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Zimbabwe: Selected Issues and Statistical Appendix

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ZIMBABWE

Selected Issues and Statistical Appendix

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May 27, 2003

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Zimbabwe: Basic Data

Area	386,850 square kilometers
Population (2001)	11,635 thousand
Population growth (2002)	-1.1 percent
Formal employment (2000)	1,237 thousand
IMF Position (April 30, 2003)	
Quota	SDR 353.40 million
Fund holdings of Zimbabwe dollars	SDR 470.58 million
Holdings of SDRs	SDR 0.05 million
Exchange rate	US$1 = Z$824

	1998	1999	2000	2001 Est.	2002 Est.
	(Annual percentage change, unless stated otherwise)				
National Income and Prices					
GDP at constant prices	0.8	-4.1	-6.8	-8.8	-12.8
GDP per capita at constant prices	1.9	-3.1	-5.7	-7.8	-11.9
CPI (period average)	31.5	58.2	55.9	76.7	140.0
CPI (end of period)	46.6	56.9	55.2	112.1	198.9
External sector					
Current account balance (in billions of U.S. dollars)	-0.4	0.0	0.0	-0.4	-0.5
Trade balance (in billions of U.S. dollars)	-0.1	0.3	0.3	-0.2	-0.4
Exports, f.o.b. 1/	1.9	1.9	2.2	1.6	1.4
Imports, f.o.b. 1/	-2.0	-1.7	-1.8	-1.8	-1.8
Nominal effective exchange rate 2/	-41.3	-42.4	-4.3	-15.5	0.9
Real effective exchange rate 2/	-25.9	-8.5	42.7	47.6	131.5
Money and credit					
Broad money	35.5	29.8	59.9	102.7	164.8
Commercial lending rate (in percent; end of period)	49.3	66.0	68.3	30.8	45.8
91-day treasury bills (annualized yield; end of period)	40.4	89.7	71.6	25.9	26.6
	(In percent of GDP)				
Gross national savings	7.9	9.1	2.3	-4.0	-2.1
Of which: government	-1.2	-5.7	-20.4	-8.1	-1.9
Gross domestic investment	13.7	8.9	1.7	0.3	0.4
Of which: government	1.3	2.9	1.5	2.3	2.4
Central government finance					
Total revenue and grants	30.5	26.4	28.2	26.8	28.3
Total expenditure and net lending	36.1	36.2	51.2	37.3	33.1
Current expenditure and net lending	18.4	18.3	24.9	19.7	20.3
Overall balance, excluding grants and arrears	-5.7	-9.8	-23.0	-10.4	-4.8
Primary balance, excluding grants	4.0	0.0	-5.4	0.0	-0.1
Overall balance, including grants and interest arrears	-3.0	-8.7	-21.3	-7.6	-3.9
Overall balance, including quasi-fiscal operations 3/	-3.0	-8.7	-21.3	-10.8	-10.0
Government debt	110.7	93.2	114.4	75.7	55.4
External sector					
Current account balance	-5.7	0.3	0.6	-4.2	-2.5
Trade balance (merchandise goods)	-1.5	4.6	4.9	-1.8	-2.1
Capital and financial account balance	5.9	3.4	-4.1	-4.2	-1.7
Overall balance 4/	-0.6	-0.6	-3.0	-4.5	-2.2
Total external debt (percent of GDP at official exchange rate)	73.0	86.5	73.0	55.8	26.8
Memorandum items:					
GDP in current prices (in billions of Zimbabwe dollars)	146.7	221.6	311.9	506.8	1062.0
Overall balance of payments (in billions of U.S. dollars)	0.0	0.0	-0.2	-0.4	-0.4
Usable reserves (in millions of U.S. dollars)	54.5	46.7	22.1	20	15.1
(in months of imports of goods and services)	0.3	0.2	0.1	0.1	0.1
Total external debt (in billions of U.S. dollars)	5.0	5.0	5.1	5.1	5.2

Source: Zimbabwe authorities

1/ Based on values in U.S. dollars.
2/ IMF Information Notice System trade-weighted; period average.
3/ Support schemes provided by the Reserve Bank of Zimbabwe during 2001-02.
4/ Including net errors and omissions.

I. Overview of Economic Developments[1]

A. Introduction

1. **The decline of real activity in Zimbabwe continued at an accelerated pace in 2002 as a result of inappropriate economic policies**, including loose fiscal and monetary policies, an overvalued exchange rate, and increasing administrative controls, which have given rise to large imbalances throughout the economy (Table I.1). Weak investor confidence and international isolation, combined with a deterioration in the political climate (reflecting the parliamentary election in 2000 and the disputed presidential election in 2002), concerns over weak governance and the implementation of the fast-track land reform program, and widespread droughts in 2001-2, aggravated these problems. The decline in real output deepened from about 4 percent in 1999 to an estimated 13 percent in 2002, bringing the cumulative decline in real GDP to about 30 percent. Real GDP per capita has declined by 26 percent over the last 4 years; sharply contrasting with the developments in the rest of sub-Saharan Africa (Figure I.1).

2. **The droughts of 2001-2, high HIV/AIDS prevalence rates, and high unemployment and inflation worsened the humanitarian situation in Zimbabwe.** The Government of Zimbabwe declared a state of emergency in April 2002, following estimates that the domestic cereal gap amounted to about two-thirds of domestic requirements, and that over half of the total population (about 7 million people) would require food aid for the 2002/03 marketing season (April to March). However, the country's ability to deal with the severe food shortage was limited by the monopoly position of the Grain Marketing Board (GMB), which was reintroduced in March 2001 as part of the government's strategy to contain basic food prices, and by constraints on the activities of nongovernmental organizations (NGO) to import and distribute food. The shortage of foreign exchange in the official market also hampered the government's efforts to import food. The uncovered cereal gap in 2002/03, including imports totaling 800,000 tons, was estimated at 135,000 tons (6 percent of total domestic requirement) in February 2003.

3. **Inflation has risen steadily since the second half of 2001.** This reflected loose financial policies, drought, a sharp depreciation of the currency in the parallel foreign exchange market, and a move of economic activity to the informal market following the extension of price controls and the tightening of exchange restrictions in November 2002. Year-on-year inflation had remained around 50 percent in the first half of 2001, but then rose to 228 percent in March 2003 (Figure I.1).

4. **The government responded to the serious economic crisis by revitalizing the Tripartite Negotiating Forum (TNF) and adopting a National Economic Revival**

[1] Prepared by Louis Erasmus and Gustavo Bagattini.

Figure I.1. Selected Economic Indicators

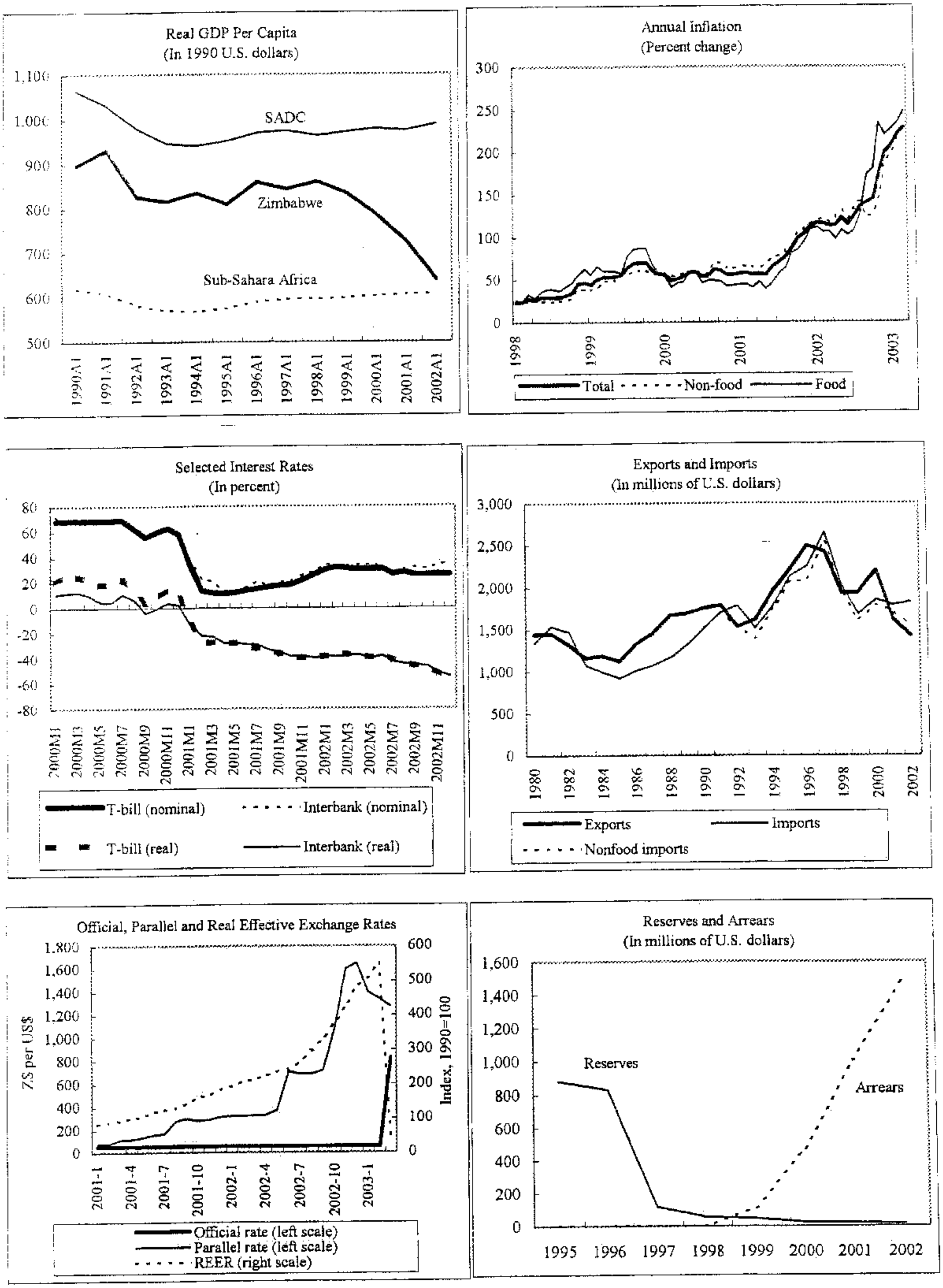

Table I.1. Zimbabwe: Selected Economic Indicators, 1998-2002

	1998	1999	2000	2001 Est.	2002 Est.
GDP					
Nominal GDP (billions of Zimbabwe dollars)	146.7	221.6	311.9	506.8	1,062.0
Nominal GDP (billions of U.S. dollars)					
At the official exchange rate 1/	6.9	5.8	7.0	9.2	19.3
At world prices 2/	9.3	9.0	8.6	8.0	7.1
Real GDP (market prices; percentage change)	0.8	-4.1	-6.8	-8.8	-12.8
Real per capita GDP (percentage change)	-2.3	-7.0	-9.5	-10.8	-14.5
Savings and investment (percent of GDP) 1/					
Gross national savings (excluding grants)	7.9	9.1	2.3	-4.0	-2.1
Gross investment	13.7	8.9	1.7	0.3	0.4
Prices and interest and exchange rates (percent)					
Consumer price inflation (annual average)	31.5	58.2	55.9	76.7	140.0
Consumer price inflation (end of period)	46.6	56.9	55.2	112.1	198.9
91-day treasury bills (annualized yield; end of period)	40.4	89.7	71.6	25.9	26.6
Real effective exchange rate (percentage change)	-9.5	-8.5	42.7	47.6	131.5
Central government budget (percent of GDP)					
Revenue	30.5	26.4	28.2	26.8	28.3
Expenditure and net lending	36.1	36.2	51.2	37.3	33.1
Of which: interest on central government debt	9.6	9.8	17.6	10.4	4.7
Overall balance, excluding grants and arrears	-5.7	-9.8	-23.0	-10.4	-4.8
Primary balance, excluding grants	4.0	0.0	-5.4	0.0	-0.1
Overall balance, including grants and interest arrears	-3.0	-8.7	-21.3	-7.6	-3.9
Domestic financing (including privatization)	6.4	9.8	20.3	7.5	4.0
External financing (including principal arrears)	-3.4	-1.0	1.0	0.1	-0.1
Government balance (percent of GDP; including quasi-fiscal operations of the reserve bank)					
Overall balance	...	...	...	-10.8	-10.0
Primary balance	...	...	...	-0.4	-4.9
Total public debt (percent of GDP; end of period) 1/	44.0	55.6	105.8	76.7	54.6
Domestic debt	26.5	35.2	52.0	38.5	37.6
External debt (public and publicly guaranteed)	17.5	20.4	53.9	38.2	17.0
Money and credit (percentage change; end of period)					
Broad money (M3)	35.5	29.8	59.9	102.7	164.8
Domestic credit	43.7	17.1	61.5	80.3	149.2
Of which: credit to the private sector	14.1	10.5	39.1	67.1	181.0
External trade (percentage change)					
Export volume	-11.1	5.2	6.2	-19.2	-12.7
Import volume	-15.0	-18.3	5.2	1.5	1.4
Terms of trade	-0.2	-6.0	1.9	-4.3	-0.1
Balance of payments (billions of U.S. dollars, unless otherwise indicated)					
Exports	1.93	1.93	2.19	1.61	1.42
Imports	-2.02	-1.68	-1.85	-1.78	-1.82
Current account balance (excluding official transfers)	-0.39	0.01	0.04	-0.39	-0.48
(In percent of GDP at the official exchange rate) 1/	-5.7	0.3	0.6	-4.2	-2.5
(In percent of GDP at world prices) 2/	-4.2	0.2	0.5	-4.9	-6.7
Overall balance	-0.04	-0.03	-0.21	-0.42	-0.42
Official reserves (gold valued at market price)					
Usable reserves (millions of U.S. dollars; end of period)	54.5	46.7	22.1	20.0	15.1
(months of imports of goods and services)	0.3	0.2	0.1	0.1	0.1
(percent of reserve money)	18.4	10.0	5.9	2.0	0.6
External debt and arrears (including private debt)					
Total external debt (percent of GDP at official exchange rate; end of period) 1/	73.0	86.5	73.0	55.8	26.8
Of which: total external arrears	0.0	1.9	6.7	11.0	7.8
Total external debt (percent of GDP at world prices; end of period) 2/	53.8	55.8	59.3	64.0	72.8
Of which: total external arrears	0.0	1.2	5.4	12.6	21.2
Debt service (percent of exports of goods and services)	24.8	22.8	24.3	29.5	31.0

Sources: Zimbabwean authorities; and staff estimates.

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).

Program (NERP) in February 2003.[2] The main elements of the NERP comprise measures aimed at stimulating sectoral production while endorsing the Prices and Income Stabilization Protocol (which was negotiated within the TNF in January 2003 and provides for a freezing of prices and wages for a period of 6 months). Immediate actions taken include the devaluation of the exchange rate from Z$55 per US$1 to Z$824 per US$1 for most transactions and the doubling on average of fuel prices in February 2003. This was followed by increases in maize and wheat producer prices (retail prices were not changed), a gradual rise in nominal interest rates, which still remain very negative in real terms, and another doubling of fuel prices in April, albeit insufficient to allow full cost recovery. On May 6, the government announced an easing of price controls.

B. Output, Employment, and Prices

5. **All sectors of the economy have been affected by the decline in economic activity.** On the supply side, production has been severely constrained, particularly on account of the bottlenecks created by the limited availability of foreign exchange, the introduction of price controls, and the impact of the land reform program on the agricultural sector. The fall in real output has been spread across the economy, but has been particularly pronounced in the agricultural, manufacturing, and distribution, hotels and restaurants sectors—output in these sectors account for nearly half of real GDP (Statistical Appendix, Table 2). The tourism industry has suffered as domestic developments adversely affected Zimbabwe's image abroad.

6. **The decline in agricultural output deepened from 12 percent in 2001 to 22 percent in 2002 as production has suffered from the drought and has been negatively affected by the land reform and shortage of critical imports.** The volume of production in the commercial farming sector, which was heavily affected by the redistribution of land, declined by 25 percent in 2002, bringing the decline to nearly 70 percent since the launch of the fast-track land reform program in 2000. Productivity was also negatively affected by the inexperience of many newly settled farmers, and by malnutrition and HIV/AIDS, which reduced the population's ability to farm.

7. **The manufacturing sector has been influenced by the weak macroeconomic environment, and the decline in agriculture because of the linkages between these two sectors.** Manufacturing output is estimated to have declined by 16 percent in 2002 after a decline of 9 percent in 2001. Partial data indicate that following the closure of 400 companies in 2001, an additional 200 companies closed during the first half of 2002. In March 2003,

[2] The TNF consists of representatives from the government, organized business, and trade unions, and was established in 1998 to achieve consensus on issues of national importance.

Zimbabwe's Electricity Supply Authority (ZESA) began to implement load shedding for electricity.[3]

8. **The value added of distribution, hotels and restaurants declined by 16 percent in 2002.** This mostly reflected a further decline in real disposable income in light of the high rate of unemployment and sharp rise in inflation. The shortage of fuels and decline in tourism have also contributed.

9. **All components of real aggregate demand contributed to the decline of real GDP in 2002.** Government consumption expenditure declined by 22 percent, while private consumption expenditure declined by 5 percent in view of the continued fall in real disposable income. Gross fixed investment declined by an estimated 7½ percent, and it fell from 15 percent of GDP in 2000 to an estimated ½ percent in 2002. The external sector also made a negative contribution to real GDP growth in 2002, in large part due to a substantial decline in exports following the collapse of commercial farming activity.

10. **Formal sector employment has fallen substantially.** Total formal employment in the private sector has declined by a cumulative 15 percent from 1999 to June 2001 (the latest available data). Declines were recorded in all of the subsectors of the economy, but were particularly pronounced in mining, electricity generation, construction, and manufacturing. Employment in agriculture declined by around 12 percent to June 2001, not yet reflecting the subsequent impact of the land reform program. If account is taken of the approximately 300,000 displaced farm workers, formal employment in the private sector could well have declined by more than one-third by end-2002.

11. **Inflation accelerated further during 2002**. Lax monetary policy, due mostly to large quasi-fiscal operations and subsidized lending facilities for the private sector, continued supply bottlenecks and shortages, and the impact of the drought on food prices, have combined to significantly raise price pressures in the local economy and on the parallel market exchange rate. The 12-month inflation accelerated from 112 percent at end-2001 to 228 percent in March 2003; the rise in food prices dominated, in particular toward the end of the year (Figure I.1).

12. **The Government responded to the acceleration of inflation by tightening price controls in November 2002**. Price controls, which were initially imposed on selected consumer goods in October 2001, were extended to a significant number of items in November 2002, as the government imposed a temporary price freeze on most consumer goods and services. The action was intended to strengthen the government's control over commodity prices and the evasion of price controls by business through repackaging and relabeling products. This, however, had a predictable effect: shortages increased as transactions quickly moved to the informal market, where prices were significantly higher.

[3] See Selected Issues Paper on public enterprises.

13. **Reflecting the exchange rate adjustment in February 2003, fuel prices were doubled in February and again in April. In early May, an easing of price controls was announced**:

- prices for basic goods (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."

C. Fiscal Policy

14. **While the government budget achieved a broadly balanced primary position in 2002, similar to 2001, it conceals the impact of sizeable quasi-fiscal operations of the RBZ for gold and tobacco producers outside the budget.** Including these operations, the primary fiscal deficit rose from ½ percent of GDP in 2001 to 5 percent of GDP in 2002; the overall deficit remained at 10 percent of GDP (Table I.2).

15. **On the revenue side, the improved fiscal outturn reflected stronger than budgeted revenue performance.** Total revenue collections amounted to 28 1/3 percent of GDP, compared with the budget estimate of 27 percent of GDP. Corporate and personal income tax receipts (24 percent of GDP) were much higher than budgeted largely as a result of bracket creep (i.e. delayed adjustment of income tax brackets for inflation) and of the strong income performance of banks. The Zimbabwe Revenue Authority became fully operational in 2002, which also helped revenue collections through improved efficiency. Customs duty collections, on the other hand, were 2.7 percent of GDP lower than budgeted, and substantially below their levels in 2001, as the continued shortages of foreign exchange reduced private imports (food imports are exempted from customs duties) and the maintenance of a fixed exchange rate kept customs valuations of imports low in local currency terms.

16. **Total expenditure continued to decline.** For the most part, this reflected low interest rates and thus low interest outlays on domestic debt. Expenditures on goods and services, and subsidies and transfers increased slightly in 2002 relative to GDP as part of the savings in the interest bill were reallocated for noninterest outlays in the supplementary budget. The civil service wage bill declined further in 2002 as percent of GDP, and the resulting real wage compression has begun to hamper the recruitment and maintenance of critical staff, particularly in the health and education sectors. Capital expenditure fell significantly below budget, reflecting shortage of foreign exchange and rising costs.

Table I.2. Zimbabwe: Central Government Operations, 1999-2002
(In percent of GDP)

	1999	2000		2001		2002	
	Act.	Budget	Act.	Budget	Act.	Budget	Act.
Total revenue	26.4	29.0	28.2	26.0	26.8	27.1	28.3
Tax revenue	25.1	27.5	26.4	24.6	25.4	25.9	26.4
Domestic taxes	21.2	21.9	23.6	20.9	21.9	20.6	23.9
Customs duties	3.8	5.6	2.7	3.8	3.4	5.3	2.6
Nontax revenue	1.4	1.5	1.8	1.4	1.5	1.2	1.8
Total expenditure and net lending	36.2	32.8	51.2	41.4	37.3	42.0	33.1
Current expenditure on goods and services	18.3	16.7	24.9	15.7	19.7	20.4	20.3
Wages and salaries	12.7	11.3	15.7	11.4	12.7	13.0	11.7
Goods and services	5.6	5.4	9.2	4.3	7.0	7.5	8.7
Interest payments	9.8	9.4	17.6	19.7	10.4	13.5	4.7
Of which: domestic 1/	8.2	7.7	16.5	17.5	8.1	12.5	3.8
Subsidies and transfers	4.1	4.1	6.1	4.3	4.7	4.6	5.2
Capital expenditure and net lending	4.0	2.7	2.6	2.0	2.4	3.5	2.9
Budget balance, excl. grants (commitment basis) 2/	-9.8	-3.8	-23.0	-15.4	-10.4	-14.9	-4.8
Of which: primary balance	0.0	5.5	-5.4	4.3	0.0	-1.4	-0.1
Grants	1.0	1.0	1.1	0.0	0.6	0.0	0.1
Foreign interest arrears	0.1	...	0.6	...	2.3	...	...
Budget balance, incl. grants and interest arrears 2/	-8.7	-2.9	-21.3	-15.4	-7.6	-14.9	-3.9
External financing (net, including principal arrears)	-1.0	-0.6	1.0	-4.2	0.1	-3.0	-0.1
Domestic financing (net)	9.8	3.5	20.3	19.5	7.5	17.9	4.0
Of which: privatization 3/	0.4	0.5	0.0	4.1	1.3	4.8	0.0
Memorandum items:							
Health and social welfare	3.0	2.1	3.4	2.2	3.2	2.7	...
Of which: wages	0.9	0.7	1.3	1.1	1.0	0.4	...
Education outlays	7.8	7.4	10.5	6.2	7.7	6.8	...
Of which: wages	6.2	5.3	8.1	4.7	6.0	5.3	...
Military expenditure	3.3	3.0	4.8	2.5	3.2	3.7	...
Of which: wages	2.2	2.1	3.0	2.0	2.4	2.7	...
Health, social, and education outlays 4/	33.6	31.2	28.6	21.2	31.2	24.8	...
Government balance (incl. quasi-fiscal operations of RBZ) 5/	...	...	...	...	-10.8	...	-10.0
Of which: primary balance	...	...	...	...	-0.4	...	-4.9

Sources: Zimbabwean authorities; and staff estimates.

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.

17. **In the absence of foreign financing and progress with the privatization of enterprises in 2002, the deficit had to be financed largely from domestic sources and through the accumulation of arrears on external debt service.** Nonetheless, with highly negative real interest rates the domestic debt stock declined from 52 percent of GDP in 2000 to 36 percent in 2002.

18. **The condition of the largest public enterprises in Zimbabwe remained precarious although the net profits remained unchanged at ¾ percent of GDP in 2002.** This reflected improvements in the financial position of the oil company and telecommunications, while other public enterprises continued to be adversely affected by the weak economic environment and price controls.[4]

D. Financial Sector

19. **Monetary policy remained accommodative throughout 2002,** and let nominal interest rates remain at very low levels; real interest rates became increasingly negative as inflation accelerated further (Figure I. 1). As a result, reserve money grew by 171 percent in 2002 (Table I.3). This mostly reflected a rapid rise in currency in circulation (216 percent). Broad money growth accelerated from 103 percent at end-2001 to 165 percent at end-2002, as credit to the private sector expanded rapidly from 67 percent in 2001 to 181 percent in 2002; however, private sector credit continued to decline in real terms.

20. **During 2002 the RBZ contributed to monetary growth through several ad hoc schemes.** In particular, banks continued to utilize their statutory reserves at the RBZ for on-lending at highly subsidized interest rates; utilization of the export and productive sector facilities at end-December 2002 amounted to Z$32 billion (3 percent of GDP), or 56 percent of end-2001 reserve money.[5] This represented a significant relaxation of monetary policy as the effective reserve requirement ratio declined to about 15 percent in December 2002 (compared with an indicative weighted ratio of about 33 percent).[6]

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[4] Section VI discusses the operations of public enterprises in detail.

[5] In January 2001, the central bank released the total of required reserves to the banking system for on-lending at concessional rates to the export sector (15 percent) and to the productive sectors (30 percent). In November 2002, these rates were further reduced to 5 percent and 15 percent, respectively, although the RBZ announced that the facility would be converted into a revolving fund with a cap of Z$25 billion. The cap was raised to Z$50 billion in the context of the National Economic Revival Program (NERP) of February 2003.

[6] According to the Monetary Policy Statement for 2001, the statutory reserve ratio on demand deposit liabilities was set at 50 percent, and at 20 percent on time and savings deposits.

Table I.3. Zimbabwe: Monetary Survey, 1999-2002

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

Sources: Zimbabwean authorities; and staff estimates.

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

21. **Support schemes for gold and tobacco producers added Z$51 billion to liquidity in 2002, which was nearly 5 percent of GDP.** The floor price support scheme for gold was re-introduced by the RBZ in April 2001 to support the gold mining industry. The gold subsidy in 2002 amounted to Z$13 billion (1.2 percent of GDP). Furthermore, a special facility for tobacco exporters was introduced in May 2002, as tobacco producers were unable to cover their production costs at the fixed exchange rate of Z$55 per U.S. dollar. The subsidy scheme entailed a 186 percent premium over the official exchange rate for tobacco proceeds and cost Z$38 billion (3.5 percent of GDP) in 2002.

22. **The RBZ announced in November 2002 a dual interest rate policy,** which would continue concessional credit to the productive and export sectors, while rates for non-essential or consumption borrowing would be determined by the market. The RBZ suspended the Bank Rate, and the interest rate arising from repurchase operations to accommodate banks' intra-day market positions has become the key monetary policy interest rate. End-of-day liquidity shortfalls of the banks have been accommodated through the overnight window at a premium over the repurchase rate.

23. **The weak macroeconomic situation represents a challenge to the soundness and viability of the banking system** in view of the risks it poses for the quality of the banking system's assets. Low interest rates have discouraged savings and encouraged borrowing even in the face of the continued decline in real activity. Banks' capital base have been eroded by inflation and the January 2003 increase in the minimum paid up capital does not fully compensate for past inflation since the previous increase of August 1999. While the indicators of the health of the banking system do not signal an imminent crisis in the banking system, their analytical value has been eroded by inflation and by underprovisioning.

E. External Sector

24. **The decline in exports and virtual lack of foreign financing has resulted in severe import compression and rapid build-up of external payment arrears.** The balance of payments remained under severe pressure in 2002. The current account deficit widened from 4.9 percent of GDP in 2001 to an estimated 6.7 percent in 2002 (Table I.4).[7] While the value of reported imports increased by 2.4 percent, this was mainly due to food imports; other imports declined by 11.3 percent. Following a decline by nearly one-third in 2001, exports declined by 12 percent in 2002 (Figure I.1).

25. **The loss of investor confidence due to the worsening macroeconomic instability, serious domestic political tensions, and the sharp curtailment of donor assistance (it was limited to humanitarian causes), continued to deter capital inflows.** In 2002, both short-

[7] Using nominal GDP at world prices as measure (1996=100), rather than nominal GDP converted at the current exchange rate in view of the high inflation in Zimbabwe and overvalued official exchange rate.

Table I.4. Zimbabwe: Balance of Payments, 1999-2002
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000 Prel.	2001 Est.	2002 Est.
Current account (excluding official transfers)	30	41	-391	-478
Trade balance	258	346	-170	-404
Exports, f.o.b.	1933	2195	1609	1418
Imports, f.o.b.	-1675	-1849	-1779	-1822
Food	-82	-62	-68	-304
Nonfood	-1593	-1787	-1711	-1518
Nonfactor services	31	-90	-131	-202
Receipts	621	331	246	219
Payments	-590	-421	-377	-421
Investment income	-390	-390	-324	-290
Interest	-175	-173	-147	-123
Receipts	37	26	12	10
Payments	-211	-199	-159	-133
Other	-215	-217	-177	-167
Private transfers (incl. transfers to nongovernmental organizations)	131	175	234	418
Capital account (including official transfers)	188	-289	-387	-334
Official transfers	101	53	40	35
Direct investment	50	15	1	23
Portfolio investment	21	-1	-68	0
Long-term capital	73	-230	-270	-256
Government	-60	-168	-203	-186
Receipt	163	56	8	0
Payment	-223	-224	-211	-186
Public enterprises	70	-34	-44	-46
Private sector	63	-29	-23	-24
Short-term capital	-56	-126	-90	-135
Public sector	0	0	13	-13
Private sector	-56	-126	-103	-122
Errors and omissions 1/	-251	41	363	393
Overall balance	-33	-207	-415	-420
Financing	33	207	415	420
Gross official reserves (- increase)	8	25	2	5
Net use of Fund resources	-27	-70	-85	-95
Drawings	35	0	0	0
Repayments	-62	-70	-85	-95
Other short-term liabilities (net)	-57	-106	-44	13
Change in arrears (decrease, -)	109	359	542	498
Debt relief/rescheduling	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
Gross official reserves 2/ 3/	47	22	20	15
In months of imports of goods and services	0.2	0.1	0.1	0.1
Reserve liabilities 4/	599	423	294	212
Net international reserves 4/	-552	-400	-274	-197
External debt	5045	5114	5137	5177
Of which: arrears	109	468	1010	1507
External debt service due 5/	621	614	548	508
Nominal GDP at world prices 6/	9037	8619	8033	7107

Sources: Zimbabwean authorities; and staff estimates.

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).

and long-term capital flows recorded large outflows, as was the case in 2001. The overall deficit rose from 5 percent of GDP in 2001 to 6 percent in 2002. Given the critically low level of usable reserves (which at end-2002 amounted to only US$15 million, or equal to three days of imports), the deficit was financed through the continued accumulation of external payments arrears, which increased to US$1.5 billion at end-2002, or almost one-third of total external debt.

26. **The exchange rate peg (at Z$55/US$1 during October 2000 to February 2003) and intensification of surrender requirements on exports have undermined the inflows of foreign exchange into the official market.** The real effective exchange rate appreciated sharply reflecting rapid inflation in Zimbabwe. The rate in the parallel foreign exchange market depreciated to about Z$1,700 per US$1 at end-2002, or 30 times the official exchange rate. The closure of foreign exchange bureaus at the end of November 2002, the increase in the surrender requirement on exports proceeds from 40 percent to 50 percent, and the transfer of exporters' foreign currency accounts to the RBZ[8] caused a collapse of the inflows of foreign exchange into the official market, and as transactions moved to the parallel market, and resulted in an appreciation of the parallel market rate. In turn, these pressures led the government to devalue the official exchange rate for most transactions from Z$55 per US$1 to Z$824 per US$1 in February 2003. However, this did not generate a supply response in the official market as of early May, and public enterprises purchased foreign exchange for fuel and electricity imports in the parallel market.

27. **Remittances from Zimbabweans living abroad (private transfers) have become an important source of foreign financing for private imports in the past three years.** The decline in economic activity in Zimbabwe and poor employment prospects have fueled emigration, particularly of skilled workers. Furthermore, the large premium on the parallel foreign exchange market has provided an incentive for private transfers to flow through informal (unrecorded) channels; while data on the inflows of expatriate remittances are not available, staff estimates that remittances accounted for about 3 percent of GDP in 2002.

II. Developments in Agriculture and Impact of Land Reform[9]

Agriculture is an important sector of the Zimbabwean economy. At independence, land ownership was highly skewed, as the sector was dominated by a few commercial farms. The initial phases of land reform, along with liberalization of the agricultural sector throughout the 1990s, helped to increase Zimbabwe's agricultural productivity, but these gains have been reversed over the past few years. After the bumper crop season of 1999/2000, yields have plummeted, owing to droughts and the disruption of commercial farming under the

[8] Exporters could use these funds with RBZ approval for certain import needs as specified in the priority list.

[9] Prepared by Gustavo Bagattini and Jay Surti.

Fast-Track Land Reform Program. The future of the sector is largely dependent on the success of resettled farmers, which requires better weather conditions, the availability of inputs and capital, and a stable economic environment. Preliminary data for the 2002/03 crop season indicate that, for many of Zimbabwe's main crops, production continues to be low.

A. Agricultural Production

28. **Agriculture is the driving force of the Zimbabwean economy.** It has historically comprised a share of about 15 percent of total output, and has very strong linkages to the manufacturing sector.[10] Agricultural exports total US$800-900 million per year and represent 35-50 percent of total exports.[11] Crops (primarily tobacco, maize, and cotton) account for about 80 percent of agricultural production, while the remaining 20 percent comes from livestock.

29. **Agrarian land is divided into communal farms, which engage mostly in small-scale farming,[12] and commercial farms, on which cash crops are grown.** Yields have historically been significantly higher on commercial farms, which mostly utilize prime farmland and have better access to irrigation and necessary inputs, such as seeds and fertilizer. Commercial farms concentrate primarily on export crops, such as tobacco, cotton, sugar, and horticulture, but also produce significant quantities of maize and wheat. Communal farms often utilize more marginal soils and grow a variety of crops, such as maize, cotton, groundnuts, sorghum, and sunflower seeds. The "summer" crops are harvested in April-May, while "winter" crops, such as wheat, are harvested in September-October.[13]

30. **Once considered the breadbasket of Southern Africa, Zimbabwe's agricultural output was severely affected over the past two years by droughts and by the land reform program, which led to a destruction of agricultural infrastructure and a shortage of fertilizers, seeds, and other intermediate inputs.** All of these factors have reduced yields and contributed to a severe food shortage. Since its record-breaking 1999/2000 crop, the sector's output has declined by almost one-third to its lowest levels since the drought year of 1991/92 and the low harvests recorded in the late 1980s (see figure). In 2001/02 alone, the output is estimated to have declined by 22 percent. This decline

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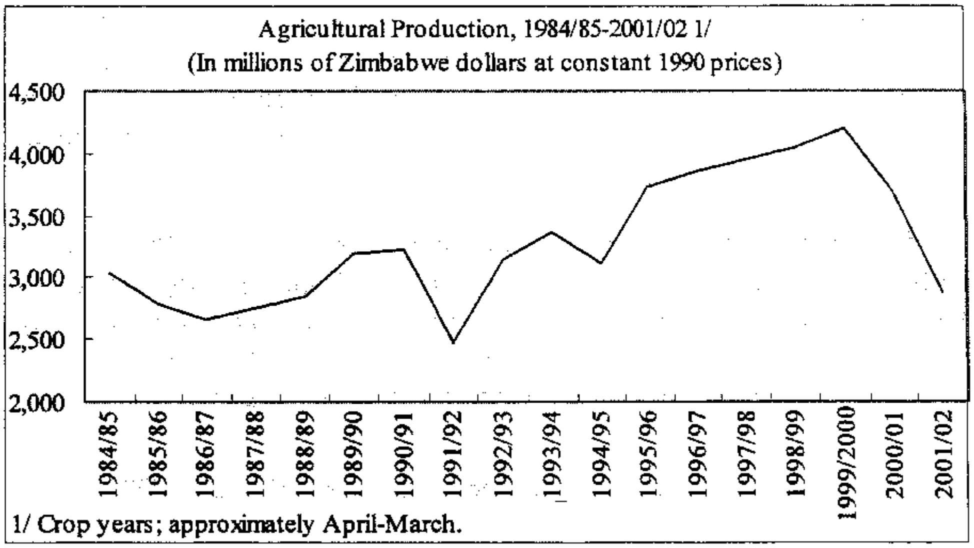
[10] Manufacturing accounts for about 20 percent of total output. The agricultural sector is linked to about 60 percent of manufacturing production through, for example, the food processing, milling, beverage, and textile industries.

