INTERNATIONAL MONETARY FUND

IMF Country Report No. 12/279

ZIMBABWE

2012 ARTICLE IV CONSULTATION

September 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Zimbabwe, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 27, 2012, with the officials of Zimbabwe on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 7, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its September 21, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Zimbabwe.

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

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ZIMBABWE

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

September 7, 2012

KEY ISSUES

Outlook: Growth is projected at 5 percent in 2012; more generally, the economic rebound experienced since 2009 is moderating. Key risks to the outlook include political instability, a decline in exports from a deeper global downturn, fiscal slippages, financial sector stress, and uncertainties around the indigenization policy. Zimbabwe faces these risks with very thin buffers. A vigorous program of reforms would help boost growth and poverty reduction over the medium term.

Strengthening fiscal management and improving the expenditure mix: A more robust budget process, including better planning and control of spending and more transparency on diamond revenues, is needed to avoid slippages necessitating large policy corrections in mid course. The spending mix is unsustainable, with employment costs taking up a very large share of government resources. Over the medium term, containing wage bill growth would create fiscal space to improve public services, raise infrastructure investment, and build buffers.

Containing financial sector vulnerabilities: The multi-currency system, which has served Zimbabwe well, demands a strict approach to financial system regulation and supervision. Efforts are underway to strengthen the financial regulatory framework, but vulnerabilities persist. A proactive approach to banking supervision, boosting system liquidity, and restructuring the Reserve Bank will be essential.

SMP: The authorities remain interested in a staff-monitored program and have met the outstanding marker for initiating a stock-taking on the feasibility of a staff-monitored program; and resumed payments to the Poverty Reduction and Growth Trust.

Resolving external payment arrears: Zimbabwe's debt overhang remains a serious impediment to medium-term fiscal and external sustainability. Addressing this issue will require a comprehensive arrears clearance framework underpinned by a strong macro policy framework, in what will likely be a protracted process. Government nonconcessional borrowing could complicate future external arrears clearance.

Approved By
Anne-Marie Gulde-Wolf and Vivek Arora

Discussions took place in Harare from June 13 to 27, 2012. The staff team comprised Mr. Cuevas (head), Ms. Morgan (AFR), Ms. Lis (FAD), Mr. Narita (FIN) and Mr. Henn (SPR)

CONTENTS

BACKGROUND AND RECENT DEVELOPMENTS 4

OUTLOOK AND RISK 8

RESTORING FISCAL SUSTAINABILITY 14

REDUCING FINANCIAL SECTOR VULNERABILITIES 17

SUSTAINING GROWTH, RESTORING SUSTAINABILITY 20

STOCKTAKING FOR A STAFF-MONITORED PROGRAM 25

STAFF APPRAISAL 27

TABLES

1. Selected Economic Indicators, 2009–17 29
2. Balance of Payments, 2009–17 30
3. Central Government Operations, 2009–17 31
4. Central Government Operations (GFSM 2001 Classification), 2009–17 33
5. Integrated Balance Sheet, 2009–17 34
6. Monetary Survey, 2009–17 35
7. Selected Economic Indicators, 2009–17 (Active Policies Scenario) 36
8. Risk Assessment Matrix 37

FIGURES

1. Comparative Growth Rates 4
2. Recent Economic Performance 4
3. External Sector Performance 6
4. Recent Budgetary Performance 7
5. Banking System Indicators 8
6. Unchanged Policies Scenario 11
7. Active Policies Scenario 12

8. Two Scenarios ____ 13
9. Competitiveness Indicators (I) ____ 21
10. Competitiveness Indicators (II) ____ 23
11. Unit LaborCosts ____ 24
12. CPI-Based Real Effective and Bilateral Real Exchange Rates ____ 24

BOX

1. Proposed Fiscal Measures in the 2012 Mid-Year Fiscal Policy Review ____ 15

APPENDICES

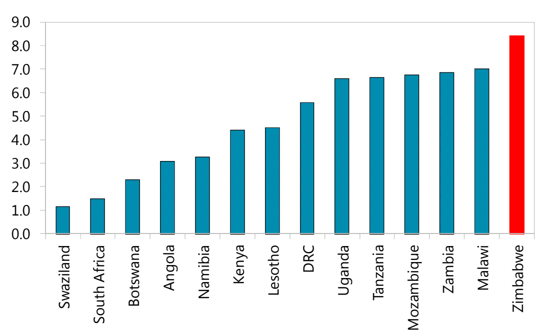
I. Forecasting CPI Inflation in Zimbabwe ____ 38
II. Mineral Resources ____ 42
III. Indigenisation and Economic Empowerment Act ____ 43
IV. Financial Sector Risk and Vulnerabilities ____ 44
V. Reserve Adequacy Assessment in Zimbabwe ____ 50
VI. Debt Clearance and Macroeconomic Management ____ 53

BACKGROUND AND RECENT DEVELOPMENTS

1. **Economic stabilization and recovery began in 2009, after a prolonged period of economic and political crisis.** Strong rebound effects, policy reforms implemented post hyperinflation, and the formation of a coalition government in February 2009—supported by sizeable off-budget grants and a favorable external environment—facilitated the recovery. The adoption of the multicurrency system (in which the U.S. dollar, the South African rand, Botswana pula, the euro, and the British pound are legal tender) and cash budgeting, and the discontinuation of quasi-fiscal activities by the Reserve Bank of Zimbabwe (RBZ) helped restore price stability, foster fiscal discipline and jumpstart financial intermediation. Real GDP growth averaged 9½ percent 2010–11, well above that in most countries in the region (Fig. 1).

Figure 1. Comparative Growth Rates

Average Real GDP Growth 2009-2011



Sources: April 2012 WEO, Zimbabwean authorities, and IMF staff estimates

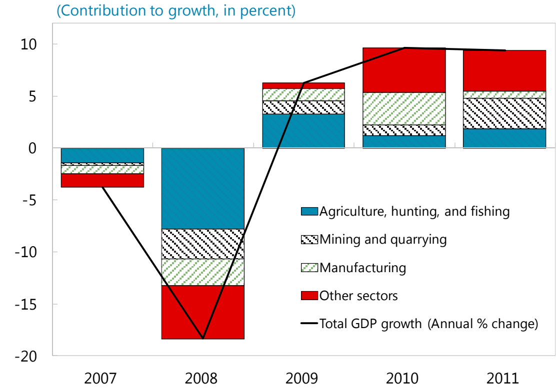
2. **A bad harvest is affecting growth.** Growth in 2012 is projected at 5 percent reflecting in part adverse events in agriculture. The 2011/12 season saw the sector's output decline by 3½ percent due to drought in parts of the country.[1] CPI inflation rose moderately to 4.9 percent (year-on-year) in December 2011, mainly reflecting higher fuel and food prices, before declining to 4 percent in June 2012 (Fig. 2; Appendix I).

Figure 2. Zimbabwe: Recent Economic Performance

The recent high growth was mainly driven by the mining, transport and communication, and distribution sectors.

GDP Growth

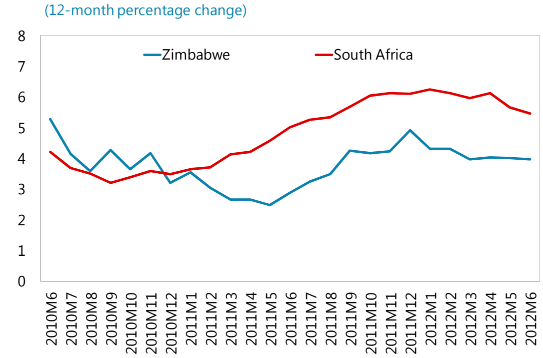
(Contribution to growth, in percent)



Inflation remains low since dollarization and is broadly in line with major trading partners.

Consumer Price Inflation

(12-month percentage change)



3. **The current account deficit widened in 2011.** Higher exports, mainly of

[1] Maize imports are expected to increase to 0.9 percent of GDP in 2012 (from 0.6 percent in 2011) and 1.1 percent of GDP in 2013.

platinum, gold and tobacco, were more than offset by higher imports, mainly of fuel, and machinery and transport equipment, resulting in a deficit of 36 percent of GDP in 2011 (Fig. 3, Table 2). Errors and omissions remained high at 10 percent of GDP in 2011, possibly reflecting unregistered remittances and underreported exports, as well as unidentified financing.[2] Usable international reserves remained very low at 0.3 months of imports at end-2011. The trade deficit shrank by $260 million (2½ percent of annual GDP) in January–April 2012, relative to the 2011 period, as the previous year's spike in imports[3] is being reversed, and exports continued to grow at 9 percent. Current account financing relied on debt based inflows and arrears, as well as a draw-down of SDR holdings.

4. **The public finances came under pressure in 2011 and early 2012.** Despite better-than-expected revenue performance, the budget had a cash deficit of 0.6 percent of GDP in 2011, with domestic arrears accumulation of about 1 percent of GDP (Tables 3–5; Fig. 4), due in part to an unanticipated salary increase in July. The effect of that hike was compounded in early-2012 by an increase in employee allowances and unbudgeted recruitment.[4] Fiscal stress was aggravated by underperforming diamond revenues in the first half of 2012. The government rushed to respond in its mid-year fiscal policy review.

5. **Banking sector liquidity is recovering from recent shocks (Fig. 5).** Following a period of rapid credit growth that saw loan-to-deposit ratios increase steeply, the banking system's liquidity ratio stood at 26 percent at end-2011, with 15 banks below the 25 percent prudential liquid ratio. Against this backdrop, large government transactions triggered a liquidity crunch between December 2011 and February 2012, prompting the introduction of temporary limits on cash withdrawals. The situation improved following receipt of resources from the sale of SDRs and from partial repatriation of banks' offshore balances, which was directed by the RBZ. The RBZ has also raised the prudential liquidity ratio in two steps from 25 percent to 30 percent by end-June 2012. In March 2012, the government issued bonds to financial institutions in exchange for the US$83 million of statutory reserves that had been frozen at the RBZ (the first coupons on the bonds were paid in July). In the last year three small banks have experienced severe distress, with one coming under curatorship and two giving up their licenses.

[2] Small scale individuals' imports are registered as such at border crossings with neighboring countries, but it is not known to what extent these imports constitute (are financed by) remittances.

[3] Imports of vehicles spiked in 2011 as expectations of changes in the importation regime for used cars triggered advanced purchases.

[4] Some 7,800 officers were hired in January–June 2012.

6. **The record of implementation of recommendations from previous consultations is mixed**. In concluding the 2011 Art. IV consultation, the Executive Board urged the authorities to strengthen their macroeconomic framework, start rebuilding reserves, and implement key structural reforms. The government reduced the budget gap in 2011, but it still accumulated domestic arrears, and cash budgeting has strained under a heavy wage bill. International reserves remain very low, as funding for accumulation has been unavailable. Regulation and supervision of the banking system are improving, but the banking system still presents fragilities, and the restructuring of the Reserve Bank has seen limited progress.

Figure 3. Zimbabwe: External Sector Performance

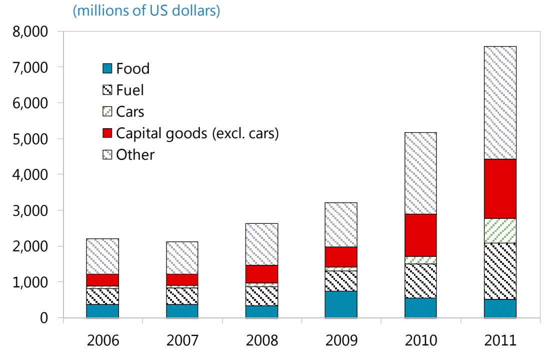
Favorable external conditions and high commodity prices continued to boost exports in 2011.

Export Performance

Imports spiked on the back of motor vehicle imports in 2011 amidst uncertainty of the future import regime at the time.

Import Performance

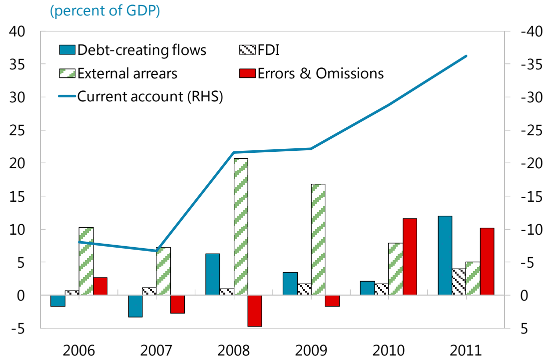
(millions of US dollars)



Financing for the current account deficit has come to rely more strongly on private sector debt inflows and large flows remain unregistered. 1/

Current Account and Financing

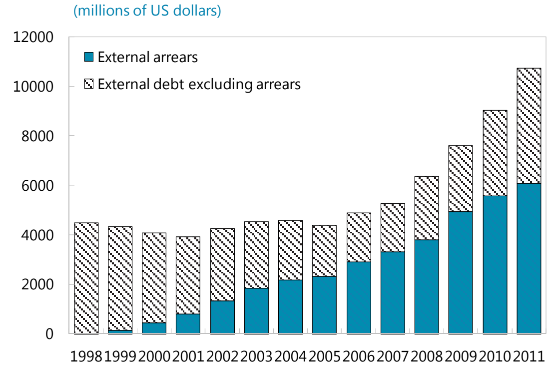
(percent of GDP)



The external position deteriorated, with continued increases in payment arrears.

