Survey, 1999-2003

	1999	2000	2001	2002				2003 Proj.	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Current Policies Scenario	Adjustment Scenario
(Annual percentage change)									
Reserve money	60.9	16.0	164.9	74.2	52.8	105.6	171.2	516.1	158.9
Broad money (M3)	29.8	59.9	102.7	100.0	102.2	124.3	164.8	454.9	175.7
Currency	61.4	37.3	161.1	198.7	188.4	143.1	215.8	622.3	108.3
Deposits	27.3	62.2	97.6	92.6	94.6	122.2	158.9	431.4	185.2
Monetary authorities	(Contribution to reserve money growth, in percent)								
Net foreign assets of reserve bank 1/ Excluding valuation adjustments 2/	63.8	-6.6	0.0	-6.1	-8.5	-6.8	-2.1	-34.5	-299.0
Net domestic assets of reserve bank Excluding valuation adjustments 2/ Of which	-2.7	22.6	164.9	80.4	61.3	112.4	173.3	550.7	457.9
Credit to government (net)	-29.7	3.9	111.2	48.9	27.4	68.0	127.4	458.3	160.3
Credit to non-financial public enterprises	-0.2	0.0	6.7	-0.2	-4.0	-2.9	-2.5	1.3	0.2
Credit to private sector	36.8	35.0	63.9	36.9	44.7	15.2	65.6	52.5	-1.4
Reserve money	60.9	16.0	164.9	74.2	52.8	105.6	171.2	516.1	158.9
Currency outside banks	23.7	14.4	73.8	70.7	76.0	60.4	97.4	329.5	57.7
Nonbank deposits	0.2	-0.5	0.2	1.3	0.1	14.5	0.9	3.5	1.1
Other banking inst. reserves	1.1	0.5	2.9	2.0	1.7	1.7	2.6	9.9	4.5
Deposit money bank (DMB) reserves	35.9	1.7	88.0	0.2	-25.0	28.9	70.3	173.3	95.6
(Contribution to broad money growth, in percent)									
Monetary survey									
Net foreign assets Excluding valuation adjustments 2/	21.4	2.4	1.0	0.4	-2.2	1.4	0.2	-8.3	-70.0
Net domestic assets Excluding valuation adjustments 2/	8.4	57.5	101.7	99.6	104.4	122.9	164.6	463.8	245.9
Domestic credit	23.1	74.8	98.7	98.5	111.0	117.7	163.0	458.9	180.3
Claims on government (net)	10.5	35.5	40.1	24.6	25.6	37.0	41.4	146.7	47.5
Claims on nonfinancial public enterprises	2.1	6.2	9.0	8.8	4.2	9.6	11.3	20.4	13.1
Claims on private sector	10.5	33.2	49.6	65.2	81.3	71.0	110.4	291.8	119.7
Other items (net) Excluding valuation adjustments 2/	-14.7	-17.3	3.0	1.0	-6.6	5.3	1.6	4.9	65.6
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	0.0	0.0
Broad money (M3)	29.8	59.9	102.7	100.0	102.2	124.3	164.8	454.9	175.7
Currency	4.6	3.5	12.9	13.9	15.3	14.7	22.3	76.8	13.4
Deposits	25.2	56.4	89.8	86.1	86.9	109.7	142.4	378.1	162.3
(Ratios, unless specified otherwise)									
Memorandum items:									
Currency-deposit ratio	10.3	8.7	11.5	11.6	13.1	12.5	14.1	19.1	10.3
DMBs' reserves-deposit ratio (effective)	26.4	15.9	18.2	9.2	4.8	13.7	15.4	15.0	18.0
Money multiplier (M3/reserve money)	4.1	5.7	4.4	5.9	6.6	4.5	4.3	3.8	4.5
Velocity (GDP/period-average M3)	3.4	3.3	2.8	...	...	...	2.4	2.4	3.3
Real private sector credit growth (annual percentage change)	-29.6	-10.4	-21.2	-3.7	9.0	-8.0	-6.0	-8.8	-23.5

Table 2. Zimbabwe: Monetary Survey, 1999-2003 (concluded)

	1999	2000	2001	2002				2003 Proj.			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Current Policies Scenario	Adjustment Scenario		
(In millions of Zimbabwe dollars)											
Monetary authorities											
Net foreign assets of reserve bank 1/	-11,845	-13,021	-13,022	-14,424	-15,517	-15,595	-14,194	-65,400	-457,503		
<i>Of which</i> : valuation adjustment	...	...	...	...	...	...	...	-57,215	-442,908		
Net domestic assets of reserve bank	29,631	33,659	69,503	63,474	66,990	115,323	162,442	978,852	841,311		
Credit to government (net)	3,936	4,633	27,579	28,414	29,710	59,743	97,211	776,646	334,911		
<i>Of which</i>											
Gold and tobacco subsidy 3/	...	...	1,810	2,591	4,147	25,403	54,122	59,808	63,009		
Exchange rate subsidy 4/	...	...	...	...	...	...	...	439,892	...		
Credit to nonfinancial public enterprises	653	651	2,034	580	698	647	645	2,645	967		
Credit to private sector	11,569	17,803	30,991	26,183	30,611	29,274	66,873	144,632	64,812		
Credit to deposit money banks	10,475	15,766	28,733	23,137	28,443	26,789	64,221	140,481	61,160		
Credit to nonbank private sector	1,095	2,037	2,257	3,046	2,169	2,486	2,652	4,152	3,652		
Other items (net)	13,473	10,573	7,089	8,297	5,970	25,659	-2,286	54,929	440,621		
<i>Of which</i> : valuation adjustment	...	...	...	...	...	...	...	57,215	442,908		
Reserve money	17,786	20,639	54,670	49,050	51,473	99,729	148,247	913,421	383,790		
Currency outside banks	6,884	9,451	24,673	29,921	39,179	49,789	77,909	566,392	163,471		
Nonbank deposits	202	110	161	413	476	7,237	673	5,870	2,364		
Other banking institution reserves	583	666	1,258	1,198	1,115	1,517	2,666	17,287	9,282		
Deposit money bank reserves	10,116	10,411	28,578	17,517	10,703	41,185	67,000	323,872	208,674		
Deposit money banks and other banking institutions											
Net foreign assets	-3,413	-482	720	3,372	2,013	7,911	2,325	947	3,714		
<i>Of which</i> : valuation adjustment	...	...	...	...	...	...	...	828	3,596		
Reserves	10,693	10,392	31,885	28,179	29,425	58,676	91,507	341,159	217,955		
Net credit from the reserve bank	-10,495	-16,168	-19,091	-20,882	-32,476	-27,345	-60,744	-140,481	-61,160		
Total credit	83,716	137,098	228,540	285,146	359,296	401,810	548,413	2,761,037	1,446,998		
Credit to government (net)	18,239	43,619	67,760	82,791	102,690	110,783	96,730	343,023	158,451		
Credit to nonfinancial public enterprises	3,985	8,542	17,703	23,055	21,438	33,870	45,902	172,593	128,527		
Credit to private sector	61,493	84,938	143,078	179,300	235,168	257,157	405,781	2,245,421	1,160,020		
Other items (net)	-14,068	-22,843	-28,588	-38,978	-60,038	-49,649	-29,112	-29,941	-32,708		
<i>Of which</i> : valuation adjustment	...	...	...	...	...	...	...	-828	-3,596		
Total deposits	66,433	107,997	213,466	256,837	298,220	391,403	552,388	2,932,870	1,574,730		
Monetary survey											
Net foreign assets	-15,258	-13,503	-12,302	-11,052	-13,504	-7,683	-11,869	-67,996	-455,054		
<i>Of which</i> : valuation adjustment	...	...	...	...	...	...	...	-59,931	-440,577		
Net domestic assets	88,778	131,062	250,603	298,224	351,378	456,112	642,839	3,569,468	2,194,441		
Domestic credit	89,399	144,418	260,411	317,186	391,873	464,685	648,920	3,544,479	1,786,527		
Claims on government (net)	22,174	48,251	95,339	111,205	132,400	170,526	193,941	1,119,670	493,362		
Claims on nonfinancial public enterprises	4,638	9,192	19,737	23,635	22,136	34,517	46,547	175,238	129,494		
Claims on private sector	62,587	86,975	145,335	182,346	237,337	259,643	408,432	2,249,572	1,163,671		
Other items (net)	-622	-13,357	-9,808	-18,962	-40,494	-8,573	-6,080	24,989	407,913		
<i>Of which</i> : valuation adjustment	...	...	...	...	...	...	...	59,931	440,577		
Broad money (M3)	73,520	117,559	238,301	287,172	337,875	448,429	630,970	3,501,472	1,739,386		
Currency	6,884	9,451	24,673	29,921	39,179	49,789	77,909	562,731	162,293		
Deposits	66,636	108,107	213,627	257,251	298,696	398,639	553,061	2,938,740	1,577,093		
Memorandum items:				(In millions of U.S. dollars)							
Net foreign assets of reserve bank	-121	-377	-275	-235	-216	-206	-197	-149	-265		
<i>Of which</i> : gross usable reserves	47	22	20	18	16	16	15	19	28		
Net foreign assets of deposit money banks and other banking institutions	-89	-9	13	61	37	144	42	2	2		

Sources: Zimbabwean authorities; and staff estimates and projections.

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

2/ At an exchange rate of Z\$55 per US\$1.

3/ Calculated from the monetary control program.