[11] From 1995-99, agricultural exports averaged US$834 million and represented 38 percent of total exports.

[12] Many communal farms partly rely on income from family members working elsewhere.

[13] The April-May 2003 harvest thus reflects agricultural production in the 2002/03 crop year.

contributed to decreased activity in the rest of the economy in 2002: manufacturing production declined by over 15 percent, while agricultural exports were 11 percent lower than in the previous year (in U.S. dollar terms) and one-fifth lower than in 1996.



31. **The production of maize, Zimbabwe's most important staple crop, declined by three-fourths over the past two years, after a record crop of over 2 million tons in 1999/2000 (Table II.1).** This decline was mostly due to a drought-related fall in yields and some reduction in the area planted. Communal farms producing the bulk of the maize crop typically do not have irrigation facilities and yields on small-scale farms were one-fourth of commercial yields in 2000. This ratio fell to 1:15 in 2002, reflecting the comparative advantage of irrigation. The total area planted fell by 75 percent on commercial farms during 1999/2000-2001/02, while increasing somewhat in small farms in the context of the land reform.

Table II.1. Maize Production, 1995-2001/02

	1995-99 Avg.	1999/2000	2000/01	2001/02
Production (in thousands of tons)				
Small-scale farms	1,005	1,338	1,091	315
Commercial farms	629	810	385	185
Total	1,634	2,148	1,476	500
Area planted (in thousands of hectares)				
Small-scale farms	...	1,180	1,133	1,268
Commercial farms	...	200	90	50
Total	1,387	1,380	1,223	1,318
Yield (in tons per hectare)				
Small-scale farms	...	1.13	0.96	0.25
Commercial farms	...	4.05	4.28	3.70
Total	1.18	1.56	1.21	0.38

Sources: Zimbabwean authorities; Commercial Farmers Union; and staff estimates.

32. **Zimbabwe is one of the world's top three producers of flue-cured, or Virginia, tobacco, which is known for its high quality and flavor.**[14] Owing to its high cost, the curing of tobacco is done primarily on commercial farms, whereas the small-scale farms usually produce lower-quality burley tobacco, which fetches about half the price of Virginia tobacco on world markets. The tobacco cycle lasts up to 18 months, as field preparations begin in March, seeding is begun in September, and harvesting and curing are done from November to April. The previous year's crop is sold through auctions held from April to August[15] and exported throughout the year. The long production process makes prefinancing necessary, an input to production which is often difficult for tobacco growers to obtain.

33. **The production of tobacco traditionally accounted for 70 percent of Zimbabwe's agricultural exports.** Following a record crop of 245 million kilograms in 1999/2000, its production declined by 30 percent over the past two years, due almost entirely to lower commercial production related to the land reform (Table II.2). Tobacco yields on commercial farms, however, remained almost three times that on small farms.

Table II.2. Tobacco Production, 1995-2001/02

	1995-99 Avg.	1999/2000	2000/01	2001/02
Production (in millions of kilograms)				
Small-scale farms	2	15	7	19
Commercial farms	174	230	195	154
Total	176	245	202	173
Area planted (in thousands of hectares)				
Small-scale farms	...	13	7	18
Commercial farms	...	77	67	56
Total	77	90	74	74
Yield (in tons per hectare)				
Small-scale farms	...	1.15	1.00	1.06
Commercial farms	...	2.99	2.91	2.75
Total	2.29	2.72	2.73	2.34

Sources: Zimbabwean authorities; Zimbabwe Tobacco Association; Commercial Farmers Union; and staff estimates.

34. **Cotton production, which accounts for 5 percent of total exports, decreased by 46 percent over the past two years, despite the liberalization of the sector and the**

[14] Zimbabwe traditionally accounted for 20 percent of total world exports of flue-cured Virginia tobacco. Its main competitors are Brazil (about 29 percent of world exports) and the United States.

[15] Auctions may last into September and October in years of high tobacco production.

crop's relative resistance to drought. Cotton is mainly produced by smallholders, although commercial farms play an important role in production process, as they are the sole growers of cotton embryo and foundation crop—essential inputs for the production of cotton in small-scale farms. These two early stages of cottonseed production require high standards and have a direct impact on the quality of the cotton produced. Commercial planting, in which yields dropped by 20 percent but were five times those of communal lands, was reduced by 80 percent; the contribution of commercial farms to national production decreased from 20 percent to about 5 percent. In contrast, the area planted increased by over 50 percent in smaller farms, but this was more than offset by a drop in communal yields of almost 60 percent, reflecting the drought and the lack of high-quality cotton embryo and foundation crop from commercial farms (Table II.3).

Table II.3. Cotton Production, 1995-2001/02

	1995-99 Avg.	1999/2000	2000/01	2001/02
Production (in thousands of tons)				
Small-scale farms	141	292	256	180
Commercial farms	59	61	26	10
Total	200	353	282	190
Area planted (in thousands of hectares)				
Small-scale farms	...	260	375	394
Commercial farms	...	25	15	5
Total	262	285	390	399
Yield (in tons per hectare)				
Small-scale farms	...	1.12	0.68	0.46
Commercial farms	...	2.44	1.73	2.00
Total	0.76	1.24	0.72	0.48

Sources: Zimbabwean authorities; Commercial Farmers Union; and staff estimates.

35. **Drought and food shortages have caused a decline in other small-scale agricultural production, as many farmers have moved from alternative crops to the planting of maize.** Most crops grown on small-scale farms have suffered a large drop in production, associated with the drought as well as this substitution effect. Less farmland is being devoted to other traditional crops, such as sorghum and groundnuts. The food shortage and the HIV/AIDS pandemic have exacerbated this decline in production by lowering the nutrition levels and health of farmers.[16]

36. **The production of other commercial crops has also been partly disrupted by the land reform.** Soybeans, coffee, and wheat production has all fallen below their historical

[16] A further discussion of this can be found under *Economic Impact of HIV/AIDS in Zimbabwe.*

levels (Table II.4). Horticulture production fell by over 20 percent in 2001/02 from the previous year, as export contracts were disrupted.[17] In contrast, sugarcane production remained high, as sugar farms were less affected by the land reform, and this crop benefited from a continued access to preferential markets in the European Union.

Table II.4. Production of Other Crops, 1995-2001/02

(In thousands of tons)

	1995-99 Avg.	1999/2000	2000/01	2001/02
Predominantly small-scale crops				
Sorghum	56	103	60	24
Groundnuts	72	191	172	59
Predominantly commercial crops				
Soybeans	100	144	175	72
Horticulture	47	72	78	61
Sugar	516	541	515	554
Wheat	225	250	314	213

Sources: Zimbabwean authorities; Commercial Farmers Union; and staff estimates.

37. **Livestock is an important source of income for Zimbabwean farmers, as the animals are used for subsistence in communal areas and raised for exports on commercial farms.** The national herd comprised over 5 million head of cattle in 2000, of which almost 4 million were owned by small-scale farmers; the commercial herd is marketed domestically and exported. Commercial beef accounted for about 5 percent of agricultural exports and have benefited from certification from the EU. Recent press reports, however, suggest that the size of the total herd has dropped to below 4 million head, and that of the commercial herd from 1.3 million head to under 200,000. Several factors contributed to the decline in livestock, including starvation owing to drought and lack of fodder, destocking by evicted farmers, and an outbreak of foot-and-mouth disease.[18] The drought in the last two years, especially in the south and west of the country, has almost completely eroded grazing in these areas; the shortfall in the availability of feedstock has added to this problem. Indications are that commercial farmers who feared that their cattle could be seized without compensation resorted to the slaughter of their herds to avoid the loss. This loss of cattle has severe implications for exports as it has reduced sharply the potential of the beef industry.

[17] Export licenses were held by individual farmers, not by their estates.

[18] This was related to the movement of cattle owing to resettlement. There are indications of a need to vaccinate increased number of cattle in sensitive areas; this would require some US$15-20 million in foreign exchange over the next two years.

B. Land Reform

38. **At independence, Zimbabwe inherited a highly skewed land ownership pattern, in which large-scale (white) commercial farmers, who represented less than 1 percent of the population, occupied 45 percent of all agricultural land.** In contrast, the majority of the indigenous population engaged in subsistence farming on over 16 million hectares of mostly poor-quality communal land. Given their scale of operations and the fact that most of the commercially farmed land was concentrated in high-rainfall areas, it was natural for commercial farms to continue to account for a sizable share of agricultural production and export receipts after independence. However, the government claimed that a significant proportion of this land was not being routinely utilized.

39. **Land redistribution was seen by the government as an integral and central component of a much broader agrarian reform program that it sought to implement, and whose goal was to improve the economic situation of the farming community in general.** The specific areas targeted by the government as crucial to achieve this goal include the provision of better access to markets, credit, and training, as well as easier access to social, developmental, and economic infrastructure. It follows that the success of the government's recent land redistribution program hinges critically upon its making arrangements for the transfer of capital and infrastructural, financial, and marketing facilities to new farmers, and not merely upon the transfer of ownership of the land.

40. **The land redistribution process began immediately following independence in 1980, with the resettlement of close to 36,000 families on 2.1 million hectares of land acquired by the government at end-1984.** Despite the establishment of a National Land Policy in 1992 to facilitate the acquisition process, the process slowed considerably—from 1984 to 1997, 1.4 million hectares were acquired, and an additional 35,000 families resettled. Under this scheme, large-scale commercial farmland was to be reduced to 6 million hectares from 15.5 million hectares at independence, and the acquired land be redistributed to new settlers (8.3 million hectares) or classified as state land (1.2 million hectares). According to the government, the objectives of this program were to reduce the extent and intensity of poverty among rural families and farm workers through the provision of arable land, to increase the contribution of agriculture to GDP and exports, and to develop small-scale farms into viable commercial enterprises. The first phase benefited considerably from the funding received from the international community, including the European Community, the African Development Bank, the government of Kuwait, and, particularly, the U.K. government, which funded the land acquisition process.

41. **According to government sources, this initial phase of resettlement was successful through 1998 in achieving the goal of raising the economic welfare of the resettled households, and exceeded the expected rates of return.** Real increases in household income, improvements in land resulting from investment, and diversification in the range of crops grown were reported. Government estimates put the average internal rate of return on resettled land at 21 percent, significantly higher than the 14 percent expected at the planning stage.

42. **The government then enhanced the pace and scope of land redistribution to promote the broader goals of agrarian reform, particularly poverty alleviation and social stability.** Accordingly, a more proactive stance was adopted in 1997, with the listing of 1,471 commercial farms for acquisition. This prompted an outcry and led to the holding of an international donors' conference in Harare in September 1998. At the conference, an agreement was reached in principle for the acquisition of 5 million hectares with donor support. No disbursements were made by donors, however, as agreement was not reached on the detailed modalities for the plan's implementation. Subsequently, the Zimbabwean government launched, in mid-2000, a Fast-Track Development Program (covering 5 million hectares and 150,000 families) which, in donors' views, disregarded the principles agreed to in 1998 and the United Nations Development Program (UNDP) proposals of December 2000. There have also been informal farm invasions regardless of the legal status of these farms under the official land reform program.

43. **In September 2001, Zimbabwe agreed, at two regional meetings**—the Committee of Commonwealth Foreign Ministers in Abuja and the Summit of the Southern African Development Community Task Force in Harare—**to restore the rule of law to the land reform process and pursue an effective and sustainable land policy.** In December 2001, the government brought almost all the remaining commercial farms into the acquisition list of the land reform process by introducing a limit on farm size of 250-2,000 hectares, depending on the location, for farms not covered by the fast-track program (Table II.5). Although the government stated that it would compensate farmers for capital improvements (but not for land), it has yet to do so on any significant scale.

Table II.5. Zimbabwe Land Ownership by Sector, September 2001

Sector	Millions of Hectares	Percent
Large-scale commercial farms	11.0	28.2
CFU members	8.6	22.0
Government	1.1	2.8
Other	1.3	3.3
Small-scale commercial farms	1.4	3.2
Communal area	16.4	41.8
Resettlement area	3.5	9.1
Parks and forests	6.3	16.2
ARDA (state farming)	0.3	0.6
Urban areas	0.2	0.5
Total	39.1	100.0

Source: Commercial Farmers Union (CFU).

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

45. **The government has ignored or changed several court rulings that tested the legality of the government's land reform program.** In December 2000, the Supreme Court declared the government's fast-track land reform 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 not valid because the banks holding mortgage titles to the farms were not notified by the government. In response, the government amended the Land Acquisition Act in September 2002, validating the eviction orders and substantially increasing the penalties for noncompliance. Parliament approved the amendments on September 18, 2002, and the government reissued eviction notices giving farmers seven days to vacate the land.

46. **The government declared the Fast-Track Program complete as of August 2002.** However, new eviction notices being sent to remaining white farmers continue to be reported. As of early 2003, the majority of farmers seemingly complied with the eviction orders, in light of some violent incidents, including the enforcement of eviction by armed militias. The government has reiterated its intention to resettle all 11.4 million hectares of farm land that it has acquired. It recognizes that the new farmers will need substantial assistance; the budget for 2003 has allocated Z$29 billion (1.4 percent of GDP) for agricultural support, but this is likely to be insufficient.

47. **A number of reports raise doubts about whether and how quickly the fast-track land reform will translate into fulfillment of the broader goals of agrarian reform and development that it was intended to facilitate.** There is usually a time lag between the acquisition of land and its subsequent resettlement. Historically, these lags have been quite significant in Zimbabwe, and there is some evidence that this may be a problem with the recently acquired land. The Minister of Land, Agriculture, and Rural Resettlement announced that the government's target was to resettle about 300,000 families under the A1 model (for smallholders) and about 51,000 families under the A2 scheme (for new commercial farms). The Zimbabwe Farmers Union (ZFU) reported as early as 2003 that about 200,000 households have been resettled under the A1 scheme and 15,000–20,000 farms have been resettled under the A2 scheme. Tenure security, an integral component of the resettlement process, has yet to be guaranteed, even on land already resettled; the government has not offered title

deeds to the resettled farmers, but instead 99-year leases have been offered to the farmers. In the absence of collateral, and in the current economic environment, banks are not eager to lend to farmers who may lack technical expertise and whose savings are exhausted due to the poor harvest.

48. **The land redistribution program needs to be accompanied by arrangements for the speedy and efficient transfer to the new farmers of human or physical capital that is necessary for maintaining agricultural production.** To alleviate this problem, the Ministry of Agriculture recently attempted to purchase or lease equipment from displaced commercial farmers through the Commercial Farmers' Union (CFU); however, it accompanied this request with a set of demands reportedly unacceptable to the CFU.

49. **Commercial farms were a major source of formal rural employment, as about 350,000 farm workers, together with their families and dependents, constituted a total population of 1-2 million.** An initial field study under the Minister of State for Land Reform reportedly found the situation on the ground to be far from satisfactory, with many farm workers unemployed and without severance pay. The UNDP has proposed that the government undertake a technically sound and comprehensive survey of the current situation, as the initial audit was based on sample field visits. While the government agreed to such a survey in principle, the start date has been postponed repeatedly.

50. **Very little investment has been made in farm machinery within the last two years, owing to the uncertainty prevailing among commercial farmers regarding their future prospects and the lack of financing for new farmers to buy equipment.** For example, in the last quarter of 2002, a mere 8 tractors were sold, compared with an average of 1,600 per year prior to 1997. Irrigation schemes have fared similarly. There have been numerous reports of theft and vandalism during the fast-track land resettlement process, while evicted farmers have sought to remove mobile machinery and irrigation equipment to the extent possible.

51. **In light of reports about irregularities in the implementation of the fast-track land reform, the government initiated**—in April 2003—**a new audit of the land reform,** to be headed by former Chief Cabinet Secretary Utete. 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 is required to make the land more productive. In March 2003, the UNDP proposed a joint government-UN survey, as a necessary comprehensive agricultural survey is a first step toward identifying long-term strategies to increase Zimbabwe's agricultural production, but the government has not accepted this proposal.

C. Prospects for Agricultural Production in 2002/03

52. **Prospects for future production of maize are largely dependent on the weather and the success of the new farmers.** The developments discussed above, combined with a lack of seed stock, fertilizers, and know-how among resettled farmers and the displacement of farm workers, disrupted planting activity in late 2002. To compensate for a decrease in the

local production of seed maize, which was severely disrupted by the land reform process, the government imported 15,000 tons of seed maize from South Africa, although very late in the planting season. In light of shortages of fuel and equipment, as well as the drought conditions in early 2003, the 2002/03 crop is expected to be only slightly better than that of 2001/02 and much below the historical norm. To encourage production, the government announced in April 2003 an increase of 365 percent in the producer price of maize, from Z$28,000 to Z$130,000 per ton, while keeping the retail price at Z$9,600 per ton.

53. **Agriculture was also affected by the general shortage of fuel and foreign exchange, and the drought resulted in a shortage of locally produced feedstock, with a serious negative impact on livestock production.** The main companies involved in fertilizer manufacture continue to operate at well below normal capacity, reflecting a shortage of foreign exchange to import raw materials and the inability of the National Railways of Zimbabwe (NRZ) to move goods into or within Zimbabwe in a timely fashion. This led to the buildup of a considerable backlog of orders from commercial farmers, already reduced in size, during the 2002/03 planting season.

54. **Zimbabwe's traditionally high-quality commercial tobacco crop is expected to deteriorate at least in the short term and Zimbabwe risks losing its large world market share to its competitors.** The decline in expertise has led to a pronounced drop in the quality of the tobacco produced; in turn, the tobacco fetches a significantly smaller return in the world market. This situation exacerbates the existing shortages of foreign exchange, fuel, and electricity, which in turn hinder tobacco production and curing. Because of the lag between the growing cycle and the tobacco auctions, the full impact on exports is not expected to occur until 2003/04.

55. **Conflicting reports about the size of the 2002/03 crop output may further endanger the food security situation in 2003/04.** In late February, the Famine Early Warning System (FEWS NET) projected a production of about 800,000 tons of cereal for the current crop season, which would imply an unfilled cereal gap of close to 1 million tons.[19] However, a more recent report is projecting a production of over 1.5 million tons of maize and wheat, an amount that would reduce the gap to under 300,000 tons.[20] According to this report, which has generated confusion and has been met with skepticism, the unexpected heavier-than-normal rainfall in March 2003 has caused cereal production estimates for the season to be revised significantly upwards (Table II.6). The World Food Program and the UN Food and Agriculture Organization are assessing the food supply, the size of domestic harvest, and the availability of seed and fertilizer vis-à-vis human consumption requirements. Also, the government's official crop forecasts have not yet been completed.

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[19] FEWS NET, *Zimbabwe Monthly Report* (February 27, 2003), published March 26, 2003.

[20] FEWS NET, *Zimbabwe Monthly Report* (March 31, 2003), published April 9, 2003.

Table II.6. Agricultural Production Forecast, 2002/03

(In thousands of tons)

	2001/02	2002/03	
		February estimate	March estimate
Maize	500	610	1,289
Tobacco	173	85	...
Cotton	190	180	...
Wheat	213	160	236
Sugar	554	520	...

Sources: Zimbabwean authorities; and the Famine Early Warning System.

III. Economic Impact of HIV/AIDS in Zimbabwe[21]

HIV/AIDS is a major and immediate concern for Zimbabwe. Current prevalence rates are at a level close to 20 percent of the total population, and at over 30 percent for adults in the 15-49 age group. The number of AIDS-related deaths, and of orphans are indicative of the adverse, current and future impact upon a fragile health-care system, fiscal balance, human capital accumulation, production, and economic growth. The food shortages of the past year have exacerbated the situation, as many patients fail to attain adequate nutrition levels and food intake and their families' coping mechanisms are stretched to the limit. This chapter presents an overview of recent trends in prevalence rates; discusses the impact on social sectors and the strategies being adopted by the government and the international community to address these; and summarizes quantitative estimates of the fiscal burden and overall medium-term macroeconomic impact of HIV/AIDS on Zimbabwe.

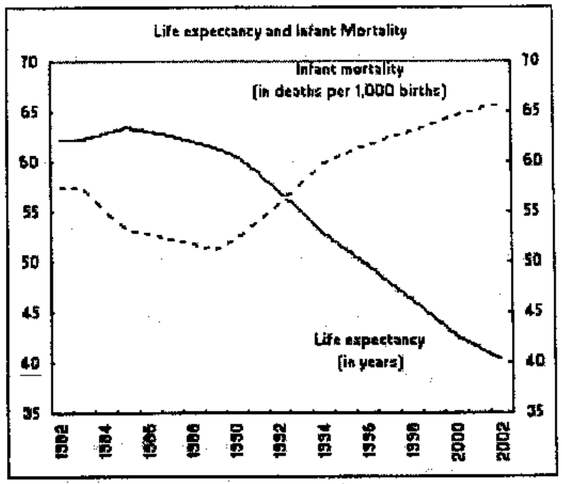
A. Incidence

56. **Current HIV/AIDS prevalence rates in Zimbabwe are estimated to be 34 percent of the adult population.** UNAIDS estimates that by end-2001, approximately 2.3 million adults and children were infected including 600,000 cases of full-blown AIDS, and over 750,000 children orphaned. Health welfare indicators have deteriorated; infant mortality rates have increased from 52 to 67 deaths per 1000 births over the 1990s, largely due to mother-to-child transmission of the infection; life expectancy has declined from its peak of 62 years in 1985 to 43 years in 2001, the major reduction coming post-1992.[22] The Ministry of Health and Child Welfare estimates a weekly average death toll of 2,500, totaling to about 1 percent

[21] Prepared by Jay Surti and Gustavo Bagattini.

[22] The first case of AIDS in Zimbabwe was identified in 1985.

Trends in Life Expectancy and Infant Mortality in Zimbabwe: 1982-2002



Source: US Census Bureau, International Programs Center

of the population over 2002. Compared to other countries in Southern Africa, the basic statistics are rather dismal. HIV/AIDS prevalence rates and AIDS-related deaths in Zimbabwe are lower than Botswana and Swaziland alone, while no other country in the region reports as high a proportion of orphans in the population as Zimbabwe (6.1 percent of the population).

HIV/AIDS Prevalence in Southern African Countries (2002)

	Percent of Adults with HIV/AIDS	AIDS deaths (percent of population)	Current living orphans (percent of population)
Swaziland	39.0	1.3	3.7
Botswana	38.8	1.7	4.4
Zimbabwe	33.7	1.6	6.1
Lesotho	31.0	1.2	3.5
Namibia	22.5	0.7	2.6
Zambia	21.5	1.1	5.4
South Africa	20.1	0.8	1.5
Malawi	15.0	0.7	4.1
Mozambique	13.0	0.3	2.3

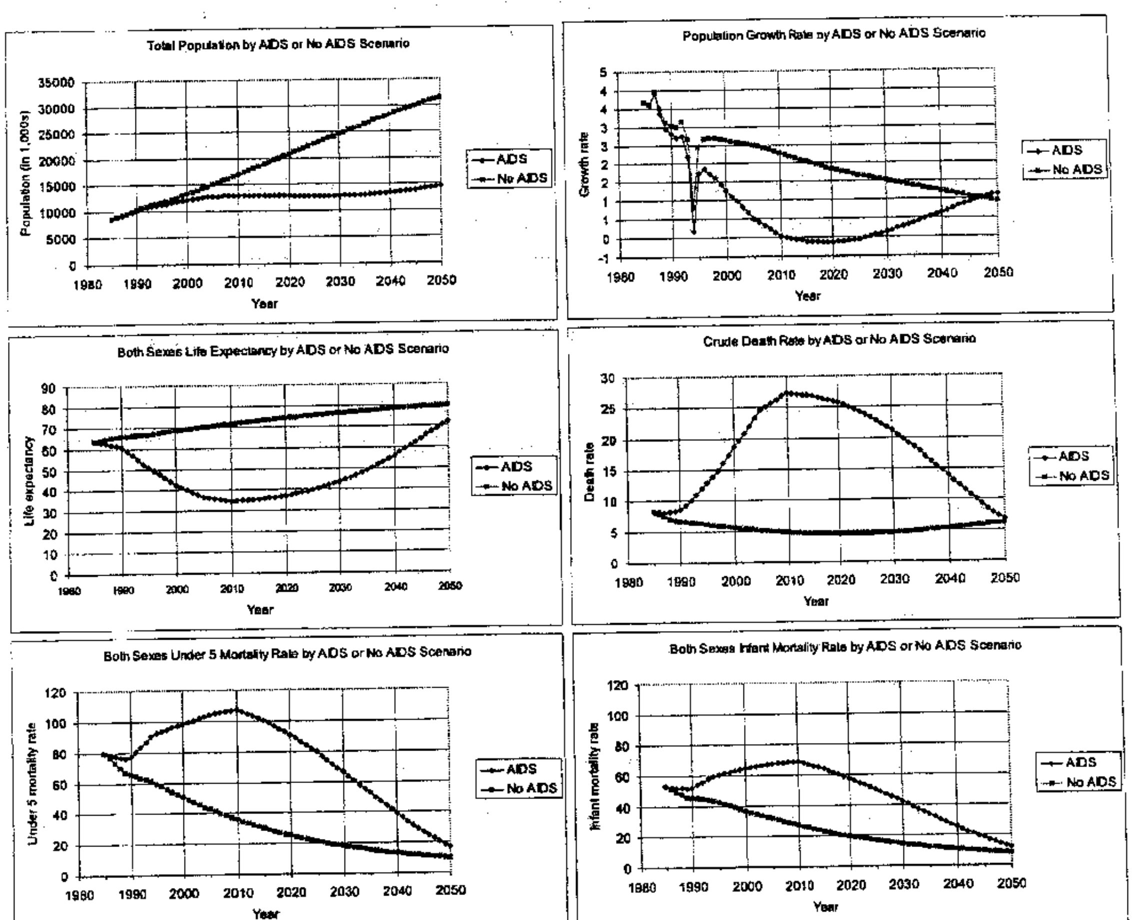
Source: UNAIDS/WHO Epidemiological Fact Sheets.

57. Prevalence rates appear to be quite similar across the country, but are higher for young women aged 15-24, and in border areas. Similar prevalence rates in various regions reflect, in part, the mobility and regularity of interaction among populations in various parts of the country.

58. **The outlook for longer-term human welfare indicators is bleak** (see Box III.1).

Box III.1: Performance of Human Welfare Indicators With and Without the AIDS Pandemic

In 2002, the US Census Bureau's International Population Center released new projections for a set of human welfare indicators for Zimbabwe from 1980 through 2050 taking into account the impact of the HIV/AIDS pandemic, and compared them to projections obtained in the absence of AIDS. The main assumption underlying this analysis was that the impact of the epidemic will reach its peak in 2010 (or equivalently, that HIV prevalence rates will peak approximately 5 years prior to 2010). Almost all the indicators reflect the very significant adverse welfare impact of HIV; for example, projected total population in 2010 falls from an estimated 17.5 million with no-AIDS to 12.5 million (more than a 20 percent difference); the crude death rate, which in 2000 was about 18 percent (or over 10 percent higher than without AIDS) is projected to rise to 27 percent by 2010, whereas without AIDS, it is estimated to decline marginally.



Source: US Bureau of Census, 2002, Demographic Projections and Estimates.

B. Social Sector Impact of HIV/AIDS

59. Zimbabwe's health sector is beset by a number of problems related to adequate supply and quality of health care in the country; specifically, the rapid erosion of the number of skilled medical professionals, and the inadequate supply of drugs, both HIV/AIDS-specific and generic. The increasingly tight foreign exchange situation and increasing inflation from 2001 onward are, to a large extent, responsible for this problem; for example, lack of foreign exchange has made it very difficult for the government to import a range of essential medicines required to combat opportunistic diseases like tuberculosis.[23]

60. **Zimbabwe's health sector has been hit by a massive exodus of doctors and nurses since at least 1998**. According to press reports, in a sixteen-month period through end-2000, over 4,000 nurses and doctors left the country. In 2000, the Health minister noted that each of the country's five major hospitals lost, on average, 24 senior nurses and three doctors every month, most of them headed for Botswana, South Africa, or the UK. There is considerable evidence that this trend continues unabated even today. A large proportion of health care professionals appear to be moving out of Zimbabwe soon after earning their medical degrees.[24] This trend reflects low pay scales common throughout the public sector in Zimbabwe, especially when compared to Botswana and South Africa, where the demand for medical professionals is also increasing owing due to HIV/AIDS.

61. **Zimbabwe allocated approximately 3 percent of its GDP to health care in the 2002 budget, an amount totaling Z$34 billion.** No budgetary allocations were made towards the purchase of anti-retroviral (ARV) drugs despite a sizeable total allocation of over Z$7 billion to medical care services. While this has been remedied in the budget for 2003, with Z$2.5 billion being allocated for the import of ARV therapy, the Ministry of Health expected that most of this amount would go unspent owing to the lack of foreign exchange. Given an estimated private annual cost of US$300 per person for ARV therapy, the treatment is well out of reach of most Zimbabweans. Other services currently provided through heavy government subsidization include counseling and testing at public health centers in Harare. According to UNAIDS, this service has significantly contributed to an increase in public awareness about HIV/AIDS, as its low cost has encouraged more patients to access it than would have occurred otherwise. UNAIDS also reported that if the government's foreign exchange difficulties continue, this subsidy may be eliminated, making it prohibitively costly for the average Zimbabwean to pay the private cost of access.

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[23] International intellectual property rights agreements (TRIPS) related to the production and replication of such drugs makes cheaper procurement virtually impossible. It was partly to get around this problem that the government declared HIV/AIDS a national emergency in 2002.

[24] Inter Press Service Report, July 30, 2002, noted that of the 87 doctors awarded degrees in 2001, 37 left the country by July 2002 (See www.aegis.com/news/ips/2002/IP020738.html).

62. **The demand for and supply of education are likely to fall over the medium-term, thereby decreasing Zimbabwe's human capital.** The population growth rate has decreased and school enrolments have declined, the latter reflecting the fact that family networks are weakening owing to parental deaths, increasing the number of orphans having to drop out of schools to provide for themselves or younger siblings.[25] The increased mortality of teachers and administrators in the education system correspondingly affect supply. The cumulative effect of these changes implies a reduction in human capital accumulation; taken together with the direct decrease in human capital stock because of AIDS deaths, this scenario paints a grim picture for medium to long-term growth in Zimbabwe. In a recent study,[26] Haacker estimates that by 2010, the number of teachers that would need to be trained simply to replace those dying from AIDS will be about 83 percent of the total trained, an increase of 30 percent from 2000. This level of teacher replacement may not be possible, as the number of pupils in schools themselves fall, thereby decreasing the size of the pool from which these new teachers can be trained.

C. Government Response

63. **Zimbabwe's National AIDS Policy is the outcome of a multisectoral, consultative process.** "The Strategic Framework for a National Response to HIV/AIDS, 2000-2004" of 1999 sought to adopt a number of internationally recommended interventions, including general awareness and behavior change, youth programs, expansion of voluntary counseling and testing, prevention of mother-to-child transmission, ensuring blood safety, prevention of sexually transmitted infections, and surveillance. A National AIDS Council (NAC) was established in 2000 to spearhead and coordinate the implementation of this policy in which specific programs are formulated and implemented at the provincial or district level by 10 Provincial (PAACs) and 83 District AIDS Action Committees (DAACs), with technical assistance provided by the NAC. These action committees are comprised of members of their own communities, who are in a better position to determine the priorities for their district. The process involves field visits of technical facilitators to the DAACs, wherein they undertake planning through community-wide consultation. This process eventually yields the annual plans and budgets of the DAACs.

64. The financing of the DAAC programs is handled through outlays from a National AIDS Trust Fund (NATF), financed through an AIDS levy introduced in 2000, a 3 percent surcharge on assessed income and corporate tax. Zimbabwe was the first country to introduce a tax specifically designed to raise domestic contributions to fight HIV/AIDS. The total

[25] Many orphaned children also live with extended family members who are less likely to send them to school; see Anne Case, Christina Paxson, and Joseph Ableidinger (2002), "Orphans in Africa", NBER Working Paper 9213.

[26] Haacker, M. (2002), "The Economic Consequences of HIV/AIDS in Southern Africa", IMF Working Paper 02/38, Washington, DC, pp.11-12.

cumulative amount collected through the levy at end-2002 was Z$5.2 billion. As a percentage of GDP, the amount collected has hovered close to 0.3 percent since its inception.

AIDS Levy and its disbursement, 2000–02[1/]

	2000	2001	2002
AIDS Levy / Income Tax	1.7	2.2	1.9
Disbursements / AIDS Levy	17.0	33.4	56.8
AIDS Levy / Nominal GDP	0.2	0.3	0.3

[1/] All figures are percentages.
Source: Staff calculations based on information provided by authorities.

65. **Disbursements to the DAACs are made on a monthly basis, and vary from month-to-month and from district-to-district**; cumulative disbursements through end-2002 amounted to Z$2.3 billion, about 44 percent of the revenue collected through the AIDS levy over the same period. The utilization rate has improved steadily between 2000 and 2002, reflecting in part, the increasing capability of the DAACs in implementing their programs. At present, the NATF money is disbursed at a rate proportional to the rate at which a DAAC is able to spend the money allocated to it; the presumption being that the latter, in turn, reflects the speed of program implementation. In order to improve accountability and discourage corruption, the NAC intends to discontinue individual-based disbursements, and instead concentrate on community-based programs such as hospices, and care centers.

66. **A multi-agency mission under the UN Relief and Recovery Unit visited Zimbabwe in March 2003.** Its report[27] 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 increased response 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.

D. Donors and the International Community

67. There are a number of international organizations, donor agencies, and NGOs working on prevention and mitigation of HIV/AIDS in Zimbabwe (see Box III.2). Recently, the United Nations has embarked on an initiative to bring these agencies under a unified

[27] United Nations Relief and Recovery Unit, *Zimbabwe Humanitarian Situation Report*, March 24, 2003.

umbrella with a view to better coordinate and match expertise and financial resources to local needs.

Box III.2: Major HIV/AIDS Program Areas of International Agencies in Zimbabwe

United Nations: Through the UN Development Assistance Fund, it has traditionally focused on the following areas of support: promotion of sexual behavior change; HIV surveillance; voluntary counseling and testing; programs to lessen mother-to-child transmission; and special programs for youth and commercial sex workers. Recently under the **UN Thematic Group** initiative, the UN has been pushing for a coordinated effort among the international agencies to prioritize specific anti-AIDS programs in Zimbabwe and to promote a more systematic study of the impact of the pandemic upon the country. Issues currently being discussed include: how best to study and target vulnerable groups, particularly in light of mass displacement and closure of on-farm hospices resulting from the fast-track land reform program, including possibly a displacement study; development of more sensitive HIV indicators; and obtaining priority for HIV patients in government's food delivery program. Zimbabwe is scheduled to receive US$22 million in the first round of the **UN Global Fund** disbursement; half of this amount is targeted toward HIV/AIDS, and is likely to be spent on the purchase of generic drugs and vaccines to combat opportunistic infections.

UNAIDS: Assisted in defining both the national strategic plan, and the district planning processes. It provided financial support to the NAC secretariat, including the funding of its Executive Director's office, and is currently discussing the possibility of a coordinated public awareness program with the NAC.

USAID: Formulated a strategic five-year plan (2000-2005) that includes mitigating the impact of HIV/AIDS as a primary goal. It has designed its programs to strengthen the ability of NGOs to address HIV/AIDS, and in turn relies heavily upon them to implement social marketing of voluntary counseling and testing (VCT). It has launched programs to generate increased community support activities on behalf of children affected by HIV/AIDS; to supply contraceptives to the public sector and is supporting social marketing of contraceptives. It is also supporting operational research for development of an ARV program in Zimbabwe.