External Debt

(millions of US dollars)

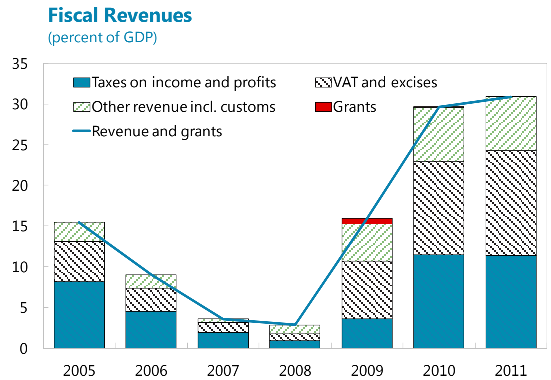


Sources: Zimbabwean authorities and IMF staff estimates.

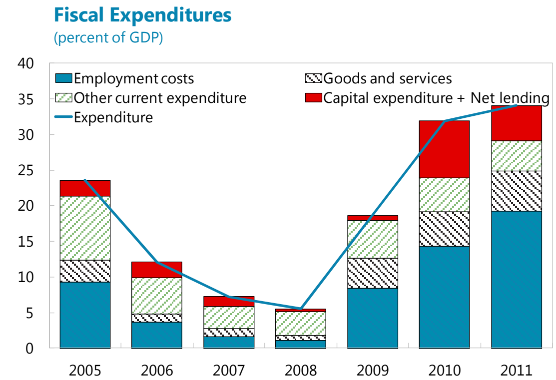
Notes: Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.
1/ These unregistered flows are likely related to unregistered remittances and exports and as such would lower the current account deficit.

Figure 4. Zimbabwe: Recent Budgetary Performance

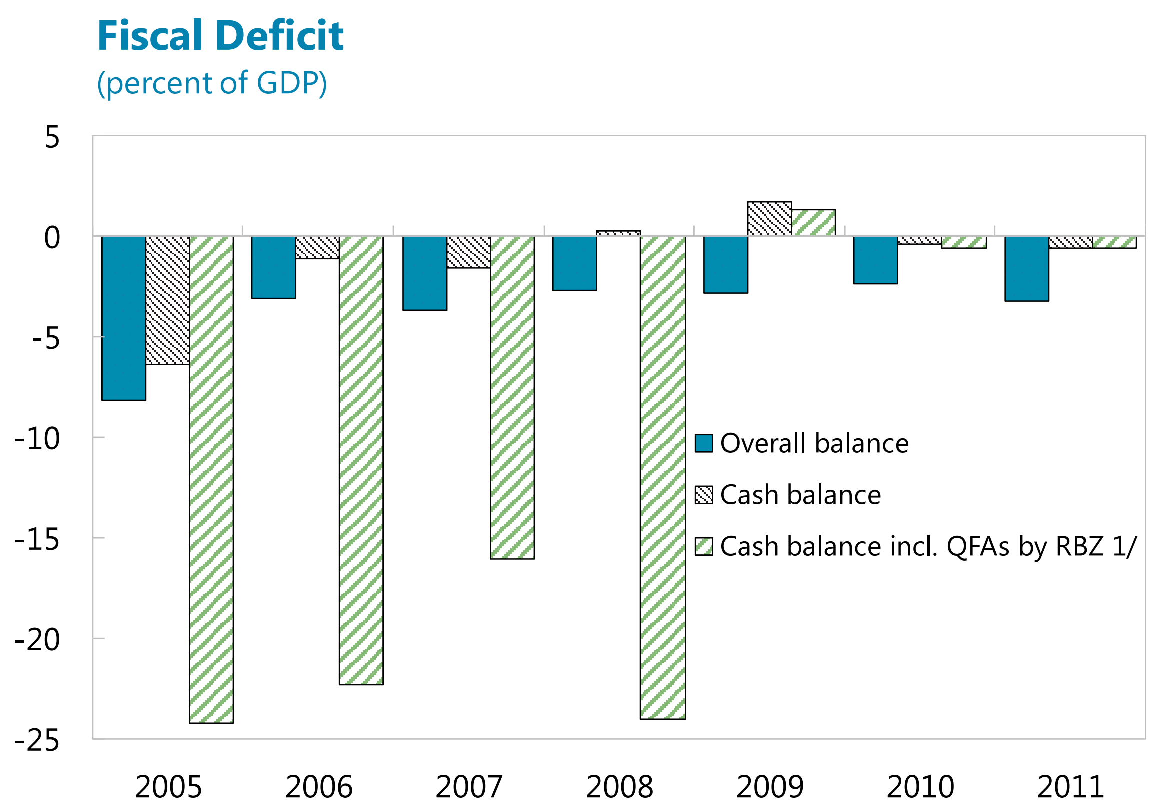
Revenue collection leveled off in 2011…



… while employment costs continued to grow and crowd out capital and social expenditures.



A cash deficit has emerged since 2010 financed mainly by SDR sales and nonconcessional loans.



Sources: Zimbabwean authorities and IMF staff estimates.

1/ Quasi-fiscal activities (QFAs) by the Reserve Bank of Zimbabwe (RBZ) include election-related expenses, transfers to parastatals, subsidized direct lending, below-cost provision of equipment and fertilizers to farmers, and allocation of foreign exchange at subsidized exchange rates.

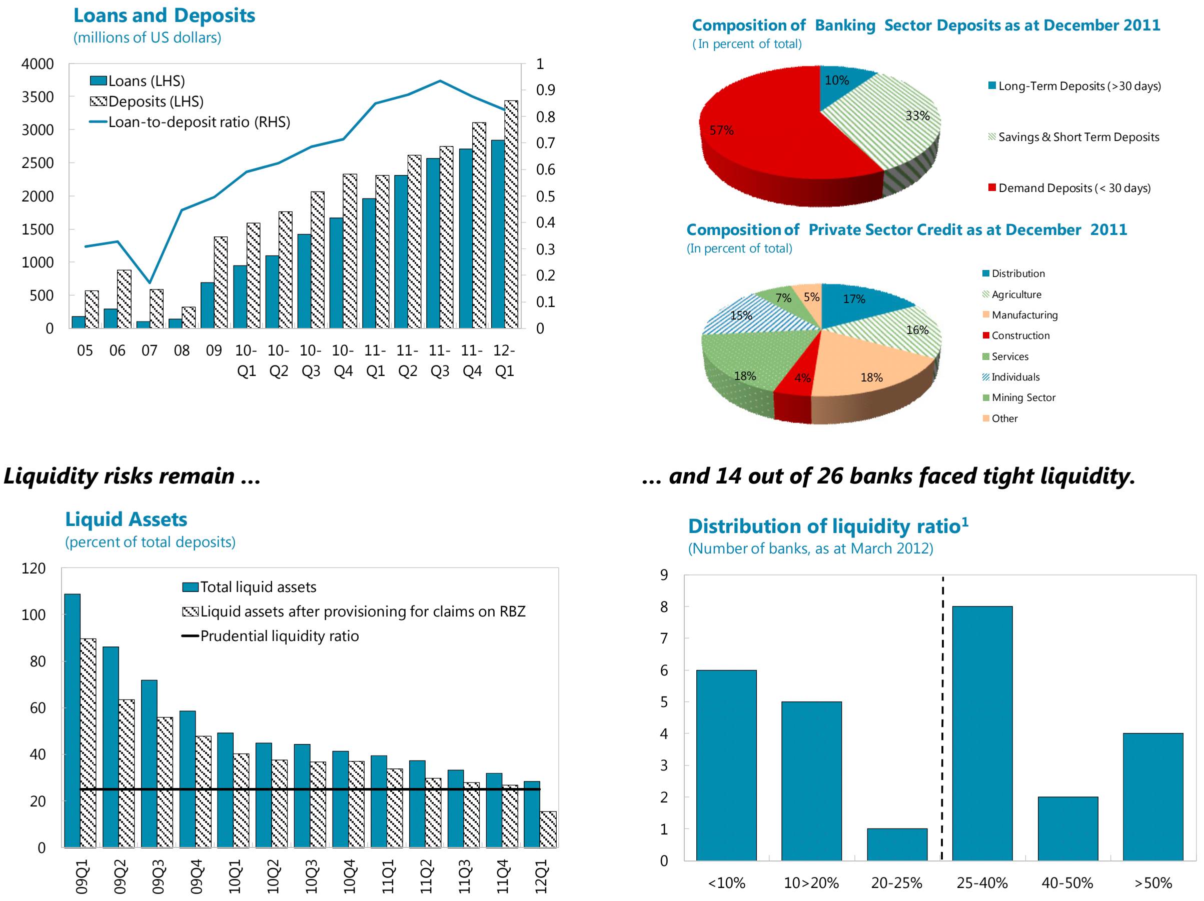
Figure 5. Zimbabwe: Banking System Indicators

Deposit and credit continued to grow, but the pace is slowing.

Deposits remained predominantly short-term and credit largely benefits consumption.

Liquidity risks remain …

… and 14 out of 26 banks faced tight liquidity.



Sources: Zimbabwean Authorities and IMF staff estimates.

[1] The ratio of liquid assets to short-term liabilities. Liquid assets are defined as cash, claims on nonresident banks, interbank claims, and clearing balances at the RBZ. Illiquid claims on the RBZ are excluded. Short-term liabilities comprise all deposits, interbank liabilities, and liabilities to nonresidents.

OUTLOOK AND RISK

7. **Growth is projected to moderate over the medium term (Table 1, Fig 6).** The decline in growth in 2012 reflects the impact of adverse weather conditions on agriculture, as well as tight liquidity and erratic electricity supply. Mining production is expected to remain strong, benefitting from the lifting of restrictions on diamond exports from the Marange fields (Appendix II).[5] From the

[5] In November 2011, the Kimberly Process Certification Scheme lifted the two-year ban on exporting diamonds from the Marange fields. However, in

(continued)

spending side, investment appears hampered by uncertainties related to the indigenization policy and the political process, while exports are being affected by soft commodity prices. Medium-term growth is projected to decelerate gradually to some 4 percent by 2017—although constraints on energy supply and weak competiveness may complicate the attainment of these growth rates. Foreign investment is likely to be hampered by a poor business climate, uncertainties over the implementation of the indigenization policy, and political instability, while domestic investors may face difficulties accessing long-term credit.[6]

8. **Downside risks are significant (Table 8).** The main risks to the outlook are the possible resurgence of political instability ahead of the elections (expected in 2013) and a deeper global downturn. A sharper recession in Europe and deceleration in China would affect commodity prices and activity in South Africa—a main source of remittances and investment. Policy risks include the potentially destabilizing effects of the indigenization policy on the banking system and its chilling effect on investment (Appendix III). Other risks include fiscal slippages and financial sector instability. Low external reserves and lack of a lender-of-last-resort mean Zimbabwe faces these risks with minimal buffers.

9. **Zimbabwe's debt overhang remains an impediment to medium-term fiscal and external sustainability.[7]** It will need to be addressed in due course in the context of a comprehensive arrears clearance framework underpinned by strong policies.

10. **Zimbabwe's growth potential is higher than the baseline projections, but unlocking such potential requires decisive actions.** Achieving higher sustained growth will require a vigorous program of reforms focused on strengthening public financial management, improving control over the payroll, raising the productivity of government expenditure, reducing financial sector vulnerabilities, addressing infrastructure bottlenecks, increasing competitiveness, and improving the business climate. This is reflected in the macroeconomic framework for the "active policies scenario." (Table 7; Figs. 7-8).

11. **Zimbabwe is implementing its regional trade commitments on a slow track**.[8] SADC granted Zimbabwe a temporary suspension of its tariff reduction commitments

December 2011, the U.S. imposed bilateral sanctions on two of the mines. These are subsidiaries/joint ventures of the Zimbabwe Mining Development Corporation, which is on the U.S. sanctions list. Since 2001, members of the international community (the USA, EU, Canada, New Zealand and Australia) have imposed various sanctions and restrictive measures on named individuals and institutions in Zimbabwe, even while maintaining specific instruments for humanitarian support.

[6] Access to credit is a problem for domestic SMEs.

[7] See Debt Sustainability Analysis.

[8] Zimbabwe is a member of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern African States (COMESA), and is a party to discussions on a tripartite free trade area encompassing COMESA, SADC and the East African Community

to provide local industry time to recapitalize and restore competitiveness. SADC has authorized Zimbabwe to implement the phased tariff adjustment over 2012–2014.