4/ Cost of providing foreign exchange to state at a rate of Z\$55 per US\$1, assuming the Reserve Bank of Zimbabwe provides US\$0.5 billion in 2003.

Table 3. Zimbabwe: Central Government Operations, 1999-2003

	1999	2000		2001		2002		2003		Adjustment Scenario
	Act.	Budget	Act.	Budget	Act.	Budget	Act.	Budget	Current Policies Scenario	
	(In percent of GDP, unless otherwise indicated)									
Total revenue	26.4	29.0	28.2	26.0	26.8	27.1	28.3	25.7	23.2	33.2
Tax revenue	25.1	27.5	26.4	24.6	25.4	25.9	26.4	24.5	21.3	31.3
Domestic taxes	21.2	21.9	23.6	20.9	21.9	20.6	23.9	22.9	19.8	23.4
Customs duties	3.8	5.6	2.7	3.8	3.4	5.3	2.6	1.6	1.5	7.9
Nontax revenue	1.4	1.5	1.8	1.4	1.5	1.2	1.8	1.2	1.8	1.9
Total expenditure and net lending	36.2	32.8	31.2	41.4	37.3	42.0	33.1	37.2	32.0	43.7
Current expenditure on goods and services	18.3	16.7	24.9	15.7	19.7	20.4	20.3	19.8	20.5	23.1
Wages and salaries	12.7	11.3	15.7	11.4	12.7	13.0	11.7	10.5	11.0	12.3
Goods and services	5.6	5.4	9.2	4.3	7.0	7.5	8.7	9.3	9.4	10.8
Interest payments	9.8	9.4	17.6	19.7	10.4	13.5	4.7	7.4	3.0	10.4
Of which: domestic 1/	8.2	7.7	16.5	17.5	8.1	12.5	3.8	7.2	2.9	6.7
Subsidies and transfers	4.1	4.1	6.1	4.3	4.7	4.6	5.2	5.1	5.4	6.0
Capital expenditure and net lending	4.0	2.7	2.6	2.0	2.4	3.5	2.9	4.9	3.2	4.3
Budget balance, excl. grants (commitment basis) 2/	-9.8	-3.8	-23.0	-15.4	-10.4	-14.9	-4.8	-11.5	-8.8	-10.5
Of which: primary balance	0.0	5.5	-5.4	4.3	0.0	-1.4	-0.1	-4.1	-5.8	-0.1
Grants	1.0	1.0	1.1	0.0	0.6	0.0	0.1	0.0	0.0	1.0
Foreign interest arrears	0.1	...	0.6	...	2.3	...	...	...	0.2	3.5
Budget balance, incl. grants and interest arrears 2/	-8.7	-2.9	-21.3	-15.4	-7.6	-14.9	-3.9	-11.5	-8.7	-6.0
External financing (net, including principal arrears)	-1.0	-0.6	-0.6	-4.2	0.1	-3.0	-0.1	-1.8	0.0	0.0
Domestic financing (net)	9.8	3.5	21.9	19.5	7.5	17.9	4.0	13.3	8.7	6.0
Of which: privatization 3/	0.4	0.5	0.0	4.1	1.3	4.8	0.0	1.0	0.0	0.0
Memorandum items:										
Health and social welfare	3.0	2.1	3.4	2.2	3.2	2.7	...	4.3	...	...
Of which: wages	0.9	0.7	1.3	1.1	1.0	0.4	...	1.2	...	...
Education outlays	7.8	7.4	10.5	6.2	7.7	6.8	...	7.0	...	...
Of which: wages	6.2	5.3	8.1	4.7	6.0	5.3	...	5.0	...	...
Military expenditure	3.3	3.0	4.8	2.5	3.2	3.7	...	3.6	...	...
Of which: wages	2.2	2.1	3.0	2.0	2.4	2.7	...	1.8	...	...
Health, social, and education outlays 4/	33.6	31.2	28.6	21.2	31.2	24.8	...	35.0	...	...
Government balance (incl. quasi-fiscal operations of RBZ) 5/	...	...	...	...	-10.8	...	-10.0	...	-17.8	-10.6
Of which: primary balance	...	...	...	...	-0.4	...	-4.9	...	-14.4	-0.1
Nominal GDP (in millions of Zimbabwe dollars)	221,588	300,722	311,890	538,676	506,792	928,975	1,062,045	2,103,574	4,926,687	3,932,406



Table 3. Zimbabwe: Central Government Operations, 1999-2003 (concluded)

	1999		2000		2001		2002		2003	
	Act.	Budget	Act.	Budget	Act.	Budget	Act.	Budget	Current Policies Scenario	Adjustment Scenario
(In millions of Zimbabwe dollars)										
Total revenue	58,563	87,216	87,825	140,284	135,975	251,886	300,355	540,501	1,140,712	1,305,795
Tax revenue	55,569	82,740	82,275	132,710	128,545	240,840	280,739	514,714	1,050,763	1,230,453
Domestic taxes	47,062	65,970	73,731	112,460	111,149	191,725	253,599	481,264	975,307	919,272
Customs duties	8,507	16,770	8,543	20,250	17,395	49,115	27,140	33,450	75,456	311,180
Nontax revenue	2,995	4,476	5,550	7,574	7,430	11,046	19,616	25,787	89,949	75,342
Total expenditure and net lending	80,211	98,727	159,669	223,157	188,933	390,139	351,321	782,411	1,576,338	1,717,721
Current expenditure on goods and services	40,640	50,092	77,532	84,422	99,915	189,630	216,038	417,491	1,008,696	908,365
Wages and salaries	28,175	33,892	48,931	61,321	64,480	120,417	123,930	221,619	544,011	482,757
Goods and services	12,465	16,200	28,601	23,101	35,435	69,213	92,108	195,872	464,686	425,608
Interest payments	21,631	28,200	54,896	105,872	52,800	125,000	49,494	155,000	148,530	408,043
Of which: domestic 1/	18,071	23,080	51,460	94,501	41,122	115,835	40,329	151,691	140,993	264,721
Subsidies and transfers	9,007	12,435	18,986	22,939	24,068	43,161	55,206	107,016	263,875	234,171
Capital expenditure and net lending	8,932	8,000	8,255	9,925	12,151	32,349	30,583	102,904	155,237	167,141
Budget balance, excl. grants (commitment basis) 2/	-21,648	-11,511	-71,844	-82,873	-52,959	-138,253	-50,966	-241,911	-435,626	-411,926
Of which: primary balance	-17	16,689	-16,948	22,999	-159	-13,253	-1,472	-86,911	-287,096	-3,883
Grants	2,144	2,912	3,517	0	2,972	0	668	0	1,925	39,182
Foreign interest arrears	174	...	1,880	...	11,494	...	8,793	...	7,537	137,048
Budget balance (incl. grants and interest arrears) 2/	-19,330	-8,599	-66,447	-82,873	-38,492	-138,253	-41,506	-241,911	-426,164	-236,588
External financing (net, including principal arrears)	-2,280	-1,804	-1,997	-22,382	709	-28,162	-1,484	-37,946	0	0
Domestic financing (net)	21,610	10,403	68,444	105,255	37,783	166,415	42,989	279,857	426,164	236,588
Of which: privatization 3/	841	1,584	0	22,000	6,721	45,000	450	20,350	0	0
Memorandum items:										
Health and social welfare	6,724	6,189	10,608	12,078	16,213	25,366	...	89,996	...	...
Of which: wages	2,087	2,041	3,985	5,845	4,860	8,322	...	25,392	...	...
Educational outlays	17,223	22,108	32,634	33,167	38,907	63,292	...	147,519	...	...
Of which: wages	13,848	15,922	25,356	25,195	30,485	49,653	...	104,830	...	...
Military expenditure	7,202	9,017	15,011	13,292	16,208	34,403	...	76,417	...	...
Of which: wages	4,982	6,237	9,445	10,610	12,093	24,923	...	36,993	...	...
Government balance (incl. quasi-fiscal operations of RBZ) 5/	...	...	...	...	-54,829	...	-106,103	...	-879,084	-417,892
Of which: primary balance	...	...	...	...	-1,942	...	-52,064	...	-707,661	-3,883

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ The large discrepancy between actual and budgeted interest expenditure during 2001-3 reflects overestimation of these outlays in the budget.

2/ Commitments with respect to foreign interest payments.

3/ Gross proceeds from privatization that do not take into account possible debt-equity swaps and debt takeovers.

4/ As percent of current expenditure.

5/ Excluding grants (commitment based). "Quasi-fiscal operations" refer to the support schemes provided by the Reserve Bank of Zimbabwe to tobacco and gold during 2001-2 and the utilization of foreign exchange surrender at the rate of Z\$55 per US\$1.