WHO: Assists the government in overcoming manpower problems in the health sector; is currently training health care workers in Harare and Bulawayo in the delivery of ARVs. It also supports the salaries of four health care workers in the Ministry of Health, and is discussing the possibility of two more positions specifically to look into HIV/AIDS issues. It provided technical support for the expansion of prevention programs related to mother-to-child transmission; and is currently considering the provision of rapid HIV testing kits.

Department for International Development – UK: Supplies free condoms, vaccines and other medical infrastructure.

Center for Disease Control – US: Provides rapid action test kits to pregnant women, besides sponsoring training of medical professionals and the acquisition of surveillance systems.

European Union: Provides drugs to counter opportunistic and sexually transmitted infections.

E. Fiscal Burden and Macroeconomic Impact

68. The fiscal implications of HIV/AIDS arise from increased outlays for care and prevention, increased personnel costs associated with higher morbidity and mortality, and reduced tax revenues as HIV/AIDS affects profits and the scale of economic activity over the next decade. First, an increase in the demand for health services necessitates a corresponding increase in public sector outlays in this direction. Second, there is likely to be an increase in rehiring and retraining costs associated with an increase in skilled manpower turnover owing to the death of teachers and other public sector officials.[28] In addition, the morbidity and illness that precede death imply a reduction in the on-the-job productivity of infected individuals and their family members, the latter because of the necessity of devoting time to home-care of the patient, and this imputed cost must be assessed to arrive at an appropriate measure of the total burden. Finally, an increase in turnover of public sector employees due to death implies an increased payout of pensions and other annuities to the surviving family members.

69. Recent IMF studies[29] estimate that with the effects of the pandemic becoming more pronounced over the next decade, the cost of prevention and clinical treatment in Zimbabwe may increase to 0.3 and 1.1 percent of GDP, respectively, by 2010. An earlier World Bank study[30] estimated that, after accounting for the expensive treatment apparatus, training costs of personnel and related infrastructure, the annual per patient cost of ARV therapy for Zimbabwe could be as high as US$2,000, plus US$400 for prevention and treatment of opportunistic infections and palliative care. On this basis, Haacker (2002) estimated that even with very limited coverage rates (30 percent for palliative care, 20 percent for clinical treatment, 10 percent for ARV); total HIV-related health-care cost of the government could increase to 3.5 percent of GDP by 2010 compared to 2.1 percent of GDP in 2000.

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[28] This depends upon the assumption that it is possible to replace every person leaving the labor force due to HIV/AIDS. While this may not be possible in the long run, if prevalence rates remain high, it is an acceptable assumption over the short to medium term. Finally, the return to investment in human capital itself falls in the medium to long term, especially if capital flight and emigration become a major problem. This implies that even if the total number of people being trained declines, the per person training cost will increase.

[29] See for example Haacker, M. (2003), "Providing Health Care to HIV Patients in Southern Africa", IMF Policy Discussion Paper 01/03, Washington, DC.

[30] Bonnel, R. (2001), "Costs of Scaling HIV Programs in Southern Africa: Methods and Estimates", World Bank, Washington, DC.

70. **Replacing sick workers may become difficult as the epidemic develops over the next 4-5 years.** A study by FAO[31] found that Zimbabwe lost an estimated 10 percent of its agricultural labor force to AIDS by 2000 and projected that the infection could claim as many as 23 percent by 2010. Not surprisingly, the resulting impact on economic growth could be devastating;[32] Haacker (2002) estimated that by 2015, Zimbabwe's GDP per capita could be about 7 percent lower than in a no-AIDS scenario, or a cost of approximately ½ of a percent of GDP per capita lost per annum between 2000 and 2015. The food shortages arising out of the drought conditions in 2002 and 2003, and the displacement of many commercial farm workers and their families (who constitute a total population of 1-2 million people) in the course of the fast-track land reform program has stretched the coping mechanisms of these families already. In consequence, the adverse impact on labor productivity and loss of life due to HIV/AIDS and related opportunistic infections increase, relative to a situation where food shortages and unemployment shocks are absent. Hence, the actual cost in terms of GDP per capita lost due to HIV could well be greater than the Haacker estimate. In addition, this cost will be more pronounced the longer these economic conditions persist. Indeed, a vicious cycle may well develop, whereby the economic recovery is not achieved due to productivity and human capital losses related to HIV/AIDS.

71. The long-term cost, productivity, and growth impact of HIV/AIDS on the economy is, therefore, likely to be sensitive to the disease distribution by occupation groups. If skilled labor groups are the most affected in the initial phases of the epidemic, then the adverse macroeconomic impact will be more pronounced. First, because the direct impact on the stock of human capital is larger, this reduces the supply of (skilled) labor, thereby lowering the (marginal) productivity of all factors of production, which imply a decrease in the rate of investment. Moreover, the (net) cost of training future skilled professionals increases as well, because lower life expectancy of adults implies a lower average return to investment in education; if this induces lower investment in human capital accumulation, this will adversely affecting future production. At the present moment, the data being collected on prevalence from antenatal clinic surveys in Zimbabwe are not disaggregated to a degree that allows inferences about occupation-specific prevalence rates. However, comparable data from other countries in the region suggest a pattern implying similar prevalence rates for most occupation groups.[33] For Zimbabwe, UNAIDS health representatives estimated prevalence rates among teachers and public sector officials to be significantly higher than the population average.

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[31] "The Impact of HIV/AIDS on Food Security", FAO, 2001.

[32] Agriculture has been the driving force of the Zimbabwean economy since independence. For more details, see the chapter on Agricultural Production and Land Reform in this SIP.

[33] In Lesotho and Swaziland.

72. Zimbabwe's social security system covers only that part of the labor force employed in the formal sector, which constitutes a small fraction of the total adult population.[34] Families with no members in the formal sector labor force are therefore particularly vulnerable to the income shocks emanating from HIV/AIDS; neither do they have any insurance coverage from their employers, nor does the government have at present a scheme to provide safety nets for them. As more and more HIV infected patients develop full-blown AIDS, the families of those not employed in the formal sector will be far less equipped to cope with the economic impact of lower working hours of income earners, and family deaths. This will almost certainly perpetuate and exacerbate the (already considerable) income and wealth inequalities in Zimbabwe over the coming decade.[35]

IV. Domestic Debt Restructuring and Fiscal Sustainability in Zimbabwe[36]

The public sector debt stock and interest outlays, particularly related to the domestic debt, rose rapidly in Zimbabwe during the 1990s, suggesting that fiscal policy became unsustainable. The government's efforts in recent years have reduced fiscal deficits and lowered the level of public debt relative to GDP. The fiscal stance has benefited, however, from other economic policies that themselves are unsustainable. Major policy adjustments will be required in order to address the serious economic imbalances, including high inflation, negative real interest rates, a chronic shortage of foreign exchange in the official market, the absence of productive investments, and negative real growth. As these adjustments are made, the real cost of borrowing will rise, and a tightening of the fiscal stance will be needed to dampen the rising debt-service costs and facilitate the achievement of fiscal sustainability over the medium term.

A. Debt Sustainability Framework

73. **The sustainability of fiscal policies should be considered in an intertemporal framework** because current policies will have implications for the future. For example, expansionary fiscal policies of the past will increase the level of public debt and future

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[34] All registered employers are required by law to subscribe to the National Social Security Authority (NSSA) and thereby obliged to provide a variety of benefits to employees, including death allowances, life insurance, and pension contributions.

[35] In a study of 14 southern African countries, the Southern African Regional Poverty Network computed the average Gini coefficient for Zimbabwe in 1998 to be 0.63, the second highest behind Namibia. See *SADC Regional Human Development Report 2000: Challenges and Opportunities for Regional Integration*, published by the UNDP. A summary is available at www.sarpn.za/RegionalViews/zimbabwe.php

[36] Prepared by Arto Kovanen and Louis Erasmus.

debt-service obligations. If the real cost of servicing public debt grows faster than output, then the increase in public borrowing will eventually become unsustainable.

74. **The concept of fiscal sustainability relates to public debt sustainability because fiscal deficits are financed through borrowing domestically or from abroad.** The evaluation of fiscal sustainability requires projecting future tax receipts and expenditures, as well as specifying the environment facing the economy, including the growth rate of output, inflation, and domestic and foreign borrowing costs. A medium-term macroeconomic framework is thus necessary for an assessment of fiscal sustainability.

75. **A considerable empirical literature analyzes fiscal sustainability, mainly focusing on domestic debt sustainability.**[37] The analysis of external debt sustainability has developed separately, especially in the context of the initiative to reduce the debt levels of heavily indebted poor countries (HIPC Initiative) to sustainable levels. While there is no universally agreed upon measure of the sustainability of fiscal policy, it is commonly accepted that fiscal policy becomes unsustainable if current and future fiscal policies result in a persistent and rapid increase in the public debt-to-GDP ratio; therefore, one indicator of sustainability is the debt-to-GDP ratio.[38] Early policy adjustment is necessary to achieve debt sustainability because delays will compound the problems and require larger fiscal adjustments (expenditure cuts or tax/revenue increases) in the future. High debt levels also tend to put pressure on interest rates, as creditors demand larger premiums to compensate for higher credit risk; this situation, in turn, will raise the fiscal debt service and reduce the room for policy adjustments to strengthen the fiscal stance.[39]

76. Using an **analytical framework**, the government's budget constraint for period t may be written as follows:

$$G(t) - T(t) + i^D(t)B^D(t\text{-}1) + FX(t)\mathrm{i}^F(t)B^F(t\text{-}1) = \Delta B^D(\mathrm{t}) + FX(t)\Delta B^F(\mathrm{t}) + \Delta M(t), \qquad (1)$$

where G = government noninterest expenditure;

[37] With efficient capital markets and capital mobility, the distinction between domestic and foreign debt will not matter for the analysis.

[38] The Maastricht Treaty specifies that European Union countries wishing to participate in the European Monetary Union should not have public debt levels that exceed 60 percent of their national GDP. Another commonly used external debt indicator is the debt service-to-exports ratio.

[39] An increase in the debt-to-GDP ratio will also affect real interest rates by crowding out private sector credits. See Paul Masson, "The Sustainability of Fiscal Deficits," *Staff Papers*, International Monetary Fund, Vol. 32 (December 1985), pp. 577-605.

T = government (tax and nontax) revenue;

B^D = government domestic debt stock;

B^F = government foreign debt stock;

M = monetary base;

$\Delta X(t) = X(t) - X(t\text{-}1)$; and

i^D and i^F are domestic and foreign interest rates, and FX the exchange rate (local currency per one unit of foreign currency).

The left-hand side of equation (1) defines the overall deficit, which comprises the primary deficit and domestic and foreign interest outlays, and the right-hand side explains how it is financed, including domestic and foreign borrowing, and seigniorage income. Equation (1) holds ex post for any period t.

77. An analysis of public debt sustainability over a longer period of time requires the use of an intertemporal budget constraint, which can be derived by solving equation (1) forward. Period t total public debt, b^T, which is the sum of domestic and foreign debt stocks, then becomes the following:[40]

$$b^T(\mathrm{t}) = E(t)\delta(t, n)b^T(t+n) + E(t)\sum_{j=[0,\,n]} \delta(t, j)[z(t+j+1) - d(t+j+1)] +$$
$$E(t)\sum_{j=[0,\,n]} \delta(t, j)b^F(t+j)[(1 + r^D(t+j))/(1 + r^F(t+j))], \qquad (2)$$

where $b^T(t)$ = total public debt as percent of GDP;

$E(t)$ = an expectations operator conditional on information available at time t;

$\delta(t,n) = \prod_{i=[0,n]} \lambda(t+i)$ is a time-varying discount factor n periods ahead adjusted for real GDP growth;

$\lambda(t) = 1/(1 + r^D(t))$;

$r^D(t)$ = domestic real interest rate adjusted for real GDP growth;

$r^F(t)$ = foreign real interest rate adjusted for real GDP growth;

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[40] Studies often focus on either domestic debt sustainability or external debt sustainability. A study by Sebastian Edwards, entitled "Debt Relief and Fiscal Sustainability," NBER Working Paper No. 8939 (Cambridge, Massachusetts: National Bureau of Economic Research, 2002), analyzes the aggregate debt of the public sector.

$z(t)$ = seigniorage income as a percent of GDP;[41]

$d(t)$ = primary deficit as percent of GDP;

$b^F(t)$ = foreign debt stock as percent of GDP; and

$e(t)$ = the rate of exchange rate depreciation.[42]

The first term on the right-hand side represents the expected present value of the total public debt at time $t + n$. As n approaches infinity, this term becomes zero. The second term specifies the sum of all future seigniorage income and primary balances discounted at a time-varying real interest rate, and the third term is the net present value of current and expected future foreign debt-service costs, which depends on domestic and foreign real interest rates.

78. **Equation (2) implies that a country cannot borrow indefinitely because this behavior will lead to rising debt levels unless the real cost of borrowing is less than the growth rate of real output.** If the latter holds, then there will be a finite debt-to-GDP ratio for any period t corresponding to a finite primary deficit. A country can thus "grow out of its public debt." If the real cost of borrowing rises faster than output, the debt-to-GDP ratio will rise, and fiscal policies will need to be adjusted to achieve a sustainable fiscal position. The discount factor, δ, which depends on the domestic real interest rate, r^D, plays an important role and influences the net present value of future public debt. For example, a small discount factor will reflect high future real interest rate or slow real growth, and reduce the net present value of future debt.

79. **Foreign borrowing can play an important role in an intertemporal fiscal adjustment to achieve sustainability.** As the third term of equation (2) suggests, foreign borrowing can be used to offset primary deficits if the real cost of foreign borrowing is lower than the real cost of domestic borrowing. That is, access to external resources could assist the government in maintaining a level of spending while improving fiscal sustainability. If debt ratios are very high, it might be difficult to achieve fiscal sustainability through fiscal

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[41] Seigniorage is defined as revenue raised by printing money and can be measured by the change in the real stock of money balances (see, for example, Abdessatar Ouanes and Subhash Thakur, *Macroeconomic Accounting and Analysis in Transition Economies* Washington: International Monetary Fund, 1977). This can be decomposed into *pure seigniorage*, which is the change in real cash balances, and *inflation tax*, which is seigniorage received by the government from the expansion of reserve money.

[42] For additional information about the derivation of an intertemporal budget constraint, see Merih Uctum and Michael Wickens, "Debt and Deficit Ceilings, and Sustainability of Fiscal Policies: An Intertemporal Analysis," *Oxford Bulleting of Economics and Statistics*, Vol. 62, (May 2000), pp. 197-222. Equation (2) is the so-called transversality condition.

adjustment alone. The HIPC Initiative recognizes this and is reducing the external debt of beneficiary countries to levels they can service without further recourse to debt relief.[43]

B. Sustainability of Fiscal Policies in Zimbabwe

Fiscal Policies and Debt Developments in the 1990s

80. **The central government's fiscal position in Zimbabwe was relatively stable throughout the 1990s, as the primary deficit averaged about 1 percent of GDP with relatively little variation in the yearly outcome** (Table IV.1). Domestic real interest rates, after adjusting for real GDP growth, were close to zero and were not a significant source of risk to fiscal stability (Figure IV.1). Overall borrowing requirements ranged between 5 and 10 percent of GDP, and were met mostly by domestic bank and nonbank financing. Zimbabwe received significant foreign financing and grants, in particular in the early 1990s, related to the Fund-supported adjustment program of 1992; but foreign financing and grants became very small in the second half of the decade (Figure IV.2). Privatization from 1995/96 yielded less than 1 percent of GDP in most years. The ratio of total public debt to nominal GDP, comprising domestic and foreign debt, was in the 60-80 percent of GDP range until the end of the decade (Table IV.1).

81. **In the late 1990s, public sector financing increasingly shifted toward domestic credits as access to foreign financing, official and private, was lost, reflecting faltering investor confidence in Zimbabwe's economy and the deterioration in the government's fiscal stance** (Figure IV.2); the government also began to accumulate external payment arrears in 1999. The fiscal stance weakened considerably in 2000 when the primary deficit swelled to 5½ percent of GDP. The Reserve Bank of Zimbabwe (RBZ) attempted to contain the inflationary effects of the loose fiscal stance, and as a result domestic interest rates rose sharply.[44] The government's debt-service cost increased to 1/3 of total expenditure in 2000, compared with 14 percent at the beginning of the 1990s (or to 18 percent of GDP in 2000 from 5 percent in 1990/91). This pushed the government's financing need up to 23 percent of GDP in 2000, and the debt stock to a high of 114 percent of GDP.

82. **As a result, Zimbabwe's domestic borrowing became increasingly short term**: the share of three-month treasury bills in total domestic debt rose from 12 percent in 1991/92 to

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[43] For an analysis of external debt sustainability, see, for instance, Kausik Chaudhuri and Ning S. Zhu, "External Debt Sustainability: Theory and Application to Heavily Indebted Poor Countries," Albany Discussion Papers, No. 98-01 (Albany, New York: State University of New York at Albany, 1998.

[44] This led to a severe crowding out of the private sector—credit to the private sector in real terms declined in 1999 and 2000 by 30 percent and 10 percent, respectively.

Table IV.1 Zimbabwe: Central Government Debt and Debt-Service Payments, 1990/91-2002 1/

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1999	2000	2001	2002
	(In millions of Zimbabwe dollars)											
Total government debt 2/	14,867	19,725	27,205	35,454	42,829	60,533	68,589	162,512	206,588	356,900	383,721	588,730
Domestic debt	8,026	8,643	9,918	12,365	16,561	29,174	32,425	46,356	82,632	162,498	182,366	381,220
Stocks	6,914	7,247	7,846	8,386	9,556	10,999	10,559	9,484	9,213	8,016	16,667	15,199
Bonds	122	121	111	110	110	109	109	109	108	383	148	98
Loans	24	22	19	17	29	40	35	28	23	18	15	12
Short-term debt	966	1,253	1,942	3,851	6,866	18,026	21,722	36,735	73,288	154,081	165,536	365,912
Treasury bills	539	211	516	1,964	6,565	20,255	20,743	28,542	69,352	153,627	163,272	330,570
Overdrafts and other	427	1,042	1,426	1,887	301	-2,229	979	8,193	3,936	454	2,264	35,342
Public enterprise debt assumed 3/	...	...	...	...	...	3,973	...	...	401	...	...	...
External debt 4/	6,841	11,082	17,287	23,089	26,269	31,360	36,164	116,157	123,956	194,402	201,355	207,510
Stocks	13											
Bonds	835	723	538	382	295	275	251	183	167	145	127	116
Loans	5,993	10,359	16,749	22,707	25,974	31,085	35,913	115,974	123,789	194,257	201,228	207,394
Total interest outlays	1,279	1,829	2,628	3,339	4,695	7,126	7,691	20,909	22,260	56,754	48,250	46,819
Domestic	841	1,093	1,671	2,111	3,470	5,836	6,310	14,639	18,071	51,460	41,122	40,329
Foreign (commitments)	438	736	957	1,228	1,225	1,290	1,381	6,270	4,189	5,294	7,128	6,490
External debt payment arrears	...	...	...	...	...	...	...	...	2,228	10,293	18,553	16,392
Interest	...	...	...	...	...	...	...	...	735	3,092	7,057	6,360
Principal 5/	...	...	...	...	...	...	...	...	1,493	7,201	11,496	10,032
	(In percent of GDP, unless otherwise indicated)											
Total government debt	58.2	61.6	70.8	71.9	72.5	81.2	70.2	110.7	93.2	114.4	75.7	55.4
Domestic debt	31.4	27.0	25.8	25.1	28.0	39.2	33.2	31.6	37.3	52.1	36.0	35.9
External debt 4/	26.8	34.6	45.0	46.8	44.5	42.1	37.0	79.2	55.9	62.3	39.7	19.5
Total interest outlays	5.0	5.7	6.8	6.8	7.9	9.6	7.9	14.2	10.0	18.2	9.5	4.4
External debt payment arrears	...	...	...	...	...	...	...	...	1.0	3.3	3.7	1.5
Interest	...	...	...	...	...	...	...	...	0.3	1.0	1.4	0.6
Principal 5/	...	...	...	...	...	...	...	...	0.7	2.3	2.3	0.9
Budget deficit	-7.1	-6.7	-9.6	-6.6	-10.7	-10.8	-7.6	-6.5	-9.8	-23.0	-10.4	-4.8
Of which: primary balance	-2.6	-1.7	-3.6	-0.4	-3.2	-1.5	0.3	2.7	0.0	-5.4	0.0	-0.1
Memorandum items:												
GDP at market prices (millions of Zimbabwe dollars)	25,559	32,008	38,437	49,320	59,067	74,515	97,689	146,744	221,588	311,890	506,792	1,062,045
Foreign debt stock 6/	2,161	2,207	2,683	2,915	3,088	3,185	3,194	3,118	3,250	3,532	3,659	3,770
Foreign debt stock (percent of GDP at world prices) 7/	...	...	...	...	...	...	35.8	33.9	36.0	41.0	45.5	53.0
Total interest outlays/total expenditure (percent)	13.6	14.1	16.9	18.8	21.5	26.4	23.0	25.2	27.0	34.4	27.9	14.1
Of which: domestic interest outlays	10.1	9.8	12.2	13.2	16.3	22.2	19.3	20.8	22.5	32.2	21.8	11.5
Domestic debt stock (billions of Zimbabwe dollars; in 1990/91 prices	8,026	6,465	5,555	5,557	6,079	8,781	8,136	8,128	9,140	11,531	7,323	6,379
Domestic short-term debt/Total domestic debt	12.0	14.5	19.6	31.1	41.5	61.8	67.0	79.2	88.7	94.8	66.2	14.4
Reserve money (percent of GDP)	5.9	5.7	6.3	6.7	6.2	6.6	7.5	7.5	8.0	6.6	10.8	14.0

Source: Zimbabwean authorities and staff estimates.

1/ Fiscal years July-June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.
2/ Outstanding debt at the end of the fiscal year.
3/ Refers to debt at the end of the year. The initial amount of debt assumed as of January 1995 (Z$3974 million)
included banker acceptance comprising an element of interest subsequently paid during January-June 1995.
4/ External debt may differ according to treatment of certain publicly guaranteed debts. Discrepancies with Statistical Appendix Tables 15 and 17 relate to different data sources.
5/ Medium- and long-term debt.
6/ End-calendar year basis (including arrears). In millions of U.S. dollars.
7/ Nominal U.S. dollar GDP adjusted for real growth and international inflation (1996 base year).

Figure IV.1: Indicators of Fiscal Sustainability
(percent)

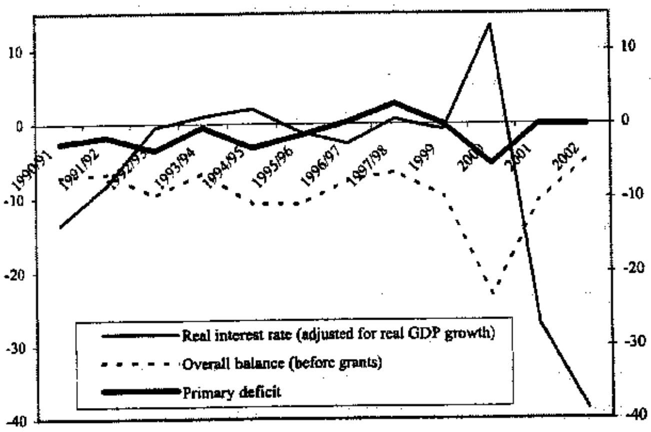


Figure IV.2: Foreign Debt Financing, Foreign Grants, and Privatization Proceeds
(percent of GDP)

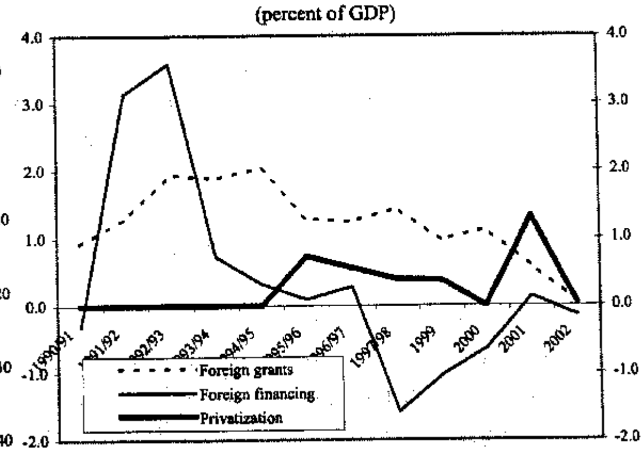


Figure IV.3: Composition of Domestic Debt
(In percent of total domestic debt)

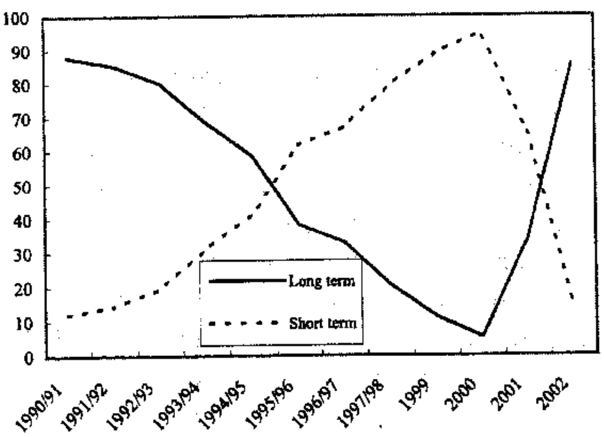


Figure IV.4: Government Debt
(In percent of GDP)

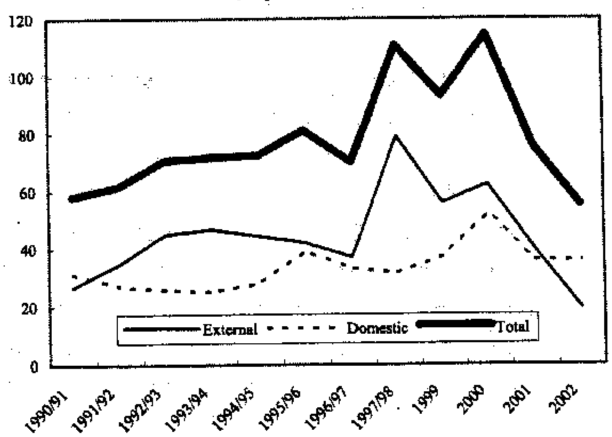


Figure IV.5: Real and Nominal Three-month Treasury Bill Interest Rate
(In annual percent)

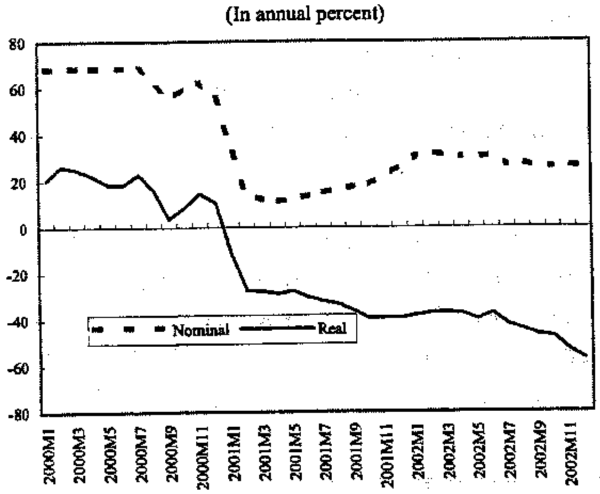
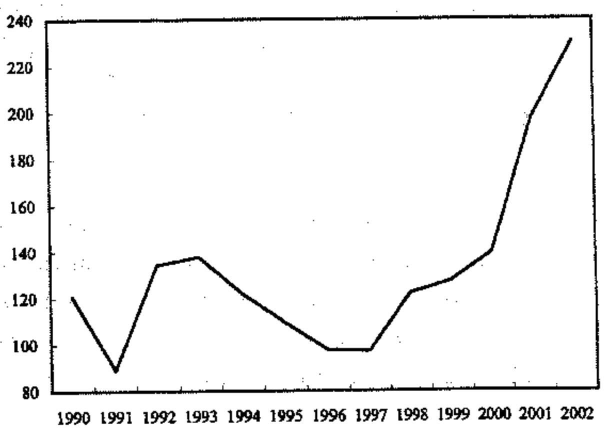


Figure IV.6 Ratio of Public External Debt to Exports of Goods and Services
(In percent)



95 percent in 2000 (Table IV.1 and Figure IV.3).[45] These factors, combined with an absence of foreign financing of the budget deficit, resulted in a rapid increase in the domestic debt stock in 2000. Using equation (2), persistent large primary deficits, combined with high real interest rates, would have led to a situation where the fiscal policy would have become unsustainable. The risk of losing control over fiscal policy, together with the fall in real output, contributed to the end-2000 turnaround.

Restructuring of Government Domestic Debt in early 2001

83. **In the November 2000 budget statement, the government announced the restructuring of its domestic debt** (Figure IV.4) such that at least 30 percent of the domestic debt stock would be in medium- and long-term securities in 2001 (with maturities of longer than one year). In order to achieve this goal, it would begin enforcing the portfolio requirement, namely, that at least 45 percent of non-deposit-taking financial institutions' assets be held in long-term paper. This requirement had not been enforced owing to the lack of long-term securities.

84. **In January 2001, the government did not roll over but instead paid out its maturing three-month treasury bills.** To do this, it resorted to RBZ net credit, which rose from Z$4.6 billion at end-2000 to Z$15 billion in January 2001. This liquidity injection (equivalent to 50 percent of end-2000 reserve money) resulted in a collapse of nominal interest rates: the yield on the three-month treasury bills fell from 72 percent at end-2000 to 39 percent in January 2001. Interest rates became highly negative in real terms (Figure IV.5). The government restricted the issuance of three-month treasury bills in subsequent months and increased the use of RBZ overdrafts through September, when net credit from the RBZ reached Z$27 billion, or 135 percent of end-2000 reserve money. Contrary to earlier years, the rise in RBZ net credit to the government was the primary factor behind the growth of reserve money and the surge in inflation in 2001.

85. **At the same time, the government lengthened the maturity of its debt.** In 2001, it issued 27 percent of its treasury bills with maturities of one to two years. This ratio was increased to 85 percent in 2002, raising the share of longer-term debt in total domestic debt from 6 percent at end-2000 to 35 percent at end-2001 and to 86 percent at end-2002. The government indicated that it intended to maintain the share of long-term domestic debt at about that level.

86. **The government's debt restructuring and the subsequent implementation of loose monetary policies kept nominal interest rates low and reduced the domestic borrowing costs to the budget markedly.** The share of domestic interest outlays in total expenditure fell from 1/3 in 2000 to 12 percent in 2002, while the ratio of domestic debt to GDP declined from 52 percent to 36 percent over the same period, reflecting the erosion of

[45] All treasury bills at end-2000 had maturities of less than one year.

the real value of debt in an environment of negative real interest rates. The reduction in interest costs, together with the reduction in real government spending during 2001–02 (through the compression of real wages and other expenditure outlays), reduced the government's domestic borrowing requirement from about 20 percent of GDP in 2000 to 4 percent in 2002.

Implications and Sustainability Outlook

87. **The debt restructuring led to a widening of imbalances in the economy.** The RBZ's accommodative stance in early 2001 and subsequent provision of liquidity to the economy through special facilities[46] kept interest rates low in nominal terms, and they grew increasingly negative in real terms. This response increased the demand for goods, pushed up their prices, and put pressure on the parallel market exchange rate. In conjunction with a drought-related increase in food prices, this raised inflation from 55 percent at end-2000 to 228 percent in the year to March 2003. Increasingly negative real interest rates have fueled demand for credit, not to fund productive investments but to finance consumption and speculative investments.[47]

88. **Negative real interest rates also have had a significant adverse impact on the level of household savings**, as they have eroded deposits with the banking system (the deposit base declined by about 20 percent during 2001-02, when adjusted for inflation). They also damaged the financial viability of institutional investors: pension funds and life insurance companies, which are required to hold government securities, have witnessed the erosion of the real value of their financial assets by inflation, as the income earned from them has been reduced significantly, putting at risk the future solvency of these institutions. The low interest rates have resulted in a redistribution of wealth from net creditors to net debtors, which contributed to a significant decline in national savings, from 9 percent of GDP in 1999 to −4 and −2 percent in 2001 and 2002, respectively.

89. **The government has significant contingent obligations.** The debt stock of public enterprises is mostly guaranteed by the central government, and given the weak finances of most enterprises, the guarantees may well be called. Several public enterprises have sizable external debts. This will make the consolidation of the government's position more difficult. The situation of domestic financial institutions is also precarious. Pension funds and life insurance companies, in particular, have been adversely affected by the low interest rate policy. This could give rise to potential future liabilities for the central government.

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[46] These comprise on-lending at highly subsidized interest rates to exporters and key domestic productive sectors, and special exchange rates for gold and tobacco exporters.

[47] Gross fixed investment to GDP declined from 15 percent in 2000 to an estimated ½ of 1 percent in 2002.

90. **In order to address the serious imbalances in Zimbabwe's economy and put it back on a sustainable path, a tightening of financial policies will be required.** However, monetary tightening will raise real interest rates, which, in turn, will adversely affect the cost of domestic debt to the government. The effect of the rise in interest outlays will be cushioned by the large share of domestic debt at fixed interest rates and the sizable portion of treasury bill debt that has been issued at longer maturities. Fiscal policy will need to support economic stabilization and the government will not be able to finance its fiscal deficits through significant seigniorage income. At the same time, in light of the collapse of real activity in Zimbabwe and the extensive need to provide services in the key social areas, in particular health and education, together with the cost of land reform and the limits on the government's ability to raise revenues, the budget will continue to be under pressure. The intertemporal budget constraint (equation 2) indicates that, in the absence of access to foreign financing, the domestic debt stock could rise again—albeit from a relatively low level—unless the fiscal deficit is contained. In order to offset the rising real cost of domestic borrowing, the government will need to run primary surpluses in the future to stabilize the domestic debt stock. A return to positive real growth in the economy will cushion the effect of the increase in the real cost of domestic borrowing.

91. **Zimbabwe is facing a looming foreign debt problem.** The overvalued official exchange rate is reflected in the decline in the external debt-to-GDP ratio from 62 percent in 2000 to 20 percent in 2002, notwithstanding the build-up of external payments arrears.[48] When measured as a percent of GDP at world prices, the government's external debt stock rose from 41 percent in 2000 to 53 percent in 2002 (Table IV.1) in part as a result of the continuing contraction of real GDP. The accumulation of external payment arrears became the main source of net foreign financing during 2000-2; grant financing to the budget, mainly for humanitarian causes, continued to decline. Reflecting the sharp decline in exports, the government's external debt/export ratio reached a level of 230 percent by 2002 (Figure IV.6).[49] This increase in the foreign debt level will need to be addressed. In equation (2), debt sustainability can be achieved through a reduction in the foreign debt-service costs or an improvement in the primary balance. The latter alone may not be sufficient as foreign debt service costs are likely to rise. For example, the clearance of Zimbabwe's external payments arrears itself and the unavoidable subsequent increase in cash outlays for foreign debt service will put further pressure on the cash budget.[50] A restructuring of Zimbabwe's

[48] Arrears on interest obligations reflect forced foreign financing, and have reduced the domestic financing needs of the government.

[49] Under the HIPC Initiative, a beneficiary country obtains debt forgiveness to reduce its net present value of external debt to 150 percent of its exports (or, in some cases, 250 percent of government revenue).

[50] At the same time, a renewed access to foreign financing, especially grants, would alleviate budget pressures.

foreign debt, possibly including debt reduction, will eventually be needed in order to bring the country's external debt to a manageable level.

Sensitivity tests

92. **The sustainability of the fiscal stance is sensitive to the government's ability to contain current non-interest expenditure and changes in the macroeconomic environment.** In order to gauge how these components would impact the level of public debt, we considered the main risks to stabilization, which relate to the authorities' ability to bring real interest rates down, how quickly conditions for the return of positive real growth can be established, and what would be the consequences if the government cannot improve its primary balance sufficiently:[51]

i. Reflecting a lack of confidence in the authorities' stabilization policies, we assume that real interest rates would be one standard deviation higher in each year during 2003-8 (i.e., 6 percentage points);

ii. An increase in the primary deficit by one standard deviation in each year during 2003-8 resulting from higher spending on goods and services (i.e., 1.9 percent of GDP); and

iii. Reflecting a delay in the return to positive real growth, we assume that real growth would be lower by one standard deviation in each year during 2003-4 (i.e., 5 percent lower than the baseline), and would return to the baseline in 2005.

