

INTERNATIONAL MONETARY FUND AND

ZIMBABWE

**Debt Sustainability Analysis**

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- Zimbabwe is in arrears to most of its creditors.** At the end of 2009, total public- and publicly-guaranteed (PPG) debt<sup>1</sup> amounted to US\$6.9 billion or 157 percent of GDP, of which 102 percent of GDP was in arrears. About 90 percent of total PPG debt is medium- and long-term debt and about 90 percent of total PPG is owed to official creditors. Zimbabwe's overdue financial obligations to IFIs include the World Bank (US\$731 million), African Development Bank (US\$483 million), and the IMF (US\$140 million).
- Zimbabwe's debt sustainability analysis (DSA) is subject to important caveats.** The authorities are reconciling their debt stock and debt service data with individual creditors, but this process has not been completed. As a result, this DSA is based on nonreconciled debt numbers and staff estimates of accrued interest and penalties on arrears. In addition to data deficiencies, making medium- and long-term projections is complicated by the country's poor long-term policy track record and significant uncertainties regarding policy direction. In light of these factors, the results of this exercise should be treated as highly tentative.
- Zimbabwe is clearly in debt distress.** If current policies continue and donor financing is largely confined to humanitarian assistance in the medium term (Box), the large debt stock would remain unresolved and arrears would continue to build up. While most debt ratios are projected to decline gradually, they would remain at unsustainable levels over the medium and long term. Historical sensitivity analysis shows that most debt ratios are projected to increase over the long term from current unsustainable levels, reflecting the impact of negative economic trends during the last decade.

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<sup>1</sup> Staff estimates of the stock of external PPG medium- and long-term debt include: (i) external PPG medium- and long-term debt based on original maturities; (ii) domestic foreign currency-denominated debt; (iii) arrears on initial principal and interest obligations; and (iv) estimated accrued penalties on arrears. The projected use of the SDR allocation of \$210 million is not included in external debt, but related net interest charges are included in debt service and present value calculations.

## Public and publicly guaranteed external debt sustainability

4. **The baseline scenario assumes a more pessimistic outlook compared with the previous DSA (IMF Country Report No.09/139).** A weakening of macroeconomic policy discipline and the structural reform momentum has worsened prospects for real GDP and export growth, as well as the ability of the country to attract foreign investment and donor financing. Annual real GDP growth is now projected to average at 1.5 percent for the period 2010–15 and at about 3.0 percent during 2016–30 (Box). The non-interest external current account deficit is projected to fall from 16 percent of GDP in 2010 to 6 percent in 2015, mainly as a result of the projected drying up of private capital inflows and concomitant import compression. External financing gaps would remain over the long term, and they are assumed to be financed by continued buildup of external payments arrears.

5. In the baseline scenario, at end-2009, PPG external debt indicators exceed thresholds for LICs that are considered poor performers.<sup>2</sup> These ratios are projected to continue to exceed corresponding thresholds by a large margin, and decline only gradually over the long term.

### **Box. Key medium-term macroeconomic assumptions for the DSA:**

- Real GDP is projected to grow at 1.5 to 3 percent in the medium and long term. Economic growth, in particular in key export-oriented sectors, including mining, manufacturing, and agriculture, would be constrained by persistent infrastructure bottlenecks, relatively high wage costs, and continued problems with the business climate hampering investment.
- Donor support is assumed to be largely confined to humanitarian assistance.
- FDI, portfolio investment, and private sector borrowing would remain limited in the medium and long term.
- Import growth would be constrained by sluggish export performance and low capital inflows and nonhumanitarian official financing.
- Owing to lack of access to foreign and domestic financing, the government is projected to run balanced budgets on a cash basis in the medium and long term, but the stock of domestic payments arrears would increase. Given the current policy of allocating significant budgetary resources to wages and no scope for a significant revenue-to-GDP ratio increase, essential infrastructure projects would remain underfinanced.