Table 4. Zimbabwe: Financial Position of the Major Parastatals, 1999-2002

	1999	2000	2001	2002
	(In percent of GDP)			
Profit (+) and loss (-)	-3.3	-4.6	0.7	0.7
Air Zimbabwe (AIRZIM)	0.0	-0.1	0.1	0.0
Cold Storage Company (CSC)	-0.2	-0.4	-0.3	-0.3
Grain Marketing Board (GMB)	-1.0	-1.1	-0.9	-1.4
National Oil Company of Zimbabwe (NOCZIM)	-1.4	-0.7	2.5	3.2
National Railways of Zimbabwe (NRZ)	0.1	-0.2	-0.6	-0.2
Post and Telecommunications Corporation (PTC)	-0.2	-1.0	0.6	0.5
NetOne	0.0	0.0	0.1	0.1
TelOne	0.0	-0.6	0.6	0.4
Zimpost	0.0	-0.4	-0.1	0.0
Zimbabwe Electricity Supply Authority (ZESA)	-0.1	0.8	0.2	-0.1
Zimbabwe Iron and Steel Corporation (ZISCO)	-0.6	-1.9	-0.8	-0.9
Domestic debt <sup>1/</sup>	6.5	11.6	9.1	7.6
Of which : short-term debt	4.2	8.6	6.9	5.5
Of which : government guaranteed	2.4	6.8	5.0	4.6
Foreign debt <sup>1/ 2/</sup>	13.3	13.1	7.1	3.3
Of which : short-term debt	1.9	1.3	3.4	1.7
Of which : government guaranteed	13.1	12.5	6.9	3.2
Memorandum items:	(In millions of Zimbabwe dollars)			
Domestic debt <sup>1/</sup>	14,452	36,270	46,320	81,100
Of which : short-term debt	9,239	26,686	35,181	58,415
Of which : government guaranteed	5,303	21,164	25,347	49,278
	(In millions of U.S. dollars, unless otherwise indicated)			
Foreign debt	535	743	651	629
Of which : short-term debt	76	71	311	330
Of which : government guaranteed	527	707	638	613
GDP (in millions of Zimbabwe dollars)	221,588	311,890	506,569	1,061,577

Sources: Ministry of Finance; and staff estimates.

<sup>1/</sup> 1999 debt figures do not include GMB.

<sup>2/</sup> Valued at the official exchange rate.

Table 5. Zimbabwe: Balance of Payments, 1999-2003  
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	
					Current Policies Scenario	Adjustment Scenario
Current account (excluding official transfers)	30	41	-391	-478	-470	-491
Trade balance	258	346	-170	-404	-377	-419
Exports, f.o.b.	1,933	2,195	1,609	1,418	1,355	1,443
Imports, f.o.b.	-1,675	-1,849	-1,779	-1,822	-1,732	-1,862
Food	-82	-62	-68	-304	-271	-298
Nonfood	-1,593	-1,787	-1,711	-1,518	-1,461	-1,563
Nonfactor services	31	-90	-131	-202	-186	-188
Receipts	621	331	246	219	213	220
Payments	-590	-421	-377	-421	-400	-408
Investment income	-390	-390	-324	-290	-296	-296
Interest	-175	-173	-147	-123	-132	-132
Receipts	37	26	12	10	5	5
Payments	-211	-199	-159	-133	-137	-137
Other	-215	-217	-177	-167	-164	-164
Private transfers (incl. transfers to nongovernmental organizations)	131	175	234	418	390	412
Capital account (including official transfers)	188	-289	-387	-334	-229	-225
Official transfers	101	53	40	35	35	35
Direct investment	50	15	1	23	-7	-7
Portfolio investment	21	-1	-68	0	-20	-20
Long-term capital	73	-230	-270	-256	-227	-227
Government	-60	-168	-203	-186	-164	-164
Receipt	163	56	8	0	0	0
Payment	-223	-224	-211	-186	-164	-164
Public enterprises	70	-34	-44	-46	-38	-38
Private sector	63	-29	-23	-24	-25	-25
Short-term capital	-56	-126	-90	-135	-10	-7
Public sector	0	0	13	-13	70	70
Private sector	-56	-126	-103	-122	-80	-77
Errors and omissions 1/	-251	41	363	393	304	332
Overall balance	-33	-207	-415	-420	-395	-385
Financing	33	207	415	420	395	385
Gross official reserves (- increase)	8	25	2	5	-4	-13
Net use of Fund resources	-27	-70	-85	-95	-63	-63
Drawings	35	0	0	0	0	0
Repayments	-62	-70	-85	-95	-63	-63
Other short-term liabilities (net)	-57	-106	-44	13	20	20
Change in arrears (decrease, -)	109	359	542	498	441	441
Debt relief/rescheduling	0	0	0	0	0	0
Memorandum items:						
Current account balance (in percent of nominal GDP at world prices)	0.3	0.5	-4.9	-6.7	-7.3	-7.5
Gross official reserves 2/ 3/	47	22	20	15	19	28
In months of imports of goods and services	0.2	0.1	0.1	0.1	0.1	0.2
Reserve liabilities 4/	599	423	294	212	168	168
Net international reserves 4/	-552	-400	-274	-197	-149	-140
External debt	5,045	5,114	5,137	5,177	5,274	5,274
Of which: arrears	109	468	1,010	1,507	1,949	1,949
External debt service due 5/	621	614	548	508	441	441
Nominal GDP at world prices 6/	9,037	8,619	8,033	7,107	6,449	6,520

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Include flows associated with underinvoicing of exports and arrears on short-term private debt.

2/ End of period.

3/ Gold valued at market prices.

4/ Reported by the Reserve Bank of Zimbabwe. Excludes arrears.

5/ Scheduled medium- and long-term amortization plus all interest payments.

6/ Nominal U.S. dollar GDP adjusted for real growth and international inflation (1996 base year).

Table 6. Zimbabwe: Indicators of External Vulnerability, 1999-2003  
(In percent of GDP, unless otherwise indicated) 1/

	1999	2000	2001	2002 Est.	2003 Proj. 2/
<b>Financial indicators</b>					
Domestic public sector debt (as percent of nominal GDP in Zimbabwe dollars)	35	52	38	38	30
External public sector debt (as percent of GDP at world prices) 3/	42	49	56	67	78
Broad money (percent change, 12-month basis)	30	60	103	165	455
Private sector credit (percent change, 12-month basis)	11	39	67	181	451
31-day treasury bill interest rate (end of period; in percent)	74	58	26	27	50
31-day treasury bill interest rate (real, end of period; in percent)	11	2	-41	-58	-75
<b>Balance of payments indicators</b>					
Exports (percent change, 12-month basis in U.S. dollars)	0	14	-27	-12	-4
Imports (percent change, 12-month basis in U.S. dollars)	-17	10	-4	2	-5
Current account balance	0.3	0.5	-4.9	-6.7	-7.3
Capital and financial account balance	2.1	-3.4	-4.8	-4.7	-3.5
Gross official reserves (in millions of U.S. dollars)	47	22	20	15	19
(in months of imports of goods and services)	0.2	0.1	0.1	0.1	0.1
Gross reserves of the banking system (in millions of U.S. dollars)	158	165	147	231	182
(in months of imports of goods and services)	0.8	0.9	0.8	1.3	1.1
Net foreign assets of the banking system (in millions of U.S. dollars)	-89	-9	13	42	2
<b>External debt and debt service indicators</b>					
Total short-term external debt by remaining maturity (in millions of U.S. dollars)	877	...	...	...	...
<i>Of which:</i> by original maturity	532	...	...	...	...
Total short-term external debt by remaining maturity (ratio to reserves)	19	...	...	...	...
<i>Of which:</i> by original maturity	11	...	...	...	...
Total external debt (in millions of U.S. dollars) 3/	5,045	5,114	5,137	5,177	5,274
<i>Of which</i>					
Public and publicly guaranteed debt	4,002	3,950	3,652	3,433	3,251
Arrears	109	468	1,010	1,507	1,949
External interest payments (in percent of exports of goods and services)	8.3	7.9	8.6	8.1	8.7
External amortization payments (in percent of exports of goods and services)	16.0	16.4	21.0	22.9	19.4
<b>Memorandum items:</b>					
Growth in real GDP (annual percent change)	-4.1	-6.8	-8.8	-12.8	-11.0
Inflation (annual percent change)	58	56	77	140	421
Gross investment	8.9	1.7	0.3	0.4	1.2

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ GDP measured at world prices.

2/ Current policies scenario

3/ Includes arrears on external debt.