93. **While each of these shocks will increase domestic borrowing, their effects are not identical.** The results further suggest that relatively limited shocks can have substantial impacts on the debt levels when they occur simultaneously (Figure IV.7). A shock to the real interest rate (i.e., an increase in real interest rates) has a relatively small impact on the debt levels as the projected rise in the domestic debt stock will be higher by about 9 percent of GDP in 2008 relative to the baseline. A decline in real growth in the early years of stabilization or a larger primary deficit throughout the medium-term has a much larger impact on the domestic debt stock, increasing it by about 17 percent of GDP respectively in 2008 relative to baseline. This points to the importance of implementing economic policies that would put the economy back on a sustainable path of positive real growth as soon as feasible, and also suggests that the cost of failing to curtail non-interest spending would lead to higher borrowing over the time. As noted earlier, foreign grant financing would help mitigate the impact of higher spending on the fiscal finances. Finally, a combination of these shocks would increase domestic debt by about 50 percent of GDP over the medium term relative to baseline, bringing the stock of domestic debt to 84 percent of GDP in 2008.

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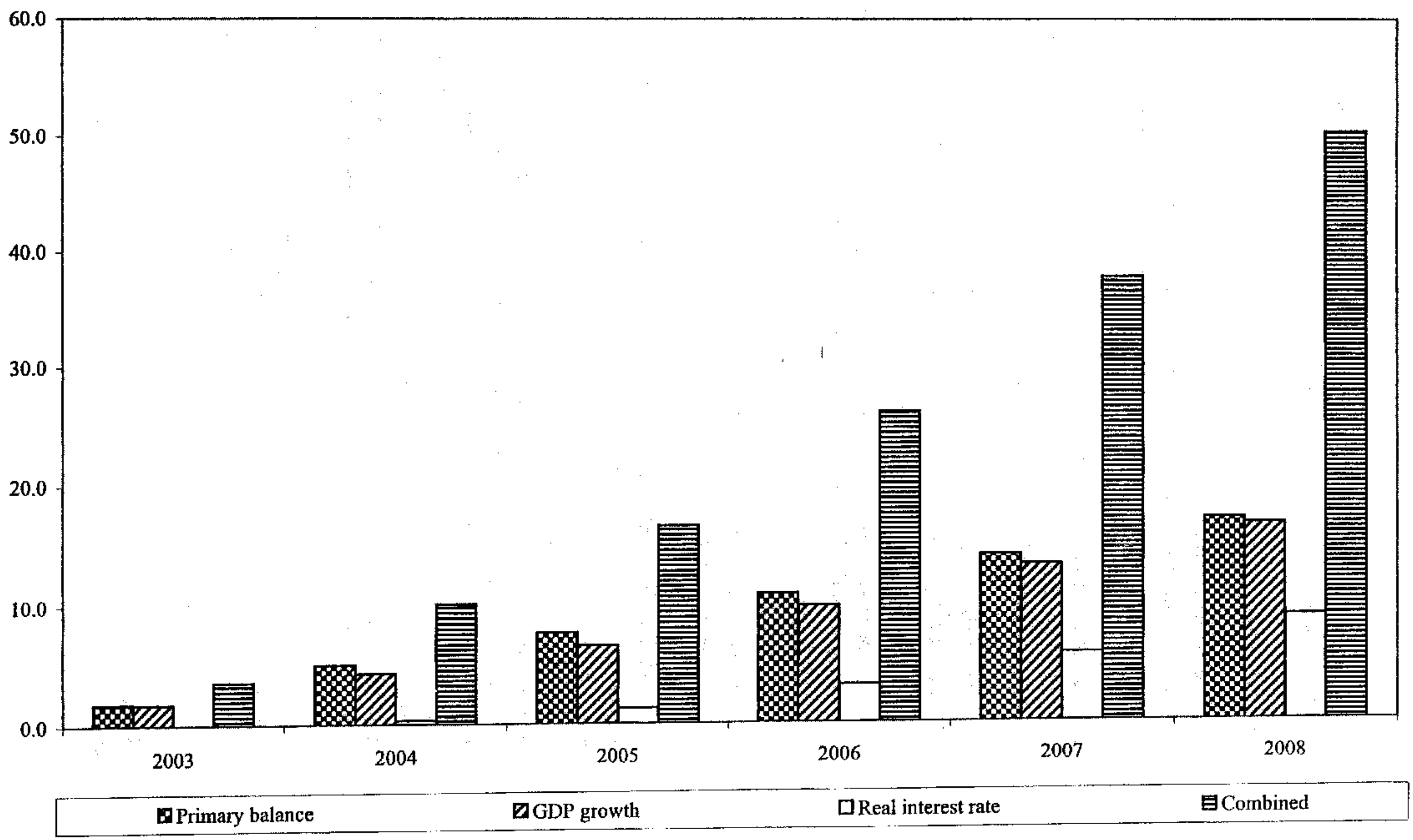
[51] Standard deviations are calculated for the pre-crisis period, that is 1990/91–1999. We only focus on domestic debt while holding foreign borrowing constant.

Figure IV.7: Impact of Shocks on Domestic Debt
(Deviation from baseline; percent of GDP)



V. Vulnerability of Zimbabwe's Banking System[52]

The persistent deterioration in the Zimbabwean economy over the past four years poses significant risks to the health of the banking system. Indicators such as the capital adequacy ratio, the ratio of nonperforming loans to total loans, and indicators of profitability, do not yet indicate problems, but they are distorted; for instance, the reported high capital adequacy ratio does not signal the widespread and significant under-provisioning for nonperforming assets and the erosion of capital requirements by inflation; and the low ratio of nonperforming loans to total loans reflects highly negative real interest rates. A strong and effective prudential regulatory environment is essential to ensure that troubled banks are identified and dealt with in a timely manner. While the Banking Act of 1999 significantly enhanced the ability of the Banking Supervision Department (BSD) of the Reserve Bank of Zimbabwe (RBZ) to supervise banks, and the RBZ introduced a policy to deal with troubled banks in 2001, the regulatory environment suffers from key shortcomings. For example, the RBZ does not have the authority to close unviable banks, but requires permission from the Registrar of Banks in the Ministry of Finance and Economic Development, and the RBZ is not enforcing regulations in a consistent manner, for example, banks have been receiving liquidity support for extended periods of time.

A. Structure of the Banking System

94. **The Zimbabwean banking system consist of 42 financial institutions**, comprising 17 commercial banks, 6 merchant banks, 6 finance houses, 8 discount houses, and 5 building societies (Table V.1).[53] The banking system is dominated by commercial banks who, at end-December 2002, represented 64 percent of the banking system's assets, and 62 percent of its liabilities. During 2002, the Registrar of Financial Institutions granted licenses to 5 new entrants, representing 3 new commercial banks (Barbican Bank, First Banking Corporation and Royal Bank), and CFX Merchant Bank and Premier Discount Company Limited.

95. **The deposit taking activities of commercial banks are the broadest, while other institutions are more limited.** Merchant banks and discount houses can take call and time deposits only, finance houses can accept time deposits, and building societies can accept savings, fixed and share deposits. The deposits of commercial and merchant banks are subject to reserve requirements of 50 percent on demand deposits and 20 percent on time and

[52] Prepared by Louis Erasmus.

[53] The financial system in Zimbabwe comprise deposit and nondeposit taking institutions; the former includes the Post Office Savings Bank (whose activities are restricted to the acceptance of savings and fixed deposits), while the latter consists of pension funds, insurance companies, and unit trust funds.

Table V.1. Composition and Ownership Structure of Zimbabwe's Banking System (as at end-December 2002)

No.		Ownership structure (In percent) Public	Private	Foreign	Date Licensed	Assets (In millions of Zimbabwe dollars)	Deposit Liabilities
	Commercial Banks						
1	Agribank	100.0	0.0	0.0	6/4/1999	9,237	7,368
2	Barbican Bank	0.0	100.0	0.0	11/26/2002	n/a	n/a
3	Barclays Bank	0.0	100.0	65.0	5/1/1965	122,474	81,378
4	Commercial Bank of Zimbabwe/Jewel Bank	82.7	17.3	34.8	11/11/1991	73,361	52,380
5	Century Bank	0.0	100.0	0.0	12/14/2000	17,830	13,334
6	First Banking Corporation	0.0	100.0	0.0	2/7/1997	43,963	16,280
7	Intermarket Banking Corporation	0.0	100.0	0.0	1/22/2002	n/a	n/a
8	Kingdom Bank	0.0	100.0	0.0	12/22/1997	51,845	13,259
9	Metropolitan Bank	0.0	100.0	0.0	4/14/1998	25,814	1,983
10	NMB Bank	0.0	100.0	0.0	6/../1993	82,101	16,095
11	Prime Bank	0.0	100.0	0.0	8/16/1999	0	0
12	Royal Bank	0.0	100.0	0.0	3/14/2002	7,837	1,551
13	Stanbic Bank	0.0	100.0	100.0	4/14/1993	35,025	22,733
14	Standard Chartered Bank	0.0	100.0	100.0	10/1/1983	150,453	83,001
15	Time Bank	0.0	100.0	0.0	2/13/1997	47,682	6,067
16	Trust Bank	0.0	100.0	0.0	1/2/1996	97,124	51,923
17	Zimbabwe Banking Corporation	12.9	87.2	0.0	7/16/1979	45,176	27,038
	Total					**809,922**	**394,388**
	Merchant Banks						
1	ABC Zimbabwe	0.0	100.0	44.9	5/1/1965	70,547	22,233
2	CFX Merchant Bank	0.0	100.0	0.0	4/1/2002	7,777	3,809
3	Genesis Merchant Bank	0.0	100.0	0.0	7/20/1995	0	0
4	Interfin Merchant Bank	0.0	100.0	0.0	9/../1999	72,140	48,767
5	Merchant Bank of Central Africa	0.0	100.0	74.8	5/1/1965	14,301	1,434
6	Renaissance Merchant Bank	0.0	100.0	0.0	10/26/2001	11,474	4,828
	Total					**176,238**	**81,071**
	Finance Houses						
1	ABC Asset Finance	0.0	100.0	44.9	4/1/1968	3,136	2,420
2	Finance Corporation	0.0	100.0	0.0	10/29/1979	8,202	6,606
3	Leasing Company of Zimbabwe	0.0	100.0	0.0	5/20/1996	13,268	10,966
4	Scotfin Limited	12.9	87.2	0.0	7/16/1969	4,144	1,182
5	ZDB Financial Services	32.0	68.0	23.1	10/20/1997	3,110	1,853
6	Trustfin Limited	0.0	100.0	0.0	10/30/2000	15,312	3,256
	Total					**47,173**	**26,282**
	Discount Houses						
1	ABC Securities	0.0	100.0	44.9	5/1/1965	18,736	11,152
2	Century Discount House	0.0	100.0	0.0	12/31/1997	4,747	3,414
3	Discount Company of Zimbabwe	0.0	100.0	0.0	8/1/1959	9,392	7,830
4	Intermarket Discount House	0.0	100.0	0.0	10/30/1990	55,515	2,673
5	National Discount House	0.0	100.0	0.0	12/12/1997	10,191	7,323
6	Premier Discount Company Limited	0.0	100.0	0.0	8/29/2002	2,420	1,073
7	Rapid Discount House	0.0	100.0	0.0	8/26/1997	22,430	16,402
8	Tetrad Securities Limited	0.0	100.0	0.0	11/1/1996	8,642	1,540
	Total					**132,073**	**51,407**
	Building Societies						
1	Beverly Building Society	0.0	100.0	100.0	4/4/1950	35,244	31,971
2	Central Africa Building Society	0.0	100.0	0.0	9/8/1954	40,789	25,761
3	First National Building Society	0.0	100.0	0.0	6/10/1996	7,212	3,559
4	Intermarket Building Society	0.0	100.0	0.0	7/1/1961	20,575	17,588
5	Zimbabwe Building Society	99.8	0.2	0.0	11/27/1991	4,781	1,843
	Total					**108,600**	**80,722**

Source: Reserve Bank of Zimbabwe.

savings deposits.[54] Finance houses are required to place 5 percent of their deposits with the Reserve Bank of Zimbabwe (RBZ). Commercial and merchant banks are the only authorized dealers in foreign exchange. The major functions of the other institutions are: the provision of trade and corporate financing (merchant banks), the provision of hire purchases and lease financing (finance houses), and the provision of mortgage financing (building societies). Discount houses function as intermediaries by dealing mostly in short-terms assets such as treasury bills, bills of exchange and negotiable certificates of deposit.

96. **Most of the banks in Zimbabwe are privately owned**; public sector shareholding is limited to 3 commercial banks, 2 finance houses and 1 building society (Table V.1). Foreign participation in Zimbabwe's banking system is spread through the total spectrum of banking sector activities. The four commercial banks with foreign ownership (Barclays Bank, Commercial Bank of Zimbabwe, Stanbic Bank and Standard Chartered Bank) hold 47 percent of assets and 61 percent of total deposits. Foreign-owned banks also play an important role in the provision of trade and corporate financing (holding 48 percent of assets and 29 percent of deposits), and in the provision of mortgage financing (32 percent of assets and 40 percent of deposits).

97. **The importance of lending in banks' portfolios has declined substantially since 1999 in view of the deteriorating macroeconomic situation, and the consequently higher credit risk.** For commercial banks, the proportion of loans to total assets has declined from 38 percent at end-1999 to 29 percent at end-2001, while the proportion of securities and investment (for example, treasury bill and bills of exchange) rose from 7 percent to 32 percent. Similar trends are evident in the rest of the banking sector.

98. **Banks can borrow through three facilities from the RBZ,** namely through the repo facility to cover their settlements positions, through the overnight facility in order to ensure clearance of all settlements, and through the Temporary Liquidity Assistance plan (the terms and conditions of which are negotiated on a case-by-case basis).[55] In the Monetary Policy Statement of November 2002, the RBZ announced that intra-day market positions would be accommodated through repurchase agreements, and end-of day short positions through the overnight window.[56] An electronic payments system, the real time gross

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[54] The statutory reserve requirement on demand deposits was raised from 30 percent to 50 percent with effect of February 1, 2001, while that on time and savings deposits was reduced from 30 percent to 20 percent.

[55] Secured borrowing through this facility attracts a penalty rate of 20 percentage points above the repo rate, while unsecured borrowing attracts a further penalty rate of 20 percentage points.

[56] Prior to November, the policy reference rate was the Bank Rate, i.e. the rate at which the RBZ provided overnight accommodation to the banking system.

settlements system, was introduced in November 2002. To accommodate intra-day clearing, the RBZ initially gave each bank a Z$15 billion credit line. Some banks, however, habitually drew on this facility overnight, injecting too much liquidity into the market. Approximately 30 percent of transactions were being settled through the new system. The RBZ in early 2003 closed the credit line, now conducts two repos per day, and introduced penalty rates for secured and unsecured borrowing through the overnight facility (see footnote 3).

B. Regulation and Surveillance of the Banking System

99. **The banking system of Zimbabwe is regulated in terms of the provisions of the new Banking Act of 1999, effective August 2000, as well as through guidelines issued by the Banking Supervision Department (BSD) of the RBZ.** The Act provides for the registration and regulation of banks and the establishment of a deposit insurance scheme, but does not apply to the Post Office Savings Bank or building societies (although authority is granted to the Minister of Finance to extend the provisions of this Act to these institutions).

100. **The Banking Act has strengthened the regulatory role of the RBZ and its ability to supervise banks and deal with problem institutions.** Inter alia, it allows the RBZ to conduct on-site inspections and put distressed banks under curatorship, direct an institution to suspend all or part of its banking business, and impose monetary penalties. The Act also requires the external auditors of banking institutions to report to the RBZ irregularities identified during bank audits, allows the RBZ to review the work of the auditor, and makes monthly and quarterly financial reporting by banks a legal requirement.

101. **However, previous advice from the Fund's Monetary and Financial Systems Department (MFD) identified some critical areas which need to be brought into conformance with international best practices as elaborated by the Basel Core Principles for Effective Banking Supervision:**[57]

- currently, the licensing of new banks is vested with the Registrar of Banks in the Ministry of Finance and Economic Development; this should be consolidated with the regulation of banking institutions in a single office at the RBZ;

- the extension of the Banking Act to all deposit-taking institutions;

- the RBZ does not have the authority to adopt, implement and enforce prudential regulations provided for in the Banking Act; the RBZ should be granted authority to define such regulations without the approval of the Ministry of Finance; and
- prohibiting the pledging of assets by banking institutions.

[57] MFD Technical Assistance mission of May 1999.

102. **Responding to this, the RBZ drafted for consideration by the Minister of Finance and Economic Development amendments to the Banking Act and Banking Regulations to strengthen the supervisory capacity and efficiency of the BSD, including:**

- consolidation of the licensing and regulating functions in the RBZ,
- granting of authority to the RBZ for the adoption, implementation and enforcement of prudential guidelines,
- requiring new banking institutions to comply with any conditions before being allowed to commence operations,
- providing for the registration of bank holding companies and consolidated supervision,
- requiring agreement by the RBZ for significant mergers and acquisitions,
- providing for the legal protection to the Registrar and bank supervisors in the execution of their duties, and
- formally requesting the Minister of Finance to extend the provisions of the Banking Act to building societies and the Post Office Savings Bank.

103. **The capacity of the BSD to supervise the banking system is constrained by a lack of personnel and experience.** As of March 2003, it had 38 staff members supervising 40 banking institutions (authorized staff level of 48), after losing 10 experienced personnel over the last 1-1½ years. The BSD conducts both off-site monitoring and on-site examination. To address the situation, the BSD has emphasized staff training and manages a cadet training program.

C. Health Indicators of the Banking System

104. **Capital Adequacy.** Bank capital is clearly defined in the Banking Act and Banking Regulations (Statutory Instrument 205 of 2000) and appears to comply with International Accounting Standards. The RBZ applies three minimum capital adequacy ratios (CARs), which have been implemented in Zimbabwe beginning in 1998:

- a leverage capital ratio of 6 percent (core capital over total assets),
- a minimum core risk-based capital ratio of 5 percent (Tier 1 capital over total risk-weighted assets), and
- a minimum total risk-based capital ratio of 10 percent (total capital over risk-weighted assets).

105. **The reported CARs for the different categories of financial institutions are substantially higher than the prudential minimum ratio of 10 percent (Table V.2), although most declined significantly during 2002.** Furthermore, Agribank reported negative capital of nearly 20 percent, and the ratio fell below the required minimum in one other commercial bank and one finance house at end-2002. Also, the analytical value of these CARs has been reduced by under-provisioning and inflation. Provisioning for nonperforming assets falls short of requirements, especially among commercial banks and building societies (Table V.3). The capital base of banks has been eroded by inflation. Following adjustments in August 1999, minimum capital requirements were increased by 400 percent on January 19, 2003; during this period, however, inflation was 1,123 percent. The new minimum requirements remain very low – for commercial banks it is the equivalent of US$0.6 million as of March 2003 at the new official exchange rate of Z$824 per US$1.[58]

Table V.2. Capital Adequacy Ratios 1/
(In percent)

	1999	2000	2001	2002			
				Mar.	Jun.	Sep.	Dec.
Commercial Banks	15.3	18.3	22.4	43.2	44.5	19.1	16.2
Merchant Banks	16.8	11.4	16.6	17.4	27.0	23.4	26.2
Finance Houses	31.3	31.7	24.2	20.2	25.1	45.2	18.3
Discount Houses	41.0	47.9	50.5	34.0	27.8	35.8	25.4
Building Societies	56.7	112.8	114.2	95.0	88.1	83.7	66.0

Source: Reserve Bank of Zimbabwe.
1/ Total capital over total risk weighted assets.

106. **The sharp contraction in real output and worsening of macroeconomic instability is not yet reflected in the reported quality of banks' assets** (Table V.4). For the banking system as a whole, the ratio of nonperforming loans (NPLs) to total loans declined from a level of 17.2 percent in 1999 to only 6.7 percent in 2002.[59] Similar trends are observed for the different categories of financial institutions. However, three commercial banks and

[58] It was raised from Z$100 million to Z$500 million. For merchant banks the minimum capital requirement was raised from Z$60 million to Z$300 million; for discount houses, from Z$40 million to Z$200 million; and for finance houses, from Z$60 million to Z$300 million.

[59] Nonperforming loans comprise substandard loans (past due more than 90 days, but less than 180 days), doubtful loans (180 days to 360 days), and loss loans (360 days and more).

Table V.3. Provisioning for Adversely Classified Loans

	1999	2000	2001	2002			
				Mar.	Jun.	Sep.	Dec.
				(In Zimbabwean dollars)			
Specific Provisions							
Commercial Banks	868,701	3,417,924	3,993,081	4,312,331	5,696,470	2,720,205	3,314,490
Merchant Banks	479,030	1,074,597	932,370	1,381,897	1,921,573	1,793,978	1,706,423
Finance Houses	370,393	345,017	534,956	458,652	454,225	426,775	332,436
Building Societies	232,461	296,203	341,830	273,249	289,625	55,820	56,935
Required Specific Provisions							
Commercial Banks	2,802,869	7,449,446	8,481,792	11,140,272	9,933,855	7,618,839	9,395,359
Merchant Banks	1,740,022	1,403,442	1,191,424	1,390,812	1,864,747	1,995,490	2,008,031
Finance Houses	653,201	483,374	633,118	598,233	633,426	624,425	511,313
Building Societies	170,907	176,885	377,624	437,416	92,954	244,739	245,563
				(In percent)			
Specific Provisions/Required Specific Provisions							
Commercial Banks	31.0	45.9	47.1	38.7	57.3	35.7	35.3
Merchant Banks	27.5	76.6	78.3	99.4	103.0	89.9	85.0
Finance Houses	56.7	71.4	84.5	76.7	71.7	68.3	65.0
Building Societies	136.0	167.5	90.5	62.5	311.6	22.8	23.2

Source: Reserve Bank of Zimbabwe.

Table V.4. Nonperforming Loans

	1999	2000	2001	2002 Mar.	2002 Jun.	2002 Sep.	2002 Dec.
	(In Zimbabwean dollars)						
Nonperforming loans							
Commercial Banks	4,761,533	10,592,361	12,879,866	16,129,419	18,536,233	12,427,631	20,260,888
Merchant Banks	3,997,702	2,336,407	1,841,384	1,507,447	2,892,365	3,134,685	2,422,802
Finance Houses	1,060,300	679,832	747,086	756,006	994,770	955,086	748,873
Building Societies	394,355	479,890	1,071,830	749,591	234,448	494,134	478,492
Total	10,213,890	14,088,490	16,540,166	19,142,463	22,657,816	17,011,536	23,911,055
Total loans							
Commercial Banks	33,657,130	58,114,518	93,631,030	103,551,570	135,627,340	160,926,840	255,799,550
Merchant Banks	10,852,060	11,332,880	4,782,660	8,247,760	14,083,640	20,779,360	42,854,720
Finance Houses	5,610,010	4,293,210	9,449,330	10,727,980	13,944,530	19,405,000	27,847,450
Building Societies	9,243,130	12,209,690	15,169,750	16,936,280	20,092,570	23,519,330	28,167,800
Total	59,362,330	85,950,298	123,032,770	139,463,590	183,748,080	224,630,530	354,669,520
	(In percent)						
Nonperforming loans/total loans							
Commercial Banks	14.1	18.2	13.8	15.6	13.7	7.7	7.9
Merchant Banks	36.8	20.6	38.5	18.3	20.5	15.1	5.7
Finance Houses	18.9	15.8	7.9	7.0	7.1	4.9	2.7
Building Societies	4.3	3.9	7.1	4.4	1.2	2.1	1.7
Total	17.2	16.4	13.4	13.7	12.3	7.6	6.7

Source: Reserve Bank of Zimbabwe.

one building society reported NPLs of about 20 percent of total loans at end-2002. The decline in the NPL ratio also reflects the low interest rate environment and the write-off of loans.

107. **A few banks have considerable large exposures (individual loans constituting more than 10 percent of capital).** According to RBZ regulations, and in line with international practices, the sum of all large exposures should not exceed 800 percent of a bank's capital. However, at end-2002, one merchant bank exceeded the regulatory maximum by a large margin (1,650 percent), and three commercial banks reported large exposure ratios of more than 500 percent.

In terms of sectoral exposure, the banking system has reduced its exposure to the agricultural sector – reflecting the implementation of the government's fast-track land reform program (Table V.5). Nevertheless, the exposure of merchant banks rose again in 2002, and represented around 8 percent of their portfolio. Commercial and merchant banks have large exposure to the manufacturing and distribution sectors, both of which have been severely affected by the contraction in output.

108. **Despite the difficult environment in which they have to operate, most financial institutions improved their profitability in 2002** (Table V.6). However, the widespread under-provisioning for nonperforming assets distorts the profitability indicators, and the return on equity was significantly lower than inflation. The main source of income for the banking system is high interest rate spreads, as well as fees and commissions and foreign exchange operations, reportedly including in the parallel market. There has been considerable political pressure on banks to reduce the interest rate spreads which would have an adverse impact on banks' earning capacity. The National Economic Revival Program (NERP) of February 2003 stated that the Government would institute measures to narrow the high spreads "in line with international best practices", and would review upwards deposit interest rates for the benefit of savers; the proliferation of service charges levied on depositors is also to be reviewed.

109. **The liquidity ratios for all financial institutions at end-2002 were significantly higher than the prudential level of 10 percent** (Table V.7).[60] However, the calculation of the liquidity ratio (total liquid assets over total liquid liabilities) overstates the actual liquidity situation of the banking system since liquid assets include treasury bills that have to be deposited at the RBZ to secure temporary borrowing from the RBZ, or have been pledged as security for deposits.

[60] Liquid assets consist of notes and coins, balances with the RBZ other than required reserves, balances with domestic and offshore banks, treasury bills, quoted local registered securities issued or guaranteed by the government with a maturity of up to six years, negotiable certificates of deposit, and other liquid assets. Liquid liabilities consist of total deposits and other liabilities and debt that are due in one year or less.

Table V.5. Sectoral Exposure of the Banking System

	1995		1999		2000		2001		2002	
	Z$ millions	Percent	Z$ millions	Percent	Z$ millions	Percent	Z$ millions	Percent	Z$ millions	Percent
Commercial Banks										
Agriculture	2,195	26.3	5,772	15.8	7,962	14.5	12,643	12.8	28,916	11.2
Construction	266	3.2	553	1.5	2,347	4.3	1,863	1.9	5,873	2.3
Communication	2	0.0	588	1.6	409	0.7	2,983	3.0	3,467	1.3
Distribution	1,110	13.3	6,358	17.4	9,089	16.5	27,371	27.8	61,383	23.8
Finance and Investments	355	4.3	1,121	3.1	6,677	12.1	10,602	10.8	12,920	5.0
Financial Organizations	142	1.7	972	2.7	4,096	7.4	1,552	1.6	17,447	6.8
Manufacturing	1,905	22.8	6,447	17.6	7,712	14.0	20,295	20.6	53,864	20.9
Mining	207	2.5	2,641	7.2	5,370	9.7	4,332	4.4	6,403	2.5
Services	1,027	12.3	7,264	19.9	6,232	11.3	6,597	6.7	36,105	14.0
Transportation	298	3.6	1,219	3.3	1,847	3.4	2,275	2.3	8,509	3.3
Individuals	820	9.8	3,193	8.7	3,103	5.6	6,408	6.5	20,088	7.8
Other	14	0.2	439	1.2	245	0.4	1,624	1.6	3,079	1.2
Total	8,341	100.0	36,567	100.0	55,089	100.0	98,545	100.0	258,054	100.0
Merchant Banks										
Agriculture	114	6.0	826	11.7	523	6.2	604	4.8	4,390	7.8
Distribution	381	20.1	1,547	22.0	2,049	24.3	2,381	19.1	9,676	17.3
Finance and Investments	149	7.8	58	0.8	15	0.2	0	0.0	712	1.3
Financial Organizations	58	3.1	143	2.0	174	2.1	430	3.4	445	0.8
Manufacturing	682	35.9	2,017	28.7	2,471	29.2	4,805	38.5	22,033	39.3
Mining	248	13.1	681	9.7	1,207	14.3	772	6.2	2,983	5.3
Services	148	7.8	570	8.1	757	9.0	1,170	9.4	6,272	11.2
Transportation	24	1.3	235	3.3	217	2.6	415	3.3	1,709	3.0
Individuals	15	0.8	167	2.4	128	1.5	155	1.2	824	1.5
Other	81	4.3	793	11.3	908	10.7	1,736	13.9	7,017	12.5
Total	1,900	100.0	7,037	100.0	8,449	100.0	12,468	100.0	56,061	100.0

Source: Reserve Bank of Zimbabwe.

Table V.6. Profitability of the Banking Sector 1/ 2/

	2000				2001				2002			
	Return on assets	Return on equity	Net interest margin	Cost/ income	Return on assets	Return on equity	Net interest margin	Cost/ income	Return on assets	Return on equity	Net interest margin	Cost/ income
Commercial Banks	3.8	43.1	7.3	76.8	1.4	18.7	2.6	76.3	3.4	62.7	8.5	70.8
Merchant Banks	2.4	30.7	5.5	134.7	1.8	24.3	2.6	58.4	9.2	80.4	10.4	52.4
Finance Houses	5.1	26.7	14.3	80.6	2.3	15.9	6.7	62.1	2.9	31.7	7.7	75.4
Discount Houses	2.0	34.3	2.7	73.5	3.6	62.6	3.8	63.1	3.0	56.4	7.6	78.5
Building Societies	8.3	20.6	11.4	66.9	5.6	14.8	8.4	76.2	2.5	10.0	7.6	82.8

Source: Reserve Bank of Zimbabwe.
1/ Net interest margin is calculated as the ratio of net interest income to interest earning assets.
2/ Cost to income ratio is calculated as the ratio of total expenses to total income.

Table V.7. Liquidity Ratios 1/
(In percent)

	2000	2001	2002
Commercial Banks	53.5	44.8	53.9
Merchant Banks	44.7	92.2	42.2
Finance Houses	29.2	38.6	24.1
Discount Houses	94.8	103.7	91.6
Building Societies	73.2	79.6	65.5

Source: Reserve Bank of Zimbabwe.
1/ Total liquid assets over total liquid liabilities.

110. **Some banks have experienced substantial liquidity shortages, and frequently borrow from the RBZ.** Seven institutions have received substantial liquidity support from the RBZ for an extended period of time (during 2002, this support varied between Z$4.0 billion and Z$11.4 billion), and at rates that have been below the prevailing rate on short-term treasury bills.[61] These developments raise questions about the temporariness of liquidity support and the underlying causes; RBZ guidelines call for funds to be made available only to banks that are solvent and viable; on a short-term, temporary basis; at a penalty rate of interest (2.5 percentage points above the 91-day treasury bill rate); and that are secured by eligible assets.[62]

111. **The quality of risk management varies considerably among banks.** According to the BSD, the majority of foreign-owned banks and well-established banks are managing the risks posed by the unstable macroeconomic environment by limiting lending to quality creditors and by either lending only against collateral, or not at all, to counterparties in the interbank market. Other banks, however, exhibit an aggressive risk taking stance in order to gain market share, or realize short-term profits.

112. **The principal risk for the banking system appears to be credit risk as a return to positive real interest rates could seriously affect the ability of many debtors to repay.** This risk could be exacerbated by the extent to which borrowed funds have been applied for

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[61] Five banking institutions have been receiving such support for at least two years, while the other two have been receiving support for eighteen months.

[62] The provision of liquidity support is covered in Section 59 of the Banking Act (Act 09/99), and elaborated in Banking Circular No. 01-98/BSD on Liquidity Support and Lender of Last Resort Facilities.

speculative purposes. At the same time, the risk also depends on the extent to which a rise in interest rates would go hand-in-hand with price and exchange market liberalization.

113. **Interest rate and foreign exchange risk for the banking system as a whole appear to be limited.** In view of the severe shortage of foreign exchange in the economy, the foreign exchange assets and liabilities of the banking system are not substantial, and at end-December 2002 accounted for about 2 percent of total assets. The banking system as a whole furthermore had a long position in foreign exchange amounting to Z$2.4 billion. Interest rate risk, stemming from maturity mismatches, are in principle mitigated by the prevailing high interest rate spreads, and by banks' policy to reprice loans and assets at high frequencies.[63]

D. Dealing with Troubled Banks

114. Under the provisions of Part IX of the Banking Act (Act 09/99), **the RBZ introduced a Troubled and Insolvent Banks Policy in November 2001.** The objective is to restore troubled, but viable, banks to a healthy condition, and to remove unsalvageable banks expeditiously from the system. The policy provides for informal and formal regulatory actions. **Informal actions** include:

- Board Resolutions are officially adopted by the board of directors of the institution concerned, and contain a plan of action to address deficiencies within a defined time period (such actions are often drafted or suggested by the RBZ),
- Commitment Letters are like Board Resolutions, but entail a formal letter from the board of directors of the troubled institution to the RBZ, outlining a specific plan of action and timetable for accomplishment, and
- Memoranda of Understanding are more formal as the corrective actions are prescribed by the RBZ, and then adopted and signed jointly by the board of directors of the troubled institution and the RBZ.

115. **Formal actions, or "Corrective Orders", entail a plan imposed unilaterally by the RBZ to correct deficiencies.** Corrective orders can include appointment of an advisor or supervisor; placing a bank under management of a curator; suspending a director, officer or employee; amending, suspending or canceling a license; and closure and liquidation. Since 2000 the RBZ had to take corrective action in the case of three financial institutions. In two of the cases, the problems were resolved through the recapitalization of the banks by their

[63] Lending rates are adjustable, and rates on existing loans can thus be modified in line with changes in the cost of funds (principally stemming from an adjustment in the monetary policy stance.

owners and the appointment of new boards of directors and management teams. In the most recent case, a curator was appointed by the RBZ to investigate the source of the problems, to assess the financial position of the institution, and to suggest a course of action.

116. **Deposit Protection Scheme (DPS).** In Zimbabwe, the establishment of a DPS was provided for in the 1999 Banking Act and it is scheduled to become effective on July 1, 2003.[64] A Deposit Protection Board consisting of the Governor and two Deputy Governors of the RBZ, and three members nominated by contributing institutions has been set up. The DPS will be funded through contributions by all registered banking institutions; provision is made for an initial contribution to enable the DPS to meet any demands until the payment of the first annual contribution. Determination of the classes of deposits to be protected, the extent of protection, and the size of individual contributions are to be determined by the Board. Provision is made for the submission of financial data (normally submitted to the RBZ and Registrar of Banks at the Ministry of Finance and Economic Development) to the Board by registered banks and their auditors, and curators where applicable. The Board can request additional data on protected deposits and the financial situation of contributing members, and undertake additional inspections in cases where the solvency of a contributing institution is suspect. Market players welcomed in principle the decision to establish a DPS, but were concerned about the cost implications for the banking system, namely that the larger, prudently managed banks would have to subsidize smaller banks, and that the scheme may need to compensate for oversights in BSD's supervision of the banking system.

VI. Status of Major Public Enterprises and Privatization in Zimbabwe[65]

The major public enterprises in Zimbabwe face many problems. The shortage of foreign exchange is the single most important obstacle facing the enterprises. Many companies also have a heavy debt burden and lack working capital. Maintenance and rehabilitation have been neglected for many years, and as a result, enterprises are burdened with a depleted capital stock and several operate at very low capacity levels. All public enterprises operate at controlled prices, which constrain their profitability.

117. This chapter reviews the situation of major public enterprises in Zimbabwe. It is based on balance sheets and income statements received from the enterprises, supplemented by staff interviews with representatives of these enterprises. It also discusses the status of the privatization program in Zimbabwe.

[64] Part XII of the Banking Act (Act 9/99); the arrangements for its establishment were elaborated in Statutory Instrument 29/2003.

[65] Prepared by Helga Treichel (FIN).