Authorities' views

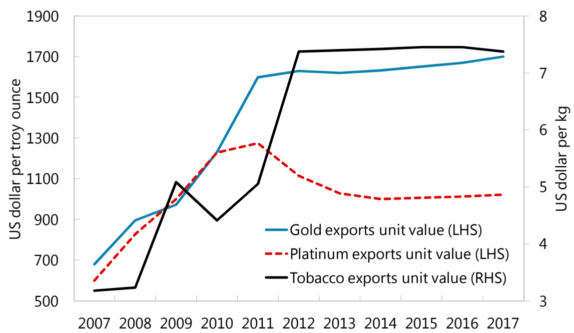
12. **The authorities agreed that growth would moderate over the medium term.** While their projections are somewhat more optimistic, the authorities agreed broadly with the trajectory projected by staff, stressing the constraining effect of the debt overhang. They noted that the deteriorating global economic conditions have negative repercussions on commodity-dependent Zimbabwe, slowing growth and poverty reduction. They also argued that the remaining international sanctions hurt export revenue by affecting the country's ability to trade with mainstream diamond buyers and constraining access to external financing.

13. **The authorities remain committed to maintaining the multicurrency system until the economy completely stabilizes.**

Figure 6. Zimbabwe: Unchanged Policies Scenario

While commodity prices remain high, except for platinum …

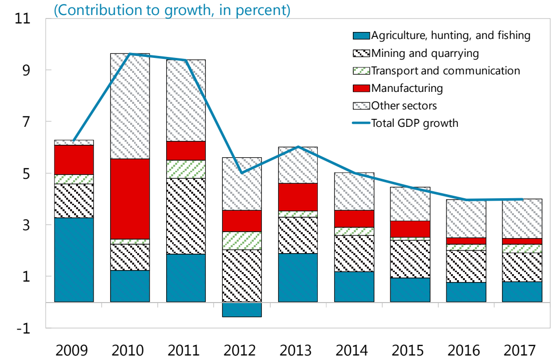
Commodity Prices



… the economic rebound is projected to moderate.

GDP Growth

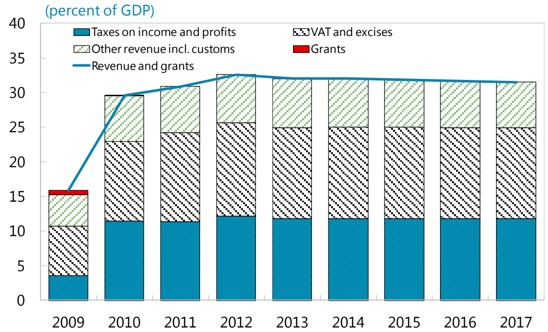
(Contribution to growth, in percent)



Fiscal revenue growth will stagnate…

Fiscal Revenues

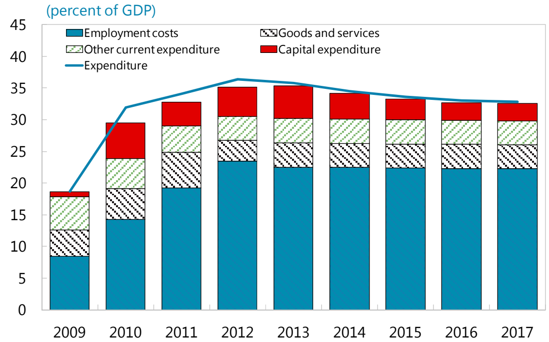
(percent of GDP)



… and expenditure will be heavily tilted towards employment costs.

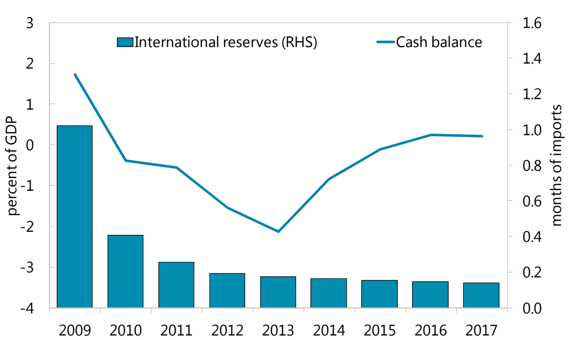
Fiscal Expenditures

(percent of GDP)



The resulting cash balance will fail to provide appropriate buffers against external shocks …

Cash Balance and International Reserves



… and despite the stabilization of the current account, external debt will remain unsustainable.

External Debt and Current Account

(percent of GDP)

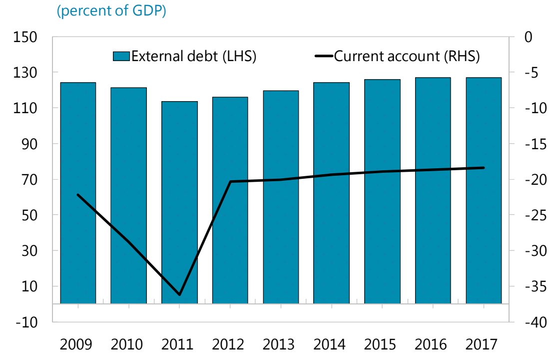
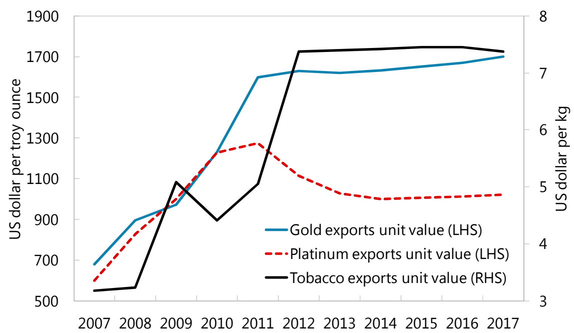


Figure 7. Zimbabwe: Active Policies Scenario

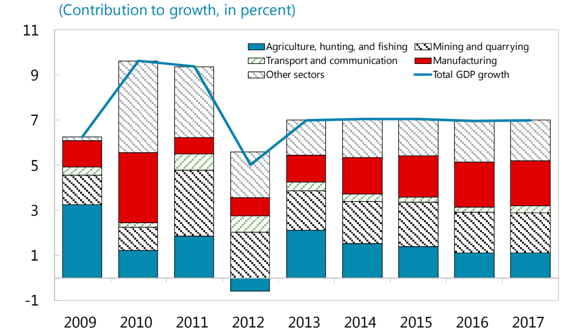
If corrective measures are implemented, given the same trajectories for commodity prices, …

Commodity Prices



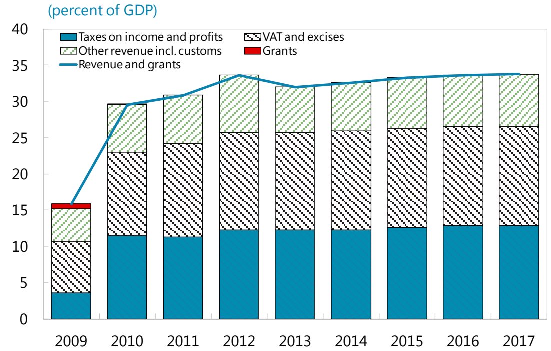
… the economy is projected to grow faster, driven by higher FDIs and a better business environment.

GDP Growth
(Contribution to growth, in percent)



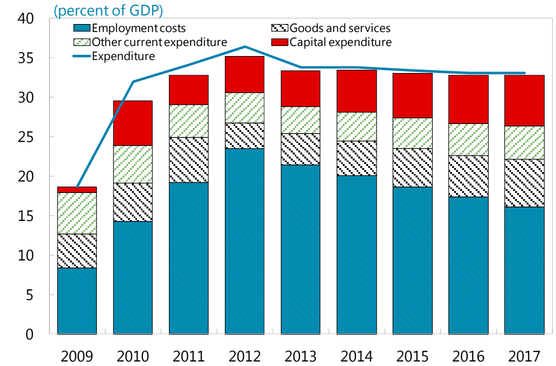
Fiscal revenues will strengthen …

Fiscal Revenues
(percent of GDP)



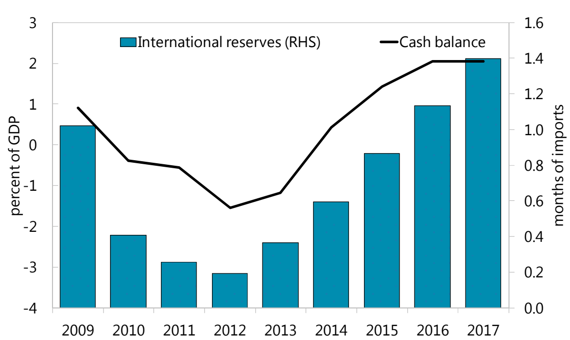
… and a more balanced expenditure mix will be achieved.

Fiscal Expenditures
(percent of GDP)



The positive cash balance will provide a greater reserve buffer against external shocks …

Cash Balance and International Reserves



… and the economy will have a smaller debt stock.

External Debt and Current Account
(percent of GDP)

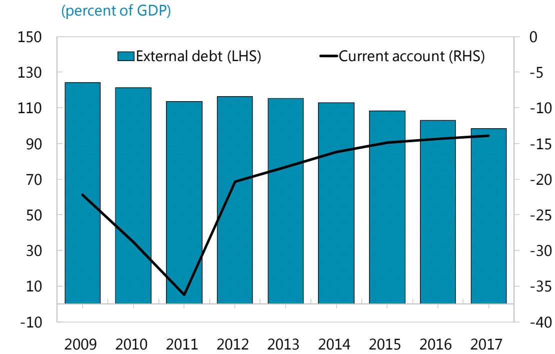
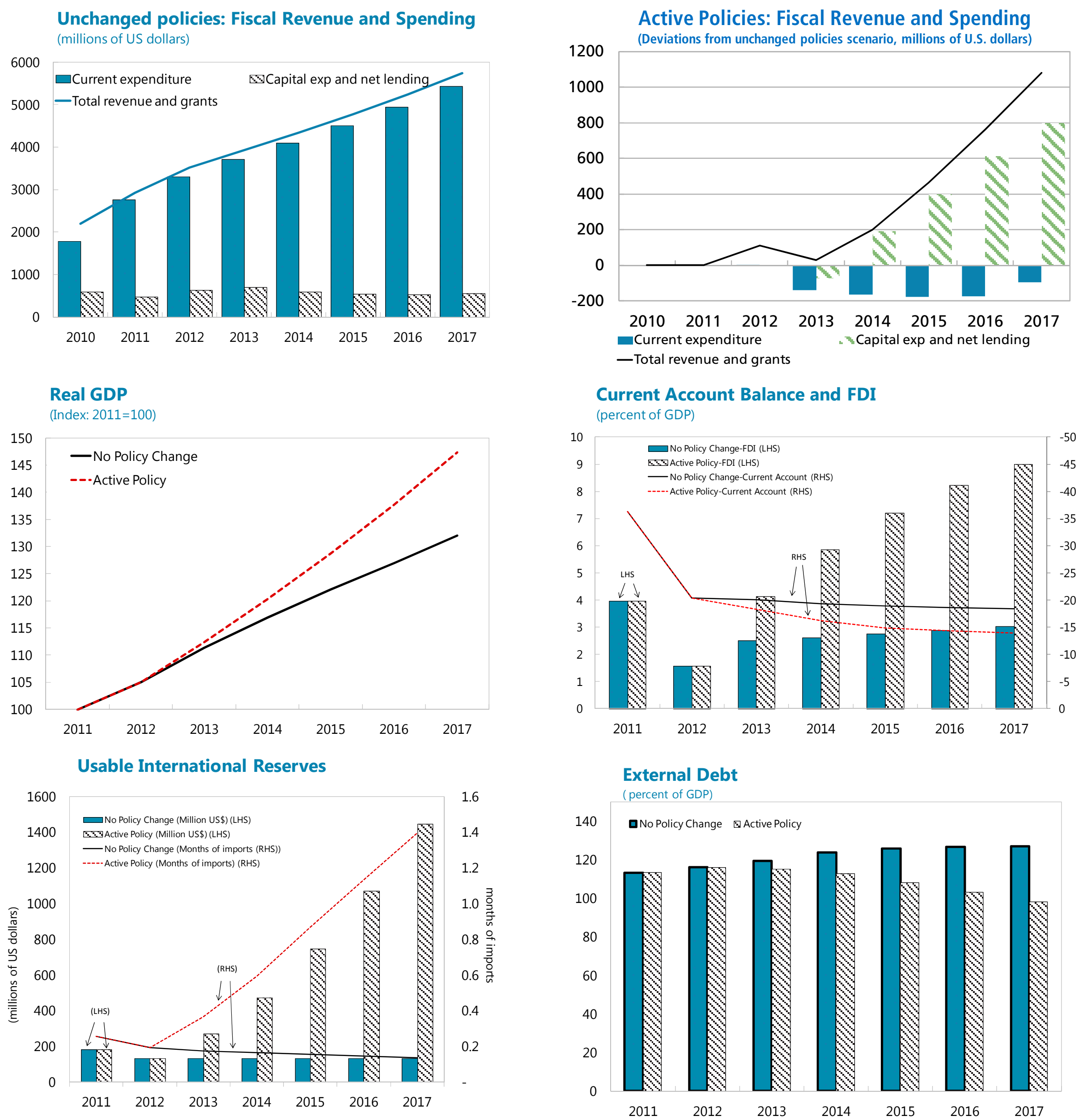


Figure 8. Zimbabwe: Two Scenarios
(Unchanged and Active Policies Scenarios)



Sources: Zimbabwean authorities and IMF staff estimates and projections.