Table 7. Zimbabwe: Medium-Term Outlook, 2003-08

	2003	2004	2005	2006	2007	2008
	Proj. 1/	Proj.	Proj.	Proj.	Proj.	Proj.
<b>GDP</b>						
Nominal GDP (billions of Zimbabwe dollars)	4,927	24,909	48,837	56,867	62,985	69,320
Nominal GDP (billions of U.S. dollars)						
At the official exchange rate 2/	13.1	4.5	7.0	7.8	8.2	8.8
At world prices 3/	6.4	6.9	7.4	7.8	8.3	8.8
Real GDP (market prices; percentage change)	-11.0	5.1	4.8	4.0	3.9	3.8
Real per capita GDP (percentage change)	-12.4	3.6	3.6	3.0	3.1	3.1
<b>Savings and investment (percent of GDP) 2/</b>						
Gross national savings (excluding grants)	-2.4	0.2	6.1	8.4	8.9	9.5
Gross investment	1.2	11.0	13.0	13.7	13.1	13.4
<b>Prices and interest rates (percent)</b>						
Consumer price inflation (annual average)	421.3	380.4	89.4	11.5	4.9	4.9
Consumer price inflation (end of period)	504.2	234.5	37.3	4.6	4.9	4.9
91-day treasury bills (annualized yield; end of period)	50.0	145.0	8.0	8.0	8.0	8.0
<b>Central government budget (percent of GDP)</b>						
Revenue	23.2	27.5	27.6	28.0	28.6	29.0
Expenditure and net lending	32.0	38.1	36.2	35.2	34.4	33.9
Of which: interest on central government debt	3.0	7.2	6.4	5.2	5.1	5.2
Overall balance, excluding grants and arrears	-8.8	-10.6	-8.6	-7.2	-5.8	-4.9
Primary balance, excluding grants	-5.8	-3.4	-2.2	-2.0	-0.7	0.3
Overall balance, including grants and interest arrears	-8.7	-6.4	-6.9	-5.2	-3.4	-2.2
Domestic financing (including privatization)	8.7	5.9	5.2	3.4	1.6	1.1
External financing (including principal arrears)	0.0	0.6	1.6	1.7	1.8	1.2
<b>Government balance (percent of GDP; including quasi-fiscal operations of the reserve bank)</b>						
Overall balance	-17.7	-10.6	-8.6	-7.2	-5.8	-4.9
Primary balance	-14.2	-3.4	-2.2	-2.0	-0.7	0.3
<b>Total public debt (percent of GDP; end of period) 2/</b>						
Domestic debt	67.9	82.0	61.8	64.2	67.5	69.4
Of which: related to quasi-fiscal operations	29.5	18.1	19.9	25.9	30.7	33.7
Of which: related to quasi-fiscal operations	10.2	2.0	1.0	0.9	0.8	0.7
External debt (public and publicly guaranteed)	38.4	63.9	42.0	38.3	36.8	35.7
<b>Money and credit (percentage change, end of period)</b>						
Broad money (M3)	454.9	168.4	56.8	18.0	10.0	8.9
Domestic credit	446.2	166.5	56.7	17.9	9.9	8.9
Of which: credit to the private sector	450.8	195.0	45.3	8.6	8.2	8.5
<b>External trade (percentage change)</b>						
Export volume	-5.9	-6.7	9.3	8.9	7.9	4.2
Import volume	-11.1	-9.5	3.9	5.4	3.6	1.6
Terms of trade	-5.1	2.8	1.8	0.7	-0.8	-0.5
<b>Balance of payments (billions of U.S. dollars, unless otherwise indicated)</b>						
Exports	1.35	1.30	1.45	1.60	1.73	1.81
Imports	-1.73	-1.58	-1.64	-1.73	-1.81	-1.86
Current account balance (excluding official transfers)	-0.47	-0.49	-0.48	-0.41	-0.34	-0.35
(In percent of GDP at the official exchange rate) 2/	-3.6	-10.8	-6.9	-5.3	-4.2	-3.9
(In percent of GDP at world prices) 3/	-7.3	-7.1	-6.5	-5.3	-4.2	-3.9
Overall balance	-0.39	-0.43	-0.13	-0.04	0.15	0.18
<b>Official reserves (gold valued at market price)</b>						
Usable reserves (millions of U.S. dollars; end of period)	19.0	119.4	230.0	391.7	577.3	601.9
(months of imports of goods and services)	0.1	0.7	1.3	2.1	3.0	3.1
(percent of short-term debt)	5.2	32.8	49.1	67.8	74.9	92.5
(percent of reserve money)	0.9	32.6	45.8	72.0	112.1	115.7
<b>External debt and arrears (including private debt)</b>						
Total external debt (percent of GDP at official exchange rate; end of period) 2/	40.2	123.7	84.2	78.8	75.9	72.4
Of which: total external arrears	14.9	0.0	0.0	0.0	0.0	0.0
Total external debt (percent of GDP at world prices; end of period) 3/	81.8	81.0	79.5	78.3	75.5	72.1
Of which: total external arrears	30.2	0.0	0.0	0.0	0.0	0.0
Total external debt (percent of exports of goods and services)	336.3	366.5	344.8	327.6	309.3	298.0
Debt service (percent of exports of goods and services)	28.1	28.1	28.4	27.9	32.7	32.1

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Current policies scenario.

2/ Foreign currency units are converted into Zimbabwe dollars at the official exchange rate. Variables thus reflect valuation adjustments.

3/ GDP at world prices using real GDP growth and trading partner countries' inflation (base year is 1996).

**Zimbabwe: Relations with the Fund**  
(As of April 30, 2003)

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

II. General Resources Account:

	<u>SDR Million</u>	<u>% Quota</u>
Quota	353.40	100.0
Fund holdings of currency	470.58	133.2
Reserve position in Fund	0.33	0.1

III. SDR Department:

	<u>SDR Million</u>	<u>% Allocation</u>
Net cumulative allocation	10.20	100.0
Holdings	0.05	0.1

IV. Outstanding Purchases and Loans:

	<u>SDR Million</u>	<u>% Quota</u>
Stand-By Arrangements	63.94	18.1
Extended Arrangements	53.56	15.2
Poverty Reduction Growth Facility (PRGF) Arrangements	88.63	25.1

V. Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By Arrangement	08/02/1999	10/01/2000	141.36	24.74
Stand-By Arrangement	06/01/1998	06/30/1999	130.65	39.20
Extended Fund Facility (EFF)	09/11/1992	09/10/1995	114.60	86.90
Enhanced Structural Adjustment Facility (ESAF)	09/11/1992	09/10/1995	200.60	151.90

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

	<u>Overdue</u>	<u>Forthcoming</u>				
	<u>4/30/2003</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	148.6	28.5	24.1	4.9	--	--
Charges/interest	10.2	2.7	2.7	2.4	2.4	2.4
Total	158.8	31.2	26.7	7.4	2.4	2.4

VII. **Exchange Rate Arrangement**

Zimbabwe currently has restrictions on the making of transfers and payments for current international transactions, and multiple currency practices, inconsistent, respectively with

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

Date	Department	Purpose	Result
November 1992	STA	Revise monetary statistics.	Revision initiated.
April 1993	MAE	Liberalize foreign exchange system.	Comprehensive reforms launched; completed in July 1994.
Spring 1994	LEG	Revise the Reserve Bank Act and the Banking Act.	Completed.
Spring 1995	FAD	Improve the system of budgeting and public expenditure control.	Initial steps taken.
Spring 1995	STA	Harmonize the reporting system for monetary statistics.	Harmonization completed.
Winter 1995	STA	Provide training in balance of payments methodology.	Seminar provided.
January 1996	STA	Improve foreign trade statistics.	Advice being implemented.
August 1996	MAE (long term)	Strengthen banking supervision.	Some of the advice being implemented.
October 1996	STA	Improve national accounts.	Some of the advice being implemented.
January 1996, November 1996	MAE	Improve monetary and foreign exchange operations.	Some of the advice being implemented.
November 1997	MAE	Improve monetary operations.	Some of the advice being implemented.
May 1999	MAE	Review and advise on monetary operations, the payments system, and supervision; assess vulnerability of the financial sector.	Report recommendations being reviewed.
July 2001	MAE	Review and advise on deposit insurance scheme.	Report recommendations being reviewed.

article VIII sections 2(a) and 3 of the Fund's Articles of Agreement. Zimbabwe maintains multiple currency practices arising from the lack of a mechanism to prevent a divergence of more than 2 percent between (i) the exchange rates in the official and parallel markets and (ii) the exchange rates applicable for private sector imports and state entities' imports.

Zimbabwe also maintains exchange restrictions arising from (i) limitations on the availability of foreign exchange, in the form of priority lists that limit the provision of foreign exchange for certain specified transactions which are subject to the approval of the RBZ, and (ii) the existence of private sector external payment arrears inconsistent with Article VIII section 2(a). Staff was informed of the existence of bilateral payments arrangements with Fund members, which may raise issues of compliance by Zimbabwe with Article VIII obligations. Staff was unable to obtain relevant materials, but is continuing to seek information from the authorities in order to reach a conclusion on these issues. Exchange restrictions arising from certain outstanding contracts under a discontinued RBZ scheme for foreign exchange cover have been discontinued.

#### **VIII. Article IV Consultations**

Zimbabwe is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on December 14, 2001 (EBM/01/129, based on SM/01/356 of November 30, 2001).

#### **IX. Technical Assistance**

Fund technical assistance to Zimbabwe is summarized in the attached table. A long-term advisor sponsored by MAE provided assistance in the area of banking supervision between August 1996 and October 1999. Another MAE expert on monetary operations provided advice to RBZ and trained staff in the implementation of open market operations and the use of repurchase agreements during October 1998 - October 2000. A third MAE expert on the payments system, who also advised the RBZ on the array of monetary instruments to be used to monitor and manage liquidity in the financial sector, completed a one-year assignment in October 1999. The Executive Board suspended Fund's technical assistance to Zimbabwe in June 2002.

#### **X. Resident Representative**

A resident representative office was opened in July 1993. Mr. G. G. Johnson has been the Senior Resident Representative since January 2001.



### **Zimbabwe: Relations with the World Bank Group**

Zimbabwe went on nonaccrual (i.e. disbursements are suspended) status in October 2000. Arrears to the Bank as of April 15, 2002 amounted to US\$198.7 million. A resumption of disbursements would be contingent upon clearance of arrears. The scale of the Bank's subsequent reengagement will depend on progress in the following issues: (i) governance, (ii) land reform, and (iii) macroeconomic stability. Currently, the Bank engagement in Zimbabwe is limited to technical assistance and analytical work, primarily on macroeconomic policy, agriculture policy and food security issues, social sector expenditure and social service delivery mechanisms, and HIV/AIDS. The work aims at maintaining the Bank's knowledge base in the above thematic areas in preparation for the postcrisis period, providing sound analysis to stakeholders and partners, and exploring means to collaborate within the Low-Income Countries Under Stress (LICUS) framework with responsive parts of government, other donors, and nongovernmental actors. The Bank will also periodically prepare and submit to management "watching briefs," which will report on recent developments in key sector areas, as well as political, social, and macroeconomic developments.