<sup>2</sup> Zimbabwe is treated as a weak policy performer for the purpose of this LIC DSA. The policy-based thresholds for the present value (PV) of PPG external debt are as follows: 200 percent of revenue; 100 percent of exports; and 30 percent of GDP.

6. **The sensitivity analysis demonstrates that Zimbabwe's already precarious external debt situation could get even worse.** Due to the poor macroeconomic performance during the past decade, historical analysis suggests that external debt indicators could increase rapidly (rather than gradually decline) in the medium to long term compared with the baseline scenario.

### **Public debt sustainability**

7. **The baseline scenario assumes limited progress in fiscal policy implementation.** Budget revenue is projected to remain at around 26 percent of GDP over the medium to long term. The wage bill will continue to claim a large share of total revenue, leaving virtually no room for growth-enhancing capital expenditures.

8. **The initial public domestic debt level is low, but it is expected to increase in the medium term.** Local currency-denominated domestic debt was fully repaid in January 2009. The RBZ's foreign currency-denominated domestic debt (which forms part of total domestic public debt for the purpose of this DSA) is estimated at \$419 million (10 percent of GDP) and government domestic payments arrears at \$48 million (1.2 percent of GDP) at end-December 2009. The projected continued accumulation of government domestic payments arrears over the medium term drives the increase in the stock of domestic public debt.

9. **Zimbabwe's overall public debt is unsustainable.** The initial high level of external public debt and relatively high scheduled debt service payments, along with the inability to generate primary surplus or achieve higher real GDP growth, would result in the persistence of public debt ratio above sustainable levels. Public debt is estimated to gradually decline from 157 percent of GDP in 2009 to about 119 percent of GDP in 2020. The present value of the debt-to-revenue ratio is projected to remain at about 400 to 500 percent through 2020. The debt service-to-revenue ratio is projected to decline to about 30 percent by 2020.

### **Conclusion**

**Zimbabwe is in debt distress, which is compounded by unresolved economic policy challenges.** Achieving debt sustainability would require a significant strengthening of economic policies and an improvement of relations with the international community whose support is essential for securing debt relief.