RESTORING FISCAL SUSTAINABILITY

Background

14. **The government experienced difficulties implementing its ambitious 2012 budget.** The 2012 budget targeted fiscal balance on a cash basis, with both total revenue and cash expenditure set at an even US$4 billion—representing roughly a 25 percent increase in real terms over 2011. On the revenue side, diamond revenues were expected to quadruple to US $600 million (some 5½ percent of GDP). On the spending side, the wage bill would rise by the full-year effect of the 2011 salary increase, various non-recurrent projects would be funded from earmarked diamond revenue, and there would be room for clearing domestic arrears. In the first half of 2012, however, diamond revenues severely underperformed, and are now projected to reach US$240 million (2¼ percent of GDP) for the year, while employment costs are projected to exceed originally budgeted levels by US$260 million (2½ percent of GDP). Including a projected tax revenue shortfall of ½ percent of GDP, the government estimated that a fiscal gap of 6¼ percent of GDP had emerged for this fiscal year.

15. **The government is seeking to close the emerging budget gap**. In its mid-year fiscal policy review,[9] the government announced a hiring freeze, the suspension of various diamond-revenue-financed projects, increases in fuel excises, and other expenditure-rationalizing and revenue-enhancing measures. The government also announced plans to insert the revenue authority in the diamond value chain. Several of these measures are second best and involve capital expenditure cuts, but have become necessary to close the gap in the budget (Box 1). The government is also exploring options for obtaining grants and credit lines from neighboring countries.

[9] A mid-year fiscal policy review (MYFPR) was presented to parliament on July 18, 2012.

Box 1. Zimbabwe—Proposed Fiscal Measures in the 2012 Mid-Year Fiscal Policy Review

The mid-year fiscal policy review (MYFPR) outlines urgent measures and policy actions to address the current fiscal challenges which arose from a diamond revenue shortfall of about 3¼ percent of GDP, a shortfall in tax revenue of about ½ percent of GDP and employment costs overrun of 2½ percent of GDP.

Revenue measures: Increased excise duties on petrol and diesel, and custom duty on wheat flour are expected to raise ¼ percent of GDP in additional revenue. The government plans to finalize the drafting of the income tax act, enhance ZIMRA systems, strengthen ZIMRA's role in monitoring the mineral resources process and review the revenue retention policy (estimated to raise non-tax revenue by ¼ percent of GDP).

Expenditure measures: The Ministry of Finance proposed to rationalize recurrent and capital expenditure by 2¾ and 3 percent of GDP, respectively. They announced an employment freeze and no additional salary increase for the remainder of 2012, and actions to tackle the serious domestic arrears situation.[1]

The proposed measures are second best, but necessary to address the gap in the budget. However, to avoid recurrence of such a situation and to achieve fiscal sustainability in the medium term, the government will need to increase transparency in the diamond sector and step up its reform efforts in the areas of human resource management and PFM.

Zimbabwe: Central Government Operations

	Budget outcome 2011	Original Budget 2012	Budget outcome Jan - June, 2012	Revised Budget 2012
		(In millions of U.S. dollars)		
Total revenue	**2,921**	**4,000**	**1,597**	**3,640**
Tax revenue	2,660	3,252	1,497	3,233
Non-tax revenue	261	748	100	407
of which: Diamond dividend revenues	151	600	44	242
Total cash expenditure & net lending	**2,896**	**4,000**	**1,615**	**3,640**
Current expenditure	2,501	3,182	1,411	3,156
of which: Employment costs	1,817	2,281	1,167	2,541
Capital expenditure and net lending	395	818	204	484
		(In percent of GDP)		
Total revenue	30.9	37.1		33.7
Tax revenue	28.1	30.1		29.9
Non-tax revenue	2.8	6.9		3.8
of which: Diamond dividend revenues	1.6	5.6		2.2
Total cash expenditure & net lending	30.6	37.1		33.7
Current expenditure	26.4	29.5		29.2
of which: Employment costs	19.2	21.1		23.5
Capital expenditure and net lending	4.2	7.6		4.5

Source: Ministry of Finance and IMF staff estimates

[1] The stock of domestic arrears stood at $179 million ([1¾] percent of GDP) at end-June 2012. The revised budget makes provision for clearance of $51.4 million.

16. **Even with the announced measures, the gap cannot be fully closed.** Staff projects lower tax and diamond revenue, than that of the authorities, implying a remaining budget gap of 1 percent of GDP. Hence, additional measures may be needed if tax revenue undershoots the government's projections, diamond dividends do not pick up in the last quarter as government expects, or new spending pressures arise. These risks would jeopardize the planned clearance of domestic arrears and possibly lead to further arrears accumulation. Given the measures already announced, staff projects a cash deficit of 1½ percent of GDP in 2012, including clearance of domestic arrears equivalent to ½ percent of GDP, financed by external loans and a drawdown of Zimbabwe's SDR holdings by SDR 71.3 million ($110 million). The budget is expected to remain under pressure going into 2013, as the electoral cycle gains intensity and wage pressures increase. Without improvements in transparency, diamond revenues can at best be expected to remain around 2 percent of GDP in 2013.

17. **The expenditure mix is becoming unsustainable**. Developments during 2011–12 leave behind a distorted fiscal structure. Under the unchanged policies scenario, employment costs will continue to claim a disproportionate majority of government's limited resources, crowding out public investment and service delivery.

Staff recommendations

18. **Contain the 2012 budget expenditure within available resources.** In this context, staff's active policies scenario seeks to contain the cash deficit to under 1½ percent of GDP. It is essential that the authorities refrain from further wage increases in the remainder of 2012. As indicated in their mid-year fiscal policy review, the government should bring forward some nontax revenue and dispose of some assets to close about half of the remaining budget gap. Even then, if diamond revenues remain flat, additional measures would become necessary. One possibility, starting from October, is to convert civil servants' allowances into part of their (taxable) salaries, yielding additional revenue of about ½ percent of GDP. In addition, the authorities should seek donor funding for the census, the constitutional referendum, and general elections to help reduce the risk of fiscal slippages. Until transparency and the regulatory framework in the diamond sector are strengthened, it would be prudent to make sure the core budget can be financed without diamond revenue, and without further drawdown of SDR holdings.

19. **Increase transparency in the diamond sector to reduce the risk of fiscal pressures, by fast-tracking the draft Diamond Act.** Drafting and submitting the Diamond Act should be fast tracked. The government should follow through on its plans to enhance the revenue authority's capacity to monitor and assess the production and trade

of diamonds. In addition, the authorities should utilize the anti-money laundering framework to increase transparency and consider joining the EITI.

20. **The government should develop a strategy to achieve a more balanced expenditure mix and strengthen the revenue base.** Staff urges the authorities to use inflation as an upper limit on wage increases to release fiscal space for improved service delivery and investment in key areas like sanitation, access to potable water, timely provision of agricultural inputs, and social protection for the poor and vulnerable. In particular, it will be important to identify the most effective and well-targeted social programs and interventions.

21. **Improve public financial management (PFM).** The government should reinforce expenditure control, and strengthen the human resources and payroll management system to help contain the wage bill. Other key reforms to restore fiscal sustainability include improving financial monitoring and oversight, strengthening the governance of public enterprises, and developing a medium-term expenditure framework.

Authorities' views

22. **The authorities agreed on the need to contain fiscal spending, close** the **financing gap, and stick to cash budgeting.** The authorities indicated their intention to review civil servants' salaries on an annual basis only, and improve the PFM system to strengthen human resource management, avoid further arrears accumulation, and strengthen the fiscal oversight and governance of public enterprises. The authorities welcomed IMF and World Bank TA in this area.

23. **The authorities acknowledged the slow progress in finalizing the new diamond act.** The mid-year fiscal review highlighted the revenue potential of the mining sector and the need to implement a diamond policy that will strengthen transparency, and to strengthen the revenue administration so it can ensure the integrity of the associated revenue flow. However, the views of various elements in government on the urgency of this matter are varied. The authorities concurred with staff on the advantages of shielding a core budget from the uncertainty of diamond revenue, while arguing that remaining international sanctions were detrimental to diamond revenues.

REDUCING FINANCIAL SECTOR VULNERABILITIES

24. **The RBZ is tightening the financial regulatory framework after a long period of forbearance**. Undercapitalized banks were required to comply with minimum capital requirements by end-March 2012, and/or merge their operations with stronger banks. The number of banks either below or just above the minimum capital requirement levels declined from twelve at end-December 2011 to eight at end-June 2012. In July 2012, the RBZ announced steep

capital requirement increases, to be phased over two years. The upcoming increase in minimum capital requirements is expected to speed up consolidation in the banking system. The RBZ will need to monitor closely banks' efforts to comply with the new requirements, which will undoubtedly alter the banking system structure.

25. **Nevertheless, financial sector vulnerabilities persist, requiring continuing vigilance.** In mid-2012, the situation of three troubled entities came to a head: Interfin was placed under curatorship and Royal Bank closed after the RBZ found them to be operating in an unsound manner; Genesis surrendered its license after failing to raise adequate capital (Appendix IV). A number of banks remain inadequately capitalized, and, while several weak banks meet the current minimum capital requirement following capital injections, credit risks remain high, particularly for smaller banks that have low capital buffers. Asset quality has deteriorated reflecting unsound lending practices and poor risk management. Staff strongly advocates a more proactive approach to banking supervision.

26. **The authorities are seeking to address issues of systemic liquidity in the banking system**. Liquidity in the system remains relatively low and is unequally distributed across banks, a problem compounded by a shortage of adequate collateral. The issuing of government securities to clear frozen statutory deposits at the RBZ was expected to help, but the uneven distribution and 2–3 year tenors of these securities limits their usefulness as collateral in repo operations.

27. **The absence of quality collateral may be impeding the re-emergence of a formal interbank market.** The authorities are considering issuing treasury bills to help re-establish the interbank market beyond existing ad-hoc arrangements between pairs of banks; but they are aware of the risk that issuing bills may lead to additional fiscal pressures. Thus, staff advised that any treasury bills issue should be gradual, limited, and closely monitored to verify that those instruments do in fact support an interbank liquidity market.

28. **The authorities are considering options to make up for the lack of a lender of last resort function.** The government has provided the RBZ US$7 million to start a liquidity facility, and has committed to raise this to US$30 million. A possibility under consideration is to enlarge this facility by bringing in private resources. Staff supports in principle the creation of such a facility, but has expressed concerns over implementing it with a mixture of public and private capital. In terms of sequencing, staff considers the existence of appropriate collateral a critical pre-condition for any such scheme. Thus, identifying quality assets in banks' balance sheets should be a priority at this stage, including to activate the funds already available and to ensure the facility is narrowly targeted at solvent entities requiring temporary liquidity. It will also be essential to ensure its tight and transparent governance.

29. **Staff welcomes planned amendments to the Banking Act to improve oversight and surveillance.** The authorities plan to strengthen

the Troubled and Insolvent Bank Resolution Framework to incorporate prompt corrective actions, and improve corporate governance. Early approval should be a priority. Continued strengthening of banking supervision remains vital, including through closer monitoring of banks with low liquidity buffers and high and increasing credit risk exposures.

30. **Work should continue on the restructuring of the RBZ.** The RBZ remains in financial distress, which constrains its ability to undertake liquidity provision and distracts it from focusing on its core functions. Proposed modifications to the RBZ debt relief bill will focus on transferring the liabilities from RBZ's balance sheet to a fund managed by the finance ministry. While this is a less balanced approach than the comprehensive balance sheet bifurcation recommended by Fund TA missions, it remains consistent with the objective of restructuring the RBZ balance sheet. In any case, the disposal of noncore assets should proceed, and consideration should be given to applying any proceeds to the funding of the systemic liquidity facility. Transparent reporting on the RBZ's activities, including through publication of external audits, is important in view of the ongoing disposal of non-core assets and the planned transfer of balance sheet liabilities.

31. **Fast-tracking the indigenization of the banking sector as proposed by some elements of the government could prove destabilizing.** The inconsistent messages from government officials on indigenization are undermining confidence. Moreover, forced reductions in the equity held by foreign investors could result in a deterioration of management in some of the stronger banks, and will hamper the recapitalization of the banking system.

Authorities' views

32. **The bank regulator considered the banking sector to be largely safe, but remained concerned over uneven distribution of liquidity**. The RBZ argued that the weaker banks were relatively few and non-systemic. Meanwhile, lack of investment instruments has caused the larger banks to hold significant balances in cash and real time gross settlement (RTGS) accounts, some of which could be better channeled toward lending.

33. **The RBZ emphasized its continued commitment to implementing risk-based supervision, through the Basel II framework.** A gradual approach is being taken to allow banks to build the capacity to operate in a Basel II environment. All banks are expected to be Basel II compliant by 2013.