The Bank is active in maintaining a dialogue with donors and plays a critical role in donor coordination, including (i) cochairing quarterly donor coordinating meetings in Harare; (ii) contributing to UN thematic teams (chairing the Economic and Poverty Reduction Thematic Group); and (iii) providing technical advice to various UN initiatives, such as land reform, food security, and pricing issues.

Currently, the Bank does not have any active projects in Zimbabwe.

Zimbabwe had historically been one of the IFC's largest portfolios in Africa and hosted a strong private sector, with promising indigenous entrepreneurs complementing an established business community. The IFC's portfolio totals US\$37.3 million disbursed as of June 2002, with a concentration in the financial sector. IFC's current priorities are closely monitoring the existing portfolio and assisting companies with IFC investment in managing the current economic crisis. The IFC has provisioned investments substantially in Zimbabwe, in anticipation of losses.

IBRD/IDA Status of (Active) Operations in Zimbabwe  
(In millions of SDRs; as of April 15, 2003)

Financier	Project name	Principal	Undisbursed	Disbursed	Closing Date
IDA	COMMUNITY ACTION PROJECT Project cancelled	45.00	42.27	2.73	31-Dec-03

World Bank Loan/Credit Summary for Zimbabwe  
(in millions of U.S. dollars; as of November 30, 2002)

	IBRD	IDA	TOTAL
Original principal	896.20	661.95	1,558.15
Cancellations	52.07	138.43	190.50
Disbursed	842.99	459.08	1,302.06
Undisbursed	1.14	63.87	65.01
Repaid	412.81	5.31	418.12
Due	430.18	441.34	871.52
Exchange adjustment	-16.30	0.00	-16.30
Borrower's obligation	413.87	441.34	855.21

### **Zimbabwe: Statistical Issues**

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

Zimbabwe participates in the General Data Dissemination System (GDDS) project for anglophone African countries. Metadata for Zimbabwe (posted on the Fund's Dissemination Standards Bulletin Board) indicate the country's plans for improvements in macroeconomic, financial, and sociodemographic statistics. However, in the absence of technical assistance, and progress in improving the quality, coverage, and timeliness of Zimbabwe's statistical base is likely to be slow.

#### **Real sector**

**National accounts.** Having benefited from substantial technical assistance from the Fund, the World Bank, and the United Kingdom in 1996-97, the CSO published revised national accounts in late 1997, covering the period 1985-96, with 1990 as the base year for constant price estimates. While the revised national accounts are a significant improvement over the previous estimates, the coverage of economic activity in the informal sector remains poor. National accounts data for 1999 were not published until June 2001.

**Prices, production, labor.** The CSO produces a monthly consumer price index. The base year was changed from 1990 to 1995 in 2001, with new weights based on a 1995-96 household survey. A manufacturing index is reported with a 1990 base, but with a significant lag. Quarterly data on employment and wages are published with a substantial lag and have limited coverage. A comprehensive labor market survey is long overdue. No information is available on unemployment.

#### **Fiscal sector**

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

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

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

#### **Financial sector**

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

#### **External sector**

There is a pressing need for the authorities to provide comprehensive external sector data on a more timely basis.

In the current account, merchandise trade statistics are still being reported with lags of more than four-five months, even though, following the installation of the new Automated System for Customs Data (ASYCUDA) at the customs department, data are being provided by customs to the CSO within seven days of the end of each month. Private remittance inflows have become significant in recent years, but the authorities report only the remittances received through official channels, which are miniscule.

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

Data on short-term external debt are reported to the Fund by the RBZ with a one- to two-month lag. Comprehensive external debt data (including breakdowns of maturities, debtors, and creditors) are forthcoming only with a considerable lag. The authorities have provided staff only with partial information on the extent of their collateralized external borrowing. While the authorities have begun to release data on external arrears recently, there appears to be an underreporting of the arrears stock since 2000, when the arrears problem became significant.

There are no data available on Zimbabwe's international investment position.

Because of encumbrances on reserves, official reserve data are not reported to the Fund in a meaningful manner. From time to time, the RBZ provides data on "usable reserves."

### **Sociodemographic data**

The CSO produces various sociodemographic statistics, offering information on population, the provision of health and education services, and indicators of poverty. However, since the data are usually collected through infrequent surveys and population censuses, the information provided in these statistics is often outdated.

Zimbabwe: Core Statistical Indicators  
(as of May 15, 2003)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance 2/	GDP/ GNP	External Debt/ Debt Service 3/
Date of latest observation	04/21/03	03/07/03	12/31/02	12/31/02	12/02	01/03	03/03	08/02	08/02	03/03	2000	2000
Date received	04/22/03	03/13/03	02/27/03	02/27/03	02/03	03/03	04/03	03/03	03/03	05/03	03/02	03/03
Frequency of data 4/	D	W	M	W	M	M	M	Q	Q	M	A	A
Frequency of reporting 4/	D	W	M	W	M	W	M	V	V	M	V	V
Source of data 5/	C	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 5/	A	C	C	C	C	C	C	A	A	C	A	A
Confidentiality 6/	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication 4/	D	W	M	W	M	W	M	V	V	M	V	V

1/ Data on reserves as reported by the authorities include substantial amounts of pledged or illiquid assets that are not identified clearly in official reports.

2/ Refers to central government balance.

3/ The authorities do not provide comprehensive data on external arrears.

4/ D = daily; W = weekly; M = monthly; Q = quarterly; A = annual; V = on mission or staff visits.

5/ A = direct reporting by central bank or relevant ministry (including reports forwarded by World Bank); C = cable or fax (including reports forwarded by World Bank).

6/ C = unrestricted use; E = embargoed for a period of time.

**Zimbabwe: Selected Social and Demographic Indicators**  
(2001, unless otherwise indicated)

Area	Population	Density
386,850 sq. km.	11,635 thousand (2002)	30.08 per sq. km.
<b>Population characteristics</b>		
Population growth rate (percent, 2002)	-1.1	
Life expectancy at birth <sup>1</sup> (years)	39.4	
Infant mortality rate (per thousand) <sup>1</sup>	76.0	
Total fertility rate (births per woman)	3.7	
Urban population (percent of total)	36.0	
<b>GNI per capita</b>		
	US\$460	
<b>Access to safe water</b>		
Percent of population	85.0	
Urban	100.0	
Rural	77.0	
<b>Labor statistics</b>		
Labor force (millions)	5.9	
Of which: agriculture (in percent)	...	
Formal employment		
Private sector	...	
Informal sector	...	
<b>Health</b>		
Population per physician (1996)		8,517
Public health expenditure (percent of GDP, 2000)		7.3
HIV incidence (percent of population, age 15-49)		33.7
<b>Education</b>		
Adult literacy rate		89.3
Primary school enrollment rate (2000, percent of school-age group)		95.0
<b>Poverty indicators (latest year)</b>		
Poorest 40 percent		
Share of income		...
Per adult equivalent consumption		...

Sources: World Bank, *World Development Indicators*, April 2003, and earlier versions; Zimbabwean authorities.

<sup>1</sup> These data differ from the time series shown in the text figure and Table 1. The latter use data from the U.S. Census Bureau's International Programs Center.

**Statement by the IMF Staff Representative on Zimbabwe  
June 6, 2003**

1. The following supplementary information has become available since issuance of the staff report on May 20, 2003. The thrust of the staff's assessment remains unchanged.

- Consumer price inflation rose to 269 percent in the year through April 2003, from 228 percent in March. This reflected in part the impact of fuel price adjustments in mid-April. Further increases are likely in the short term due to the effects of a depreciating parallel market exchange rate and the easing of price controls in early May.
- The exchange rate in the parallel market has depreciated rapidly recently, reaching Z\$2,400 per U.S. dollar at end-May, compared with Z\$1,500 per U.S. dollar in late April. Purchases in the parallel market by the fuel and electricity companies (NOCZIM and ZESA), as well as intensifying inflationary pressures, were contributing factors.
- In early May 2003, controls on most prices were removed. Prices of five basic food items (refined and unrefined maize meal, wheat and self-raising flour, and bread) remain controlled, but were increased by substantial amounts.<sup>1</sup> For a further 16 "essential" items, ranging from agricultural inputs to food items (cooking oil, beef, milk, and salt), prices are monitored by the Ministry of Industry and International Trade; producers of such items are required to inform the Ministry of any price increases, providing documentation that the markup on cost does not exceed 20 percent. Other prices that had been put under control in the last two years were liberalized, and shortages of most consumer goods have started to ease.
- Traditional controls on items such as fuel and transportation remain. However, the government has decided to decontrol the importation and pricing of fuel, although the modalities are still under discussion.
- The latest preliminary and partial data indicate continuingly high monetary expansion, with broad money growing by 207 percent in the year through March 2003 (partly reflecting the effect of the March devaluation on the value of foreign currency accounts). Interest rates on longer-term treasury bill issues increased somewhat in May, but the repurchase rate was unchanged; interest rates remain highly negative in real terms.

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<sup>1</sup> Wholesale prices for wheat flour were raised by about 90 percent, retail prices for maize meal by 400 percent, and for bread by 415 percent.