Table 1. Zimbabwe: External Debt Sustainability Framework, Baseline Scenario, 2007-2030  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation	Projections						2010-2015		2016-2030	
	2007	2008	2009			2010	2011	2012	2013	2014	2015	Average	2020	2030	Average
(1) External debt (nominal) 2/	113.4	147.5	173.1			158.1	157.3	159.6	163.2	165.6	167.9		151.3	131.0	
(2) o/w public and publicly guaranteed (PPG)	107.8	138.9	156.6			140.6	137.3	136.5	137.3	137.3	137.4		128.6	118.4	
(3) Change in external debt	7.5	34.0	25.7			-15.1	-0.7	2.3	3.6	2.4	2.2		-2.9	-1.4	
(4) Identified net debt-creating flows	6.2	44.3	12.6			19.5	14.4	13.6	12.7	12.8	12.8		10.1	8.7	
<b>Non-interest current account deficit</b>	<b>3.3</b>	<b>17.5</b>	<b>23.1</b>	<b>6.8</b>	<b>8.1</b>	<b>16.4</b>	<b>6.0</b>	<b>6.3</b>	<b>6.2</b>	<b>6.1</b>	<b>5.8</b>		<b>5.2</b>	<b>5.0</b>	5.2
Deficit in balance of goods and services	9.8	30.6	37.3			27.5	17.2	17.0	16.6	16.5	15.9		15.8	15.8	
Exports	42.9	45.8	46.4			48.8	45.0	42.3	40.8	39.1	36.6		36.6	36.6	
Imports	52.7	76.4	83.7			76.3	62.1	59.3	57.4	55.6	52.4		52.4	52.4	
Net current transfers (negative = inflow)	-9.4	-15.9	-16.0	-7.2	5.3	-12.9	-12.9	-12.3	-11.9	-11.9	-11.5		-11.5	-11.5	-11.5
o/w grants to NGOs and budget support	-7.2	-12.1	-9.7			-7.1	-7.3	-6.9	-6.6	-6.2	-5.9		-4.4	-2.4	
Other current account flows (negative = net inflow)	2.9	2.8	1.8			1.7	1.7	1.6	1.6	1.5	1.4		0.9	0.7	
<b>Net FDI (negative = inflow)</b>	<b>-1.3</b>	<b>-1.1</b>	<b>-2.4</b>	<b>-0.9</b>	<b>0.9</b>	<b>-2.0</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.7</b>		<b>-0.7</b>	<b>-0.7</b>	-0.7
<b>Endogenous debt dynamics 3/</b>	<b>4.3</b>	<b>27.9</b>	<b>-8.1</b>			<b>5.2</b>	<b>9.3</b>	<b>8.2</b>	<b>7.2</b>	<b>7.5</b>	<b>7.7</b>		<b>5.6</b>	<b>4.4</b>	
Contribution from nominal interest rate	5.1	6.9	7.6			8.5	9.4	9.6	10.0	10.5	10.8		10.0	8.2	
Contribution from real GDP growth	3.8	19.5	-5.3			-3.3	-0.1	-1.4	-2.8	-3.1	-3.1		-4.4	-3.7	
Contribution from price and exchange rate changes	-4.6	1.5	-10.4			...	...	...	...	...	...		...	...	
<b>Residual (3-4) 4/</b>	<b>1.3</b>	<b>-10.3</b>	<b>13.0</b>			<b>-34.6</b>	<b>-15.1</b>	<b>-11.4</b>	<b>-9.0</b>	<b>-10.4</b>	<b>-10.5</b>		<b>-13.0</b>	<b>-10.2</b>	
o/w exceptional financing	-9.9	-14.6	-19.3			-10.8	-8.6	-7.7	-6.0	-5.8	-5.7		-5.5	-5.7	
PV of external debt 5/	...	...	163.4			151.8	151.8	152.3	154.0	154.7	155.1		138.5	118.5	
In percent of exports	...	...	352.2			311.1	337.4	359.9	377.4	395.3	423.9		378.5	323.8	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>146.8</b>			<b>134.4</b>	<b>131.8</b>	<b>129.3</b>	<b>128.1</b>	<b>126.3</b>	<b>124.6</b>		<b>115.9</b>	<b>106.0</b>	