34. **On the indigenization of the banking sector, the RBZ position remains that this should be done in a manner that safeguards financial stability**. The RBZ argues that the sector is already dominated by indigenous banks[10] and that further forced indigenization may exacerbate liquidity

[10] Of the 26 banking institutions at end-June 2012, 19 were locally-owned and 7 were regional and international banks.

problems. The RBZ would favor an empowerment model in which indigenous firms are favored to supply goods and services to the banks, rather than the current approach that focuses on forcing a change in equity holdings in banks.

SUSTAINING GROWTH, RESTORING SUSTAINABILITY

35. **External imbalances have emerged against the backdrop of a competitiveness gap.** Mostly financed by debt and arrears, the current account deficit is projected at 20½ percent of GDP for 2012. Staff estimates suggest that a deficit would be justified on account of old-age dependency, higher population growth, and dependence on oil imports. However, the magnitude of this estimated current account "norm" is lower, on the order of a 13 percent deficit (Text Table 1).[11] This in turn suggests that the real exchange rate would have to depreciate by 15-20 percent to ensure long-term external sustainability. In staff's view a reinforced focus on raising competitiveness will be needed. Within the multicurrency regime this will require reducing the cost of doing business and limiting wage increases.

36. **The business environment remains problematic, constraining much-needed investment.** Zimbabwe remains among the least competitive economies in the world ranking 171 out of 183 in the Doing Business survey 2012 (Fig. 9). Property and land rights issues, weak governance, and high corruption perception have contributed to a poor business environment. High country risk has maintained credit costs high, while political and policy uncertainty, especially regarding the indigenization policy, seem to have deterred long-term private investment inflows, particularly FDI. Infrastructure bottlenecks are binding, especially in power, water, roads, railways, and information and communication networks.

Text Table 1. Zimbabwe: External Sustainability Assessment Based on the Macroeconomic Balance Approach

Estimation Method	Pooled	Hybrid Pooled	Fixed effects	**Average**
Current Account (in percent of GDP)				
Projected 2012	-20.4	-20.4	-20.4	**-20.4**
Adjusted for temporary factors	-18.4	-18.4	-18.4	**-18.4**
Estimated "Norm"	-9.5	-11.9	-17.2	**-12.9**
o/w explained by (in pp of GDP)				
Fiscal balance 1/	-0.3	-0.3	-0.5	
Old-age dependency 1/	-2.3	-2.0	-3.8	
Population growth 1/	-1.2	-1.0	-0.5	
Initial NFA 2/	-3.3	…	…	
Lagged Curr Acct balance	…	-6.9	…	
Oil balance	-2.6	-1.9	-3.5	
Output growth 1/	0.3	0.2	0.3	
Relative income 1/	0.0	0.0	…	
Fixed effect	…	…	-9.3	
Real Exchange Rate gap 3/	24.7%	18.0%	3.3%	**15.3%**

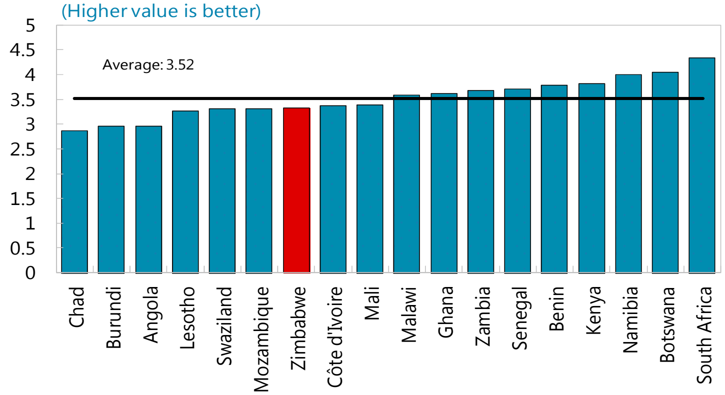
Source: Fund staff estimates.
1/ Measured in deviation from trading partners.
2/ Given data constraints, the sum of current account balances since 1980 is used as an estimate for the NFA position.
3/ Depreciation (+) or appreciation (-) needed in the real exchange rate to close the gap between the norm and the underlying. The calculation is based on a medium term elasticity of 0.36, which assumes the CGER elasticity weighted by the ratios of exports and imports of goods and services in 2017.

[11] Staff used standard CGER methodology for the macroeconomic balance approach as in "Exchange Rate Assessments: CGER Methodologies," IMF Occasional Paper 261. Data constraints prohibited the use of other approaches.

Figure 9. Zimbabwe: Competitiveness Indicators (I)

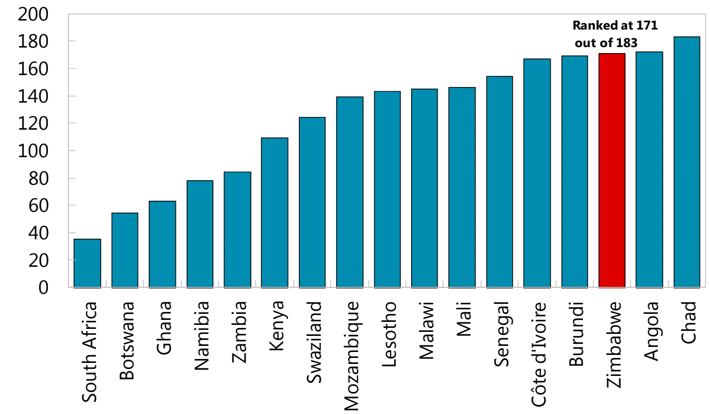
Sub-Saharan Africa: Global Competitiveness Index, 2011-12

(Higher value is better)



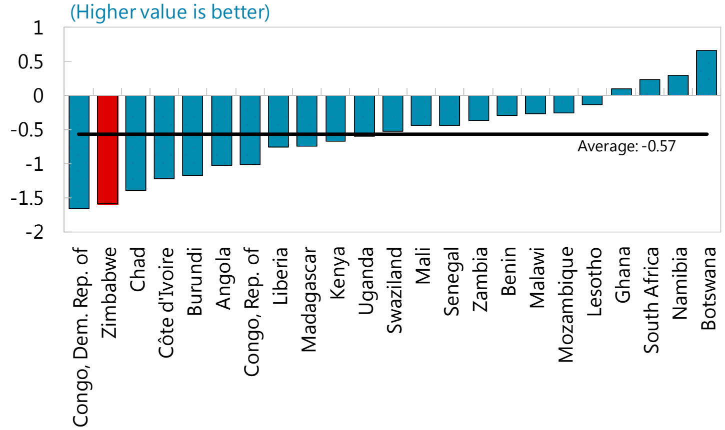
Sub-Saharan Africa: Ease of Doing Business

(World ranking out of 183 countries, lower value is better)



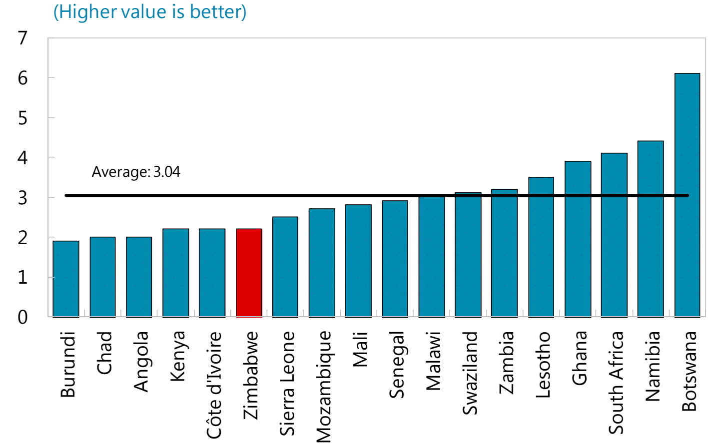
Sub-Saharan Africa: World Governance Indicators, 2011

(Higher value is better)



Sub-Saharan Africa: Corruption Perception Index

(Higher value is better)



Sources: Global Competitiveness Report (2011-2012); Doing Business 2011, World Bank (2011); Worldwide Governance Indicators, World Bank (2011); Corruption Perceptions Index 2011, Transparency International (2011); and IMF staff calculations.

37. **Wage developments reinforce competitiveness concerns.** The public sector wage bill is now among the highest in Sub-Saharan Africa (Fig. 10). Following that lead, unit labor costs in most of the domestic private sector have also increased considerably (Fig. 11), illustrating that wages have outpaced productivity. Nevertheless, with inflation in the low single digits, the real exchange rate appreciated moderately vis-à-vis the US dollar, while the real effective exchange rate depreciated (Fig. 12).[12] Going forward, however, continued appreciation of the U.S. dollar against trading partner's currencies could worsen competitiveness concerns, underlining the need to address competitiveness preemptively.

38. **Negligible reserves heighten vulnerabilities.** With international reserves covering only 10 days of imports, the country has no cushion against external shocks. Analysis suggests that at least three months of imports in reserve coverage would be necessary for Zimbabwe (Appendix V). There is currently no strategy to increase reserves over time; such a strategy would require sustained fiscal surpluses.

39. **Zimbabwe remains in debt distress.** Staff estimates total external debt at $10.7 billion at end-2011 (113½ percent of GDP), of which 67 percent of GDP are arrears (Fig. 3).[13] Zimbabwe's arrears to the PRGT stood at SDR 84.3 million ($127 million) at end-July 2012. Zimbabwe is unlikely to restore debt sustainability without a comprehensive arrears clearance and debt relief strategy. Developing and implementing such a strategy will require great persistence, as the issues are complex and involve a large number of creditors.

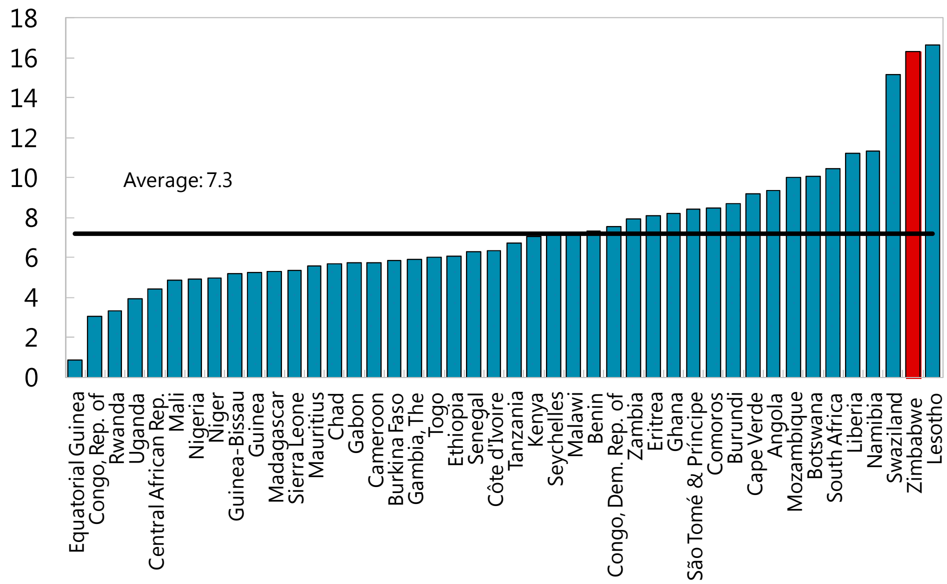
40. **Recent contracting of nonconcessional external borrowing and use of SDRs to finance budget expenditures give rise to concerns**. Newly contracted nonconcessional external borrowing was comprised of a loan from China for renovation of Victoria Falls Airport (1.7 percent of GDP) and a facility from South Africa for parastatal development banks to finance on-lending for agricultural and industrial equipment (0.3 percent of GDP). Staff recommended that the authorities refrain from any nonconcessional borrowing going forward and cautioned against issuing debt backed by collateralized mineral revenues, which would add to budgetary rigidities. Also, staff cautioned against selective debt servicing, as this may complicate arrears clearance and debt relief in future. Further depletion of the SDR holdings to fund expenditure, would worsen Zimbabwe's external vulnerability and debt situation, and could complicate the eventual arrears clearance process.

[12] The vast majority of economic transactions take place in U.S. dollars.

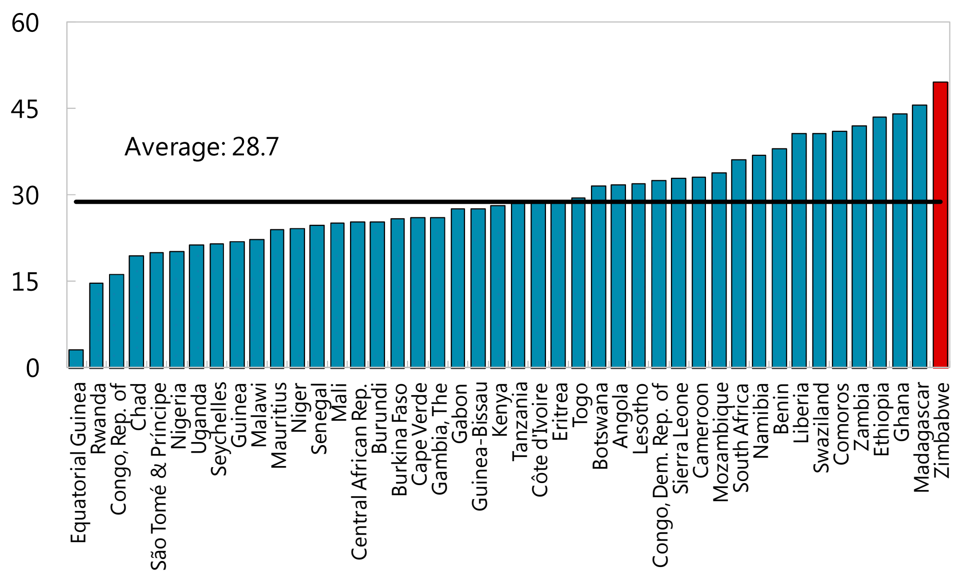
[13] See DSA.