- The preliminary budget outturn for the first quarter of 2003 showed an overall deficit of 4½ percent of GDP at an annual rate, compared with an outturn of 4.8 percent in 2002. Revenue collections remained strong, while current spending rose somewhat. However, a large discrepancy remains between above-the-line and financing data, which needs to be reduced significantly before developments can be interpreted with confidence.
- Due to continued drought conditions in the west and south of the country, the President has declared a state of disaster in the province of Matabeleland South reflecting high risks for livestock, food security, and water supply. However, the agricultural crop forecast for the current crop has not been completed yet.
- The authorities are working on an updated macroeconomic framework. This is expected to be discussed by the cabinet later in June.
- The cabinet has approved in principle the setting up of an electricity regulatory commission, and the sale to strategic partners of up to 50 percent of shares in two power stations owned by ZESA.
- Zimbabwe paid the Fund US\$3.0 million on May 28, 2003. This was the first significant payment to the Fund since mid-2002, and reflects a resumption of the authorities' intended quarterly payments of US\$1.5 million. The payment is small compared to debt service obligations falling due to the Fund (about US\$32 million during June-December 2003) and to the stock of arrears (about US\$234 million as of end-May 2003).
- Reserve Bank Governor Tumba went on leave at end-May until retirement at the expiration of his term at end-July. Deputy Governor Chikaura is acting Governor until a successor is appointed.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
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July 28, 2003

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2003 Article IV Consultation with Zimbabwe**

On June 6, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Zimbabwe.<sup>1</sup>

### **Background**

The Zimbabwean economy has deteriorated progressively over the past four years. Real output has dropped by one-third, inflation reached 269 percent in the year through April 2003, and social conditions are deteriorating. Severe food shortages have necessitated massive food imports and donor assistance, as two-thirds of the population required food aid in 2002/03 (April-March). The balance of payments has been under severe pressure since 1999, when Zimbabwe began to accumulate payments arrears. There is little productive investment in the economy, and there are reports of significant capital flight and emigration of skilled labor. The economic crisis reflects to a large extent inappropriate economic policies: loose fiscal and monetary policies, the maintenance of a fixed exchange rate in an environment of rising inflation, and administrative controls. Increased regulations and government intervention have driven economic activity underground, and contributed to the chronic shortages of goods and foreign exchange. The impact of these policies have been exacerbated by the fast-track land reform program, recurring droughts, and the HIV/AIDS pandemic. Meanwhile, investor confidence has been eroded by concerns over political developments, weak governance and corruption, problems related to the implementation of the government's land reform program,

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

the push for an increased indigenization of the business sector, and the selective enforcement of regulations.

Monetary policy remained accommodative throughout 2002. As a result, broad money growth accelerated to 165 percent in 2002, as liquidity growth was fueled by concessional lending at highly negative real interest rates and special support schemes for gold and tobacco producers. Preliminary and partial data point to a further rise in broad money growth to 207 percent in March 2003. These developments provided a strong incentive to borrow, and led to a rapid rise in the prices of assets, such as real estate, stocks, foreign exchange, and consumer durables, that provide a hedge against inflation.

Fiscal policy was expansionary in 2002, reflecting mainly substantial quasi-fiscal rather than budgetary operations. The overall budget deficit declined to 5 percent in 2002 from 10 percent of GDP in 2001. However, quasi-fiscal operations related to support schemes for gold and tobacco producers through the Reserve Bank amounted to more than 5 percent of GDP. Zimbabwe's external position has become increasingly constrained. Pervasive shortages of foreign exchange in the official market, partly owing to a decline in exports of 35 percent since 2000, have resulted in a compression of nonfood imports of 15 percent. At end-2002, gross usable reserves stood at US\$15 million, equivalent to three days of imports, and arrears to external creditors amounted to US\$1.5 billion, or 29 percent of total external debt, including to the Fund. The government responded to these pressures in November 2002 by tightening exchange controls, increasing surrender requirements, and closing exchange bureaus. These actions resulted in a slowdown of foreign exchange flows to the official market and an appreciation of the parallel market exchange rate in early 2003.

In response to the deteriorating economic situation, the government adopted the National Economic Revival Program (NERP) at end- February 2003, after consultation with business and labor under the auspices of the Tripartite Negotiating Forum (TNF). Immediate actions included a devaluation of the exchange rate from Z\$55 per US\$1 to Z\$824 per US\$1 (although the government will still purchase foreign exchange at the old rate), a doubling, on average, of fuel prices, and sectoral policies to stimulate production. These actions were followed by some rise in interest rates, an increase in the producer prices of grain in March, and another doubling of fuel prices in April. In early May, controls on most prices were removed. Prices of five basic food items remain controlled, but were increased by substantial amounts.

### **Executive Board Assessment**

Executive Directors expressed deep concern about the continued deterioration of Zimbabwe's economic and social situation, with declining output and per capita income, high and rising inflation, and the further accumulation of external payment arrears. Unemployment and poverty have risen sharply and the HIV/AIDS pandemic is worsening, and Zimbabwe's economic problems have had repercussions in neighboring countries. Directors observed that this sharp deterioration primarily reflects the government's inappropriate macroeconomic and structural policies, in particular loose financial policies and increased regulation and government intervention. Moreover, the government's land reform program, compounded by inclement

weather, has resulted in a significant reduction in agricultural output and a lowering of the sector's medium-term potential.

Against the backdrop of these worrisome developments, Directors urged the authorities to take action urgently to arrest the economic decline, bring inflation under control, and return the economy to a sustainable growth path. Decisive steps to restore confidence in the government's economic policies, including enhanced governance and transparency and respect for the rule of law, and broad ownership of the reform process, will be key to revamping productive investment, attracting needed foreign direct investment, and regaining the support of foreign creditors and donors.

Directors considered the government's recent steps to adjust exchange and interest rates and fuel and electricity tariffs, and ease price controls to be steps in the right direction. They stressed, however, that the magnitude and pervasiveness of economic distortions call for a significant further enhancement of the scope and speed of stabilization efforts, which should be implemented within a consistent overall macroeconomic framework, and complemented by the sustained implementation of key structural reforms.

Directors underscored the importance of an early and decisive tightening of monetary policy to contain inflation and establish policy credibility. While progress has been made in raising nominal interest rates, further increases will be needed in view of the still highly negative real interest rates and the acceleration of inflation. Directors also urged the government to sharply curtail concessional lending facilities, which are a significant source of rapid liquidity growth.

To address the risks to the banking system from monetary tightening, Directors urged the Reserve Bank of Zimbabwe to ensure that banks meet all prudential regulations and are adequately capitalized and fully provisioned for nonperforming loans. They noted that strengthened banking supervision and determination in dealing with problem institutions will also be prerequisites for the successful introduction of the planned deposit protection scheme. Directors urged the authorities to bring legislation to combat money laundering and the financing of terrorism to international standards.

Directors expressed concern about the expansionary stance of fiscal policy, including large quasi-fiscal operations, which have weakened the fiscal position and contributed to exchange market distortions. They underscored the importance of restoring fiscal discipline, including to support disinflation efforts. This will require expenditure restraint, in particular on low-priority items, while protecting key social services. Directors saw efforts to streamline the public sector and reduce costs through commercialization and rationalization as steps in the right direction. They urged the government to continue these efforts and accelerate the commercialization and eventual privatization of state enterprises to reduce their burden on the budget.

Directors acknowledged the Zimbabwe Revenue Authority's efforts to keep up revenue collection in a very difficult economic environment. It will, however, be important to strengthen revenue collection further by widening the tax base, adequately preparing for the introduction of a value-added tax, and applying a unified exchange rate for all customs duty valuations.

Directors noted the recent adjustment of the official exchange rate, but regretted that government transactions continue to be undertaken at a more appreciated exchange rate, which could result in significant distortions and quasi-fiscal losses. They emphasized the need to follow up with further rate adjustments to stem the sharp erosion of external sector competitiveness. The ultimate goal should be to unify the exchange rates as quickly as possible, liberalize the exchange system, and eventually eliminate surrender requirements. Directors also urged the authorities to step up efforts to liberalize Zimbabwe's external trade.

Directors stressed that structural policies, focused on increasing agricultural production and raising productivity throughout the economy, will be critical to help lay the foundation for a resumption of economic growth. Priorities include the elimination of price controls, which, together with less regulation and government intervention in the economy, will improve economic efficiency and facilitate a reflow of activity back to the formal markets. Efforts to raise productivity in the agricultural sector, in collaboration with the World Bank and the UNDP, and which should include the elimination of the Grain Marketing Board monopoly, will be critical to improving the domestic food supply, increasing exports, and reducing poverty.

While welcoming Zimbabwe's participation in the General Data Dissemination Standards, Directors urged the authorities to strengthen the country's data base in order to improve the analytical basis for economic policy formulation and Fund surveillance.

Directors also reviewed the status of Zimbabwe's overdue financial obligations to the Fund. They welcomed the authorities' recent efforts in a number of areas, including a resumption of payments to the Fund, which will help slow down the further increase in arrears. Despite this progress, most Directors considered, however, that Zimbabwe's economic policies have not been sufficient to address the current crisis, and that Zimbabwe has not adequately strengthened its cooperation with the Fund on economic policies and payments to the Fund. The Board therefore decided to suspend Zimbabwe's voting and related rights in the Fund. Directors urged the authorities to build on their recent efforts to strengthen their cooperation with the Fund on policies and payments, and encouraged the Fund staff to continue to assist the authorities in this regard. They indicated that they would support reinstating Zimbabwe's voting rights expeditiously should Zimbabwe significantly improve its cooperation with the Fund. Directors will review Zimbabwe's overdue financial obligations to the IMF again within six months.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Zimbabwe is also available.