118. The major public enterprises[66] are the following:

- Air Zimbabwe (AIRZIM),
- Cold Storage Company (CSC),
- Grain Marketing Board (GMB),
- National Oil Company of Zimbabwe (NOCZIM),
- National Railways of Zimbabwe (NRZ),
- Post and Telecommunications Corporation (PTC),
- Zimbabwe Electricity Supply Authority (ZESA), and
- Zimbabwe Iron and Steel Company (ZISCO).

These enterprises are part of an ongoing study conducted jointly by the World Bank, the Ministry of Finance, and the Privatization Agency of Zimbabwe (PAZ), who developed a data and monitoring framework in 2000 to review the performance of the eight largest public enterprises on a quarterly basis. This chapter also includes information on Agribank and Wankie Colliery Co.—the latter, although not a public enterprise, is of strategic importance to the Zimbabwean economy.

119. **These public enterprises are important for the Zimbabwean economy in several ways.** They account for about 3 percent of formal employment and for more than 10 percent of value added in the economy. Roughly 20 percent of total imports into Zimbabwe are conducted through GMB (grain), NOCZIM (fuel), and ZESA (electricity). The group includes major transport services (AIRZIM and NRZ) and major public utilities (ZESA and PTC). ZISCO is the sole steel producer in Zimbabwe, and CSC is the only significant exporter of meat.

120. The remainder of this chapter looks at specific issues as well as the status of the privatization program in Zimbabwe. Section A focuses on profitability, and the debt situation

[66] There are about 30 public enterprises remaining in Zimbabwe—the ones treated in detail in this chapter are the eight largest and strategically most important ones.

is analyzed in Section B. Section C discusses common problems encountered by public enterprises and Section D provides an outlook for the major public enterprises. Section E provides information on the status of the privatization program in Zimbabwe. Background information on all public enterprises covered in this chapter (as well as on Agribank and Wankie Colliery Co.) is contained in the attachment.

A. Before-Tax Profits and Losses

121. **In 2002, the group of eight major public enterprises for which data are available posted a joint profit equivalent to 0.7 percent of GDP—same as in 2001 (Table VI.1).**[67] The total masks large differences in the performance of individual enterprises (Figure VI.1) and is largely attributable to NOCZIM's sizeable profits.[68] Three groups can be distinguished: (i) profitable enterprises (NOCZIM and PTC), (ii) enterprises that are roughly breaking even (AIRZIM and ZESA), and (iii) loss-making enterprises (CSC, GMB, NRZ, and ZISCO). Losses of the latter have not been covered through budgetary transfers, but rather through bank loans and the issuance of various bonds, in the majority of cases with a government guarantee.

122. **NOCZIM has been posting sizeable profits in the last two years** (2.5 and 3.2 percent of GDP in 2001 and 2002, respectively), as it received foreign exchange at the official exchange rate of Z$55/US$1 from the Reserve Bank of Zimbabwe (RBZ). Until mid-2002, a large share of fuel imports took place in the context of an arrangement with Libya, which involved RBZ guarantees as well as in-kind payments (see Attachment for details). Retail prices for fuel (gasoline, diesel, and jet fuel) were set at a level, which—albeit low by regional standards—provided NOCZIM with a comfortable profit margin. These profits allowed NOCZIM to pay off some domestic debt (including to the government on customs duties and other taxes) as well as build up significant cash reserves during the last two years. In early 2003, the cash reserves were used in a swap arrangement under which NOCZIM secured US$35 million from Anglo American.

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[67] These figures need to be interpreted with some caution as they are based on unaudited data received from the enterprises. Furthermore, public enterprises operate in an environment of controlled prices—for both inputs and outputs, and interest rates are sharply negative in real terms.

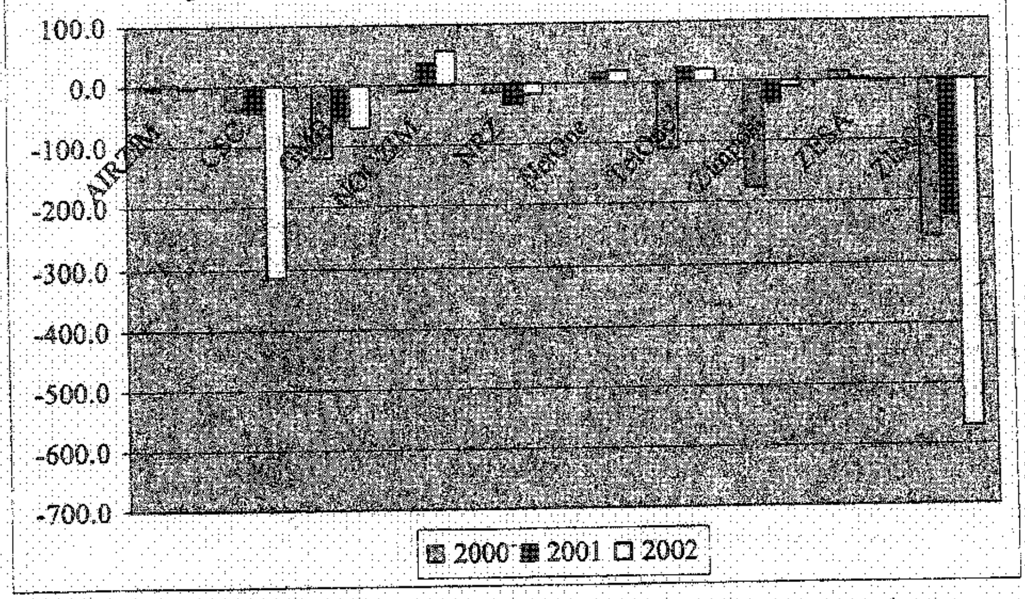
[68] Excluding NOCZIM, major public enterprises recorded losses of 1.7 and 2.4 percent of GDP in 2001 and 2002, respectively.

Table VI. 1: Before-Tax Profits/Losses of Major Public Enterprises, 1999-2002

	1999	2000	2001	2002
	(in million Zimbabwe dollars)			
Air Zimbabwe (AIRZIM)	97	-247	302	-462
Cold Storage Company (CSC)	-455	-1,395	-1,500	-3,317
Grain Marketing Board (GMB)	-2,124	-3,332	-4,548	-14,903
National Oil Company of Zimbabwe (NOCZIM)	-3,143	-2,106	12,500	33,592
National Railways of Zimbabwe (NRZ)	282	-699	-2,909	-2,146
Post and Telecommunications Corporation (PTC)	-367	-3,023	2,937	4,998
NetOne	0	0	515	1,172
TelOne	0	-1,818	3,001	4,146
Zimpost	0	-1,205	-579	-320
Zimbabwe Electricity Supply Authority (ZESA)	-282	2,562	1,002	-549
Zimbabwe Iron and Steel Corporation (ZISCO)	-1,339	-6,009	-4,056	-9,331
Total	-7,331	-14,249	3,727	7,882
(in percent of GDP)	-3.3	-4.6	0.7	0.7
(in percent of GDP, excluding NOCZIM)	-1.9	-3.9	-1.7	-2.4
	(in percent of total revenue)			
Air Zimbabwe (AIRZIM)		-7.3	4.7	-3.1
Cold Storage Company (CSC)		-40.7	-41.5	-314.3
Grain Marketing Board (GMB)		-118.7	-55.5	-69.4
National Oil Company of Zimbabwe (NOCZIM)		-10.6	37.1	56.3
National Railways of Zimbabwe (NRZ)		-11.3	-32.7	-16.6
Post and Telecommunications Corporation (PTC)		-129.7	17.7	16.0
NetOne		0.0	18.1	18.9
TelOne		-110.7	24.9	19.0
Zimpost		-174.9	-35.5	-9.8
Zimbabwe Electricity Supply Authority (ZESA)		12.7	3.5	-1.7
Zimbabwe Iron and Steel Corporation (ZISCO)		-259.0	-223.9	-569.8

Sources: Ministry of Finance and staff estimates.

Figure VI.1: Before-Tax Profits/Losses of Major Public Enterprises as a Percentage of Total Revenues (2000-2002)



123. **However, NOCZIM was unable to import enough fuel to meet domestic demand due to the shortage of foreign exchange in the official market and competing demands** (in particular for grain and electricity imports). Shortages of fuel on the domestic market intensified during 2002—illustrated by long fuel queues. Foreign exchange shortages also severely limited NOCZIM's ability to import spare parts and to service its foreign debt (see below). NOCZIM's credit rating declined further, and increased the company's difficulties in securing import financing.

124. **The second profitable enterprise in 2002 was the Post and Telecommunications Corporation (PTC)**, which was unbundled into three separate companies in 2001—NetOne (cellular service), TelOne (fixed line services), and ZIMPOST (postal operations). NetOne, which is competing against two private operators, and TelOne were profitable. ZIMPOST made a small loss, but ongoing reform efforts have caused ZIMPOST's losses to decrease over the last few years.

125. **Both AIRZIM and ZESA have been roughly breaking even for the last several years.** In both cases, the enterprises have been able to adjust their tariffs (which are controlled) to levels that cover their costs. ZESA uses two different tariff adjustment mechanisms (one for ad-hoc increases and one for automatic adjustments) which appear to be working reasonably well (see discussion in the Attachment). AIRZIM has increased its fares on an annual basis.

126. **The Grain Marketing Board (GMB) is the largest loss-maker—and losses have been increasing in recent years from 1 percent of GDP in 2001 to 1.5 percent of GDP in 2002.** GMB's losses are a subsidy for basic food (mostly mealie meal). In 2002, GMB sold maize to millers at a price of Z$9,600/ton while it procured maize at Z$28,000/ton on the domestic market and at Z$12,100/ton (at the official exchange rate of Z$55/US$1) on the international market. Procurement and consumer prices for wheat were equally unbalanced. This situation was further exacerbated by the government's decision in April 2003 to raise procurement prices to Z$130,000/ton for maize and to Z$150,000/ton for wheat without any adjustment in consumer prices. GMB's losses have been financed through government-guaranteed bank loans and grain bills (short-term papers). Since early 2003, GMB has faced difficulties in rolling over its credit and has asked Government to honor the guarantees it had issued.

127. **The remaining three loss-making public enterprises are CSC, ZISCO, and NRZ.** ZISCO's and CSC's losses amount to about 315 and 570 percent of total revenues of these companies, respectively, reflecting their very low output levels. **CSC's** operations were shut down for 10 months during 2002, as its assets were attached by domestic banks because of the company's failure to honor its debt obligations. A debt workout scheme involving the government, CSC, and local banks was agreed in mid-2002, and CSC restarted its operations in late-2002—at a very low level—reflecting, in part the effect of the drought on livestock (the national cattle herd has shrunk) and the spread of foot-and-mouth disease. In addition, CSC lacks access to working capital. CSC's facilities are reportedly in good working order and require only normal maintenance.

128. **ZISCO** was operating at about 15 percent of capacity during 2002. It lacks working capital to upgrade operations and to pay for needed inputs (coal from Wankie) and transport services (from NRZ), which has limited its operations to the production of unprocessed steel billets. **NRZ** is operating below capacity due to a significantly deteriorated capital stock (locomotives, wagons, and tracks). Relative to total revenues, however, NRZ's losses are much smaller than the ones incurred by ZISCO and CSC. Both ZISCO and NRZ are likely to need large capital investments (on the order of US$150–200 million each) to be able to upgrade their facilities and to become profitable again.

B. Debt and Payment Arrears

129. **Total debt of the major public enterprises increased to Z$115.7 billion by end-2002 (Table VI. 2).** While a significant increase in nominal terms, it decreased from over 16 percent of GDP in 2001 to just under 11 percent of GDP in 2002 as inflation far outpaced interest costs and new borrowing by public enterprises. At end-2002, the total debt stock of public enterprises was equivalent to 66 percent of their 2002 total revenues and to 55 percent of their total assets. New credit in 2002 was almost entirely domestic credit—from the banking sector as well as from nonbank financial institutions (in the form of grain bills and bonds). About 80 percent of all debt is short-term and about the same fraction of debt carries a government guarantee.

Table VI.2: Debt of Major Public Enterprises, 2001-2002
(In million Zimbabwe dollars)

	Short-term Debt		Long-term Debt		Total Debt	
	2001	2002	2001	2002	2001	2002
Government	591	754	6,456	8,698	7,048	9,452
Direct Loans	55	62	2,378	6,760	2,433	6,822
On-Lent Foreign Loans	537	691	4,078	1,938	4,615	2,630
Domestic Banking Sector	32,152	45,429	5,634	7,810	37,787	53,239
Guaranteed Loans	19,922	39,843	4,740	7,805	24,662	47,648
Non-Guaranteed Loans	5,882	2,200	894	5	6,776	2,204
Overdraft	6,349	3,386	0	0	6,349	3,386
Other Public Enterprises	0	0	0	0	0	0
Non-Banking Financial Institutions	778	8,693	3,067	8,115	3,845	16,808
Guaranteed Loans	0	945	685	685	685	1,630
Non-Guaranteed Loans	778	7,748	2,382	7,430	3,160	15,178
Own Pension Fund	2,195	4,231	61	0	2,256	4,231
Direct Foreign Loans	16,584	17,435	14,590	14,549	31,173	31,984
Guaranteed Loans	15,870	16,548	14,586	14,546	30,457	31,094
Non-Guaranteed Loans	713	887	3	3	716	890
Total Debt Stock	52,301	76,541	29,808	39,172	82,109	115,713
(in percent of GDP)	10.3	7.2	5.9	3.7	16.2	10.9
(in percent of total revenue)	48.5	43.7	27.7	22.4	76.2	66.1
(in percent of total assets)	40.3	36.7	23.0	18.8	63.2	55.4
Foreign debt (million US$)	311	330	339	300	651	629
Of which: Government guaranteed	298	313	339	300	638	613

Sources: Ministry of Finance and staff estimates.

130. **Foreign debt is a significant problem for public enterprises.** As a group, the major public enterprises carry foreign debt of about US$630 million, almost all of which is guaranteed by the government. Long-term foreign debt decreased by about US$40 million in 2002. This largely reflects the repayment of a US$32 million loan to the U.S. ExImBank, which had been on-lent by the government to AIRZIM and which was repaid in 2002 to avoid the seizure of AIRZIM's planes by the creditor.

131. **Almost 90 percent of total foreign debt is on the books of three enterprises**—ZESA (US$240 million), TelOne (US$207 million), and ZISCO (US$116 million). ZESA has accumulated large arrears on its debt (about US$156 million), and its failure to regularize accounts has led electricity suppliers in Mozambique and South Africa to cut back on deliveries to Zimbabwe. This has forced ZESA to implement load-shedding and power cuts. ZESA claims that it requires about US$5 million per month to meet debt service payments. ZISCO's foreign debt is also large, in particular in light of the virtual standstill of productive activity in the company. Most of ZISCO's debt is in arrears and almost all of it carries a government guarantee. TelOne's foreign debt—90 percent of which was acquired after the unbundling from PTC and has been used for capital investments—is large, but so far the

company has been able to service it. Foreign debt levels of other enterprises are much lower—amounting to a total of US$56 million shared between CSC, NRZ, and NetOne.

132. **In addition to debt, many public enterprises have large accounts payables as well as large accounts receivable (Table VI. 3).** Some of the accounts payable are significantly overdue and should be reclassified as arrears. At end-2002, there were sizeable receivables and payables to other public enterprises, amounting to 23 and 37 percent of total revenue, respectively, creating significant bottlenecks in the economy. Payables to government (mostly taxes and customs duties) were about three times higher than receivables from government (mostly payment for utilities). Receivables from customers were high, but most worrisome were large payables to suppliers. Of these, payables in foreign currency amounted to US$263 million at end-2002, including US$160 suppliers' credits to NOCZIM, almost all of which was in arrears as of end-2002. The remainder of foreign currency payables were accounted for by TelOne (US$61.5 million), ZESA (US$24 million, most of which was overdue), and AIRZIM (US$16 million).

Table VI. 3: Accounts Receivable and Payable for Major Public Enterprises (end-2002)

	In million Zimbabwe dollars	In percent of total revenue	In percent of total debt	In percent of total assets
Receivables	39,595	22.6	34.2	19.0
Public enterprises	5,495	3.1	4.7	2.6
Government	2,153	1.2	1.9	1.0
Other	31,947	18.2	27.6	15.3
o/w foreign (US$ million)	12			
Payables	65,470	37.4	56.6	31.4
Public enterprises	7,250	4.1	6.3	3.5
Government	6,675	3.8	5.8	3.2
Other	51,545	29.4	44.5	24.7
of which: foreign (US$ million)	263			

Sources: Ministry of Finance and staff estimates.

C. Common Problems of Public Enterprises

133. **The overall economic situation in Zimbabwe has been deteriorating in recent years and this has affected public enterprises as well.** Real GDP has declined by about one third in the four-year period since 1999, inflation has been increasing steadily—reaching 200 percent in 2002—and shortages of basic goods and foreign exchange have become pervasive. Public enterprises have been affected by but have also contributed to the decline in GDP. Output dropped significantly for CSC and ZISCO, and smaller declines occurred in the cases of NOCZIM, ZESA, and NRZ. Reduced provision of fuel has further exacerbated the

economic decline, as has the inability by NRZ and ZESA to meet the demand for transport services and electricity, respectively.

134. **Most public enterprises are affected by the shortage of foreign exchange** that has plagued Zimbabwe for some time and that worsened following the tightening of surrender and exchange controls in November 2002. Three public enterprises (GMB, NOCZIM, and ZESA) are receiving the bulk of all foreign exchange allocations from the RBZ for imports of grain, fuel, and electricity, respectively. Foreign exchange allocations for NOCZIM have not allowed the company to import enough fuel for domestic consumption at the controlled prices. Electricity imports have also been curtailed by the availability of foreign exchange and cutbacks by suppliers, forcing the introduction of load-shedding in early 2003.

135. **Very few public enterprises have received allocations from the RBZ for imports of spare parts and debt service payments.** TelOne appears to be an exception, as it has remained current on its foreign debt and ZESA has been making debt payments on at least one loan. Virtually all companies have had to forgo critical maintenance and rehabilitation projects because of the shortage of foreign exchange for imports of spares and services. This has led to a serious deterioration of the capital stock of many enterprises (most notable NRZ but also ZESA, which would normally spend about US$7 million a month for maintenance and rehabilitation according to its own figures). No public enterprise reported to have received foreign exchange for investment projects from the RBZ.

136. **Public enterprises dealt with foreign exchange shortages in a number of ways outside the official market.** NOCZIM has reportedly accessed the parallel market occasionally and entered into a currency swap arrangement with Anglo American in early 2003, for US$35 million in exchange for domestic currency at a rate of Z$1,400/US$1. ZESA, in March 2003, began charging customers who are net exporters in foreign currency, to generate foreign exchange to pay electricity suppliers in Mozambique and South Africa. These arrangements were approved or at least sanctioned by the Ministry of Finance and/or the RBZ. NetOne reported to have sourced foreign exchange for investments on the parallel market during 2002.

137. **Many public enterprises suffer from a severe lack of working capital.** The problem is most acute in the cases of ZISCO and CSC. ZISCO lacked working capital even to buy basic inputs (coal) and services (rail transport) and its operations came to a virtual halt in mid-2002 because it was not able to pay its arrears to Wankie Colliery Co. and to NRZ. In November 2002, the government granted ZISCO a Z$3.7 billion 10 year-loan at 15 percent interest which allowed ZISCO to clear some of its arrears and to re-start operations. CSC was unable to service its domestic debt in early 2002 and local banks attached the assets of the company. After a debt workout totaling Z$5.5 billion involving government guarantees, it was able to regain access to its production facilities.

138. **There has been no direct budgetary support to public enterprises in 2002, apart from the intervention in the case of ZISCO.** Enterprises have had to resort to borrowing—mostly from the domestic banking system—and the issuance of bonds to

finance their deficits. A number of enterprises made requests for budgetary transfers in 2002, e.g. ZIMPOST (which has been granted a small transfer in the 2003 budget), and NRZ (to cover losses on commuter trains, which are considered a "social expenditure"), which were not granted. Average interest rates on bank loans have been significantly negative in real terms. Bonds have been issued on behalf of a number of companies (most notably NOCZIM and ZESA). Grain bills issued to finance the losses of the GMB have not been well subscribed.

139. **Several public enterprises need large amounts of capital to catch up on regular maintenance and to rehabilitate dilapidated facilities.** While it is difficult to come up with good estimates for the amounts involved, the total is likely to be between US$0.5-1.0 billion—some of the figures quoted were US$200 million for NRZ, US$300 million for ZESA,[69] and US$175 million for ZISCO.

140. **The inability to service foreign debt has severely constrained the operations of a number of enterprises.** Both NOCZIM and ZESA are facing difficulties in procuring imports because of their bad credit ratings, and can import only against cash payment; no credit arrangements are available. Clearance of foreign debt arrears has to be dealt with at some point in the future.

D. Outlook

141. **If the current economic situation in Zimbabwe continues, the situation of public enterprises is likely to worsen.** However, **economic reforms would have an impact on the condition of public enterprises**, including a devaluation of the exchange rate to a market clearing level, an increase in interest rates as a result of monetary tightening, and the removal of price controls.

142. **The initial effect of a devaluation would be negative**, as costs—especially for large importers like GMB, NOCZIM, and ZESA—would increase significantly. A devaluation would also increase (in Z$ terms) the debt burden of public enterprises. To the extent that a devaluation would spur economic growth, there would be positive repercussions on the performance of public enterprises.

143. An **increase in interest rates** will negatively effect almost all public enterprises because of their domestic debt burden. However, the size of the impact will depend on future inflation prior to an adjustment an interest rates, as high inflation effectively lowers the debt burden. The **removal of price controls** would potentially allow public enterprises to become profitable—assuming that they can operate efficiently at market-clearing prices. There are

[69] This figure actually refers to a loan currently being negotiated with an Indian financial institution. The loan is supposed to finance rural electrification and other infrastructure investments.

also other factors that will affect the outlook for individual public enterprises. The following paragraphs look at each enterprise in turn and note crucial issues as well as provide an outlook.

144. The privatization of **Agribank**, which was on the list of priority entities offered by PAZ, has been halted with the government's decision in March 2003 to transform Agribank into a Land Bank responsible for channeling credits to resettled farmers. Caution needs to be taken not to create an institution that will soon be settled with bad debt. **AIRZIM** is facing significant pressures for a restructuring of its operations towards more regional travel and freight operations. It is not clear, however, that the company will be able to raise funds for such restructuring outside of a privatization deal. The first-round effect of economic reforms on AIRZIM would be negative, as 70 percent of the company's expenses but only 40 percent of its revenues are in foreign exchange. Furthermore, fuel—the cost of which if far below market-clearing levels—accounts for a large percentage of domestic costs.

145. A number of obstacles remain for **CSC** to recover from the slump in 2002, including its inability to secure working capital from local banks and problems with procurement (reduction in national herd) and exports (suspension of exports of meat to the EU). If CSC was thought to be viable as a commercial enterprise then it could be offered for privatization as soon as overall conditions allow. Privatization of CSC had been agreed on in 2001 with the government, but was subsequently opposed by the Ministry of Agriculture. Since CSC is potentially a net exporter, it stands to benefit from exchange rate liberalization.

146. The future of the **GMB** depends on a number of political decisions—most notably the future of its monopoly on grain imports. If prices for grain were allowed to be determined by the market, private imports would likely be able to satisfy domestic demand, and the role of the GMB could be reduced to managing the strategic grain reserve.

147. **NOCZIM's** future is also tied to future price liberalization. With market-determined retail prices for fuel, private imports of fuel (which are already allowed, but not profitable at the current prices) would likely meet domestic demand. The fuel price increases announced in February and April 2003 (on average by 100 percent in both cases) were steps in the right direction, even though the new prices entail a cross-subsidization from petrol to diesel. With complete liberalization of retail prices for fuel, NOCZIM's role could be reduced to strategic imports.

148. **NRZ** is in need of substantial capital to rehabilitate its dilapidated facilities. Ideally, this financing would be secured in the context of the privatization of the company—at a minimum a concession agreement to run the railways could be considered.[70] In the current

[70] In 1999, the government gave a concession to a South African consortium for the 150 km long Beitbridge-Bulawayo route. In late 1999, the government signed a MOU with this consortium for concessioning the entire rail network. However, the MOU was later rescinded in the context of strong objections from the World Bank and other stakeholders.

situation, NRZ constitutes a major bottleneck for economic activity in Zimbabwe. Proper management will be crucial in making the operations of NRZ sustainable. As a first step towards a future unbundling of some of its operations, NRZ introduced cost centers in 2003.

149. Two of the three unbundled PTC companies (**NetOne** and **TelOne**) appear to be doing reasonably well and they should be privatized as soon as overall economic conditions improve and investor interest resurfaces. **ZIMPOST** is unlikely to be privatized anytime soon, but reforms to reduce losses have already started and appear to be successful. Further commercialization of ZIMPOST's operations could be considered.

150. **ZESA** is suffering from two major problems—foreign exchange shortages and arrears on foreign debt. Once the foreign exchange constraint is lifted, ZESA is expected to function reasonably well since it is considered a relatively efficient company, and it already has in place mechanisms for tariff adjustments. Because of the size of ZESA's foreign debt, a workout of its debt problems is likely to require government assistance, which needs to be considered in the context of the overall fiscal situation. Preparatory work for the privatization of ZESA is underway, although more progress needs to be made on the regulatory front, in particular the establishment of an autonomous regulatory body—the Zimbabwe Energy Regulatory Commission (ZERC).

151. Without an in-depth study it is not possible to assess whether **ZISCO** could ever be turned into a profitable enterprise. The government should resist the temptation to keep ZISCO afloat because of its purported strategic role. If no investor can be found, then the company should be closed down.

E. The Status of the Privatization Program

152. **The Privatization Agency of Zimbabwe (PAZ) was established in September 1999 with a mandate to lead, advise, and manage the country's privatization program in a transparent manner.** PAZ reports to the Office of the President and Cabinet. It liaises with public enterprises, line ministries, and other stakeholders in preparing the privatization proposals for submission to Cabinet through the Inter-Ministerial Committee for Commercialization and Privatization.

153. **The privatization program has slowed down recently as a result of the generally poor economic climate and the withdrawal of crucial donor support.** Since September 1999, fifteen enterprises were either fully or partially privatized with the assistance of PAZ—raising a total of Z$7.6 billion. About 20 companies remain in the portfolio that PAZ is trying to privatize. Limited investor interest and the withdrawal of donor support (largely from the World Bank) in 2001 have slowed the privatization process.

154. **Privatization strategies do exist for a number of major parastatals including ZESA, PTC, and CSC.** In the case of **ZESA**, the legal basis for establishing a regulatory agency (ZERC) and the formation of three successor companies to ZESA for generation, transmission and distribution has been established with the passing of the Electricity Act on

January 30, 2002. The unbundling of ZESA's generation, transmission, and distribution functions as a first step towards privatization is proceeding well, with three separate entities expected to be established as of June 1, 2003, but putting ZERC in place remains a major challenge.

155. **PTC** has already been unbundled into fixed line, cellular, and postal services and a regulatory agency for the telecom sector—the Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ)—has been set up. The first attempt to privatize fixed line services failed, but work in this area continues. A privatization strategy for **CSC** was developed by government and has been submitted for Cabinet approval. Future privatization was a condition for the participation of government in the debt workout for CSC in 2002.

156. **Reforms are also being contemplated for four other major public enterprises—NOCZIM, NRZ, GMB, and Air Zimbabwe.** A white paper laying out a program to reform the oil sector and **NOCZIM** was issued by government. The program aims at opening up oil imports to the private sector and reducing NOCZIM's role to managing strategic oil reserves, as well as setting up a regulatory agency for the oil sector. The disposal of NOCZIM's assets has started—NOCZIM sold 49 percent of its shareholdings in Total Zimbabwe for Z$297 million and its Chirundu offices for Z$2.6 million.

157. PAZ and the Ministry of Lands, Agriculture, and Rural Resettlement are preparing a proposal to separate **GMB's** commercial and other activities. The aim is to privatize the commercial activities of GMB and to reduce the role of the restructured GMB to managing the strategic grain reserves. The government has also amended the Railways Act to provide the legal basis for reforming the railways sector. Work on a privatization strategy for **NRZ** is continuing. A task force exists to coordinate the implementation of a restructuring program for **Air Zimbabwe**. A privatization strategy for **ZISCO** has not yet been developed, and the planned privatization of **Agribank** was effectively halted by the government's decision to transform Agribank into a Land Bank.

158. **At present, the government is focusing on commercialization of its activities and work in this area is expected to continue in 2003/2004.** A number of government functions have already been commercialized including the Central Mechanical Depot. Among the entities currently earmarked for commercialization—with the assistance by PAZ—are the Cotton Research Institute, the Coffee Research Station, the Wildlife Veterinary Unit, the Dairy Services Unit, the Tobacco Research Board, the Central Computing Services, the Micro Enterprise Development Program, the Deeds, Companies and Intellectual Property Department, the Urban Development Corporation, and ZIMPOST.

Attachment: Background and Selected Recent Developments

Agricultural Bank (Agribank)

159. In 2000, the Agricultural Finance Corporation (AFC) was transformed into a 100 percent state-owned commercial bank—Agribank. AFC was lending only to the agricultural sector. Since 2000, there has been some diversification in the operations of Agribank, which also serves as a window for the Agricultural Development Fund on behalf of the government. In 2002, Agribank showed a small loss of about 0.1 percent of GDP.

160. Agribank is undercapitalized and is negotiating with the government about a capital injection of Z$2.2 billion. About 35 percent of the bank's loan portfolio is nonperforming—part of the nonperforming loan portfolio is related to assets inherited from AFC, the other part are loans to farmers who have lost access to their land in the context of the fast-track land reform and are no longer servicing their loans. No bad loans have been written off since 2000, and Agribank is asking the government for compensation for the nonperforming loans to minimize the effect to its balance sheet.

161. In March 2003, the government announced that Agribank will be converted into a Land Bank, through which agricultural credit to farmers resettled under the fast-track land reform and provided by the public sector will be disbursed, coordinated, and administered. This move, which is a supporting measure in the fast-track land reform, essentially ended any hopes for a privatization of Agribank, which had been on the priority list of the Privatization Authority of Zimbabwe (PAZ).

Air Zimbabwe (AIRZIM)

162. AIRZIM was founded in 1946 and is the only airline in Zimbabwe. It operates mostly domestic and regional routes with two Boeing aircrafts (owned by AIRZIM) and two leased Fokker 50s, but also services a few international routes. About 85 percent of AIRZIM's revenue comes from passenger business.

163. AIRZIM ran a small loss in 2002. Capacity utilization in 2002 was only about 50 percent and the company is overstaffed (about a quarter of its 1,300 employees are redundant). Fuel costs account for 36 percent of AIRZIM's local expenditures and it is a net user of foreign exchange as 70 percent of its expenses, but only 40 percent of its revenue are in foreign exchange.

164. AIRZIM is contemplating major restructuring efforts. It is trying to replace the existing two Boeing aircrafts with two smaller ones which would be employed in regional travel and for freight operations. However, lack of working capital is a significant stumbling block in these efforts.

Cold Storage Company (CSC)

165. CSC was established in 1937 to procure, process and market beef, lamb, goat and related products. The company owns five slaughterhouses, several ranches and feedlots, and two canning plants. It also operates distribution depots in several large cities.

166. In early 2002, CSC's assets were seized by local banks as a result of CSC's failure to service its debt. Operations were virtually closed down during February-November 2002. During this time, a debt-workout scheme for the company's Z$5.5 billion debt was put together. Under this deal involving the government, CSC, and local banks, CSC's debt is being restructured , e.g. replaced by government-guaranteed bonds. CSC restarted operations in December 2002 on a very small scale and in early 2003 was operating at about 20 percent of capacity.

167. About half of CSC's production is exported. Even before the closure in 2002, CSC's share of the domestic market was only 40 percent—as it faces considerable competition from smaller suppliers, who can operate at lower cost. CSC is the only company in Zimbabwe with facilities certified for exports to the EU and it used to be a large net earner of foreign exchange on account of exports of beef to the EU (Zimbabwe had an annual quota of 9,100 tons). After exports of fresh meat were suspended in late-2001 because of an outbreak of foot and mouth disease in Zimbabwe, CSC continues to export canned meat to the EU. Fresh meat is exported to Mozambique and Malawi.

168. In 2002, CSC had a large operating loss—while sales dropped significantly, it did not lay off any of its workers and granted substantial wage increases (80 percent in 2002, and 58 percent on January 1, 2003). It is estimated that over 10 percent of the company's 1,300 workers will need to be retrenched even if the company returns to normal operating levels. The company's main problem is debt—in 2002 it had interest of Z$2.2 million falling due—none of which was paid. The debt restructuring lowered the interest burden, but it will remain a significant cost factor.

169. The company's equipment is reportedly in good working order and requires only normal maintenance. It is expected that production and exports will pick up again in 2003. There are some uncertainties, however. First, land reform has reduced the cattle herd and most cattle is now owned by small-scale farmers, which increases the cost of procuring inputs. For exports to pick up again, the country needs to control foot and mouth disease—a prerequisite for becoming recertified for exports to the EU. It is expected that exports of fresh meat to Malaysia will start in mid-2003. In addition, CSC will have to regain access to new credits for working capital.

Grain Marketing Board (GMB)

170. Since early 2002, the Grain Marketing Board (GMB) has been the sole importer of grain into Zimbabwe (Statutory Instrument 235A). The current food crisis has put a lot of strain on GMB, which has had to import and distribute large amounts of grain. During the

2002/03 fiscal year (April 2002 – March 2003), GMB reports to have procured 1.1 million tons of maize on international markets, of which 865,000 had actually been brought into the country by mid-March 2003—the rest being in transit. Similarly, about 50,000 tons of wheat have been procured on international markets. In addition, the GMB has procured 50,000 tons of maize and 170,000 tons of wheat domestically. The GMB sells both imported and domestically procured grain mostly to millers.

171. GMB had a before-tax loss of about 1.5 percent of GDP in 2002—up from a loss of about 1 percent in 2001. The loss is the result of artificially low administered prices at which both maize and wheat are being sold to millers. The selling price for maize of Z$9,600/ton and the selling price for wheat of Z$30,000 have been in effect since 2001. During the 2002/03 fiscal year, GMB procured maize domestically at Z$28,000/ton and wheat for Z$70,000/ton. Import prices were Z$12,100/ton for maize and Z$13,750/ton for wheat (at the official exchange rate of Z$55/US$1). As a result, GMB was incurring significant losses for all maize sold as well as on domestically procured wheat. Some cross-subsidization took place through imported wheat, which was sold at a profit. In April 2003, the government announced new domestic procurement prices of Z$130,000/ton for maize and Z$170,000/ton for wheat—thereby increasing the subsidy on grain—unless selling prices will also be adjusted upward significantly.

172. GMB's deficits in recent years have been financed by the domestic banking system through short-term loans and grain bills. At end-2002, outstanding short-term debt to the domestic banking system—all of which was guaranteed by the government—amounted to about 2.6 percent of GDP.

National Railways of Zimbabwe (NRZ)

173. NRZ has a monopoly on freight and passenger operations in Zimbabwe. It operates a network of 4,300 km with a capacity to carry 16 million tons of freight annually. Operations of the National Railways of Zimbabwe have been declining significantly in recent years. In 2002, NRZ moved 9.6 million tons of freight—down from over 14 million in the early 1990s and an estimated 12 million which could be achieved currently if additional locomotives were available. Only 58 percent of NRZ's locomotives are operational at the moment and the situation is equally grim for wagons—reflecting mainly neglected maintenance over many years which led to a deterioration in the capital stock. NRZ is only able to take 60 percent of business on offer—and many customers have already switched to other modes of transport.

174. NRZ's rehabilitation needs are large—with estimates being as high as US$200 million to rehabilitate fleet and tracks. The company admits that there has always been some backlog in maintenance, but this situation has worsened over the last few years due to the unavailability of foreign exchange which is needed to import spare parts.

175. NRZ had an operating loss of about 0.2 percent of GDP in 2002—most losses stem from passenger operations. Commuter fares are kept artificially low and NRZ claims that the government "owes" NRZ about Z$4.4 billion, which are the total recapitalization needs

resulting from losses of passenger operations, which are considered "social obligations". Freight operations are more profitable. Tariffs for freight operations increased by 40 percent in 2002, but at the moment tariffs are frozen as a result of the November 2002 price freeze.