In percent of exports	...	...	316.5			275.4	292.9	305.4	313.9	322.8	340.7		316.7	289.6	
In percent of government revenues	...	...	691.3			514.6	504.1	500.9	499.8	492.1	484.9		450.9	412.3	
<b>Debt service-to-exports ratio (in percent)</b>	<b>24.9</b>	<b>32.4</b>	<b>26.5</b>			<b>25.4</b>	<b>23.8</b>	<b>23.6</b>	<b>20.4</b>	<b>21.3</b>	<b>22.7</b>		<b>20.8</b>	<b>18.9</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>23.4</b>	<b>29.2</b>	<b>21.8</b>			<b>19.9</b>	<b>21.2</b>	<b>20.7</b>	<b>17.2</b>	<b>17.8</b>	<b>19.2</b>		<b>18.0</b>	<b>17.4</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>231.7</b>	<b>395.3</b>	<b>47.5</b>			<b>37.2</b>	<b>36.5</b>	<b>34.0</b>	<b>27.4</b>	<b>27.1</b>	<b>27.3</b>		<b>28.7</b>	<b>24.8</b>	
Total gross financing need (Billions of U.S. dollars)	0.8	1.5	1.9			2.6	2.3	2.5	2.7	3.0	3.3		3.7	4.5	
Non-interest current account deficit that stabilizes debt ratio	-4.2	-16.5	-2.5			31.5	6.7	4.0	2.6	3.7	3.5		8.1	6.4	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	-3.6	-14.5	4.0	-4.7	7.7	2.2	0.0	1.0	1.8	2.0	2.0	1.5	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	4.5	-1.3	7.6	3.5	3.0	14.4	6.6	5.5	3.5	3.8	3.7	6.2	3.0	3.0	3.0
Effective interest rate (percent) 6/	4.8	5.2	5.8	4.6	0.7	5.7	6.3	6.5	6.6	6.8	6.9	6.5	6.9	6.6	6.8
Growth of exports of G&S (US dollar terms, in percent)	2.1	-9.9	13.2	-1.9	8.5	23.1	-1.7	0.2	1.6	1.5	-1.1	3.9	6.1	6.1	6.1
Growth of imports of G&S (US dollar terms, in percent)	-3.8	22.4	22.5	5.2	10.3	6.7	-13.1	1.7	1.9	2.6	-0.3	-0.1	6.1	6.1	6.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Government revenues (excluding grants, in percent of GDP)	4.3	3.4	21.2			26.1	26.1	25.8	25.6	25.7	25.7	...	25.7	25.7	25.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.0	0.6	0.6	0.6	0.6	0.6		0.6	0.6	...
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			100.0	100.0	100.0	100.0	100.0	100.0		100.0	100.0	...
<b>Memorandum items:</b>															
Nominal GDP (Billions of US dollars)	4.7	3.9	4.4			5.1	5.5	5.8	6.2	6.5	6.9		9.3	16.7	
Nominal dollar GDP growth	0.8	-15.6	11.9			17.0	6.7	6.5	5.4	5.8	5.7	7.9	6.1	6.1	6.1
PV of PPG external debt (in Billions of US dollars)	...	...	6.5			6.9	7.2	7.6	7.9	8.2	8.6		10.7	17.7	
Gross remittances (Billions of US dollars)	0.1	0.2	0.3			0.3	0.3	0.3	0.3	0.4	0.4		0.4	0.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	137.7			126.8	124.5	122.3	121.2	119.2	117.7		110.9	103.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	277.1			245.1	259.2	269.1	275.8	279.9	293.4		282.1	270.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	19.0			17.7	18.8	18.3	15.1	15.4	16.6		16.1	16.3	