Zimbabwe: Selected Economic Indicators, 1999-2002

	1999	2000	2001 Est.	2002 Est.
Real economy (percentage change)				
Real GDP (market prices)	-4.1	-6.8	-8.8	-12.8
Consumer prices (end of period)	56.9	55.2	112.1	198.9
Government finances (percent of GDP)				
Revenue, excluding grants	26.4	28.2	26.8	28.3
Expenditure and net lending	36.2	51.2	37.3	33.1
Overall balance, excluding grants and arrears	-9.8	-23.0	-10.4	-4.8
Primary balance, excluding grants	0.0	-5.4	0.0	-0.1
Money and interest rates				
Broad money (M3, end of period; percentage change)	29.8	59.9	102.7	164.8
91-day treasury bills (annualized yield)	89.7	71.6	25.9	26.6
Balance of payments (billions of U.S. dollars; unless otherwise indicated)				
Exports	1.93	2.19	1.61	1.42
Imports	-1.68	-1.85	-1.78	-1.82
Current account balance (excluding official transfers)	0.01	0.04	-0.39	-0.48
(In percent of GDP at the official exchange rate) 1/	0.3	0.6	-4.2	-2.5
(In percent of GDP at world prices) 2/	0.2	0.5	-4.9	-6.7
Overall balance	-0.03	-0.21	-0.42	-0.42
Usable reserves (millions of U.S. dollars; end of period)				
(months of imports of goods and services)	46.7	22.1	20.0	15.1
	0.2	0.1	0.1	0.1
Total external debt (percent of GDP at official exchange rate; end of period)				
1/	86.5	73.0	55.8	26.8
Total external debt (percent of GDP at world prices; end of period) 2/	55.8	59.3	64.0	72.8
Debt service (percent of exports of goods and services)	22.8	24.3	29.5	31.0

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

1/ Foreign currency units are converted into Zimbabwe dollars at the official exchange rate.

2/ GDP at world prices using real GDP growth and trading partner countries' inflation (base year is 1996).

**Statement by Ismaila Usman, Executive Director for Zimbabwe  
June 6, 2003**

**Key Points:**

- *Since the last Board meeting the government, together with labor and business under the Tripartite Negotiating Forum (TNF), launched a homegrown national economic revival program (NERP) to address key distortions in the economy. Measures taken since then include;*
  - ✓ *Exchange rate devaluation from Z\$55 to Z\$824 to the US\$ and a further adjustment is underway.*
  - ✓ *Significant interest rate movement from an average of 30% in January to between 80-100% in May, signaling monetary policy tightening.*
  - ✓ *Price controls have largely been lifted.*
  - ✓ *Importation and pricing of fuel has been decontrolled*
  - ✓ *Electricity tariffs have been increased to import parity. Government is selling to strategic partners up to 50% of shares in two power stations.*
  - ✓ *Electricity rationing has been abolished, reflecting improved relations with external suppliers*
  - ✓ *Land reform has been completed and an audit is being undertaken to rectify any irregularities as well as devise programs to assist new farmers*
  - ✓ *Revenue mobilization remains strong and the deficit for the first quarter is slightly below that of 2002*
- *The authorities have resumed payments to the Fund despite the critical shortage of foreign exchange and the needs for food imports, two installments of US\$1.5 million have been paid and two more are being paid in June*
- *The authorities are preparing a macroeconomic framework to be discussed by Cabinet in June and subsequently with Fund staff.*
- *On the political front, the President has toned down political rhetoric in his addresses, has expressed willingness to negotiate with the opposition and to promote succession*
- *Three regional Presidents, namely of Malawi, Nigeria and South Africa are mediating between government and the opposition to promote reconciliation*
- *Government is enforcing the rule of law, fighting corruption, and addressing governance issues in general*
- *The above measures have inflationary impact in the short-term as shown by the surge in inflation while the poor will be hardest hit as shown by the current strikes and job stay-aways. Monetary and fiscal policies are being geared towards addressing inflation.*
- *The authorities recognize the importance of resolving the economic crisis and are undeterred by domestic labor and political pressures.*
- *Zimbabwe is now demonstrating real and strong political will, commitment and domestic ownership of the right policies.*

***Keys points continued***

- *Suspending Zimbabwe now when the authorities are taking the significant steps and initiatives would not only be sending the wrong signal but also subjecting the ordinary Zimbabweans to further hardships, when there is some evidence of light in the tunnel.*
- *The authorities are therefore asking the Fund Executive Board to give them more time to strengthen their policies and cooperation with the Fund.*

**INTRODUCTION**

1. This discussion was supposed to have taken place in early 2003. In the normal fashion of showing understanding and flexibility by the Board and Fund management and staff, suspension of Zimbabwe's voting rights was deferred to allow such consideration to be undertaken with full information, in the context of an Article IV Consultation mission. To the authorities, this was a golden chance which they put to good use. They requested staff to delay the Article IV mission to enable them to galvanize domestic consensus and enhance ownership of a home-grown process and program that would steer the country out of the current crisis. The authorities are therefore grateful to the Board, Fund management and staff for this opportunity and the useful discussions during the staff mission. They are broadly in agreement with the thrust of staff analysis and findings and are considering publication once they peruse the staff papers. Indeed, the staff find that a process of reviving the economy has begun in Zimbabwe, with broad domestic consensus and ownership. They have also resumed payments to the Fund despite the acute shortage of foreign currency for essential imports. They are requesting the Fund to give them a further respite, which they will use to strengthen their economic revival program, ease political tensions and re-engage the international community.

**ORIGINS OF THE CURRENT CRISIS**

2. Zimbabwe has for the past four years experienced a cumulative decline in real GDP per capita of 36 percent, which has contributed to heightened social and political tensions. The cause is a combination of policy lapses and exogenous shocks, including terms of trade shocks, inclement weather and international isolation. At a time when the authorities had decided to fast track land reform, the country, and indeed the whole region was hit by the worst drought in five decades, with a severe impact on agricultural output. The authorities are thankful to the international community for assisting Zimbabwe to avert a humanitarian catastrophe. The economic hardships and disputes arising from vested interests on land contributed to the acute polarization of the country's political and social panorama, which also affected the parliamentary and presidential electoral process. Consequently, the country's image abroad was dented and Zimbabwe isolated from the international community, thus further worsening the crisis.



## **EFFORT TO REVIVE THE ECONOMY**

3. The authorities have learnt important lessons from the evolution of events, including from their own policy mistakes, especially on price controls, foreign exchange restrictions, some shortcomings during the massive land reform program and the tensions that arise in a democratic society when policies fail to deliver. The authorities have embarked on an effort to steer the country out of the turmoil, under the auspices of the Tripartite Negotiating Forum (TNF), which comprises the three stake holders; government, business and labor in a participative arrangement. Although the TNF was formed in 1998, real consensus was reached in February 2003 with the adoption of the National Economic Revival Program (NERP).

4. To the domestic stakeholders, the NERP represents a crisis intervention program and therefore targeted areas where imbalances had reached acute proportions, thus confirming staff's observation that the NERP has a sectoral approach. The key areas targeted were: addressing the acute shortage of foreign currency by promoting exports through adjustment of the exchange rate, removing distortions and investment disincentives arising from price controls, tightening accommodative financial policies to fight inflation, addressing the consequences of high inflation on the poor and reviving the agricultural sector. Experience with Tripartite forums elsewhere reveals that it takes time to reach consensus and implementation of agreed policies is gradual in the initial phases reflecting the divergent interests of stakeholders. Momentum is gained as the parties gain trust in each other and as the implemented measures show benefits that cut across vested interests. Eventually as the crisis subsides, the tripartite process dissolves itself, usually labor opts out first in cases where there are political tensions as in Zimbabwe, and the government takes the center stage in policy formulation.

5. This is where the Zimbabwean tripartite process is heading. Important measures have been taken so far as detailed below, at a pace and magnitude that can deliver quick results. Momentum is accelerating on follow-up measures, particularly on exchange rate, energy pricing and supply, general price decontrol, tightening monetary and fiscal policies and supporting new farmers. Naturally, given the required steep adjustments, labor has become restive, contributing to tensions in the TNF. Nevertheless, the authorities are convinced that the TNF has for the first time galvanized domestic ownership that has always been lacking in Zimbabwe. That the policies being agreed under the TNF are irreversible, the steep adjustment in the price of fuel is a clear example, strong opposition from labor notwithstanding. The authorities are aware that, at this stage, any effort to resolve the economic crisis can only have a positive impact in a stable political environment and initiatives are underway to diffuse political tensions and enhance transparency. The authorities' commitment to resume payments to the Fund in the face of acute shortage of foreign currency and food crisis is a genuine demonstration of their resolve to cooperate with the Fund and with the international community.

6. The authorities fully agree with the staff that they now need to couch their efforts in a consistent macroeconomic framework, and in this connection, progress is being made and the

IMF Resident Representative is being consulted. The authorities are convinced that the next six months will witness the beginning of the reversal of the economic decline, easing of political and social tensions and meaningful re-engagement of the Fund and the international community.