176. Wage costs are very high—80 percent of revenue is used to pay wages, which is an improvement compared to the situation in the late 1990s. About 8 percent of NRZ's 9,700 employees are considered redundant—based on about 12 million tons of freight moved, which is above the current level of operations. While NRZ is not heavily burdened with debt to the banking system or the government, it owes Z$4.2 billion to its own pension fund.

National Oil Company of Zimbabwe (NOCZIM)

177. NOCZIM is a government-owned company responsible for importing and wholesaling refined oil. NOCZIM has de-facto become the sole importer of fuel into Zimbabwe, imports by other entities—even though they are legal—are estimated to have amount to only 1-3 percent of the total in 2002. This situation is a result of controlled retail prices, which render imports of fuel unprofitable at the parallel market exchange rate, and the fact that NOCZIM is the only oil-importing company that has access to foreign exchange through official RBZ channels. The retail business is left to private companies, several of which are international oil companies. NOCZIM also manages the National Strategic Oil Reserves. Oil is brought into the country mainly through a pipeline from Beira in Mozambique.

178. According to NOCZIM, foreign exchange allocations from the RBZ have amounted to about US$5 million/month during 2002—a level not sufficient to satisfy domestic demand, thereby causing severe shortages of fuel. NOCZIM is facing large difficulties in importing fuel, in particular since an arrangement with Libya collapsed in mid-2002. In 2001, a US$360 million facility was agreed upon between NOCZIM, the RBZ, and the Libyan Arab Foreign Bank. US$111 million was disbursed, of which US$53 million was repaid—partly in cash and partly in the form of meat exports to Libya and shares in Zimbabwean companies including the Rainbow Tourism Group. During 2001 and through the first half of 2002, NOCZIM imported the majority of its fuel needs from Libya under this arrangement. In 2002, Zimbabwe began to accumulate arrears under this deal and it collapsed in mid-2002. Since then, Libya's TAMOIL has been providing fuel only on a cash-basis.

179. Notwithstanding the fuel shortages, NOCZIM posted a profit of 3.2 percent of GDP in 2002—up from 2.5 percent in 2001. Profits are the result of controlled retail prices, which during 2002 were set at a level that would have allowed NOCZIM to make profits even if foreign exchange had to be purchased at an average rate of about Z$150/US$1. NOCZIM was, however, getting foreign exchange from the RBZ at the official exchange rate of Z$55/US$1. NOCZIM used the resulting liquidity to repay domestic debt and to build up cash reserves.

180. In early 2003, NOCZIM entered into a currency swap arrangement with Anglo American, under which the latter made available to NOCZIM US$35 million at an exchange

rate of Z$1,400/US$1. This deal was possible because of the large cash reserves that NOCZIM had accumulated during 2002. Contrary to other reports, NOCZIM maintained that this was the first time it had sourced foreign exchange outside of RBZ channels.

181. NOCZIM has a significant debt problem. The majority of its total debt (classified as accounts payable) is in foreign exchange and most of it is short-term debt that is in arrears—a situation that makes the financing of future imports very difficult.

Post and Telecommunications Corporation (PTC)

182. In 2001, the Post and Telecommunications Corporations (PTC) was unbundled into three separate entities—NetOne (cellular services), TelOne (fixed line services), and ZIMPOST (postal services). The unbundling was to be the first step toward privatizing the first two entities. A regulatory agency—the Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ)—was established in 2000 to issue licenses for private service providers and to regulate the sector. Tariff increases have to be approved by POTRAZ.

NetOne

183. NetOne—which is 100 percent government owned—is one of three mobile phone companies in Zimbabwe. The other two companies—Econet and Telecel—are privately owned. NetOne has the widest geographical coverage and has been posting a small operating profit in recent years. While tariff are low by regional standards, so are expenditures. The scarcity of foreign exchange has been constraining NetOne's operations. The company has large investment needs, which in 2002 were partly met by sourcing foreign exchange through the parallel market, as it was not possible to obtain foreign exchange from the RBZ. NetOne claims that its investments are profitable, but as a result of the foreign exchange shortages, it has not been able to service its foreign debt—which stands at about US$10 million—in 2002. It is also in arrears on domestic debt, which was inherited during the unbundling of PTC. NetOne is negotiating repayment terms on these domestic loans, which were supposed to be dealt with during privatization. The latter, however, has been put on hold following the failed privatization of its sister company—TelOne—in 2002.

TelOne

184. The fixed line telecommunications company TelOne was offered for privatization in 2002. Four foreign bidders withdrew their bids for TelOne at the last moment, partly because of the difficult overall economic situation in Zimbabwe. It is not clear how and when privatization of TelOne will be attempted again.

185. TelOne has been achieving small operating profits of about 0.5 percent of GDP during the last two years. The company feels that profits could be increased if further capital investments could be financed. TelOne reports to have received foreign exchange from the RBZ at the official exchange rate to import equipment, but says that it has not received any

funds for capital investments. As a result, TelOne has had to postpone several projects, including the digitalization of two additional provinces.

186. TelOne has foreign debt of about US$200 million. About 10 percent of this amount pertains to a loan that the company inherited during the unbundling of PTC. TelOne is not currently servicing this loan, which was supposed to be restructured during privatization. It is, however, current on its obligations on the majority of its other foreign loans acquired after unbundling. TelOne claims to have received foreign exchange to service these loans from the RBZ at the official exchange rate.

ZIMPOST

187. Prior to the unbundling of PTC in 2001, postal operations were cross-subsidized by other operations. ZIMPOST has been running small—and declining—operating deficits since unbundling. About 20 percent of ZIMPOST's total network of about 300 offices nationwide is profitable, the remainder (in particular those offices located in remote rural areas) are making losses. In 2002, ZIMPOST requested a Z$960 million subsidy (0.1 percent of GDP) from the budget to cover losses and to finance investments, however, the subsidy was not given and losses have been covered through loans from the domestic banking system. As a result, ZIMPOST—which came out of the unbundling of PTC with zero debt—now carries a domestic debt of Z$390 million.

188. A 5-year postal reform program (2002-2006) is underway which aims to significantly reduce the losses of postal operations. The reform program entails cost reduction measures as well as cooperation initiatives with other companies to expand the services provided in post offices. Tariff increases have also assisted in reducing losses—the cost of mailing a letter rose from Z$2 in 2000 to Z$60 as of January 1, 2003. Further tariff increases are envisaged to bring revenues in line with expenditures.

189. ZIMPOST needs additional funds for capital investments—in particular for an expansion of the post office network and upgrading of buildings and the vehicle fleet. The 2003 budget provides a Z$103 million allocation to ZIMPOST earmarked for building 10 new post offices in rural areas.

Wankie Colliery Co.

190. Wankie Colliery Co. (Wankie) is a publicly quoted company in which the government holds a 40 percent share. It is listed on the London, Johannesburg, and Harare stock exchanges. Wankie is of strategic importance for the economy, as it is the sole supplier of coal for power generation—ZESA consumes 40-45 percent of total output. Wankie also supplies coal to ZISCO and for curing tobacco, as well as coke for the ferrochrome industry.

191. In early 2003, Wankie was operating at 50 percent of capacity. Capacity utilization fell from about 70 percent in early 2002 to about 50 percent at end-2002. Transport of coal is a major bottleneck, as NRZ has not been able to provide enough capacity, and this has in

particular effected deliveries of coal to ZISCO. Another problem are large receivables—ZISCO is in arrears to Wankie for a total of US$1.8 million. ZESA is also often late in paying.

192. Wankie was making a loss in 2002. Prices were at roughly cost-recovery level at the beginning of 2002, but by end-2002 inflation had taken its toll, and prices were only at about 50 percent of what was needed for cost recovery. Coal is covered by the price freeze introduced in November, but Wankie has applied for price increases through the Ministry of Mines and the Ministry of Industry and Trade.

193. Maintenance of its equipment is a major challenge for Wankie. Its foreign exchange earnings (from exports of small amounts of coal to Zambia and about 17 percent of total coke production to South Africa) were not subject to the surrender requirement in 2002, but RBZ approval was needed for imports. In any event, foreign exchange earnings were not sufficient to finance all necessary imports for spare parts. Maintenance has thus been neglected for several years and it is estimated that US$100 million would be needed for a complete rehabilitation of Wankie's facilities.

194. Wankie is currently negotiating a US$5.3 million loan with the South African ExImBank—to be guaranteed by the Zimbabwean government. It is expected that proceeds from the loan would allow for an upgrading of facilities and would result in export earnings of about US$1.5 million per month, which would be sufficient to finance regular maintenance expenditures and spares.

Zimbabwe Electricity Supply Authority (ZESA)

195. ZESA is a government monopoly responsible for generating, importing, transmitting, and distributing electricity. It operates five generating plants. ZESA distributes about 12,000 gWh of energy per year. Of the total, about 70 percent is produced domestically—in about equal amounts in two power plants (Hwange, which uses coal, and Kariba, which is a hydro power plant), the other three plants only contribute small amounts. The remaining 30 percent are imported. Cahora Bassa (Mozambique) is the main source of imports (about 80 percent)—the remainder is coming from SNEL (DRC, 12 percent), and ESKOM (South Africa, 8 percent).

196. ZESA recorded a small before-tax loss in 2002, after moderate profits in 2000-2001. ZESA's tariffs are adjusted regularly and are meant to be at a cost-recovery level. Two mechanisms for tariff adjustments exist side-by-side—increases in base tariffs, which require Cabinet approval and which happen irregularly, and automatic tariff increases in response to changes in input costs which give rise to more frequent changes in tariffs. ZESA maintains different tariffs for households and for commercial customers. As of March 1, 2003, ZESA also introduced a new tariff structure for commercial customers which are net exporters.

197. Base tariffs are currently set at US$0.06/kWH for households and US$0.08/kWh for commercial customers. Base tariff increases are designed to increase the profitability of

ZESA over time and to compensate for the continuous erosion of profitability on account of the partial pass-through of cost increases through the automatic tariff formula. The last base tariff increase of 40 percent was approved in June 2002—and became effective in two equal tranches in July and October 2002, respectively.

198. Electricity prices also increase automatically (as often as monthly) in response to changes in a number of cost components (e.g. the prices of coal and diesel fuel), the exchange rate, and inflation. Specifically, all factors have an effect on tariffs for commercial customers, but for households adjustments are made only for changes in inflation. In any case, ZESA absorbs 10 percent of any increase in input costs, thereby eroding profitability over time.

199. As of March 1, 2003, ZESA introduced a new tariff for commercial customers who are net exporters—these are to pay US$0.038/kWh in foreign currency. This new tariffs is meant to provide ZESA with additional foreign exchange to finance imports and to pay off some of its foreign debt.

200. ZESA carries a large foreign debt (US$240 million), of which US$156 million are in arrears. ZESA estimates that it needs about US$5 million per month to service its foreign debt, which it has not been able to do during 2002, with the exception of a small loan from Société Général which is used to finance the refurbishing of the two main power plants. This situation has led to significantly reduced deliveries from Mozambique and ESKOM, which in turn have necessitated load-shedding and cutoffs of energy in Zimbabwe.

Zimbabwe Iron and Steel Corporation (ZISCO)

201. ZISCO Steelworks is a 100 percent government owned company. Its output consists of unprocessed steel (billets) and processed products. 70 percent of (unprocessed) billets are exported (mainly to the Far East) and 30 percent of billets are processed further and sold domestically. Exports are not profitable for ZISCO, but it lacks working capital to finance more processing (which requires large inputs of coal and gas).[71]

202. During 2002, ZISCO was operating at only 15 percent of capacity—with the lack of working capital being a major reason for this situation. ZISCO has large arrears to both Wankie Colliery (which provides coal) and NRZ (which transports the coal from Wankie to ZISCO). After a partial clearance of arrears during 2002, Wankie and NRZ were providing coal and transport services, respectively, to ZISCO against cash payments as of early 2003.

203. During the last two years, ZISCO has been running a before-tax loss of about 1 percent of GDP. Low capacity utilization, production (and exports) of mainly low value-

[71] ZISCO uses coal from Wankie Colliery Co. The coal is transported via a 700 km long dedicated rail line which is owned and operated by NRZ.

added unprocessed products, and keeping its entire workforce on the payroll are the main reasons for this situation.

204. ZISCO has very high debt levels. Its total debt is about Z$25 billion—of which about 25 percent are in foreign currency (US$116 million). During 2002, ZISCO made almost no debt service payments, so arrears on outstanding debt increased further. According to the company's own estimate, about US$175 million would be needed to upgrade facilities, increase processing capacity, and generate a small profit.

VII. FOREIGN EXCHANGE SYSTEM AND DEVELOPMENTS[72]

Rapid depreciation of the parallel market rate in 2002 gave exporters little incentive to surrender receipts through the official system, and inflows into the RBZ remained low. The government responded by raising the surrender rate and tightening exchange restrictions in November 2002. Faced with increasing foreign exchange shortages, the government eventually depreciated the official rate for exports in end-February 2003, but to date with little effect.

A. The Foreign Exchange System through November 2002

205. **Zimbabwe had in place restrictions on the use of foreign exchange, and exporters faced a surrender requirement.** The surrender requirement had been increased in July 2001 from 25 percent to 40 percent for all goods except gold and tobacco (Figure VII.1).[73] Private sector entities were allowed to service their external debt, though RBZ approval was required for new loans in excess of US$5 million. The surrendered foreign exchange was utilized for state imports of essential items, such as fuel, and electricity, and the allocations were subject to approval by a foreign exchange allocation committee – comprising officials of the RBZ and the Ministry of Finance and Economic Development. Exporters holding foreign currency accounts with commercial banks could utilize them for imports, subject to an import priority list.

206. **A premium procurement-price regime applied to gold exports; periodic adjustments in this price, in line with the depreciation of the parallel rate during 2002 kept the effective surrender rate faced by gold producers at par with the average surrender rate for all exports.** The RBZ is the sole exporter of gold, which it buys from domestic producers. While gold producers do not face a formal surrender requirement, the RBZ monopsony amounts to a surrender as long as procurement prices are lower than international prices converted at the parallel exchange rate. As the procurement price reflects the official exchange rate, it initially amounted to a 100 percent surrender. In April 2001, the government introduced a "premium" procurement price for gold to address smuggling and declining purchases by the RBZ; as a result, the effective surrender rate for gold fell from 100 percent to 79 percent.[74] The effective surrender rate climbed during the April-November

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[72] Prepared by Nadeem Ilahi.

[73] The foreign exchange exporters had to surrender was net of debt service on foreign loans and export pre-financing.

[74] The effective surrender rate for gold is the ratio of i) the difference between international market price, converted at the parallel exchange rate, and domestic price and ii) the international market price times the difference of parallel and official exchange rates. After December 2001, the surrender rate so calculated is reduced by the share of sales for which producers were allocated foreign exchange (40 percent).

period when adjustments in premium prices did not keep pace with the depreciation in the parallel market—by December 2001, the surrender for gold had climbed to 87 percent. An increase in the premium price in December 2001 and the introduction of an allowance for gold producers to have access to foreign exchange worth 40 percent of their gold sales to the RBZ resulted in a decline in the effective surrender rate to 48 percent. Since then, premium prices have been adjusted upward periodically, largely keeping pace with the depreciation on the parallel market rate and the effective surrender rate has stayed at around 50 percent, about the same as the rate for other exports.

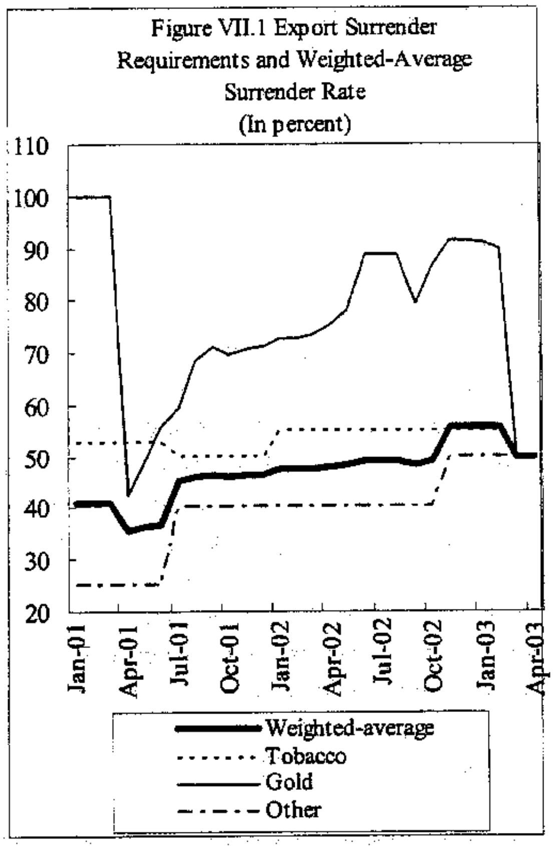
207. Special rules also applied to tobacco exports and the government tightened foreign exchange restrictions on tobacco auctions and exports in 2002. Prior to April 2002, the surrender regime for tobacco distinguished between multinational and local buyers of tobacco on the auction floors; the former had to surrender 70 percent at the official rate and the latter 40 percent. With multinational buyers constituting a large share of the buyers, staff estimates an effective surrender rate of 60 percent. At the start of the tobacco auction season in April 2002, the government removed the distinction between foreign and local buyers and decreed that all tobacco purchases on the auction floors had to be paid for in foreign exchange—effectively a full surrender requirement; any repatriated foreign exchange receipts in excess of the auction floor purchases (basically applicable to local tobacco processors) were subject to the same surrender rate as other exports. Staff estimate that the effective surrender for tobacco between April and November 2002 was 73 percent.[75]

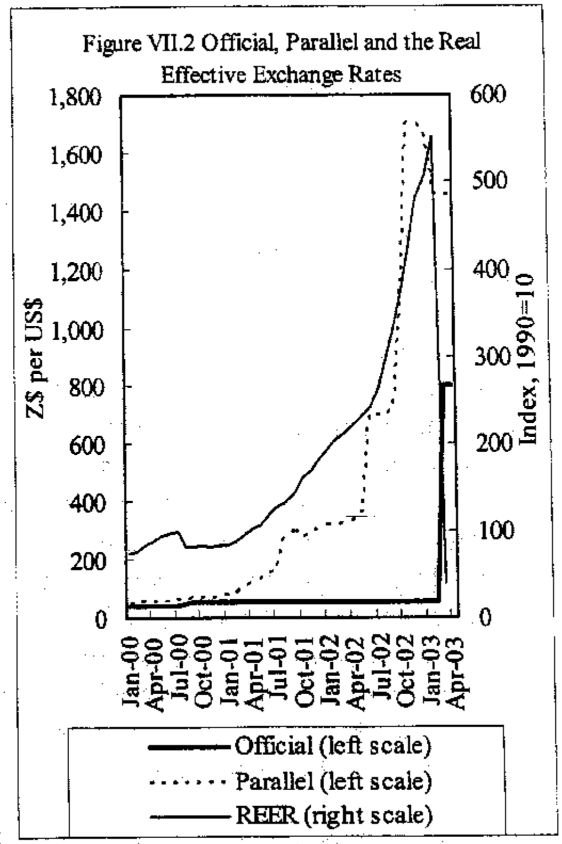
B. Developments in the Foreign Exchange Markets through November 2002

208. **The parallel market exchange rate continued to depreciate during 2002.** While the rate was steady through May, it fell sharply twice (Figure VII.2). In June, when the results of the presidential election became clear, and economic reforms were not forthcoming, the parallel rate depreciated by more than 90 percent from Z$370 per US$1 in May to over Z$600 per US$1 in June. In October, when the severity of the food crisis became apparent, and state imports of food and fuel put pressure on the foreign exchange market, the parallel exchange rate again depreciated sharply and reached almost Z$1,700 per US$1 in November 2002.

209. **Foreign exchange inflows into the RBZ remained low through the year.** The ever-increasing premium on the parallel market, coupled with the high surrender requirement increased the exporters' disincentive to channel their activity through the official system. Capital flight continued, with important means being over-invoicing of imports and under-invoicing of exports, as well as through fictitious debt service payments. By the end of the

[75] Through the Tobacco Growers' Trust, growers were eligible to use 20 percent of their sales for the import of essential goods, as defined by the import priority list.





tobacco auction season in October, during which foreign exchange inflows into the official system typically increase, there was a severe foreign exchange shortage, making it difficult for the state to meet the country's mounting food and fuel import needs.

C. The November 2002 Measures

210. **In mid-November 2002, the authorities reacted to the declining foreign exchange inflows and skyrocketing parallel market premium by raising the export surrender requirement and tightening controls over the parallel market.** All foreign currency bureaus were closed and only banks were allowed to deal in foreign exchange. The surrender requirement for exports, other than gold, was increased from 40 percent to 50 percent as of mid-November. The increase in surrender requirement also applied to the repatriated portion of tobacco exports in excess of auction floor outlays—as a result the effective surrender rate for tobacco rose to 78 percent. Rules governing non-surrendered foreign exchange receipts for all exports were also changed; the retained export proceeds now had to be deposited with the RBZ, instead of commercial banks. Authorized dealers who obtained foreign exchange in the market for their own account (foreign exchange unrelated to merchandise exports or corporate foreign currency accounts, such as exports of services) were also required to surrender one-half of their proceeds to the RBZ, with the remaining 50 percent available to meet all other market requirements. To curb fictitious debt service, prior approval from RBZ was required for all external borrowing.

211. **Instead of easing the situation in the official market, these measures worsened the shortage and contributed to a sharp depreciation of the parallel market exchange rate.** The lack of a coherent policy package to address the economic crisis, coupled with a continued rapid growth of money, increased inflation to 200 percent by end-December 2002 and resulted in a sharp depreciation of the parallel exchange rate. Tighter exchange restrictions and the increase in the surrender rate increased the incentives to under-invoice exports and over-invoice imports, further reduced foreign exchange inflows in the official market—inflows into the RBZ dropped 35 percent in the November 2002-January 2003 period compared to a year earlier. A large portion of the non-official foreign exchange transactions moved offshore.

D. The February 2003 Measures

212. **In February 2003 the authorities introduced an *Export Incentive Scheme*—devaluing the currency for exporters and abolishing all other special export schemes.** The acute foreign exchange shortage at the RBZ, coupled with increasing complaints by the business community about the overvalued official exchange rate led the authorities to effectively devalue the official exchange rate for most transactions. Under the scheme, the surrender requirement remains at 50 percent but exporters receive a rate of Z$800 per US$1 for the surrendered portion of their foreign exchange receipts—a significant reduction in the tax implicit in the surrender regime.[76] In light of the exchange rate adjustment, the special schemes for tobacco exports and premium prices of gold have been abolished. Exporters continue to use their retained foreign exchange to import from the priority list with RBZ approval. "State purchases" of foreign exchange would continue at the rate of Z$55 per US$1, and all other importers have to buy foreign exchange at an exchange rate of Z$848 per US$1.

213. **Until April 2003 the *Export Incentive Scheme* had not yielded a supply response and foreign exchange inflows in the RBZ continued at very low levels.** This reflects a lack of confidence toward the government's economic adjustment and reform policies, and is further exacerbated by political tensions. While the parallel market exchange rate has appreciated from its December 2002 low to reach Z$1,400-1,500 per US$1 in April 2003, it still represents a premium of more than 80 percent over the official rate. The close ties of banks with neighboring countries make it relatively easy for businesses to conduct part of their external transactions off-shore. To alleviate shortages of fuel and electricity, some public enterprises have purchased foreign exchange in the parallel market.

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[76] As figure VII.1 only shows the surrender rates, i.e. it does not capture the significant reduction in the tax implicit in the surrender regime as a result of the February 2003 measures.

Table 1. Zimbabwe: Expenditure on GDP, 1995–2000 1/

	1995	1996	1997	1998	1999	2000
	(In millions of Zimbabwe dollars)					
Consumption	47,953	71,710	95,088	116,572	178,531	271,650
Private	36,853	57,218	78,435	92,808	146,108	223,743
Central government	11,100	14,492	16,653	23,764	32,423	47,907
Gross fixed capital formation	15,265	15,434	18,424	31,122	33,550	41,554
Government	2,880	2,010	2,095	2,456	3,862	3,862
Private	11,975	13,677	14,358	27,135	25,410	37,142
Change in stocks	410	-253	1,971	1,531	4,278	550
Gross investment	15,675	15,181	20,395	32,653	37,828	42,104
Net exports of goods and nonfactor services	-1,654	163	-7,160	-2,482	5,228	-1,864
Exports	23,562	30,910	38,375	62,332	105,903	105,476
Imports	-25,216	-30,747	-45,535	-64,814	-100,675	-107,340
GDP (at market prices)	61,974	87,054	108,323	146,743	221,587	311,890
Net factor income from abroad	-2,795	-2,931	-4,970	-9,155	-9,537	-10,077
Factor income received from abroad	333	404	436	414	1,395	583
Factor income paid abroad	-3,128	-3,335	-5,406	-9,569	-10,932	-10,660
Gross national income	59,179	84,123	103,353	137,588	212,050	301,813
	(In percent of GDP)					
National savings, excluding grants	17.0	18.1	8.0	12.6	12.3	10.3
Government	-1.6	-4.9	-4.1	-2.0	-5.9	...
Private	18.6	23.0	12.1	14.6	18.2	...
Gross fixed capital formation	24.6	17.7	17.0	21.2	15.1	13.3
Government	4.6	2.3	1.9	1.7	1.7	1.2
Private	19.3	15.7	13.3	18.5	11.5	11.9
Change in stocks	0.7	-0.3	1.8	1.0	1.9	0.2
Gross investment	25.3	17.4	18.8	22.3	17.1	13.5

Source: Central Statistical Office.

1/ Comprehensive data for 2001–02 are not yet available. Nominal GDP estimates are Z$506,792 million for 2001, and Z$1,062,045 million for 2002.

Table 2. Zimbabwe: Gross Domestic Product, 1997–2002
(Percent change at constant 1990 prices)

	1997	1998	1999	2000	2001 Est.	2002 Est.
Agriculture, hunting, fishing, and forestry	3.2	2.3	2.5	4.1	-12.1	-22.0
Mining and quarrying	-0.5	8.4	-5.2	-8.1	-5.2	10.4
Manufacturing	-0.8	-3.4	-4.5	-11.6	-9.0	-15.8
Electricity and water	-0.4	-4.3	7.6	0.0	-1.0	-3.0
Construction	16.6	6.0	-11.1	-15.0	-10.5	-10.0
Finance and insurance	-4.3	6.2	-3.7	1.1	1.5	1.0
Real estate	5.0	5.4	5.1	4.8	6.5	3.5
Distribution, hotels, and restaurants	2.3	0.8	-2.0	-3.0	-5.5	-15.5
Transport and communications	0.9	-5.6	-1.4	-0.5	-2.5	-5.0
Public administration	-4.6	-3.0	-4.8	-6.2	-6.5	-8.0
Education	7.8	6.8	-8.0	3.6	-5.0	-5.0
Health	-24.3	-0.3	1.3	-29.4	-20.0	-7.0
Domestic services	2.3	-1.1	-6.3	-0.3	-1.2	-3.0
Other services	10.9	2.2	7.4	-2.1	-1.5	-1.0
Less: imputed bank service charges	57.5	39.7	15.4	30.2	28.4	16.5
GDP (at factor cost)	0.2	-0.5	-2.7	-4.8	-8.5	-12.9
Net indirect taxes	14.4	10.2	-14.9	-23.8	-11.8	-12.5
GDP at market prices	1.6	0.7	-4.1	-6.8	-8.8	-12.8

Source: Central Statistical Office; and IMF staff estimates.

Table 3. Zimbabwe: Agricultural Crop Production, 1996/97–2001/02
(In thousands of tons)

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02 Est.
Commercial farms 1/						
Tobacco (flue cured)	162	210	166	178	186	154
Maize	625	573	662	675	482	185
Cotton 2/	64	61	48	46	52	10
Sugarcane	2,075	1,487	1,186	2,261	537	...
Wheat	245	232	286	250	...	115
Groundnuts	13	8	9	9	16	2
Tea	15	15	14	9	...	...
Soybeans	97	113	117	132	164	65
Coffee	10	10	8	8	...	5
Sunflower seeds	2	3	2	2	4	1
Rapoko	1	1	1	1	1	...
Mhunga	0	0	0	0	0	...
Sorghum	24	23	16	17	20	15
Communal lands 3/						
Tobacco (flue cured)	2	3	3	5	4	19
Maize	1,397	677	944	939	994	315
Cotton 2/	191	157	149	195	234	180
Wheat	7	2	1	1	...	98
Groundnuts	143	51	71	112	156	57
Tea	0	3	1	1	...	...
Soybeans	0	1	1	3	11	7
Sunflower seeds	30	14	10	7	28	3
Rapoko	19	3	16	11	22	...
Mhunga	68	14	25	20	20	...
Sorghum	113	52	42	29	41	9
Total production						
Tobacco (flue cured)	164	213	169	183	190	173
Maize	2,022	1,250	1,606	1,614	1,476	500
Cotton 2/	255	218	197	241	286	190
Sugarcane	2,075	1,487	1,186	2,261	537	554
Wheat	252	234	287	251	270	213
Groundnuts	156	59	80	121	172	59
Tea	15	18	15	10	...	22
Soybeans	97	114	118	135	175	72
Coffee	10	10	8	8	...	9
Sunflower seeds	32	17	12	9	32	4
Rapoko	20	4	17	12	23	...
Mhunga	68	14	25	20	20	...
Sorghum	137	75	58	46	61	24

Sources: Central Statistical Office; Ministry of Lands, Agriculture and Rural Resettlement; and Reserve Bank of Zimbabwe estimates.

1/ Large- and small-scale commercial farms.
2/ Includes deltapine and delmac cotton.
3/ Communal lands and resettlement areas.

Table 4. Zimbabwe: Prices of Marketed Agricultural Crops,1996/97–2001/02 1/
(Unit values in Zimbabwe dollars per metric ton)

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02 Est.
Maize	1,200	1,200	2,400	4,200	5,500	8,500
Cotton	5,718	7,141	8,700	16,600	17,600	...
Wheat	2,442	3,088	3,650	5,500	6,500	15,300
Tobacco; flue cured	29,023	34,770	66,230	57,890	81,410	...
Tobacco; burley	18,844	24,712	50,920	36,430	40,200	...
Soybeans	2,021	2,900	5,000	6,500	8,500	17,000
Sorghum	917	2,208	1,000	3,000	4,000	5,500
Groundnuts (unshelled)	2,270	4,000	4,000	7,000	15,000	...
Coffee	12,571	13,795	60,000	80,000	80,000	55,000
Sunflower seeds	1,558	1,450	2,300	6,000	6,720	75,000

Sources: Central Statistical Office; and Grain Marketing Board.

1/ Crop years.

Table 5. Zimbabwe: Area Under Cultivation for Major Crops, 1996/97–2001/02 1/

(In hectares)

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02 Est.
Maize	1,402,147	1,176,715	1,477,990	1,379,875	1,223,100	1,317,800
Cotton	302,407	256,097	310,534	284,509	390,473	398,600
Tobacco	78,944	95,335	78,713	82,008	79,090	...
Flue cured	73,332	92,000	72,654	70,434	73,600	74,000
Burley	5,612	3,335	6,059	11,574	5,490	...
Soybeans	56,460	64,160	53,035	60,560	77,150	54,500
Sorghum	197,060	130,000	143,912	116,144	110,300	...
Groundnuts (unshelled)	208,242	190,000	132,146	175,154	276,120	259,000
Coffee	6,917	6,741	5,923	5,215	...	...
Sugarcane	35,762	37,360	39,459	39,224	45,000	...
Wheat	47,607	41,808	53,374	48,364	...	...

Sources: Central Statistical Office; and Ministry of Finance.

1/ Crop years.

Table 6. Zimbabwe: Volume and Value of Livestock Slaughtering and Milk Production, 1996-2001

	1996	1997	1998	1999	2000	2001
	(Volume in thousands)					
Cattle slaughtering	337	351	369	347	382	276
Sheep slaughtering	36	32	26	24	22	16
Pig slaughtering	231	216	224	181	219	151
Goat slaughtering	38	47	36	25	20	9
	(Whole-milk tons)					
Milk production	179,816	180,142	165,802	161,170	159,250	111,383
	(Value in millions of Zimbabwe dollars)					
Total slaughtering	1,415	1,892	2,190	4,195	6,528	2,051
Cattle	1,255	1,704	1,901	3,714	5,831	1,713
Sheep	6	9	8	11	28	13
Pigs	149	170	274	463	655	325
Goats	5	9	7	7	14	...
Milk production	397	463	620	1,248	1,852	2,826

Source: Central Statistical Office.

Table 7. Zimbabwe: Livestock in Communal and Commercial Farming Areas, 1995-2000

(In thousands)

	1995	1996	1997	1998	1999	2000
Cattle	4,466	5,011	4,995	4,953	5,316	5,226
Communal lands	3,030	3,368	3,370	3,588	3,975	3,982
Commercial farms	1,436	1,643	1,625	1,365	1,341	1,244
Beef cattle	1,331	1,542	1,498	1,275	1,259	1,169
Dairy cattle	105	101	127	90	82	75
Sheep	404	510	494	343	310	293
Communal lands	320	413	403	274	250	238
Commercial farms	84	97	91	69	60	55
Goats	2,313	2,206	2,789	4,645	4,363	3,848
Communal lands	2,282	2,111	2,696	4,616	4,339	3,828
Commercial farms	31	95	93	29	24	20
Pigs	230	275	266	311	244	250
Communal lands	112	140	135	197	140	160
Commercial farms	118	135	131	114	104	90

Source: Central Statistical Office.

Table 8. Zimbabwe: Volume of Manufacturing Output, 1997–2002

	Weight 1/	1997	1998	1999	2000	2001	2002 Est.
				(Volume indices; period averages, 1990=100)			
Foodstuffs and stock feeds	13.5	84.7	83.7	84.2	73.4	72.3	59.3
Drinks and tobacco	19.5	98.3	111.1	96.2	114.0	86.8	79.3
Textiles and cotton ginning	11.0	74.0	79.1	87.3	72.8	69.0	49.4
Clothing and footwear	6.8	106.2	114.6	125.7	120.8	123.0	104.8
Wood and furniture	3.1	349.9	342.8	285.0	231.1	220.1	195.9
Paper, printing, and publishing	6.4	107.4	102.7	94.1	74.7	69.6	70.7
Chemical and petroleum products	11.5	126.6	120.3	107.4	75.9	75.2	76.8
Nonmetallic mineral products	2.3	114.3	125.7	115.4	112.1	120.5	114.9
Metals and metal products	22.1	92.7	77.5	82.8	82.9	73.6	53.9
Transport equipment	3.0	139.6	101.1	69.2	52.0	43.7	37.8
Other manufacturing	0.8	80.8	69.2	64.1	48.6	45.0	39.9
Overall index	100.0	108.0	106.6	99.9	93.3	84.9	71.5
				(Percentage change)			
Foodstuffs and stock feeds		0.6	-1.2	0.6	-12.8	-1.5	-18.0
Drinks and tobacco		3.9	13.0	-13.4	18.5	-23.9	-8.6
Textile and cotton ginning		-0.9	6.9	10.4	-16.6	-5.2	-28.4
Clothing and footwear		9.3	7.9	9.7	-3.9	1.8	-14.8
Wood and furniture		-12.3	-2.0	-16.9	-18.9	-4.8	-11.0
Paper, printing, and publishing		0.1	-4.4	-8.4	-20.6	-6.8	1.6
Chemical and petroleum products		18.9	-5.0	-10.7	-29.3	-0.9	2.1
Nonmetallic mineral products		-5.1	10.0	-8.2	-2.9	7.5	-4.6
Metals and metal products		-12.5	-16.4	6.8	0.1	-11.2	-26.8
Transport equipment		0.5	-27.6	-31.6	-24.9	-16.0	-13.5
Other manufacturing		-7.1	-14.4	-7.4	-24.2	-7.4	-11.3
Overall index		-0.2	-1.3	-6.3	-6.6	-9.0	-15.8

Source: Central Statistical Office.
1/ Weight is in percent.