Sources: Country authorities; and staff estimates and projections.

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

2/ External private debt, public and publicly guaranteed debt and residents' claims on the RBZ denominated in the RBZ denominated in foreign currency.

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

contribution from price and exchange rate.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets, portfolio, equity investment, capital transfers; valuation adjustments; errors and omissions (prior to 2009), and changes in domestic foreign currency-denominated debt. For projections, also includes contribution from price and exchange rate changes.

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

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

Table 2. Zimbabwe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030  
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
<b>Public sector debt 1/</b>	107.8	138.9	156.6			140.6	137.3	136.5	137.3	137.3	137.4		128.6	118.4	
o/w foreign-currency denominated	107.8	138.9	156.6			140.6	137.3	136.5	137.3	137.3	137.4		128.6	118.4	
Change in public sector debt	7.3	31.1	17.7			-16.0	-3.3	-0.8	0.8	0.0	0.1		-1.5	-0.7	
Identified debt-creating flows	4.7	23.1	5.6			-11.5	-1.2	0.8	2.8	2.3	2.7		-0.1	-0.5	
Primary deficit	1.8	-0.4	-0.6	2.5	9.5	4.4	0.4	2.0	2.5	2.5	2.5	2.4	0.0	-0.5	-0.2
Revenue and grants	4.3	3.4	22.2			26.1	26.8	26.4	26.3	26.3	26.3		26.3	26.3	
of which: grants	0.0	0.0	0.9			0.0	0.6	0.6	0.6	0.6	0.6		0.6	0.6	
Primary (noninterest) expenditure	...	...	21.6			30.6	27.2	28.5	28.8	28.8	28.9		26.4	25.8	
Automatic debt dynamics	4.1	26.2	-8.5			-15.9	-1.6	-1.2	0.3	-0.2	0.2		-0.1	0.0	
Contribution from interest rate/growth differential	5.7	21.6	-0.8			1.9	5.5	3.7	2.3	2.3	2.4		1.2	1.2	
of which: contribution from average real interest rate	2.0	3.4	4.6			5.3	5.6	5.0	4.8	4.9	5.1		5.0	4.6	
of which: contribution from real GDP growth	3.7	18.2	-5.4			-3.4	0.0	-1.3	-2.5	-2.7	-2.7		-3.8	-3.5	
Contribution from real exchange rate depreciation	-1.7	4.6	-7.7			-17.8	-7.2	-5.0	-2.0	-2.4	-2.3		...	...	
Other identified debt-creating flows	-1.2	-2.8	14.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities by the RBZ	0.0	0.0	6.4			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.2	-2.8	-1.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (residents' claims on the RBZ)	0.0	0.0	9.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes 2/	2.6	8.0	12.1			-4.5	-2.0	-1.6	-2.1	-2.4	-2.5		-1.4	-0.2	
<b>Other Sustainability Indicators</b>															
<b>PV of public sector debt</b>	...	...	146.8			134.4	131.8	129.3	128.1	126.3	124.6		115.9	106.0	
o/w foreign-currency denominated	...	...	146.8			134.4	131.8	129.3	128.1	126.3	124.6		115.9	106.0	
o/w external	...	...	146.8			134.4	131.8	129.3	128.1	126.3	124.6		115.9	106.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	14.3	18.0	17.0			36.0	30.5	30.5	30.3	31.6	33.0		26.0	16.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	662.1			514.2	492.1	488.8	487.7	480.1	473.1		440.0	402.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	691.3			514.6	504.1	500.9	499.8	492.1	484.9		450.9	412.3	
o/w external 4/	...	...	691.3			514.6	504.1	500.9	499.8	492.1	484.9		450.9	412.3	
Debt service-to-revenue and grants ratio (in percent) 5/	231.7	395.3	45.8			37.2	35.7	33.2	26.7	26.4	26.7		25.1	24.2	
Debt service-to-revenue ratio (in percent) 6/	...	...	47.9			37.2	36.5	34.0	27.4	27.1	27.4		25.7	24.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.5	-31.4	-18.3			20.4	3.7	2.8	1.8	2.5	2.4		1.5	0.2	
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	-3.6	-14.5	4.0	-4.7	7.7	2.2	0.0	1.0	1.8	2.0	2.0	1.5	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	4.8	4.9	5.1	4.4	0.6	5.1	5.4	5.6	5.6	5.7	5.9	5.5	6.0	6.1	6.0
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	-12.6	-6.2	-5.2	-3.3	-3.6	-3.6	-5.8	-2.9	-2.9	-2.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.6	3.5	-5.6	-1.0	2.9	-11.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.5	-1.3	7.6	3.5	3.0	14.4	6.6	5.5	3.5	3.8	3.7	6.2	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-47.2	-57.8	640.3	58.6	219.3	44.9	-11.1	5.8	3.0	2.0	2.1	7.8	2.6	2.9	2.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

Sources: Country authorities; and staff estimates and projections.

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

2/ Includes accumulation of arrears. The residuals for 2007-2008 in part reflect RBZ's quasi-fiscal activities. In 2010, the residual in part reflects use of the SDR allocation.