Figure 10. Zimbabwe: Competitiveness Indicators (II)

Sub-Saharan Africa: Civil Servant Wages in 2011
(percent of GDP)

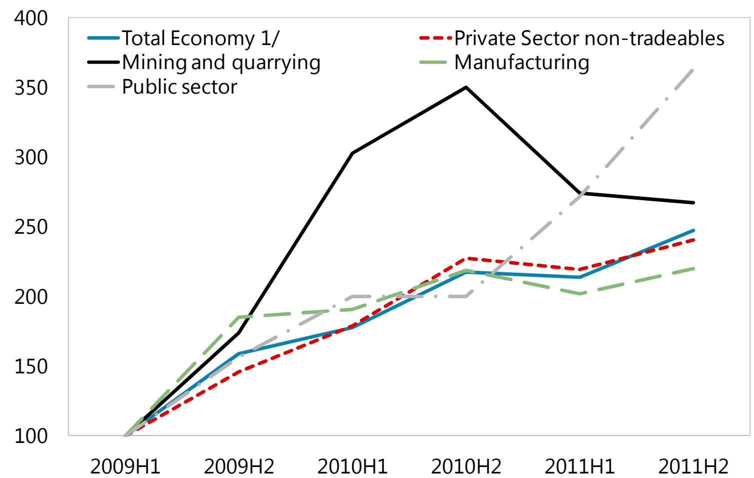


Sub-Saharan Africa: Civil Servant Wages in 2011
(percent of government expenditure)



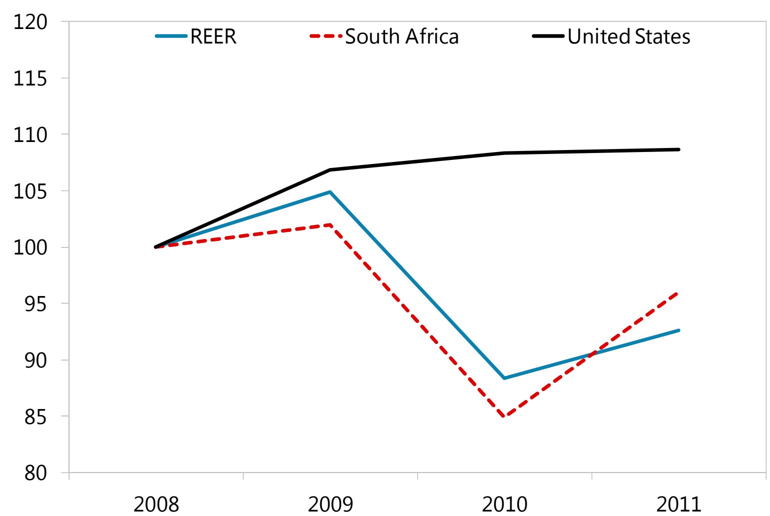
Sources: African Department database and IMF staff estimates and calculations.

Figure 11. Unit Labor Costs
(Index, 2009H1=100)



Sources: Zimbabwe authorities and IMF staff estimates.
1/ The analysis excludes agriculture and domestic services due to data constraints.

Figure 12. CPI-Based Real Effective and Bilateral Real Exchange Rates (2008=100)



Sources: IMF International Financial Statistics, IMF Direction of Trade Statistics, and IMF Staff Estimates.

41. **Staff stressed that active policies will be needed to raise competitiveness, underpin confidence, and reduce vulnerabilities.** If policies such as those underlying the staff's active policies scenario were implemented, the competitiveness gap could be largely closed by 2017; in particular, the recommended move towards fiscal surpluses would allow reserve coverage to rise to 1½ months of imports.

Authorities' views

42. **Moving towards a debt-resolution strategy is one of the authorities' overarching objectives (Appendix VI).** The adoption of the ZAADDS by the government in full is an encouraging step; as is Zimbabwe's recent effort to reengage with the international financial community. The authorities plan on expediting ZAADDS implementation and deepening engagement with creditors and development partners. Already commendable progress has been made in making operational the debt management office, and, with the assistance of UNCTAD and MEFMI, reconciling and validating debt data with creditors.

43. **The authorities agreed on the need for measures to improve competitiveness and address structural bottlenecks.** Indeed, some measures to improve competitiveness are outlined in the mid-year budget review, such as the rehabilitation and expansion of power stations, rehabilitation and construction of road networks, and upgrades to water and sewer infrastructure**.**

44. **The authorities expressed a range of views on indigenization.** Some officials questioned the view that the policy has significant adverse effects, while arguing that Zimbabwe was not unique in having such a policy. Others conceded that uncertainty and inconsistency in the implementation of this policy could be hurting investment.

45. **Regarding nonconcessional borrowing, the authorities emphasized the need to balance development needs with debt sustainability considerations.** They indicated that they closely monitor all borrowing and underlined their commitment to a balanced cash budget. New debt contracted is earmarked for rehabilitating the Victoria Falls Airport to help boost tourism; and for on-lending by parastatals to the private sector for agricultural and industrial equipment.

STOCKTAKING FOR A STAFF-MONITORED PROGRAM

46. **The markers for initiating a stocktaking on the feasibility of a staff-monitored program (SMP) have been met.**[14] The outstanding marker concerned actions to address the "ghost worker" problem. A report from the Public Service Commission (PSC) indicated that some 6,000 irregularly employed youth officers have been removed from the payroll. Also, the PSC report affirmed that that bulk of the red flags raised in the Payroll and

[14] In 2010 two markers were agreed to – timely reporting of data, and progress towards elimination of ghost workers. The first had been considered met since 2011.

Skills Audit have been explained or addressed.[15] In consultation with the World Bank, staff concluded that these steps were significant, and justified undertaking a stocktaking exercise with the government on a possible SMP, which was conducted during the 2012 Article IV consultation mission to Harare.

47. **The authorities' interest in an SMP remains high.** They consider that an SMP would support their macroeconomic stabilization efforts and their arrears clearance strategy, by boosting the credibility of Zimbabwe's reform program and catalyzing donor support.

48. **Staff explained that moving towards an SMP would require improving macroeconomic policy management and making regular payments to the PRGT.** An SMP requires progress towards a consistent policy package as well as assurances on the capacity and commitment of the authorities to implement an upper credit tranche facility quality program. Also, that backtracking on the markers that have been met would set the process back. In addition, cooperation among the various elements in government will be essential. The authorities expressed their intention to persevere in these fronts. They have resumed payments to the PRGT. So far in 2012, two payments totaling SDR 3.3 million ($5 million) have been made. Staff strongly encourages Zimbabwe to make regular and timely payments to the Fund, and increase them as the payments' capacity improves. Concerning policies, they have raised efforts to improve bank regulation and supervision, and in their mid-year budget statement announced measures to address recent fiscal slippages. The fact that these measures garnered broad support in cabinet is a positive signal.

49. **Provided cooperation with the Fund continues to improve, staff would request lifting of TA restrictions on staff monitoring.** This would make progress towards negotiation of an SMP possible and continue a process, started in 2009, of gradual lifting of TA restrictions in targeted areas by the IMF Board against the backdrop of improving cooperation by the authorities on policies and payments to the PRGT.[16]

[15] The removal of ghost workers from the payroll is significant from the point of view of addressing public financial management weaknesses, not because of financial considerations (it represents savings of about 0.2 percent of GDP on an annual basis). The Payroll and Skills audit was financed by the World Bank and undertaken by Ernest and Young (India), with two reports submitted in November 2010 and July 2011.

[16] All Fund TA to Zimbabwe was suspended in June 2002 in light of its arrears to the PRGT. The suspension has been partially lifted since May 2009, allowing TA to be provided in the following targeted areas: (i) tax policy; (ii) payments systems; (iii) lender-of-last resort operations and banking supervision; (iv) central banking governance and accounting; macroeconomic statistics; (vi) public financial management; and (vii) anti-money laundering and combating the financing of terrorism.

STAFF APPRAISAL

50. **Since the end of hyperinflation the adoption of the multicurrency system, cash budgeting and the discontinuation of quasi-fiscal activities by the RBZ have helped bring back a measure of macroeconomic stability**. Progress remains partial, however, as shown by recent fiscal problems.

51. **Rising near term risks will test the authorities.** Growth in 2012 is being pulled back by drought; but more significantly, macroeconomic policy management will be tested by a risky external environment and by rising pressures from the electoral cycle.

52. **Sustaining growth will require a commitment to reform.** As rebound effects wane, economic growth would moderate under unchanged policies. Achieving fast and inclusive growth over the medium term will require strengthening macroeconomic and financial policies, creating an enabling environment that supports private sector development and attracts much-needed capital investment, and normalizing relations with creditors. Indigenization and empowerment policies should be implemented according to transparent rules and with respect to property rights.

53. **Strengthening fiscal management is key for stability and growth.** Firm implementation of the measures outlined in the mid-year budget review is essential, and should lay the basis for a stronger 2013 budget. Increasing transparency, including fast-tracking of the diamond act and by using the anti-money laundering framework, is critical if the country is to reap the full benefit of the sector. Addressing the imbalanced expenditure mix, and correcting deficiencies in employment practices and payroll management, will release fiscal space for social spending and public investment.

54. **Financial sector vulnerabilities persist, requiring the authorities to redouble their efforts**. Staff welcomes the authorities' actions to strengthen the financial regulatory framework and address systemic liquidity, after a long period of forbearance. Recent bank failures highlight the need for, and usefulness of, strong and proactive banking supervision. The capital requirement increase will alter the banking system structure, demanding close monitoring on the part of the RBZ. Advancing the RBZ restructuring is necessary for financial sector stability and should be given greater priority. The authorities work on a systemic liquidity facility should prioritize the identification of usable collateral at this stage.

55. **Zimbabwe remains in debt distress.** Strong macroeconomic policies and a comprehensive arrears clearance framework, supported by development partners, will be essential to start addressing Zimbabwe's debt overhang. However, completing this process

will demand perseverance. The authorities should refrain from nonconcessional borrowing, which may complicate reaching agreement on a debt resolution strategy in future.

56. **Staff is open to work with Zimbabwe's authorities toward an SMP.** While previously set markers have been met, policy slippages in 2011 and early 2012 threatened to delay progress. Strong implementation of the measures announced in the mid-year budget review to address policy slippages would be an important demonstration of policy cooperation. Staff welcomes the authorities' renewed commitment to make regular payments to the PRGT. Improved cooperation with the Fund would allow staff to propose to the Board, a lifting of TA restrictions against SMP.

57. **The authorities continue to make good use of Fund technical assistance**. Targeted Fund technical assistance (TA) has supported the authorities' reform programs and capacity building efforts, particularly in the areas of public financial management, including overall budget execution, tax administration, anti-money laundering, macroeconomic statistics, and banking supervision.