Table 9. Zimbabwe: Mineral Production Volumes,1997–2002

	Weight (In percent)	1997	1998	1999	2000	2001	2002 Est.
Gold (kilograms)	43.9	24,156	25,175	27,114	22,069	18,050	15,469
Nickel (metric tons)	14.8	10,300	10,135	9,594	5,968	8,145	7,340
Coal	12.6	4,750	4,575	4,576	4,666	4,064	3,965
Asbestos	10.6	145	123	88	152	136	168
Chrome ore	5.9	670	605	653	668	780	749
Platinum (kilograms)	2.1	345	2,730	390	504	519	2,305
Palladium (kilograms)	1.7	245	1,855	278	360	371	1,942
Black granite	2.9	110	126	124	513	386	374
Other minerals	5.5	...	...	...	...	...	...

Sources: Ministry of Finance; Central Statistical Office; Reserve Bank of Zimbabwe; and Ministry of Mines.

Table 10. Zimbabwe: Construction and Retail Trade, 1996–2001

	1996	1997	1998	1999	2000	2001
Construction indicators	(In millions of Zimbabwe dollars, unless otherwise indicated)					
Total building plans approved 1/ 2/	1,416	1,634	1,911	2,908	3,630	3,220
Municipal building plans approved 3/						
Low-cost houses and flats (in units)	2,349	3,331	2,026	1,886	1,250	263
High-cost houses and flats (in units)	2,203	1,995	1,705	2,433	3,289	1,382
Work done by private and public contractors						
Public	558	379	752	325	140	234
Private 4/	635	941	1,741	1,755	...	...
Of which: for public sector	260	303	284	540	...	...
Retail trade value index, monthly average (1980=100) 5/	999	1,180	...	...	...	...
Percent change	30	18	...	...	...	...

Source: Central Statistical Office.

1/ 2001 figures as of September.
2/ Includes additions and alterations.
3/ 2001 figures as of May.
4/ Includes repairs and maintenance.
5/ 1997 index through August.

Table 11. Zimbabwe: Electrical Energy Produced and Distributed, 1996-2001
(In millions of kilowatt-hours)

	1996	1997	1998	1999	2000	2001 Oct.
Total power distributed	11,065	11,745	11,620	12,408	12,173	11,849
Central grid 1/	10,803	11,482	11,515	12,290	12,069	11,487
Noninterconnected thermal station	86	105	102	114	101	31
Other (net) 2/	176	158	3	4	3	331
Power generated domestically	7,357	7,161	6,677	7,205	7,117	7,838
South Kariba 3/	2,121	2,044	1,926	2,950	3,276	3,381
Thermal stations	5,150	5,012	4,649	4,140	3,740	4,426
Noninterconnected thermal station	86	105	102	114	101	31
Net imports	3,708	4,584	4,943	5,204	5,056	4,011

Source: Central Statistical Office.

1/ Drawings from the grid of the Central African Power Corporation.
2/ Net imports from noninterconnected sources.
3/ Power generated from South Kariba is Zimbabwe's share, but it is fed into the Central African Power Corporation grid.

Table 12. Zimbabwe: Petroleum Products, 1997–2003

	1997	1998	1999	2000	2001	2002	April 2003
Retail price (cents per liter; end of period)							
Premium petrol	531	967	1,868	4,380	7,447	7,447	45,000
Diesel	413	810	1,549	3,960	6,639	6,639	20,000
Aviation gas	510	1,214	1,865	2,026	2,026	2,026	...
Jet fuel (A1)	310	792	1,669	3,120	5,703	5,703	22,075
Liquefied petroleum gas (LPG)	922	1,400	2,405	2,566	2,566	10,500	...
Tax (cents per liter; end of period)							
Premium petrol	140	140	346	912	0	0	...
Diesel	50	50	186	385	0	0	...
Aviation gas	0	50	50	50	50	50	...
Jet fuel (A1)	0	50	304	0	0	0	...
LPG	96	100	100	100	100	100	...
Quantity imported (thousands of liters)							
Premium petrol	533,100	558,659	501,716	362,255	35,540	20,892	...
Diesel	840,114	905,277	1,023,804	599,017	64,208	35,473	...
Aviation gas	3,098	2,131	1,051	0	0	0	...
Jet fuel (A1)	264,085	293,154	312,098	132,870	20,951	6,339	...
LPG	7,221	6,312	4,878	755	107,300	0	...

Sources: National Oil Company of Zimbabwe; and Zimbabwean news sources.

Table 13. Zimbabwe: Consumer Price Index, 1997–2003

	Weight 1/	1997	1998	1999	2000	2001	2002	March 2003
				(1995=100)				
Food	33.6	153	250	392	559	1,164	3,725	4,795
Beverages and tobacco	16.0	141	236	396	617	1,215	5,551	6,926
Clothing and footwear	6.9	128	164	287	437	1,129	3,652	5,032
Rent, rates, and electricity	17.3	169	188	255	410	744	1,253	1,789
Furniture and household goods	7.5	143	218	339	505	1,532	3,779	4,718
Medical care	1.7	156	181	351	539	1,083	2,884	3,375
Transport and communications	6.6	157	255	419	899	1,922	3,460	5,095
Recreation and entertainment	1.2	152	222	386	682	2,178	5,280	7,050
Education	4.5	170	207	284	410	850	1,877	2,734
Miscellaneous	4.7	152	233	328	474	1,247	3,180	4,137
Total index	100.0	154	226	355	550	1,167	3,490	4,549
				(Year-on-year percent change)				
Food		19.0	62.9	56.8	42.9	108.0	220.1	247.9
Beverages and tobacco		17.6	66.7	68.3	55.5	97.0	357.1	311.4
Clothing and footwear		9.6	27.9	75.2	52.4	158.5	223.5	290.5
Rent, rates, and electricity		23.8	11.2	35.8	60.4	81.7	68.4	111.4
Furniture and household goods		14.2	52.1	55.5	48.9	203.6	146.7	185.4
Medical care		8.8	15.6	94.6	53.2	101.1	166.3	179.1
Transport and communications		24.2	62.3	64.4	114.8	113.7	80.0	134.5
Recreation and entertainment		22.7	46.4	73.5	76.7	219.6	142.4	202.6
Education		44.1	22.4	36.7	44.7	107.1	120.9	176.0
Miscellaneous		18.8	53.1	40.8	44.5	163.1	155.0	196.9
Total index		20.1	46.7	56.9	55.2	112.1	198.9	228.0
Memorandum items:								
Food index		18.9	62.9	56.8	42.9	108.0	220.1	247.9
Nonfood index		20.6	38.5	57.0	62.5	114.6	188.3	218.0

Source: Central Statistical Office.

1/ In percent.

Table 14. Zimbabwe: Employment and Employment Earnings, 1996–2001

	1996	1997	1998	1999	2000	June 2001
	(Thousands of employees; period average)					
Employment						
Agriculture, forestry, and fishing	347	355	345	338	325	303
Mining and quarrying	60	59	61	60	45	41
Manufacturing	184	198	208	201	181	178
Electricity and water	12	13	16	17	11	9
Construction	78	78	79	69	54	42
Finance, insurance, and real estate	22	26	28	31	35	26
Distribution, restaurants, and hotels	101	106	113	115	103	99
Transport and communications	50	51	51	45	44	39
Public administration	71	67	66	63	59	61
Education	127	137	146	135	140	144
Health	27	27	28	28	28	32
Domestic	102	102	102	102	102	102
Other	93	103	105	113	111	108
Total	1,274	1,323	1,348	1,316	1,237	1,184
Government 1/	225	231	240	225	226	238
Nongovernment	1,049	1,092	1,108	1,091	1,011	946
	(In millions of Zimbabwe dollars)					
Earnings						
Agriculture, forestry, and fishing	1,671	2,246	2,977	4,163	5,725	...
Mining and quarrying	1,465	1,989	2,957	4,122	4,331	1,451
Manufacturing	5,067	7,006	9,216	12,782	18,078	6,310
Electricity and water	771	1,196	2,586	3,440	4,299	1,491
Construction	1,153	1,716	2,282	2,549	4,173	1,038
Finance, insurance, and real estate	1,706	2,195	3,619	5,305	10,241	3,077
Distribution, restaurants, and hotels	2,496	3,407	4,775	7,022	9,833	3,351
Transport and communications	1,743	2,313	3,156	4,395	7,463	2,402
Public administration	1,925	3,203	3,924	5,728	12,682	3,084
Education	4,719	7,884	10,360	14,913	30,116	8,862
Health	842	1,590	2,089	2,906	7,031	1,956
Domestic	191	191	191	191	191	48
Other	2,007	2,977	4,043	5,921	10,205	2,845
Total	25,757	37,913	52,176	73,436	124,368	...

Source: Central Statistical Office.

1/ Public administration, health, and education.

Table 15. Zimbabwe: Central Government Operations, 1996/97-2002 1/

	1996/97	1997/98	1999	2000	2001	2002
	(In millions of Zimbabwe dollars)					
Total revenue	25,412	56,725	58,564	87,825	135,974	300,385
Tax revenue	23,260	52,480	55,569	82,275	128,545	280,769
Income and profits	11,815	27,728	29,670	52,189	74,840	159,261
Customs duties	4,372	8,875	8,507	8,543	17,395	27,170
Excise duties	1,071	2,331	2,926	4,092	5,335	18,763
Sales tax	5,079	11,735	12,340	15,743	29,327	72,447
Other taxes	923	1,811	2,126	1,708	1,647	3,128
Nontax revenue	2,152	4,245	2,995	5,550	7,430	19,616
Total expenditure	32,974	70,685	80,377	158,485	185,973	351,321
Current expenditure	28,419	65,696	72,157	149,353	173,806	320,664
Goods and services	16,316	35,072	40,238	74,292	96,939	215,963
Wages and salaries	11,111	25,450	28,153	54,837	64,480	123,932
Other	5,205	9,622	12,085	19,455	32,459	92,031
Interest on debt	7,511	17,699	21,471	54,896	52,800	49,494
Foreign 2/	1,201	3,060	3,400	3,436	11,678	9,165
Domestic	6,310	14,639	18,071	51,460	41,122	40,329
Subsidies and transfers	4,592	12,925	10,448	19,661	24,068	55,206
Capital expenditure	2,193	3,789	5,751	5,993	11,595	25,208
Net lending	2,362	1,200	2,469	3,139	571	5,450
Balance, excluding grants and foreign interest arrears	-7,562	-13,961	-21,813	-70,660	-49,998	-50,936
Grants	1,180	1,500	2,144	3,517	2,972	668
Foreign interest arrears	0	0	...	2,751	11,494	8,793
Balance, including grants and foreign interest arrears	-6,382	-12,461	-19,669	-64,392	-35,532	-41,475
Financing	4,645	10,593	22,388	64,635	35,532	41,475
Foreign financing	271	-2,927	-2,280	-1,997	707	-1,484
Domestic financing	4,374	13,520	24,668	66,632	34,825	42,959
Of which: privatization proceeds	541	761	841	0	6,721	450
	(In percent of GDP, unless otherwise indicated)					
Total revenue	26.7	41.8	27.8	28.1	26.8	28.3
Tax revenue	24.4	38.7	26.4	26.3	25.4	26.4
Domestic	19.8	32.1	22.4	23.6	21.9	23.9
Customs	4.6	6.5	4.0	2.7	3.4	2.6
Nontax revenue	2.3	3.1	1.4	1.8	1.5	1.8
Total expenditure	34.6	52.1	38.2	50.7	36.7	33.1
Current expenditure	29.9	48.4	34.3	47.7	34.3	30.2
Goods and services	17.1	25.8	19.1	23.7	19.1	20.3
Of which: wages and salaries	11.7	18.8	13.4	17.5	12.7	11.7
Interest	7.9	13.0	10.2	17.7	10.4	4.7
Subsidies and transfers	4.8	9.5	5.0	6.3	4.7	5.2
Capital expenditure and net lending	4.8	3.7	3.9	2.9	2.4	2.9
Balance, excluding grants and foreign interest arrears	-7.9	-10.3	-10.4	-22.6	-9.9	-4.8
Memorandum item:						
GDP at market prices (millions of Zimbabwe dollars)	95,202	135,722	210,409	312,879	506,792	1,062,045

Sources: Zimbabwean authorities; and IMF staff calculations.

1/ Fiscal years July-June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.
2/ On a commitment basis.

Table 16. Zimbabwe: Detailed Central Government Revenue, 1996/97–2002 1/

(In millions of Zimbabwe dollars)

	1996/97	1997/98	1999	2000	2001	2002
Total revenue	25,412	56,725	58,564	87,825	135,974	300,385
Tax revenue	23,260	52,480	55,569	82,275	128,545	280,769
Income and profits	11,815	27,728	29,670	52,189	73,765	158,349
Individuals	7,550	19,491	19,559	35,876	53,082	116,359
Companies	3,236	5,904	6,772	9,554	14,910	29,972
Domestic dividends and interest	564	1,229	1,426	3,291	2,600	4,526
Capital gains	39	95	...	...	...	...
Other income taxes	426	1,009	1,913	3,468	3,174	7,492
Customs duties	4,372	8,875	8,507	8,543	17,395	27,170
Oil products	849	1,529	809	91	3,268	5,486
Other	2,450	7,346	7,698	8,452	14,128	21,684
Surtax	1,073	...	...	...	...	...
Excise duties	1,071	2,331	2,926	4,092	5,335	18,763
Beer	625	1,439	1,705	2,276	2,698	12,391
Tobacco	200	341	543	825	245	378
Wine and spirits	70	109	138	186	1,208	3,392
Other beverages	176	442	540	805	1,184	2,602
Sales tax	5,079	11,735	12,340	15,743	29,327	72,447
Other taxes	923	1,811	2,126	1,708	2,722	4,040
Of which: tobacco levy	562	1,087	1,150	978	1,075	912
Nontax revenue	2,152	4,245	2,995	5,550	7,430	19,616
Investments and property	558	1,103	528	1,250	1,728	1,179
Reserve Bank remittances	25	181	50	100	200	350
Local government interest	30	97	33	15	155	95
Parastatal interest, dividends, and other	503	825	445	1,135	1,373	734
Fees	527	1,031	303	478	689	1,129
Other	1,067	2,111	2,164	3,822	5,013	17,308
Of which: pension contributions	712	1,520	1,450	...	3,179	7,380

Sources: Zimbabwean authorities; and IMF staff calculations.

1/ Fiscal years July–June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.

Table 17. Zimbabwe: Detailed Central Government Expenditure and Net Lending, 1996/97–2002 1/

(In millions of Zimbabwe dollars)

	1996/97	1997/98	1999	2000	2001	2002
Total expenditure and net lending	32,974	70,685	80,377	158,485	174,478	342,528
Current expenditure	28,419	65,696	72,157	149,353	162,312	311,871
Goods and services	16,316	35,072	40,238	74,292	96,939	215,963
Wages and salaries	11,111	25,450	28,153	54,837	64,480	123,932
Other goods and services	5,205	9,622	12,085	19,455	32,459	92,031
Subsistence and transportation	492	939	1,250	2,243	2,574	6,371
Incidental expenses	620	1,754	2,263	3,665	7,158	20,755
Maintenance of capital	417	658	869	1,749	2,247	3,930
Other	3,676	6,271	7,703	11,798	20,480	60,976
Interest payments	7,511	17,699	21,471	54,896	41,306	40,701
Domestic	6,310	14,639	18,071	51,460	41,122	40,329
Foreign 2/	1,201	3,060	3,400	3,436	184	372
Subsidies and transfers	4,592	12,925	10,448	19,661	24,068	55,206
Of which: pensions 3/	1,677	7,074	3,957	8,011	11,113	22,633
Capital expenditure	2,193	3,789	5,751	5,993	11,595	25,208
Net lending	2,362	1,200	2,469	3,139	571	5,450
Long-term loans(net)	2,344	1,358	2,321	2,803	571	5,101
Gross lending	2,176	1,764	2,510	2,880	936	5,161
Recoveries	168	-406	-189	-77	-365	-60
Investments	48	42	35	456	...	349
Short-term loans(net)	-30	-200	113	-120	...	...

Sources: Zimbabwean authorities; and IMF staff calculations.

1/ Fiscal years July-June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.

2/ On a cash basis.

3/ Includes pensions of war veterans in 1997/98.

Table 18. Zimbabwe: Expenditure and Repayments by Ministries, 1996/97–2002 1/

(In millions of Zimbabwe dollars)

	1996/97	1997/98	1999	2000	2001	2002
Constitutional and statutory appropriations						
President and cabinet	1	1	1	1	2	3
Parliament of Zimbabwe	0	1	1	1	1	2
Public Service, Labour and Social Welfare	1,677	3,211	3,957	8,011	11,938	16,825
Finance and Economic Development	8,032	20,540	22,098	66,165	142,629	96,324
Of which: repayments of loans	-2,837	-5,800	-7,475	-9,960	-34,228	...
Audit	0	0	0	1	1	3
Local Government, Public Works and National Housing	0	1	1	1	1	2
Justice, Legal and Parliamentary Affairs	7	11	15	40	55	130
Transport and Communications	0	1	1	1	1	2
Total	9,717	23,765	26,074	74,220	154,628	113,290
Vote appropriations						
President and cabinet	485	1,032	1,657	2,595	3,021	7,024
Parliament of Zimbabwe	49	93	112	175	219	460
Public Service, Labour and Social Welfare	980	4,289	992	2,404	5,518	18,412
Defense	3,172	5,567	10,068	15,361	16,208	37,738
Finance and Economic Development	404	5,278	922	3,581	10,269	23,352
Audit	18	39	49	91	120	303
Industry and International Trade	677	665	333	251	442	5,400
Lands, Agriculture and Rural Resettlement	793	1,458	1,639	2,795	5,520	26,957
Mines and Energy	33	313	322	429	408	830
Foreign Affairs	486	868	1,390	2,588	2,423	3,378
Local Government, Public Works and National Housing	984	2,379	1,195	1,955	2,351	9,604
Health and Child Welfare	2,332	5,074	4,592	9,272	12,492	34,963
Education, Sport and Culture	4,457	11,382	13,506	25,585	31,362	56,972
Higher Education and Technology	1,447	2,884	3,410	6,719	7,546	14,497
Home Affairs	1,498	3,046	3,543	7,149	8,485	21,981
Justice, Legal and Parlimentary Affairs	417	844	1,037	2,026	3,158	8,640
Transport and Communications	1,016	1,787	1,960	1,789	2,897	6,094
Vote of Credit	0	1,151	5,377	13,665	6,147	3,240
Rural Resources and Water Development	0	931	1,295	1,849	2,126	5,844
Environment and Tourism	0	0	0	0	326	975
Youth Development, Gender, and Employment Creation	0	0	0	461	785	1,754
Other	1,834	364	278	101	0	0
Total	21,082	49,442	53,679	100,842	121,822	288,418
Grand total	30,799	73,207	79,753	175,063	276,450	401,708

Source: Ministry of Finance.

1/ Fiscal years July-June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.

Table 19. Zimbabwe: Civil Service Employment Posts, 1996/97–2002 1/

	1996/97	1997/98	1999	2000	2001	2002
Total 2/	160,882	172,220	163,772	161,932	161,861	167,779
Education, Sport and Culture	91,857	101,567	101,894	103,881	103,806	103,806
Higher Education and Technology	4,761	4,801	3,681	2,901	3,112	3,112
Health and Child Welfare	23,128	24,624	25,171	25,171	25,430	25,430
Lands, Agriculture and Rural Resettlement	11,753	10,029	9,865	8,767	8,965	8,970
Transport and Communications	4,069	4,038	2,321	803	905	892
Other	25,314	27,161	20,840	20,308	18,738	25,569
Memorandum items:						
Wage bill (in percent of GDP) 3/	11.7	13.2	13.4	15.7	12.7	11.7
Of which: education and health wage bill	6.6	7.4	6.2	9.0	4.8	8.7

Source: Zimbabwean authorities.

1/ Fiscal years July-June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.

2/ The number of authorized posts at the beginning of each time period indicated, excluding uniformed services.

3/ Includes wages for defense, Zimbabwe Republic Police, and prison service.

Table 20. Zimbabwe: Central Government Debt and Interest Payments, 1996/97–2002 1/

	1996/97	1997/98	1999	2000	2001	2002
	(In millions of Zimbabwe dollars)					
Total government debt 2/	68,589	162,512	206,588	356,900	383,721	588,730
Domestic debt	32,425	46,356	82,632	162,498	182,366	381,220
Stocks	10,559	9,484	9,213	8,016	16,667	15,199
Bonds	109	109	108	383	148	98
Loans	35	28	23	18	15	12
Short-term debt	21,722	36,735	73,288	154,081	165,536	365,912
Treasury bills	20,743	28,542	69,352	153,627	163,272	330,570
Overdrafts and other	979	8,193	3,936	454	2,264	35,342
Public enterprise debt assumed 3/	0	0	401	0	0	0
External debt 4/	36,164	116,157	123,956	194,402	201,355	207,510
Bonds	251	183	167	145	127	116
Loans	35,913	115,974	123,789	194,257	201,228	207,394
Total interest outlays	7,691	20,909	22,260	56,754	48,250	46,819
Domestic	6,310	14,639	18,071	51,460	41,122	40,329
Foreign (commitments) 4/	1,381	6,270	4,189	5,294	7,128	6,490
External debt payment arrears 4/	0	0	2,228	10,293	18,553	16,392
Interest	0	0	735	3,092	7,057	6,360
Principal 5/	0	0	1,493	7,201	11,496	10,032
	(In percent of GDP, unless otherwise indicated)					
Total government debt	70.2	80.9	93.2	114.4	75.7	55.4
Domestic debt	33.2	23.1	37.3	52.1	36.0	35.9
External debt 4/	37.0	57.8	55.9	62.3	39.7	19.5
Total interest outlays	7.9	10.4	10.0	18.2	9.5	4.4
External debt payment arrears	0.0	0.0	0.0	0.3	0.1	0.1
Interest	0.0	0.0	0.0	0.1	0.0	0.0
Principal 5/	0.0	0.0	0.0	0.2	0.1	0.1
Memorandum items:						
GDP at market prices (millions of Z$)	97,689	200,906	221,588	311,890	506,792	1,062,045
Foreign debt stock (millions of US$) 6/	3,194	3,118	3,250	3,532	3,659	3,770
Total interest outlays/total expenditure (percent)	23.0	25.3	27.0	34.4	27.9	14.1
Of which: domestic interest outlays	19.3	35.9	22.5	32.2	21.8	11.5
Domestic short-term debt/Total domestic debt	67.0	79.2	88.7	94.8	66.2	14.4

Sources: Zimbabwean authorities and IMF staff estimates.

1/ Fiscal years July-June through 1996/97; 1997/98 covers the 18-month period July 1997-December 1998. Annual thereafter.
2/ Outstanding debt at the end of the fiscal year.
3/ Refers to debt at the end of the year. The initial amount of debt assumed as of January 1995 (Z$3,974 million) included banker acceptance comprising an element of interest subsequently paid during January-June 1995.
4/ External debt may differ according to treatment of certain publicly guaranteed debts. Discrepancies with Tables 15 and 17 relate to different data sources.
5/ Medium- and long-term debt.
6/ End-calendar year basis (including arrears).

Table 21. Zimbabwe: Operating Results of Major Public Enterprises, 1996/97–2002 1/

(In millions of Zimbabwe dollars, unless otherwise indicated)

	1996/97	1997/98	1999	2000	2001	2002
National Railways of Zimbabwe	-184	-703	282	-699	-2,909	-2,146
Grain Marketing Board	-183	-450	-2,124	-3,332	-4,548	-14,903
Cold Storage Company	-546	-901	-455	-1,395	-1,500	-3,317
Cotton Marketing Board	262	...	...	...	...	...
Air Zimbabwe	-206	-282	97	-247	302	-462
Zimbabwe Iron and Steel Corporation	-495	-688	-1,339	-6,009	-4,056	-9,331
Agricultural Finance Corporation	31	51	...	...	...	...
National Oil Company of Zimbabwe	-1,013	-5,502	-3,143	-2,106	12,500	33,592
Posts and Telecommunications Corporation 2/	...	...	-367	-3,023	2,937	4,998
Net One 2/	...	...	...	...	515	1,172
Tel One 2/	...	...	...	-1,818	3,001	4,146
Zimbabwe Postal Services 2/	...	...	...	-1,205	-579	-320
Zimbabwe Electricity Supply Authority	...	...	-282	2,562	1,002	-549
Total	-2,334	-8,475	-7,331	-14,249	3,727	7,882
(In percent of GDP)	2.5	-7.4	-3.3	-4.6	0.7	0.7

Sources: Zimbabwean authorities; and World Bank estimates.

1/ Fiscal years July-June through 1996/97; 1997/98 budget covers the 18-month period July 1997-December 1998. Annual thereafter.

2/ Posts and Telecommunications Corporation (PTC) was unbundled into three companies in early 2001: Net One, Tel One, and ZimPost.

Table 22. Zimbabwe: Money Supply, 1997–2002

(In millions of Zimbabwe dollars)

	1997	1998	1999	2000	2001	2002
Notes and coins in circulation	3,396	4,265	6,884	9,451	24,673	77,909
Demand deposits with the banking system	16,205	20,404	27,432	43,148	103,819	270,574
Narrow money (M1)	19,601	24,669	34,316	52,600	128,492	348,483
Savings deposits with the banking system	13,211	12,888	17,129	23,859	45,680	103,993
Fixed deposits of 30 days or less with the banking system	4,703	5,576	6,951	23,220	22,686	96,559
Broad money (M2)	37,515	43,133	58,397	99,678	196,858	549,034
Fixed deposits of at least 30 days with the banking system	12,139	13,495	15,123	17,880	41,443	81,935
Broad money (M3)	49,654	56,628	73,519	117,559	238,301	630,970

Source: Reserve Bank of Zimbabwe.

Table 23. Zimbabwe: Monetary Survey, 1997–2002
(In millions of Zimbabwe dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001	2002
Net foreign assets	-12,701	-27,382	-15,258	-13,503	-12,302	-11,869
RBZ 1/	-6,868	-18,893	-11,845	-13,021	-13,022	-14,194
Deposit money banks and OBIs 2/	-5,833	-8,489	-3,413	-482	720	2,325
Net domestic assets 1/	62,353	84,037	88,778	131,062	250,603	642,839
Domestic credit	62,274	76,327	89,399	144,418	260,411	648,920
Claims on government	15,939	16,213	22,174	48,251	95,339	193,941
RBZ	6,939	7,216	3,936	4,633	27,579	97,211
Deposit money banks and OBIs	9,001	8,997	18,239	43,619	67,760	96,730
Claims on public enterprises	1,890	3,450	4,638	9,192	19,737	46,547
RBZ	188	674	653	651	2,034	645
Deposit money banks and OBIs	1,702	2,776	3,985	8,542	17,703	45,902
Claims on nonbank private sector	44,445	56,664	62,587	86,975	145,335	408,432
RBZ	361	808	1,095	2,037	2,257	2,652
Deposit money banks and OBIs	44,084	55,857	61,493	84,938	143,078	405,781
Other items (net)	80	7,709	-622	-13,357	-9,808	-6,080
Broad money (M3)	49,652	56,628	73,520	117,559	238,301	630,970
Memorandum items:						
Reserve money	8,059	11,052	17,786	20,638	54,670	148,247
Money multiplier 3/	6.2	5.1	4.1	5.7	4.4	4.3
Currency/deposit ratio 4/	7.3	8.1	10.3	8.7	11.6	14.1
Reserves/deposit ratio 5/	18.9	22.7	16.1	10.2	14.0	12.6

Source: Reserve Bank of Zimbabwe (RBZ).

1/ RBZ's net foreign assets and net domestic assets have been adjusted for memorandum of deposits.
2/ Includes commercial banks, discount houses, finance houses, building societies, and Post Office Savings Bank.
3/ Defined as money supply (M3) divided by reserve money.
4/ Defined as notes and coins in circulation divided by total deposits.
5/ Defined as reserves held by deposit money banks at the RBZ divided by their total deposit liabilities.

Table 24. Zimbabwe: Assets and Liabilities of Monetary Authorities, 1997–2002 1/

(In millions of Zimbabwe dollars)

	1997	1998	1999	2000	2001	2002
Net foreign assets 1/ 2/	-6,868	-18,893	-11,845	-13,021	-13,022	-14,194
Foreign assets	4,944	8,783	11,003	7,908	4,620	5,672
Gold	1,918	6,142	8,036	4,997	3,029	2,504
Foreign exchange	3,020	2,625	2,925	2,897	1,508	3,166
SDR holdings	6	16	42	14	83	2
Other assets	...	...	...	...	...	...
Foreign liabilities	-11,812	-27,676	-22,848	-20,929	-17,642	-19,866
Of which: Fund credit	-7,182	-15,134	-14,080	-15,448	-14,394	-15,323
Net claims on government	6,939	7,216	3,936	4,633	27,579	97,211
Claims on government	28,467	36,814	51,243	88,222	25,769	115,991
Loans and advances 3/ 4/	25,754	35,668	51,243	84,044	2,264	54,122
Treasury bills	2,713	1,146	0	4,179	25,315	61,869
Government stock	0	0	0	0	0	0
Government deposits 3/	21,528	29,598	47,308	83,590	0	18,780
Claims on nonfinancial public enterprises	188	674	653	651	2,034	645
Net claims on private sector	1,764	7,497	11,569	17,803	30,991	66,873
Claims on deposit money banks	1,403	6,689	10,475	15,766	28,733	64,221
Claims on nonbank private sector	361	808	1,095	2,037	2,257	2,652
Reserve bills outstanding	0	0	0	0	0	0
Other items (net; asset +)	6,037	14,658	13,473	10,573	7,089	-2,286
Reserve money	8,059	11,052	17,786	20,638	54,670	148,247
Reserves of deposit money banks	4,291	6,144	10,116	10,411	28,578	67,000
Reserves of other banking institutions 5/	335	465	583	666	1,259	2,666
Currency in circulation	3,396	4,265	6,884	9,451	24,673	77,909
Nonbank deposits	37	178	202	110	161	673
Of which: nonfinancial public enterprise deposits	0	0	0	0	0	0

Source: Reserve Bank of Zimbabwe (RBZ).

1/ Net foreign assets are valued at current exchange rates and reflect the Fund's records for transactions with the Fund.
2/ RBZ's net foreign assets and net domestic assets have been adjusted for memorandum of deposits.
3/ The RBZ reconfigured the loans and advances and government deposits series; this has been reflected in the 2000-01 figures.
4/ Includes the cost of the gold and tobacco subsidies which were paid in 2001 and 2002.
5/ Includes finance houses, building societies, and Post Office Savings Banks.

Table 25. Zimbabwe: Consolidated Accounts of Deposit Money Banks, 1997–2002 1/

(In millions of Zimbabwe dollars)

	1997	1998	1999	2000	2001	2002
Net foreign assets	-5,723	-8,416	-3,360	-322	847	2,424
Foreign assets	5,854	6,709	5,985	8,997	8,036	12,694
Foreign liabilities	-11,578	-15,126	-9,345	-9,319	-7,189	-10,270
Reserves	4,279	6,045	10,109	9,720	30,625	88,691
Of which: currency	680	573	1,272	1,699	4,151	16,160
Net credit from Reserve Bank	-951	-4,198	-3,118	-8,333	-14,702	-59,234
Of which: Reserve Bank bills held	0	0	0	0	0	0
Net claims on government	5,350	5,025	9,240	25,592	49,902	84,869
Claims on government	7,103	6,727	11,235	30,895	56,589	108,493
Treasury bills	6,673	6,499	10,880	30,052	55,093	106,401
Government stock	201	177	107	12	838	1,650
Loans and advances	229	51	248	831	659	442
Government deposits	-1,753	-1,702	-1,995	-5,303	-6,687	-23,623
Claims on nonfinancial public enterprises	825	1,671	2,513	6,835	15,690	43,654
Claims on private sector	27,935	37,952	45,309	67,484	115,931	336,066
Loans and advances	25,702	34,945	39,115	54,056	68,353	207,787
Of which: on-lent external borrowing	10,081	12,713	7,200	7,325	5,301	5,666
Bills discounted	1,399	1,374	1,646	6,930	26,925	78,540
Bankers' acceptances	441	552	1,977	3,648	6,619	32,336
Other investments	1,308	1,223	2,570	4,776	14,033	17,403
Other items (net; asset +)	-9,003	-11,034	-20,943	-35,518	-41,141	-62,314
Deposits	22,713	27,044	41,233	65,459	157,152	434,157

Source: Reserve Bank of Zimbabwe.

1/ Includes commercial banks, merchant banks, discount houses, and acceptance houses.

Table 26. Zimbabwe: Required Reserves and Liquid Asset Ratios, 1997–2002
(In percent of liabilities to the public)

	1997	1998	1999	2000	2001	2002
Required reserve ratios						
Deposit money banks 1/						
Demand deposits	20.0	25.0	30.0	30.0	50.0	50.0
Savings & time deposits	20.0	25.0	30.0	30.0	20.0	20.0
Finance houses 2/	4.0	5.0	5.0	5.0	5.0	5.0
Liquid asset ratios 3/						
Commercial banks						
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0
Actual	27.0	23.2	31.0	34.6	35.8	37.0
Accepting houses						
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0
Actual	82.0	86.7	116.0	76.7	44.0	38.0
Finance houses						
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0
Actual	11.0	13.0	18.0	29.2	35.0	29.0
Building societies						
Prescribed	10.0	10.0	10.0	10.0	10.0	10.0
Actual	81.0	50.6	62.0	86.5	70.2	69.0

Source: Reserve Bank of Zimbabwe.

1/ With effect from February 1, 2001, commercial and merchant banks are required to keep 50 percent of their demand deposits and 20 percent of their savings and time deposits as required reserves.
2/ Base for requirements since May 1981 is liabilities to the public.
3/ The liquid asset ratio is defined as the ratio of liquid assets to the liabilities to the public. Liquid assets consist of the following: (i) notes and coins; (ii) balance with the reserve bank and discount houses; (iii) short-term debt (treasury, trade, and agricultural marketing authority); (iv) government and municipal stocks with less that one year remaining to maturity; and (v) net external positions.

Table 27. Zimbabwe: Selected Interest Rates, 1997–2002

(In percent per annum; end of period)

	1997	1998	1999	2000	2001	2002
Rediscount rate (maximum) 1/ 2/	31.50	39.50	74.41	63.30	57.20	...
Treasury bills (90 days)	29.91	35.19	69.41	61.24	25.94	25.92
Call money (maximum)	31.00	37.00	87.00	57.00	59.70	50.00
Certificates of deposit (maximum)						
3-month	32.50	42.00	80.00	65.00	36.00	42.00
6-month	32.50	47.00	80.00	80.00	65.00	40.00
12-month	32.50	41.00	75.00	75.00	70.00	40.00
24-month	32.50	40.00	70.00	60.00	70.00	50.00
Savings accounts (maximum)						
Commercial banks	13.25	27.50	44.00	41.00	19.00	19.00
Building societies	13.50	14.00	14.00	14.00	14.00	12.50
Post Office Savings Bank	11.50	21.00	21.00	21.00	11.00	11.00
Fixed deposits						
Commercial banks						
3-month	23.63	40.00	50.00	46.25	15.00	19.50
12-month	21.00	39.00	48.50	41.75	20.50	25.00
24-month	19.50	32.00	39.75	34.75	20.00	26.50
Acceptance houses						
3-month	28.00	40.00	70.50	61.00	24.75	37.00
12-month	26.94	35.25	51.25	40.00	27.50	31.75
24-month	28.00	34.75	34.88	30.00	26.50	26.00
Finance houses						
3-month	30.25	40.25	64.00	47.50	18.50	28.00
12-month	26.50	42.00	57.00	52.00	25.50	35.00
24-month	26.50	35.00	54.50	51.50	...	...
Post Office Savings Bank						
12-month	18.00	24.00	24.00	24.00	15.00	15.00
Average cost of funds						
Commercial banks	13.34	15.75	21.84	26.47	11.27	13.44
Lending rates						
Commercial banks (minimum)	31.59	40.50	56.00	55.00	15.00	35.00
Commercial banks (weighted average)	34.73	49.25	66.00	68.25	31.25	45.75
Building societies(low-cost housing)	17.75	24.50	21.50	28.75	25.88	30.75

Source: Reserve Bank of Zimbabwe.