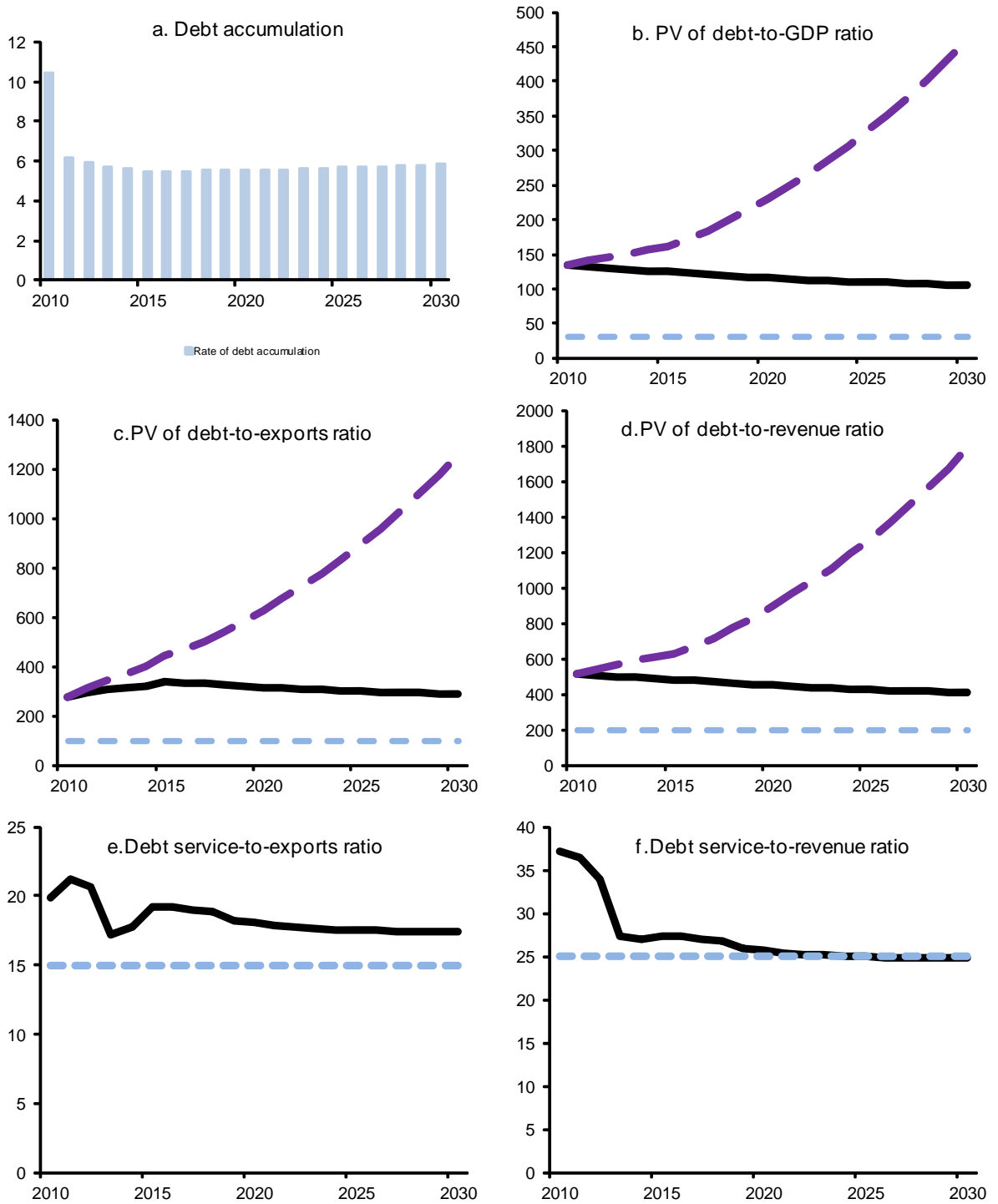
3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