58. **Staff recommends that the next Article IV consultation be held on the regular 12-month cycle.**

Table 1. Zimbabwe: Selected Economic Indicators, 2009–17

	Actual		Est.	Projected					
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP growth (annual percent change) 1/	6.3	9.6	9.4	5.0	6.0	5.0	4.5	4.0	4.0
Nominal GDP (US$ millions)	6,133	7,433	9,458	10,796	12,293	13,564	14,997	16,523	18,210
GDP deflator (annual percent change) 1/	23.3	10.6	16.3	8.7	7.4	5.1	5.9	6.0	6.0
Inflation (annual percent change)									
Consumer price inflation (annual average)	6.5	3.0	3.5	5.0	5.7	4.3	4.4	4.5	4.6
Consumer price inflation (end-of-period)	-7.7	3.2	4.9	6.5	4.3	4.3	4.5	4.6	4.6
Central government (percent of GDP, measured in US$)									
Revenue and grants	15.9	29.6	30.9	32.6	32.0	32.0	31.9	31.7	31.5
Expenditure and net lending	18.7	31.9	34.1	36.4	35.8	34.5	33.6	33.0	32.8
Of which: cash expenditure and net lending	15.0	30.0	31.4	35.2	34.1	32.8	32.0	31.5	31.3
Of which: employment costs	8.4	14.3	19.2	23.5	22.6	22.5	22.4	22.3	22.3
Quasi-fiscal activity by RBZ	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including quasi-fiscal activity) 2/	-3.2	-2.5	-3.2	-3.8	-3.8	-2.5	-1.7	-1.3	-1.3
Primary balance (including quasi-fiscal activity) 2/	0.1	-0.1	-1.1	-1.8	-2.0	-0.7	0.1	0.4	0.4
Cash balance	1.7	-0.4	-0.6	-1.5	-2.1	-0.8	-0.1	0.2	0.2
Money and credit (US$ millions)									
Broad money (M3)	1,381	2,329	3,100	4,208	5,164	6,095	6,942	7,829	8,838
Net foreign assets	-295	-151	-290	-257	-77	22	104	251	380
Net domestic assets	1,677	2,480	3,391	4,465	5,241	6,073	6,838	7,579	8,458
Domestic credit (net)	649	1,696	2,754	3,709	4,463	5,219	5,910	6,624	7,451
Of which: credit to the private sector	684	1,665	2,711	3,591	4,369	5,150	5,875	6,589	7,414
Reserve money	125	256	186	347	468	553	630	710	802
Velocity (M3)	4.4	3.2	3.1	2.6	2.4	2.2	2.2	2.1	2.1
Balance of payments (US$ millions; unless otherwise indicated)									
Merchandise exports 3/	1,613	3,317	4,496	5,195	5,762	6,240	6,767	7,224	7,683
Value growth (annual percent change) 3/	-2.8	…	35.5	15.5	10.9	8.3	8.4	6.7	6.4
Merchandise imports 3/	-3,213	-5,162	-7,562	-7,223	-7,950	-8,446	-8,987	-9,519	-10,074
Value growth (annual percent change) 3/	22.2	…	46.5	-4.5	10.1	6.2	6.4	5.9	5.8
Current account balance (excluding official transfer	-1,359	-2,141	-3,427	-2,199	-2,464	-2,625	-2,831	-3,080	-3,352
(percent of GDP)	-22.2	-28.8	-36.2	-20.4	-20.0	-19.4	-18.9	-18.6	-18.4
Overall balance	-239	-677	-751	-569	-696	-781	-841	-1,014	-998
Official reserves (end-of-period)									
Gross international reserves (US$ millions) 4/	437	453	366	477	598	683	759	840	1,027
Usable international reserves (US$ millions) 5/	312	197	182	130	130	130	130	130	129
(months of imports of goods and services)	1.0	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Debt (end-of-period)									
Total external debt (US$ millions) 6/	7,602	9,018	10,726	12,540	14,680	16,810	18,874	20,953	23,135
(percent of GDP)	124.0	121.3	113.4	116.2	119.4	123.9	125.8	126.8	127.1
Total external arrears (US$ millions) 6/	5,284	5,868	6,344	6,798	7,301	7,821	8,318	8,838	9,379
(percent of GDP)	86.2	78.9	67.1	63.0	59.4	57.7	55.5	53.5	51.5

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ In constant 2009 prices. Discrepancies in projections between staff and the Zimbabwean authorities partly reflect differences in methodology in computing sectoral contributions to growth.
2/ Quasi-fiscal activity includes subsidies provided by the central bank to the public sector and producers/exporters.
3/ Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.
4/ Excluding encumbered deposits and securities.
5/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.
6/ Includes arrears and amounts for unidentified financing.

Table 2. Zimbabwe: Balance of Payments, 2009-17

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

	Actual		Est.	Projected					
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current account (excluding official transfers)	-1,359	-2,141	-3,427	-2,199	-2,464	-2,625	-2,831	-3,080	-3,352
Trade balance	-1,600	-1,844	-3,066	-2,028	-2,189	-2,206	-2,220	-2,295	-2,391
Exports, f.o.b.	1,613	3,317	4,496	5,195	5,762	6,240	6,767	7,224	7,683
Imports, f.o.b.	-3,213	-5,162	-7,562	-7,223	-7,950	-8,446	-8,987	-9,519	-10,074
Food	-741	-554	-513	-577	-642	-614	-615	-606	-617
Nonfood	-2,472	-4,608	-7,050	-6,647	-7,308	-7,833	-8,373	-8,912	-9,457
Nonfactor services (net)	-266	-449	-645	-563	-616	-646	-701	-738	-778
Investment income (net)	-419	-421	-519	-604	-714	-863	-1,017	-1,175	-1,341
Interest	-357	-359	-454	-545	-647	-752	-863	-976	-1,096
Receipts	2	2	2	3	3	3	3	3	3
Payments	-360	-361	-456	-548	-650	-755	-867	-979	-1,099
Other	-61	-62	-65	-58	-67	-111	-153	-199	-245
Private transfers (including transfers to NGOs)	926	573	803	996	1,055	1,090	1,106	1,127	1,158
Remittances[1]	198	263	470	529	592	643	667	692	719
Capital account (including official transfers)	1,223	605	1,717	1,629	1,768	1,844	1,991	2,066	2,354
Official transfers	391	231	210	215	218	219	222	225	229
Direct investment	105	123	373	169	307	354	412	477	550
Portfolio investment	67	63	38	39	74	120	180	259	360
Long-term capital	-101	-2	769	784	985	898	888	849	897
Government [1]	-141	-168	-75	-45	167	27	-19	-105	-99
Receipt	0	0	78	97	332	180	90	0	0
Payment	-141	-168	-154	-142	-165	-154	-109	-105	-99
Public enterprises	-13	-140	36	-30	-27	-19	-12	-12	-9
Private sector	53	307	809	859	844	891	919	966	1,005
Short-term capital	241	90	327	313	184	252	288	256	317
Public sector	0	0	0	0	0	0	0	0	0
Private sector (loans mediated outside DMBs)	257	167	178	220	242	266	293	322	354
Cash in circulation (non-banks, -, increase)	272	75	0	0	0	0	0	0	0
Other short-term capital	0	0	0	0	0	0	0	0	0
Change in NFA of DMBs	-288	20	85	93	-58	-14	-5	-66	-37
Change in assets	-345	-85	47	13	-118	-74	-45	-111	-82
Change in liabilities	57	105	39	80	60	60	40	45	45
SDR Department	520	100	0	110	0	0	0	0	0
Change in assets	0	100	0	110	0	0	0	0	0
Change in liabilities	520	0	0	0	0	0	0	0	0
Errors and omissions	-103	860	959	0	0	0	0	0	0
Overall balance	-239	-677	-751	-569	-696	-781	-841	-1,014	-998
Financing	239	677	751	569	696	781	841	1,014	998
IMF (net)	0	0	0	0	0	0	0	0	0
Central bank (net)	-1,189	-12	54	-121	-121	-84	-77	-77	-77
Assets	-480	-25	69	-119	-121	-84	-77	-77	-77
Change in usable official reserves	-300	107	15	51	0	0	0	0	0
Monetary authorities operations (non reserve)	-179	-132	55	-170	-121	-84	-77	-77	-77
Liabilities	-709	13	-15	-2	0	0	0	0	0
Change in arrears (–, decrease)	1,031	584	476	454	503	521	497	519	541
Debt relief/rescheduling	53	0	0	0	0	0	0	0	0
Financing gap (ch. in arrears + unidentified financing)	1,375	689	696	691	817	865	918	1,090	1,075
Memorandum items:									
Current account balance (pct. of GDP)	-22.2	-28.8	-36.2	-20.4	-20.0	-19.4	-18.9	-18.6	-18.4
Usable international reserves (US$ millions, e.o.p.)	311.6	197.1	181.5	130.1	129.9	129.8	129.7	129.6	129.4
Months of imports of goods and services	1.0	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1
SDR holdings (US$ millions, e.o.p.)	361	254	252	142	142	142	142	142	141
External debt (US$ millions, e.o.p.) [2]	7,603	9,018	10,726	12,540	14,680	16,810	18,874	20,953	23,135
Percent of GDP	124	121	113	116	119	124	126	127	127
External arrears (US$ millions, e.o.p.)	5,284	5,868	6,344	6,798	7,301	7,821	8,318	8,838	9,379
Percent of GDP	86	79	67	63	59	58	55	53	52
Nominal GDP (US$ millions)	6,133	7,433	9,458	10,796	12,293	13,564	14,997	16,523	18,210
Percentage change	31.0	21.2	27.2	14.2	13.9	10.3	10.6	10.2	10.2
Exports of goods and services	1,796	3,541	4,771	5,513	6,114	6,621	7,159	7,642	8,127
Percentage change	-1.8	97.2	34.7	15.5	10.9	8.3	8.1	6.7	6.4
Imports of goods and services	-3,662	-5,834	-8,482	-8,104	-8,918	-9,473	-10,079	-10,674	-11,297
Percentage change	21.8	59.3	45.4	-4.5	10.0	6.2	6.4	5.9	5.8

Sources: Zimbabwean authorities; IMF staff estimates and projections.

[1] May not match data for government external financing in the fiscal table because this line is on an accrual basis.

[2] Includes arrears and amounts for unidentified financing.

Table 3. Zimbabwe: Central Government Operations, 2009-17
(millions of U.S. dollars)

	Actual		Est.	Budget	Projected					
	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
Total revenue & grants	**975**	**2,199**	**2,921**	**4,000**	**3,519**	**3,933**	**4,341**	**4,777**	**5,239**	**5,741**
Tax revenue	883	2,074	2,660	3,253	3,183	3,533	3,910	4,312	4,729	5,184
Personal income tax	156	428	588	670	637	701	773	855	942	1038
Corporate income tax	44	256	296	362	389	418	461	510	562	619
Other direct taxes	21	168	188	343	291	332	366	405	446	492
Customs	212	340	333	400	366	413	462	499	533	569
Excise	68	165	307	330	386	430	478	528	581	626
VAT	367	689	912	1108	1071	1188	1312	1452	1596	1764
Other indirect taxes	14	28	36	40	43	52	57	63	69	76
Non-tax revenue	51	124	110	148	165	160	176	195	215	237
Additional mineral revenues	0	0	151	600	171	240	255	270	295	320
Budget grants	41	1	0	0	0	0	0	0	0	0
Off-budget grants	650	587	460	519	519	500	500	500	500	500
Total expenditure & net lending	**1,145**	**2,372**	**3,223**	**4,000**	**3,926**	**4,403**	**4,680**	**5,036**	**5,459**	**5,979**
Of which: Cash expenditure	*919*	*2,228*	*2,974*	*4,000*	*3,795*	*4,194*	*4,455*	*4,793*	*5,199*	*5,701*
Current expenditure	1,099	1,779	2,750	3,200	3,299	3,713	4,086	4,496	4,941	5,428
Employment costs	517	1,064	1,817	2,281	2,541	2,773	3,050	3,355	3,691	4,060
Wages & salaries	419	784	1,126	1,365	1,389	1,539	1,693	1,862	2,049	2,254
Pensions	98	188	275	331	403	500	550	605	666	732
Benefits	0	91	416	585	749	734	807	888	976	1,074
Interest payments	198	176	198	18	212	227	249	271	292	312
Foreign	194	176	198	18	210	225	248	271	292	312
Of which: Paid	*16*	*31*	*34*	18	*28*	16	23	28	32	35
Domestic	3	0	0	0	3	2	2	1	0	0
Of which: Paid	*3*	*0*	*0*	0	*3*	2	2	1	0	0
Goods & services	260	362	539	599	351	467	515	570	628	692
Grants & transfers	123	178	195	302	195	246	271	300	330	364
Capital expenditure and net lending	46	593	473	800	627	690	594	540	518	551
Off-budget expenditure	650	587	460	519	519	500	500	500	500	500
Overall balance	**-170**	**-173**	**-302**	**0**	**-407**	**-470**	**-339**	**-259**	**-220**	**-238**
Primary balance	28	3	-104	18	-194	-243	-90	12	72	75
Cash balance	106	-28	-53	0	-166	-261	-114	-16	40	40
QFA by RBZ 1/	23	12	0	0	0	0	0	0	0	0
Overall balance (incl. QFA by RBZ)	**-193**	**-185**	**-302**	**0**	**-407**	**-470**	**-339**	**-259**	**-220**	**-238**
Financing	**120**	**74**	**302**	**0**	**187**	**470**	**339**	**259**	**220**	**238**
Domestic financing (net)	-106	-72	-25	0	-30	-25	-25	-33	0	0
Bank	-106	-44	4	0	-30	0	0	0	0	0
Of which: Govt. securities, net	0	0	0	0	83	-25	-25	-33	0	0
Of which: Clearance of statutory reserves	0	0	0	0	-83	0	0	0	0	0
Non-bank	0	-28	-30	0	0	0	0	0	0	0
Foreign financing (net)	-141	-231	-48	-142	-50	162	27	-19	-105	-99
Disbursements	0	2	78	0	92	327	180	90	0	0
Amortization due	141	233	127	142	142	165	154	109	105	99
Of which: Paid	0	0	0	0	6	41	41	41	40	40
Movement in Zimbabwe's SDR holdings (net)	50	100	0	0	110	0	0	0	0	0
Change in arrears	367	378	376	142	267	333	337	311	325	336
Domestic	48	0	85	0	-51	0	0	0	0	0
Interest	0	0	0	0	0	0	0	0	0	0
Principal	0	0	0	0	0	0	0	0	0	0
Expenditure	48	0	85	0	-51	0	0	0	0	0
Foreign	319	378	291	142	318	333	337	311	325	336
Interest	178	145	164	0	182	209	225	243	260	278
Principal	141	233	127	142	136	124	113	68	65	59
Financing gap	**0**	**2**	**0**	**0**	**-110**	**0**	**0**	**0**	**0**	**0**

Sources: Zimbabwean authorities; and IMF staff estimates and projections.
1/ Subsidies provided by the RBZ to the public sector and producers/exporters.