1/ On December 1, 1998, the rediscount rate and overnight rate were replaced by a reserve bank rate.

2/ The reserve bank rate was suspended in November 2002.

Table 28. Zimbabwe: Sectoral Analysis of Commercial Banks' Loans and Advances, 1997-2002
(In millions of Zimbabwe dollars)

	1997	1998	1999	2000	2001	2002
Agriculture	2,965	4,052	5,772	7,962	12,643	28,916
Construction	301	575	553	2,347	1,863	5,873
Communications	115	333	588	409	2,983	3,467
Distribution	1,306	5,668	6,358	9,089	27,374	61,383
Financial and investments	343	1,120	1,121	6,677	10,602	12,920
Financial organizations	880	439	972	4,096	1,552	17,447
Manufacturing	2,538	4,182	6,447	7,712	20,295	53,864
Mining	414	633	2,641	5,370	4,332	6,403
Services	2,971	5,041	7,264	6,232	6,597	36,105
Transport	342	787	1,219	1,847	2,275	8,509
Individuals	1,059	2,169	3,193	3,103	6,408	20,088
Other	115	9	439	245	1,624	3,079
Total	13,349	25,008	36,567	55,089	98,545	258,053

Source: Reserve Bank of Zimbabwe.

Table 29. Zimbabwe: Sectoral Analysis of Merchant Banks' Loans and Advances, 1997–2002

(In millions of Zimbabwe dollars)

	1997	1998	1999	2000	2001	2002
Agriculture	683	926	826	523	604	4,390
Distribution	1,240	4,392	1,547	2,049	2,381	9,676
Financial and investments	262	164	58	15	0	712
Financial organizations	150	200	143	174	430	445
Manufacturing	805	2,358	2,017	2,471	4,805	22,033
Mining	1,125	1,732	681	1,207	772	2,983
Services	437	822	570	757	1,170	6,272
Transport	146	186	235	217	415	1,709
Individuals	93	135	167	128	155	824
Other	170	756	793	908	1,736	7,017
Total	5,111	11,671	7,038	8,449	12,468	56,060

Source: Reserve Bank of Zimbabwe.

Table 30. Zimbabwe: Nonbank Financial Institutions' Assets, 1997–2002

(In millions of Zimbabwe dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001	2002
Post Office Savings Bank, total assets	7,638	6,662	7,325	8,016	14,291	22,189
Claims on government	1,713	1,542	1,839	2,075	2,791	3,843
Claims on public enterprises	798	859	1,388	1,138	1,764	2,148
Claims on the private sector	1,593	889	942	942	1,035	1,049
Interbank NCDs and call money 1/	3,517	2,107	1,888	2,385	7,222	13,540
Other assets	0	0	0	0	0	175
Reserves	17	1,265	1,270	1,478	1,479	1,333
Building societies, total assets	18,288	18,054	24,324	32,402	52,572	107,556
Claims on government	1,570	1,955	6,928	11,542	14,556	7,260
Claims on public enterprises	57	220	44	30	106	100
Claims on the private sector	9,610	11,128	10,917	11,271	16,843	355,575
Interbank NCDs and call money 1/	5,353	2,312	2,890	5,003	10,714	32,617
Other assets	999	1,487	2,940	3,152	5,458	12,723
Reserves	699	953	606	1,404	4,896	19,282
Finance houses, total assets	5,921	6,983	6,899	7,056	14,657	40,960
Claims on government	439	554	467	456	808	1,546
Claims on public enterprises	21	26	40	0	143	0
Claims on the private sector	4,947	5,888	5,806	5,595	9,269	33,090
Interbank NCDs and call money 1/	94	57	121	158	196	1,593
Other assets	189	172	197	519	815	2,200
Reserves	206	262	213	268	3,385	2,431
Foreign assets	25	24	55	61	41	0
Consolidated other banking institutions, total assets	29,712	31,697	38,548	47,475	65,448	132,562
Claims on government	3,722	4,050	9,233	14,072	18,156	12,749
Claims on public enterprises	877	1,105	1,472	1,168	2,013	2,248
Claims on the private sector	16,149	17,905	17,665	17,808	27,147	69,714
Interbank NCDs and call money 1/	8,964	4,475	4,899	7,546	18,132	47,850
Other assets	0	4,162	5,279	6,881	0	0
Insurance and pension funds, total asset base	22,026	42,706	51,683	63,044	77,727	100,810
Life insurance	19,860	27,441	34,679	42,337	50,825	64,573
Professional life reinsurance	181	246	396	316	356	611
Nonlife insurance	833	1,794	1,280	1,646	2,307	3,657
Professional nonlife reinsurance	1,152	2,144	1,723	1,573	2,577	4,055
Self-administered pension funds	...	11,081	13,605	17,172	21,662	27,914
Prescribed securities	8,902	9,597	10,635	12,479	15,211	17,804
Life insurance	8,248	5,210	6,659	7,483	7,861	7,768
Professional life reinsurance	108	118	222	241	288	407
Nonlife insurance	249	247	445	714	756	1,124
Professional nonlife reinsurance	299	102	435	664	699	1,265
Self-administered pension funds	...	3,920	2,874	3,377	5,604	7,240
Total nonbank financial sector, total assets	22,026	42,706	51,683	63,044	77,727	100,810
Of which: claims on government	8,902	9,597	10,635	12,479	15,211	17,804
Share in total (in percent)	40.4	22.5	20.6	19.8	19.6	17.7

Source: Reserve Bank of Zimbabwe.

1/ NCDs are negotiable certificates of deposit.

Table 31. Zimbabwe: Balance of Payments, 1997–2002

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

	1997	1998	1999	2000	2001 Est.	2002 Est.
Current account balance (excluding official transfers)	-801	-393	30	41	-391	-478
Trade balance	-230	-95	258	346	-170	-404
Exports, f.o.b.	2,424	1925	1933	2195	1609	1418
Imports, f.o.b.	-2,654	-2020	-1675	-1849	-1779	-1822
Of which: non-food imports	...	-1933	-1593	-1787	-1711	-1518
Nonfactor services	-314	-40	31	-90	-131	-202
Receipts	659	630	621	331	246	219
Payments	-973	-670	-590	-421	-377	-421
Investment income	-405	-405	-390	-390	-324	-290
Interest	-147	-204	-175	-173	-147	-123
Receipts	37	30	37	26	12	10
Payments	-184	-234	-211	-199	-159	-133
Other (net)	-258	-201	-215	-217	-177	-167
Private transfers (net) 1/	126	147	131	175	234	418
Capital account (including official transfers)	102	373	188	-289	-387	-334
Official transfers (net)	85	77	101	53	40	35
Direct investment (net)	107	436	50	15	1	23
Portfolio investment (net)	32	11	21	-1	-68	0
Long-term capital (net)	9	44	73	-230	-270	-256
Short-term capital (net)	-131	-195	-56	-126	-90	-135
Errors and omissions	-19	-17	-251	41	363	393
Overall balance	-739	-37	-33	-207	-415	-420
Financing	740	37	33	207	415	420
Gross official reserves (- increase)	558	64	8	25	2	5
Arrears (-decrease)	...	0	109	359	542	498
Net use of Fund resources	-27	5	-27	-70	-85	-95
Net other liabilities 2/	208	90	-57	-106	-44	13
Valuation changes	...	-121	...	...	...	...
Memorandum items:						
Gross official international reserves 3/	272	55	47	22	20	15
In months of imports of goods and services	0.9	0.3	0.2	0.1	0.1	0.1
Current account balance (in percent of GDP) 4/	-9.6	-4.2	0.3	0.5	-4.9	-6.7

Sources: Zimbabwean authorities; and IMF staff estimates.

1/ Includes IMF staff estimates of private remittances and food-related transfers to NGOs.
2/ Stand-by credits with foreign banks
3/ End of period; includes pledged and illiquid assets.
4/ Nominal U.S. dollar GDP adjusted for real growth and international inflation (base year = 1996).

Table 32. Zimbabwe: External Trade Indicators, 1997–2002

(1990=100, unless otherwise indicated)

	1997	1998	1999	2000	2001 Est.	2002 Est.
Exports						
Value (in U.S. dollars terms)	138.3	109.8	110.3	125.2	91.8	80.9
Percentage change	-2.9	-20.6	0.4	13.5	-26.7	-11.9
Volume	122.2	108.4	113.4	120.4	97.3	85.0
Percentage change	0.1	-11.3	4.6	6.2	-19.2	-12.7
Unit value (in U.S. dollars terms)	113.2	101.2	96.5	103.2	93.6	94.5
Percentage change	-3.0	-10.6	-4.6	6.9	-9.3	0.9
Imports						
Value (in U.S. dollars terms)	175.6	133.7	110.9	122.4	117.7	120.6
Percentage change	18.1	-23.9	-17.1	10.4	-3.8	2.4
Volume	183.4	154.9	126.4	133.0	133.0	134.9
Percentage change	23.2	-15.5	-18.4	5.2	0.0	1.5
Unit value (in U.S. dollars terms)	95.8	85.8	87.1	91.4	86.6	87.6
Percentage change	-4.1	-10.5	1.5	4.9	-5.2	1.1
Terms of trade	118.2	118.0	110.8	112.9	108.0	107.9
Percentage change	1.2	-0.2	-6.0	1.9	-4.3	-0.1

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

Table 33. Zimbabwe: Exports by Commodity, 1997–2002 1/

(Values in millions of U.S. dollars; volumes in thousands of kilograms, unless otherwise indicated)

	1997	1998	1999	2000	2001 Est.	2002 Est.
Agricultural exports	886.0	793.1	844.4	855.8	832.8	737.2
Tobacco	608.6	523.8	612.0	548.7	594.3	500.8
Volume	162.0	173.3	216.2	180.4	198.2	173.0
Unit value	3.8	3.0	2.8	3.0	3.0	2.9
Sugar	80.5	62.9	51.5	96.4	70.0	59.5
Volume	232.5	200.9	162.6	248.2	179.5	150.0
Unit value	0.3	0.3	0.3	0.4	0.4	0.4
Maize	36.1	46.4	9.1	2.5	0.0	0.0
Volume	266.6	311.7	75.8	0.0	0.0	0.0
Unit value	0.1	0.1	0.1	0.1	0.1	0.1
Cold Storage Company beef	26.4	32.1	32.6	39.7	22.7	13.7
Volume	7.0	8.5	8.7	11.3	7.7	4.8
Unit value	3.8	3.8	3.8	3.5	2.9	2.8
Coffee	41.6	51.2	37.2	17.1	15.0	14.1
Volume	9.2	12.7	10.0	6.5	6.2	6.4
Unit value	4.5	4.0	3.7	2.6	2.4	2.2
Horticulture	64.8	67.0	82.6	125.4	118.9	138.9
Volume	35.7	40.1	48.6	33.8	39.9	43.9
Unit value	1.8	1.7	1.7	3.7	3.0	3.2
Other agricultural	28.0	22.2	19.4	26.1	12.0	10.2
Mineral exports	462.0	382.1	381.3	440.1	389.2	346.3
Gold 2/	268.0	236.1	229.7	216.4	225.0	168.7
Volume	770.0	821.5	825.4	778.4	827.2	570.0
Unit value	0.3	0.3	0.3	0.3	0.3	0.3
Asbestos	48.3	36.1	35.6	61.1	60.0	63.8
Volume	143.3	112.9	113.0	134.1	129.0	133.0
Unit value	0.3	0.3	0.3	0.5	0.5	0.5
Nickel	71.4	44.2	48.1	77.9	35.2	39.2
Volume	12.2	10.1	8.1	9.0	6.3	6.5
Unit value	5.9	4.4	5.9	8.7	5.6	6.0
Platinum	0.4	3.4	2.0	11.4	17.5	17.8
Volume	1.1	9.4	5.4	21.1	35.6	37.4
Unit value	0.4	0.4	0.4	0.5	0.5	0.5

Table 33. Zimbabwe: Exports by Commodity, 1997-2002 (concluded) 1/

(Values in millions of U.S. dollars; volumes in thousands of kilograms, unless otherwise indicated)

	1997	1998	1999	2000	2001 Est.	2002 Est.
Copper	15.2	4.1	5.2	8.0	0.6	0.4
Volume	5.3	2.6	3.4	4.4	0.5	0.3
Unit value	2.9	1.6	1.5	1.8	1.2	1.3
Other mineral	58.7	58.1	60.6	65.2	50.9	56.4
Manufacturing exports	899.7	655.2	623.6	814.9	313.5	263.2
Ferrous alloys	178.2	162.6	166.5	154.8	81.8	66.9
Volume	249.1	242.8	243.4	274.0	222.2	193.5
Unit value	0.7	0.7	0.7	0.6	0.4	0.3
Cotton lint	146.1	150.1	111.9	156.0	81.9	62.5
Volume	88.3	79.7	84.2	114.0	80.0	62.1
Unit value	1.7	1.9	1.3	1.4	1.0	1.0
Iron and steel	10.1	8.3	12.5	15.0	3.5	2.4
Volume	47.5	36.8	55.0	65.2	15.3	10.2
Unit value	0.2	0.2	0.2	0.2	0.2	0.2
Textiles and clothing	98.3	58.0	59.3	79.3	20.2	17.7
Machinery and equipment	25.4	12.4	17.0	50.6	8.6	7.1
Chemicals	41.8	25.8	27.3	64.3	5.8	3.5
Other manufacturing	399.8	238.2	229.0	294.9	111.7	103.2
Total exports 3/	2,423.5	1,925.5	1,933.2	2,195.0	1,609.0	1,418.1

Sources: Reserve Bank of Zimbabwe; Central Statistical Office; and IMF staff estimates.

1/ At the official exchange rate.
2/ Volume in thousands of ounces and unit value in U.S. dollars per ounce.
3/ Includes migrants' effects, re-exports and internal freight

Table 34. Zimbabwe: Direction of Export Trade, 1996–2001

(In percent of total exports)

	1996	1997	1998	1999	2000	2001
Industrial countries	48.3	50.5	48.3	47.9	46.7	44.0
Australia	0.7	0.6	0.5	0.5	0.7	0.4
Austria	0.4	0.3	0.6	0.3	0.3	0.5
Belgium	1.7	2.7	3.1	1.5	1.3	0.5
Denmark	0.4	0.7	0.5	0.7	2.6	0.5
France	0.9	1.0	0.7	1.0	2.3	2.3
Germany	7.9	7.8	7.7	8.1	5.4	8.3
Italy	4.3	4.0	3.3	3.7	7.2	1.8
Japan	5.1	6.1	4.8	7.3	4.8	6.6
Netherlands	3.7	3.4	3.0	2.4	2.6	1.8
Portugal	1.8	2.2	1.3	1.1	0.5	1.2
Spain	1.7	2.0	2.3	2.5	1.8	1.6
Sweden	0.6	0.6	0.6	0.7	0.5	0.4
Switzerland	2.3	2.2	2.5	2.5	3.2	0.7
United Kingdom	10.1	11.1	10.6	9.8	7.4	12.6
United States	6.7	5.8	6.7	5.9	5.9	4.6
Developing countries	28.2	30.3	32.9	31.3	31.0	30.3
Botswana	4.0	4.4	4.4	3.7	3.6	1.6
China, People's Republic of	3.4	0.8	1.0	5.6	4.1	7.1
Malawi	2.9	3.7	3.6	3.9	2.0	0.5
Mozambique	3.7	3.3	3.2	2.0	3.5	2.0
South Africa	9.6	12.1	13.1	11.9	14.0	17.7
Democratic Republic of Congo	0.3	0.5	0.5	0.4	0.8	0.6
Zambia	4.3	5.5	7.2	3.7	3.0	0.8
Other industrial and developing countries	23.5	19.2	19.8	16.5	20.6	25.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Statistical Office.

Table 35. Zimbabwe: Imports by Principal Commodities, 1997–2002 1/

	1997	1998	1999	2000	2001	2002 Est.
	(In millions of U.S. dollars)					
Food	100.8	87.0	82.2	61.7	68.0	303.8
Tobacco and beverages	28.6	29.1	25.5	61.0	44.3	21.0
Crude materials	80.5	74.3	57.8	125.2	81.4	42.5
Fuel and electricity	361.5	277.1	267.1	371.9	335.3	328.6
Of which: petroleum products	302.7	225.2	216.1	310.2	279.5	267.3
Oils and fats	63.5	41.0	38.6	39.7	30.4	25.5
Chemicals	400.7	336.1	289.4	311.2	407.9	295.2
Machinery and transport equipment	1,005.2	801.2	599.9	493.2	500.0	481.0
Other manufactured goods	395.6	324.7	297.5	300.0	311.2	280.0
Other	217.6	49.7	17.2	85.0	0.0	44.3
Total	2,654.0	2,020.2	1,675.2	1,848.9	1,778.5	1,821.9
	(In percent of total imports, unless otherwise indicated)					
Food	3.8	4.3	4.9	3.3	3.8	16.7
Petroleum products	11.4	11.1	12.9	16.8	15.7	14.7
Memorandum item:						
Exchange rate (U.S. dollars per Zimbabwe dollar; period average)	0.08	0.04	0.03	0.02	0.02	0.02

Sources: Central Statistics Office; and IMF staff estimates.

1/ On c.i.f. basis.

Table 36. Zimbabwe: Direction of Import Trade, 1996–2001

(In percent of total imports)

	1996	1997	1998	1999	2000	2001
Industrial countries	35.1	34.6	31.6	29.1	20.3	14.2
Australia	1.6	1.7	1.1	0.7	0.5	0.4
Austria	0.4	0.3	0.5	0.3	0.1	0.5
Belgium	1.0	1.2	1.0	1.4	1.1	0.5
Denmark	0.5	0.8	0.4	0.4	0.3	0.2
France	3.1	2.5	3.1	2.9	2.1	1.4
Germany	4.9	4.5	3.7	5.2	2.4	2.5
Italy	2.5	1.8	2.0	1.1	1.0	0.4
Japan	5.1	5.5	4.8	4.0	3.1	1.6
Netherlands	1.8	1.7	1.3	1.4	0.8	0.7
Norway	0.2	0.5	0.3	0.2	0.0	0.1
Sweden	1.0	0.9	0.5	0.5	0.4	0.3
United Kingdom	7.9	7.4	6.8	6.4	3.7	3.0
United States	5.0	5.5	5.8	4.6	4.7	2.5
Developing countries	48.5	48.2	48.7	52.6	46.0	53.1
Botswana	1.4	2.0	1.7	1.9	3.4	1.8
India	1.4	1.1	1.4	1.4	0.8	0.7
South Africa	38.3	36.6	38.5	39.4	31.4	39.0
Taiwan Province of China	1.0	1.2	1.1	0.9	0.7	0.5
Zambia	0.5	0.9	0.8	0.9	0.8	0.8
Other (petroleum) 1/	5.9	6.4	5.3	8.0	8.9	10.4
Other industrial and developing countries	16.4	17.2	19.7	18.3	17.6	32.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office; and IMF, *Direction of Trade Statistics*.

1/ Petroleum imports of unknown origin transported through South Africa.

Table 37. Zimbabwe: International Reserves, 1997–2002

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

	1997	1998	1999	2000	2001	2002
Total gross reserves 1/	272	296	479	283	176	165
Gold	56	83	105	45	55	37
IMF reserve tranche position	0	0	0	0	0	0
SDRs	0	0	0	0	0	0
Foreign exchange	160	130	268	193	66	91
Total foreign monetary liabilities	634	627	532	338	275	302
IMF liabilities	387	407	369	281	262	276
Other short-term liabilities 2/	247	220	163	57	13	26
Net reserves	-362	-331	-53	-55	-99	-137
Memorandum items:						
Gross reserves (in months of imports of goods, f.o.b.)	0.8	1.3	2.2	1.4	0.7	0.8
Gold (in millions of fine troy ounces)	0.77	0.62	0.73	0.47	0.19	0.11

Sources: Reserve Bank of Zimbabwe; and IMF staff estimates.

1/ Official gross reserves include pledged and illiquid assets.
2/ Reserve Bank stand-by credits.

Table 38. Zimbabwe: External Debt Outstanding (by Creditors), 1997–2002 1/

	1997 Est.	1998 Est.	1999 Est.	2000 Est.	2001 Est.	2002 Est.
	(In millions of U.S. dollars)					
Total external debt	5,360	4,903	5,045	5,114	5,137	5,177
Public and publicly guaranteed external debt	4,258	4,270	4,447	4,575	4,676	4,834
Medium and long-term	4,042	4,038	4,165	4,399	4,544	4,689
Bilateral creditors	1,177	1,197	1,208	1,240	1,283	1,323
Multilateral institutions	2,189	2,181	2,230	2,365	2,410	2,471
IMF	393	392	368	284	265	267
World Bank	872	940	925	853	810	871
Others	924	849	937	1,228	1,334	1,333
Private creditors	676	660	727	795	851	895
Short-term	216	232	282	176	132	145
Private debt	1,102	633	598	538	462	344
	(In percent of total debt)					
Public and publicly guaranteed external debt						
Medium and long-term	75.4	82.4	82.6	86.0	88.4	90.6
Bilateral creditors	22.0	24.4	23.9	24.3	25.0	25.5
Multilateral institutions	40.8	44.5	44.2	46.2	46.9	47.7
Private creditors	12.6	13.5	14.4	15.5	16.6	17.3
Short-term	4.0	4.7	5.6	3.4	2.6	2.8
Private debt	20.6	12.9	11.9	10.5	9.0	6.6
	(In percent of exports of goods and services)					
Total external debt	164.0	191.9	197.5	202.4	276.9	316.2
Public and publicly guaranteed external debt	130.3	167.1	174.1	181.1	252.1	295.3
Medium and long-term debt	123.7	158.1	163.0	174.2	244.9	286.4
Short-term	6.6	9.1	11.0	7.0	7.1	8.9
Private debt	33.7	24.8	23.4	21.3	24.9	21.0
	(In percent of GDP 2/, unless otherwise indicated)					
Total external debt	59.0	52.8	55.8	59.3	64.0	72.8
Public and publicly guaranteed external debt	46.9	45.9	49.2	53.1	58.2	68.0
Medium and long-term debt	44.5	43.5	46.1	51.0	56.6	66.0
Short-term	2.4	2.5	3.1	2.0	1.6	2.0
Private debt	12.1	6.8	6.6	6.2	5.7	4.8
Memorandum items:						
Arrears on external debt	0	0	109	468	1,010	1,507
Exports of goods and services	3,268	2,555	2,554	2,526	1,855	1,637
GDP (in millions of U.S. dollars) 2/	9,085	9,294	9,037	8,619	8,033	7,107

Sources: Reserve Bank of Zimbabwe; World Bank; and IMF staff estimates.

1/ Including arrears.
2/ Nominal U.S. dollar GDP adjusted for real growth and international inflation (1996 base year).

Table 39. Zimbabwe: Summary of the Tax System as of January 2003.

(All amounts in Zimbabwe dollars)

No.	Tax	Nature of Tax	Exemptions and Deductions	Rates
1.	**Taxes on net income and profits**			
1.1	**Taxes on companies corruptions, and enterprises** Companies Income Tax, Chapter 23:06; amended by Acts 1/80, 11/80, 10/81,55/81, 30/82, 32/83, 7/84, 24/84, 19/85, 5/88, 10/88, 22/89, 10/90, 19/90, 21/91, 17/92, 12/93, 19/94, 4/95, 17/95, 23/95, and 4/96, 10/96, 13/96, 17/97, 23/97, 29/98, 9/99, 17/99, 21/99, 22/99, 6/00, 18/00, 22/01, 27/01, 15/02.	Annual income tax is levied on taxable income of companies (including branches of foreign corporations) from all sources within Zimbabwe. Income from other sources is not liable to tax except for interest. Taxable income is defined as gross income (excluding accruals of a capital nature and exempt income) less allowable deductions incurred in the process of production. The assessment year runs from January to December, and tax on the past year's liability (for the tax year ending in December, bases on a preliminary assessment) is payable thrice yearly in February, with two other payments close to June and November on a 50 percent, 25 percent, and 25 percent basis, respectively.	Interest on special government borrowing and postal savings is exempt. Deductions allowed include expenditure and losses (other than of a capital nature) to the extent to which they are incurred for the purpose of the taxpayer's trade or in the process of production expenditure. These include repairs and maintenance as well as depreciation computed on either the straight line or reducing balance basis. A special initial allowance, equal to 25 percent per annum over 4 years, is available for equipment purchases related to farm improvements, industrial buildings, licensed hotels, and railway lines erected and used by the taxpayer for the purpose of his trade. Special allowance treatment of commercial buildings are allowed in designated growth point areas. Additional 15 percent investment allowance for new investments in designated growth point areas. Additional 15 percent training investment allowance for training buildings and new training equipment.	<u>Basic tax</u>: 30 percent of taxable income. **<u>Growth point areas</u>**: Profit from approved new manufacturing operations in designated growth point areas are taxable at 10 percent for the first five years of operations. **<u>Export processing zones</u>**: Income tax rate of 15 percent after a tax holiday of five years. **<u>Export incentives</u>**: Companies which export 50 percent more of their manufacturing are taxed at 20 percent. **<u>Withholding tax on contracts</u>**: Starting in April 1995, firms bidding on government contracts that do not provide evidence of a valid income tax return face 10 percent withholding of the value of the contract.
1.2	**<u>Taxes on individuals</u>** **<u>Income Tax (Income Tax Act. Chapter 23:06)</u>**	Annual tax on income of individuals derived from all sources within Zimbabwe. Income from other sources is not liable to tax except for interest and dividends. Taxable income is defined as gross income (excluding accruals of a capital nature and exempt income) less allowable deductions. The tax payable is determined by calculating the gross	Most of the deductions allowed to companies are also allowable to individuals (see 1.1); interest on government borrowing is exempt. Spouses are taxed separately. Special credits of Z$500 for handicapped persons are allowable. Tax credits include an elderly person's credit of Z$2,000, and 50 percent of medical expenses. The first Z$3,000 of pensions, the first Z$3,000 of bonuses (or 10 percent of annual pay,	**<u>Basic tax</u>** Taxable income Rate <u>(In Z dollars)</u> <u>(In percent)</u> Up to 180,000 0- 180,001 to 260,000 20 260,001 to 340,000 25 340,001 to 420,000 30 420,001 to 500,000 35 500,001 to 1500,000 40 1500,001 and above 45

Table 39. Zimbabwe: Summary of Tax System as of January 2003 (continued)

No.	Tax	Nature of Tax	Exemptions and Deductions	Rate
		tax chargeable by applying the appropriate rate to the taxable income, and deducting from this the credit the individual is entitled to. The tax of employed individuals is collected in advance from their weekly or monthly wages based on PAYE (pay-as-you-earn) tax tables. Advances are credited against the tax eventually assessed and also through a Final Deduction System. Benefits in the form of soft loans (other than for educational or medical reasons) and private use of company cars are taxable. The assessment year runs from January to December. The personal income tax is not fully global, with scheduler taxes for capital gains, domestic dividends, and treasury bill interest.	whichever is less) is tax. Exemptions from income tax for fringe benefits of persons employed in Export Processing Zones (EPZs), and no income taxation of dividends, interests, royalties, and fees earned from activities in the EPZs. The first Z$15,000 of employer contributions to pension funds are deductible from taxable income tax.	**Nonresident shareholder's tax**: 10 percent on dividends paid by listed domestic companies to nonresident shareholders. 20 percent apply in the case of unlisted companies. **Nonresident tax on interest**: 10 percent withholding tax on interest paid to nonresidents. Creditable. **Nonresident tax on fees**: 20 percent withheld from fees payable to nonresident persons in respect of any services of a technical managerial, administrative, and consultative nature. Creditable where fees are subject to both income tax and nonresidents' tax. **Nonresident tax on remittances**: 20 percent, withheld at source **Resident tax on interest**: 30 percent is deducted at source from interest payable by building societies, banks, discount houses, or other financial institutions to a person (including trusts) ordinarily resident in Zimbabwe. Treasury bill interest is taxed at 15 percent and withheld at source. **Automated Financial Transaction Tax**: A Z$5 tax levied on every Automated Teller Transaction, i.e., on withdrawal of cash or debit to account through Automated Teller Machines. **Informal Traders Tax**: 10 percent tax on rentals payable by informal traders. Interest payable by the post office savings bank and certain building society investments, as well as interest on Tax Reserve Certificates are exempt from tax.

Table 39. Zimbabwe: Summary of Tax System as of January 2003 (continued)

No.	Tax	Nature of Tax	Exemptions and Deductions	Rates
				Intermediated money transfer tax: The intermediated money transfer tax at a rate of Z$5 per transactions
1.3	**Capital gains tax**	A tax on the surplus of revenue over cost from the disposal of marketable securities and fixed property (applicable to both individual and companies).	If the gains in any year do not exceed Z$5,000, not tax is payable. If the losses do not exceed that amount, they cannot be carried forward. Local authorities, pension funds, and certain other organizations and agencies are exempt. Rollover is allowed on the principal private residence and business property.	A flat rate of 20 percent. 50 percent of the asset price per annum is deducted from the asset prices to offset the effects of inflation on asset prices. An ordinary rate of 20 percent is charged on sales of houses, and 10 percent on houses sold by those 60 years and above. **Gains on securities**: Gains related to the disposal of marketable securities that are listed at the Zimbabwe Stock Exchange taxed at 10 percent.
1.4	**Betting and gambling taxes** (Betting and Totalizator Control Act, (Chapter 10:02) 33/76, 41/78, 32/79, 1/80, 5/83, 18/89, 15/94, 146/92; Pools Control Act, Chapter 87; and Casino Act, Chapter 77).			**Horse racing**: 10 percent of winning and gross turnover. **Pool betting**: 10 percent of aggregate. **Casino gambling**: 15 percent of winnings.
2.	**Social security contributions**	Payroll tax instituted in October 1994 for the National Social Security Authority.	Central government employees and domestic (household) workers.	Employers and employees: 3 percent each of wages and salary (excluding benefits), with a maximum wage and salary base of Z$4,000 per month.
3.	**Payroll taxes**: None			
4.	**Taxes on property**			
4.1	**Real estate taxes**	A local government tax levied annually on the value of real estate.	The scope of real estate covered and the valuation differ widely among local governments.	Rates differ among local governments. Rates vary from Z$30 to Z$150 per unit of land (400 hectares) in commercial farming areas.
4.2	**Net wealth tax**: None			
4.3	**Estate duty** (Estate Duty Act,	Payable on the value of the assessed estate of a	An abatement exempts estates valued at less then Z$50,000	Rate varies from a low of 0.02 of a cent per Z$100 to 20 percent when

Table 39. Zimbabwe: Summary of the Tax System as of January 2003 (continued)

No.	**Tax**	Nature of Tax	Exemptions and Deductions	Rates
	chapter 178; amended by Act 38/76).	deceased person.	where the deceased did not leave a surviving spouse and Z$5,000,000 when the deceased leaves a surviving spouse. The family home is not included in the value of the estate.	the dutiable amount is Z$100,000 or more
4.4	**Property transfer tax**:	Stamp duties payable on transfers of property.		35c for every Z$100, or part thereof, of marketable securities; 10c for every Z$100, or part thereof, of other moveable property; 35c for every Z$100, or part thereof, of immoveable property; 10c for cheques; and 3c for every Z$1 of insurance policies.
5.	**Taxes on goods and services**			
5.1	**General sales tax** Sales Tax Act, Chapters 48/76, 27/77, 12/78, 23/78, 35/78, 22/78/ 1/80, 11/80, and 55/81. 30/82, 19/83, 24/84, 19/85, 20/86, 17/87, 4/88, 8/88, 16/88, 22/89, 19/90, 17/92, 12/93, 15/94, 19/94, 17/95, 23/95, 4/96, 13/96, 17/97, 23/97, 29/98, 9/99, 17/99, 21/99, 22/99, 6/00, 18/00, 22/01, 27/01, 15/02.	Single-stage tax levied and collected on all goods sold locally. The tax is levied on all sales of all goods and services, both domestic and imported, except to other registered traders within the "ring" system. Base for the sales tax charged on imported goods (if sold to a final consumer) is imports c.i.f. plus customs. Effective January 1, 1998, general traders should have annual turnover of Z$2,500,000 or more to register. In the service sector, a lower threshold of Z$500,000 in the manufacturing industry.	Taxable services include accommodations at hotels and restaurants, and transportation and telecommunications services. The following items are exempt: (i) basic commodities such as fresh meat and fish, milk, maize, bread, illuminating paraffin, and vegetables; and (ii) beer, tobacco products, wines, and spirits (subject to excise duties). Through the operation of the ring system, the following items are also, in effect, exempt: (iii) main input items of mining and agricultural industries; (iv) raw materials of manufacturing industries; and (v) goods purchased for resale by traders. For firms in Export Processing Zones, a refund is given on sales tax paid on inputs.	15 percent of retail price of all taxable sales of goods, services except for 25 percent for luxury goods and 10 percent for commercial vehicles. Hotel accommodations taxed at 15 percent.
5.2	**Excise duties (Customs and Excise Act**, Chapter 177; amended by Acts 23/79, 24/79, 2/80, and Customs and Excise (Suspension) Regulations, 1980, SI 645/80, and SI 55/81).	Dutiable goods include liquor and tobacco products. Tax levied at the manufacturing level.	Exports and imports are exempt. Imports that compete with excisable domestic goods are subject to customs rates that are equal to or greater than the excise tax rate.	**Cigarettes**: 85 percent **Beer**: clear beer, 80 percent; opaque beer, 10 percent. **Alcoholic spirits**: Z$70 per liter of AA or Z$28 per liter. **Carbonated beverages**: 25 percent. **Wines**: 5 percent.

Table 39. Zimbabwe: Summary of the Tax System as of January 2003 (continued)

No.	Tax	Nature of Tax	Exemptions and Deductions	Rates
5.3	**Selective tax on service**: None.			
5.4	**Business licenses** (Shop License Act of 1976)	Annual levy on selected business.		Rates vary between urban and rural areas.
5.5	**Motor vehicle tax**	Tax on motor vehicles. Heavy vehicles are taxed by the Central government and all the receipts are granted to local government. Other vehicles are taxed by local governments. In some regions where local governments do not have tax administration, the Central government (through post offices) collects this tax and grants it to the regions.		Rates vary between urban and rural areas.
6.	**Taxes on international trade and transactions**			
6.1	**Tax on imports**	Customs duty	Imports by the central government are exempt. Special concessions are applied to some goods produced in specified countries by agreement. Firms in Export Processing Zones are allowed duty-free importation of new materials.	Tariff basically consists of a single schedule. Rates are mostly ad valorem and applied to the c.i.f. value. Classification is based on the Harmonized System. (In percent) Raw materials: 5 Capital goods: 0 Partly processed inputs (unleaded): 15 Intermediate goods: 20-30 Finished goods: 40-85 Gasoline 45 Diesel 25 Jet fuel free Vehicles: 1000cc-1500cc 65 1500cc-3000cc 75 3000cc and over 80 Clear beer – 100 percent Carbonated beverages – 25 percent Alcoholic spirits – Z$52.88 per liter or Z$117.5 per liter of AA. Cigarettes – 85 percent

Table 39. Zimbabwe: Summary of the Tax System as of January 2003 (concluded)

No.	Tax	Nature of Tax	Exemptions and Deductions	Rates
				Wines -- 75 percent. Apparel: 65 percent plus Z$100 per kilo Batteries: 30 percent to 65 percent plus Z$100 each Consumer electronics: 40 percent to 65 percent plus Z$100 each **Road user levy**: An additional duty of Z$0.18 per liter for diesel, and Z$.05 per liter for gasoline, introduced in January 1995 is classified as a fee (road user levy) under nontax revenue.
			—	
6.2	**Surtax**	Surtax on imports of final goods.	Imports by the central government and selected goods for statutory bodies (related to their primary lines of business) are exempt.	(i) 10 percent on goods attracting also 30 percent customs duty and those attracting specific and combine rates of duty. (ii) below 30 percent -- free.
6.3	**Taxes on exports**: None			
6.4	**Exchange taxes**			
	Tobacco levy	Tax on turnover at tobacco auctions, which are usually held between April and October. Introduced in May 1996.		3 percent, 1½ percent payable by both buyer and seller.

Source: Zimbabwe authorities.