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

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

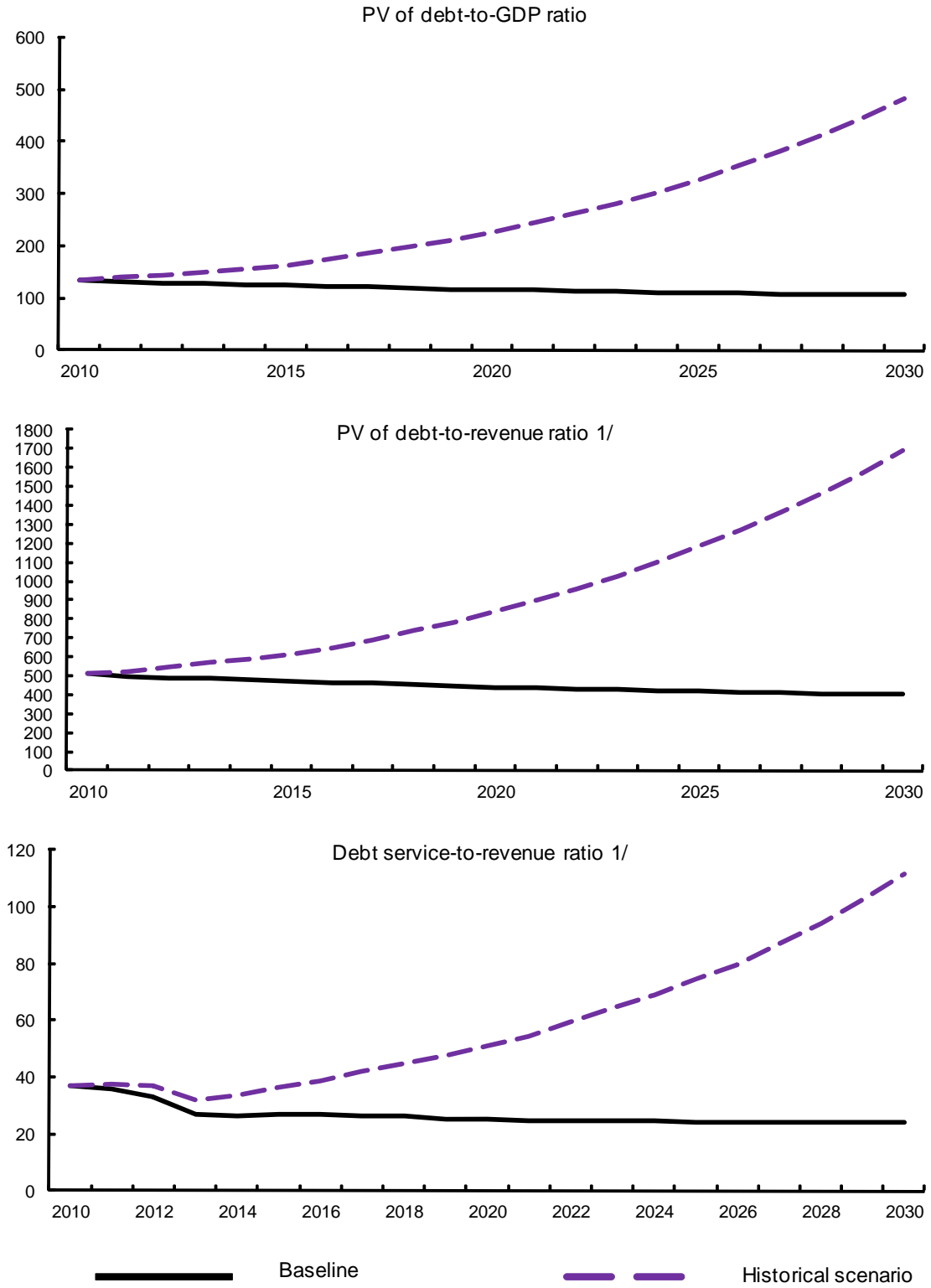
Figure 1. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030



For charts b to f:  
 — Baseline      — Historical scenario      - - - Threshold

Source: Country authorities and IMF staff estimates and projections.

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



Sources: Country authorities and IMF staff estimates and projections.  
 1/ Revenues are defined inclusive of grants.