## **ECONOMIC MEASURES BEING IMPLEMENTED**

### **i) Monetary Policy**

7. The authorities agree with the staff that any attempt to resolve the current crisis should begin with a credible anti-inflation strategy in order to reverse the entrenched inflationary expectations. Such a strategy is emerging. While most of the measures being implemented now will increase inflation in the short-term, the authorities are convinced that their strong determination to tighten monetary policies will soon begin to show results.

#### *Interest Rates*

8. The stance of monetary policy is being increasingly tightened to contain monetary expansion. In this regard, interest rates have generally been rising from below 30% at the end of January 2003 to averages of 80-100% by end-May 2003. While these rates remain substantially negative in real terms, the authorities are strongly determined to continue tightening, even though gradually, to signal the future direction of monetary policy. To support increased savings mobilization, as highlighted in the authorities' NERP, deposit rates have also risen, with 30-day deposit rates currently around 75% and expected to firm up further in line with inflation developments.

#### *Concessional Facilities*

9. Against the background of steep decline in GDP, weakening domestic demand, reduced export growth and rising external payments arrears, the perceived country risk increased sharply and it became difficult for the export sector to access trade financing facilities at terms that would preserve their competitiveness. In an attempt to arrest further economic decline and sustain the export sectors, the central bank released statutory reserves under the export and productive sector facilities at concessional rates. These facilities, which are primarily for working capital purposes, are disbursed on presentation of supplier's invoices to minimize misuse, are capped at Z\$ 50 billion. The authorities have made it clear that these are temporary facilities and they have now decided to start raising interest rates on these facilities in line with the general tightening of monetary policy.

### **ii) Exchange Rate Policy**

10. The authorities acknowledge that among the key obstacles affecting export performance was the maintenance of an overvalued exchange rate for long periods as well as politicization of exchange rate policy. Against this background, the very first measure implemented by government under the TNF obligations was the steep devaluation of the Zimbabwe dollar

from Z\$55 to Z\$ 824 to the US dollar. In this context, and to ensure continued external sector competitiveness, the NERP provides for a review of the exchange rate on a quarterly basis and the first review for the quarter ending May 2003 is already underway. As the situation stabilizes and confidence improves, the exchange rate regime will be unified and determined by market forces.

### **iii) Fiscal Policy**

11. Under the NERP, fiscal policy will complement monetary policy in order to bring down inflation. Despite the little room for maneuver on expenditures, fiscal tightening will protect the proportion of resources targeted towards the social sectors of education, health, fighting the HIV/AIDS pandemic and poverty alleviation programs. Taking into account the impact of ongoing measures under the NERP to stabilize the economy, especially exchange rate adjustment, increase in interest rates and rising inflation, a supplementary budget will be tabled in parliament shortly. The intention is to limit public expenditures to core services of government, social sectors and poverty alleviation programmes. Quasi-fiscal deficits will be contained by: applying the new exchange rate to customs valuation thereby raising more revenue; purchasing of all the country's foreign exchange requirements at the new rate; liberalizing energy imports and pricing. Measures are also being taken to address the financial performance of other public enterprises to avoid any recourse to the budget and to resuscitate the privatization program.

12. Government borrowing from the Reserve Bank will continue to be restricted to levels consistent with the statutory limit. Additional revenue measures include valuation of imports at the new exchange rate to enable Government to improve revenue collection and thereby reduce its reliance on borrowings from the banking system.

### **iv) Structural Policies**

#### *Monopoly of the Grain Marketing Board (GMB)*

13. In the midst of a severe drought, government invoked monopoly status to the GMB to discourage exports of food and maximize grain deliveries for government to avert famine. Under the NERP, this monopoly status is being removed and agricultural producer prices are being increased to provide incentives to farmers and ensure food security. Already, Government announced new producer prices in consultation with the farming community, and is ready to effect any necessary further reviews.

#### *Price Controls*

14. Government has acknowledged that price controls are not the best mechanism for controlling inflation or protecting the poor. In fact, price controls have led to business closures, acute shortages, and the development of informal economy where prices are exorbitant for the poor. The NERP recognizes the need to revert to determination of prices by market forces. As a first step, most prices have been decontrolled, and the remaining few

essential items will be monitored closely meantime. In response to these measures, many commodities are resurfacing on the market at prices substantially lower than those in the parallel market. This positive response is providing an incentive for abolishing price controls altogether, and the Ministry of labor is developing better methods of targeting and protecting the poor in collaboration with the fiscal authorities.

#### *Fuel Pricing and Imports*

15. Last week, Cabinet took a decision to decontrol importation and pricing of fuel and the authorities are expecting a positive supply response given that private sector players have their own foreign exchange resources but were discouraged in the past by the prices and import controls. As fuel supplies normalize, fuel prices will reflect changes in international prices and procurement costs.

#### *Electricity*

16. Electricity tariffs have also been increased substantially to regional parity levels. Furthermore, voluntary payment of electricity charges in foreign currency has allowed the electricity company to reduce arrears to external suppliers and secure more supplies and the rationing of electricity has since been abolished. In addition, government has also approved the privatization of two domestic power stations.

### **LAND REFORM**

17. The staff report provides useful background information to the land question in Zimbabwe. The primary objectives of land reform were to reduce the extent and intensity of poverty among the rural population and farm workers, increase the contribution of agriculture to GDP and exports, develop small-scale farms into viable commercial enterprises, ensure food security and develop a new class of indigenous commercial farmers and create a middle class that would buttress economic growth and social stability.

18. The land reform has now been completed. The authorities agree with staff recommendations on the measures needed for Zimbabwe to achieve its land reform objectives and for the country to revert to its former prestigious position as the bread basket of the region. In this connection, the President has constituted a team to audit the land reform exercise with a view to rectifying any irregularities in the process, and to recommend measures needed to support new farmers, and to address the key issue of land title. The audit team was given three months to submit its report.

### **MACROECONOMIC FRAMEWORK**

19. The authorities agree with the staff on the need to implement policies in a consistent macroeconomic framework. Work in this area is at an advanced stage and the new framework will be discussed by Cabinet in June and submitted to parliament, along with a

supplementary budget, in July. The authorities are consulting various stakeholders on the new framework.

### **EASING POLITICAL TENSIONS**

20. Government recognizes that defusing inter-party political tensions is critical for increased investor confidence in the economy, as well as reducing country risk, improving the image of the country and re-engaging the international community. Steps undertaken in this regard include toning down political rhetoric even by the President, developing a platform for negotiations with the opposition, promoting a road map for succession within the ruling party, fighting corruption, prohibition of politically motivated violence and enforcement of the rule of law. The President has made announcements regarding his intentions to retire and for the ruling party to discuss his successor as well as the desirability of negotiating with the opposition. Regional and international mediators are fully engaged in promoting political reconciliation in Zimbabwe, including the determined efforts of the Presidents of Malawi, Nigeria and South Africa.

### **FIGHTING THE HIV/AIDS PANDEMIC**

21. Zimbabwe has been severely affected by this pandemic and ranks the third most affected country in the world, with also the highest number of orphans. At this pace, Zimbabwe will be unable to achieve the millennium development goals of health and education for all. The impact on the economy is already very severe. Government has taken a number of steps to mitigate the impact of the pandemic which have even been commended by the UN Relief and Recovery Unit. The authorities are appreciative of support of the UN and UN agencies, the USAID, the DFID-UK Center for Disease Control, the European Union and others who remain engaged in assisting the authorities in fighting the HIV/AIDS pandemic. They hope they would continue to intensify their efforts in this regard.

### **PAYMENTS TO THE FUND**

22. The balance of payments has been under severe pressure, reflecting large food import requirements and acute shortage of foreign currency. This year's season was affected by a dry spell in November/December, which wiped out the entire crop. However, rainfall improved in the second half of the season and the late planted crop of January/early February did well. Current estimates project an increase in food production although imports will still be required, though at a reduced scale. The authorities believe that the measures being taken to revive the economy in general, and exports in particular, will increase foreign exchange supply, enabling the country to begin addressing arrears to creditors. In the meantime, Zimbabwe recognizes the preferred creditor status of the Fund and regrets its arrears to the PRGF Trust Fund. In spite of the problems to be faced in honoring their commitment to make quarterly payments of US\$1.5 million to the Fund, they have resumed payments with a US\$3 million on May 28. Further payments are being made to bring them current on their commitments by end-June. These payments will be increased to eventually clear arrears and normalize their relations with the Fund and the rest of the creditor community. They ask for recognition of this commitment under difficult circumstances.

## CONCLUSION

23. In conclusion, I wish to urge the Executive Board to defer the decision to suspend Zimbabwe's voting and related rights in the Fund and to give the country another chance. In the last four months, the authorities have demonstrated strong political will and commitment to take painful measures, strong political and social sensitivities and opposition notwithstanding. A critical mass of measures under the NERP have been implemented and follow-up actions and further measures are under way. In the recently launched homegrown effort, the authorities are addressing these issues by taking courageous steps in implementing the conventional adjustment and reform measures that the Fund would normally ask them to implement. They need to be given the benefit of the doubt and their modest efforts need to be recognized if only in the interest of fair and equitable treatment in relation to other members in similar situation in the past, politics apart. In this connection, I note a major difference on policy performance, cooperation and commitment comparing Zimbabwe, with such cases as Zaire in recent past and Liberia recently. Zimbabwe deserves the sympathetic consideration of this Board to help them accelerate these positive changes.