Table 3 (continued). Zimbabwe: Central Government Operations, 2009-17
(percent of GDP)

	Actual		Est.	Budget	Projected					
	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
Total revenue & grants	**15.9**	**29.6**	**30.9**	**37.1**	**32.6**	**32.0**	**32.0**	**31.9**	**31.7**	**31.5**
Tax revenue	14.4	27.9	28.1	30.1	29.5	28.7	28.8	28.8	28.6	28.5
Personal income tax	2.5	5.8	6.2	6.2	5.9	5.7	5.7	5.7	5.7	5.7
Corporate income tax	0.7	3.4	3.1	3.4	3.6	3.4	3.4	3.4	3.4	3.4
Other direct taxes	0.3	2.3	2.0	3.2	2.7	2.7	2.7	2.7	2.7	2.7
Customs	3.5	4.6	3.5	3.7	3.4	3.4	3.4	3.3	3.2	3.1
Excise	1.1	2.2	3.2	3.1	3.6	3.5	3.5	3.5	3.5	3.4
VAT	6.0	9.3	9.6	10.3	9.9	9.7	9.7	9.7	9.7	9.7
Other indirect taxes	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Non-tax revenue	0.8	1.7	1.2	1.4	1.5	1.3	1.3	1.3	1.3	1.3
Additional mineral revenues	0.0	0.0	1.6	5.6	1.6	2.0	1.9	1.8	1.8	1.8
Budget grants	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-budget grants	10.6	7.9	4.9	4.8	4.8	4.1	3.7	3.3	3.0	2.7
Total expenditure & net lending	**18.7**	**31.9**	**34.1**	**37.1**	**36.4**	**35.8**	**34.5**	**33.6**	**33.0**	**32.8**
Of which: Cash expenditure	*15.0*	*30.0*	*31.4*	*37.1*	*35.2*	34.1	32.8	32.0	31.5	31.3
Current expenditure	17.9	23.9	29.1	29.6	30.6	30.2	30.1	30.0	29.9	29.8
Employment costs	8.4	14.3	19.2	21.1	23.5	22.6	22.5	22.4	22.3	22.3
Wages & salaries	6.8	10.6	11.9	12.6	12.9	12.5	12.5	12.4	12.4	12.4
Pensions	1.6	2.5	2.9	3.1	3.7	4.1	4.1	4.0	4.0	4.0
Benefits	0.0	1.2	4.4	5.4	6.9	6.0	5.9	5.9	5.9	5.9
Interest payments	3.2	2.4	2.1	0.2	2.0	1.8	1.8	1.8	1.8	1.7
Foreign	3.2	2.4	2.1	0.2	1.9	1.8	1.8	1.8	1.8	1.7
Of which: Paid	*0.3*	*0.4*	*0.4*	0.2	*0.3*	0.1	0.2	0.2	0.2	0.2
Domestic	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Paid	*0.1*	*0.0*	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0
Goods & services	4.2	4.9	5.7	5.5	3.3	3.8	3.8	3.8	3.8	3.8
Grants & transfers	2.0	2.4	2.1	2.8	1.8	2.0	2.0	2.0	2.0	2.0
Capital expenditure and net lending	0.8	8.0	5.0	7.4	5.8	5.6	4.4	3.6	3.1	3.0
Off budget expenditure	10.6	7.9	4.9	4.8	4.8	4.1	3.7	3.3	3.0	2.7
Overall balance	**-2.8**	**-2.3**	**-3.2**	**0.0**	**-3.8**	**-3.8**	**-2.5**	**-1.7**	**-1.3**	**-1.3**
Primary balance	0.5	0.0	-1.1	0.2	-1.8	-2.0	-0.7	0.1	0.4	0.4
Cash balance	1.7	-0.4	-0.6	0.0	-1.5	-2.1	-0.8	-0.1	0.2	0.2
QFA by RBZ 1/	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (incl. QFA by RBZ)	**-3.2**	**-2.5**	**-3.2**	**0.0**	**-3.8**	**-3.8**	**-2.5**	**-1.7**	**-1.3**	**-1.3**
Financing	**2.0**	**1.0**	**3.2**	**0.0**	**1.7**	**3.8**	**2.5**	**1.7**	**1.3**	**1.3**
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (net)	-1.7	-1.0	-0.3	0.0	-0.3	-0.2	-0.2	-0.2	0.0	0.0
Bank	-1.7	-0.6	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Of which: Govt. securities, net	0.0	0.0	0.0	0.0	0.8	-0.2	-0.2	-0.2	0.0	0.0
Of which: Clearance of statutory reserves	0.0	0.0	0.0	0.0	-0.8	0.0	0.0	0.0	0.0	0.0
Non-bank	0.0	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	-2.3	-3.1	-0.5	-1.3	-0.5	1.3	0.2	-0.1	-0.6	-0.5
Disbursements	0.0	0.0	0.8	0.0	0.9	2.7	1.3	0.6	0.0	0.0
Amortization due	2.3	3.1	1.3	1.3	1.3	1.3	1.1	0.7	0.6	0.6
Of which: Paid	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.3	0.2	0.2
Movement in Zimbabwe's SDR holdings (net)	0.8	1.3	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	6.0	5.1	4.0	1.3	2.5	2.7	2.5	2.1	2.0	1.8
Domestic	0.8	0.0	0.9	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	0.8	0.0	0.9	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Foreign	5.2	5.1	3.1	1.3	2.9	2.7	2.5	2.1	2.0	1.8
Interest	2.9	1.9	1.7	0.0	1.7	1.7	1.7	1.6	1.6	1.5
Principal	2.3	3.1	1.3	1.3	1.3	1.0	0.8	0.5	0.4	0.3
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**-1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: Zimbabwean authorities; and IMF staff estimates and projections.
1/ Subsidies provided by the RBZ to the public sector and producers/exporters.

Table 4. Zimbabwe: Central Government Operations (GFSM 2001 Classification), 2009-17

(millions of U.S. dollars)

	Estimated			Projected					
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	975	2,199	2,921	3,519	3,933	4,341	4,777	5,239	5,741
Taxes	883	2,074	2,660	3,183	3,533	3,910	4,312	4,729	5,184
Taxes on income, profits and capital gain	221	852	1,072	1,317	1,451	1,601	1,770	1,950	2,149
Income Tax on Profits	44	256	296	389	418	461	510	562	619
Income Tax on wages and salaries	156	428	588	637	701	773	855	942	1,038
Income Tax on interest income & capital gains	21	168	188	291	332	366	405	446	492
Taxes on goods and services	435	854	1,218	1,457	1,618	1,790	1,980	2,177	2,390
Net VAT revenues	367	689	912	1,071	1,188	1,312	1,452	1,596	1,764
Excises	68	165	307	386	430	478	528	581	626
Taxes on international trade	212	340	333	366	413	462	499	533	569
Other taxes	14	28	36	43	52	57	63	69	76
Grants	41	1	0	0	0	0	0	0	0
Other revenue	51	124	261	337	400	431	465	510	557
Entrepreneurial and property income	0	0	151	171	240	255	270	295	320
Other	51	124	110	165	160	176	195	215	237
Expense	1,099	1,779	2,750	3,299	3,713	4,086	4,496	4,941	5,428
Compensation of employees	419	875	1,542	2,138	2,273	2,500	2,750	3,025	3,328
Wages and social security payments	419	784	1,126	1,389	1,539	1,693	1,862	2,049	2,254
Allowances	0	91	416	749	734	807	888	976	1,074
Purchase of goods and services	260	362	539	351	467	515	570	628	692
Interest payments	198	176	198	212	227	249	271	292	312
Domestic currency debt	3	0	0	3	2	2	1	0	0
of which: paid	3	0	0	3	2	2	1	0	0
Foreign currency debt	194	176	198	210	225	248	271	292	312
of which: paid	16	31	34	28	16	23	28	32	35
Grants	123	178	195	195	246	271	300	330	364
Social benefits	98	188	275	403	500	550	605	666	732
of which: Pensions	98	188	275	403	500	550	605	666	732
Gross Operating Balance	-124	420	171	220	220	255	281	298	313
Net transaction in nonfinancial assets	45	415	353	501	640	544	490	468	501
Acquisition of non-financial assets	45	415	353	501	640	544	490	468	501
Domestically financed	45	415	353	501	640	544	490	468	501
Foreign financed	0	0	0	0	0	0	0	0	0
Net lending/borrowing (Overall Balance)	-169	5	-182	-281	-420	-289	-209	-170	-188
Transactions in financial assets and liabilities	351	7	-182	-171	-420	-289	-209	-170	50
Net acquisition of financial assets	576	150	145	46	50	50	50	50	50
Domestic	107	250	145	156	50	50	50	50	50
Currency and deposits	106	72	25	30	0	0	0	0	0
Loans (net lending)	1	178	120	126	50	50	50	50	50
Foreign	470	-100	0	-110	0	0	0	0	0
Net incurrence of liabilities	-226	-143	-328	-217	-470	-339	-259	-220	0
Domestic	-48	0	-85	51	25	25	33	0	0.00
Foreign	-178	-143	-243	-268	-495	-364	-292	-220	0
Memorandum items:									
Cash balance	56	-28	-138	-225	-261	-114	-16	40	40
Overall balance	-170	-173	-302	-407	-470	-339	-259	-220	-238
Cash expenditures	916	2,228	2,974	3,793	4,192	4,454	4,792	5,199	5,701
Change in arrears	-367	-378	-376	-267	-333	-337	-311	-325	0

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

Table 5. Zimbabwe: Integrated Balance Sheet, 2009–17

(millions of U.S. dollars)

	Estimated			Projected					
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net worth									
Nonfinancial assets									
Net financial worth	**-7,185**	**-7,806**	**-8,315**	**-8,735**	**-9,353**	**-9,854**	**-10,245**	**-10,603**	**-10,987**
Financial assets	**527**	**540**	**656**	**580**	**654**	**729**	**813**	**862**	**912**
Domestic	62	184	301	336	411	486	570	620	670
Currency and deposits	61	5	2	-88	-63	-38	-5	-5	-5
Debt securities	0	0	0	0	0	0	0	0	0
Loans	1	179	299	425	475	525	575	625	675
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…
Foreign	465	356	354	243	243	243	243	242	242
Monetary gold and SDRs 1/	465	356	354	243	243	243	243	242	242
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts receivable	…	…	…	…	…	…	…	…	…
Financial liabilities	**7,712**	**8,346**	**8,971**	**9,314**	**10,008**	**10,583**	**11,057**	**11,465**	**11,899**
Domestic	515	654	844	757	758	758	759	759	760
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts payable	515	654	844	757	758	758	759	759	760
Of which: Debt owed by the RBZ 2/	*467*	*606*	*711*	*676*	*677*	*677*	*678*	*677*	*678*
Foreign	7,198	7,692	8,127	8,557	9,249	9,825	10,298	10,706	11,140
SDRs	531	521	520	516	515	515	515	514	514
Currency and deposits	0	0	0	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0
Loans	1,591	1,519	1,481	1,462	1,653	1,708	1,685	1,576	1,469
Equity and investment fund shares	…	…	…	…	…	…	…	…	…
Insurance, pensions, and standardized guarantee schemes	…	…	…	…	…	…	…	…	…
Financial derivatives and employee stock options	…	…	…	…	…	…	…	…	…
Other accounts payable	5,076	5,651	6,126	6,579	7,081	7,602	8,098	8,616	9,157

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

1/ Including about $100 million of escrowed SDRs, which will become available once arrears to the PRGT Trust have been settled.

2/ About $150 million of short-term foreign loans reclassified to domestic liabilities in 2010.

Table 6. Zimbabwe: Monetary Survey, 2009–17

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

	Actual		Est.	Projected					
	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017
Monetary authorities									
Net foreign assets	**-845**	**-680**	**-734**	**-608**	**-485**	**-401**	**-324**	**-243**	**-151**
Usable international reserves 1/	312	197	182	130	130	130	130	130	129
Other foreign assets	259	389	334	505	626	711	787	868	959
Short-term foreign liabilities 2/	-810	-671	-662	-659	-658	-658	-658	-658	-658
Of which: Liabilities to IMF	-140	-134	-134	-131	-131	-131	-131	-130	-130
Other foreign liabilities	-605	-595	-588	-584	-583	-583	-583	-582	-581
Net domestic assets	**970**	**936**	**919**	**955**	**954**	**954**	**953**	**953**	**952**
Net domestic claims	-1	-4	-1	-1	-1	-1	-1	-1	0
Claims on other depository corporations	0	0	0	0	0	0	0	0	0
Net claims on central government	-2	-5	-2	-2	-2	-2	-2	-2	-1
Claims on other sectors	1	1	1	1	1	1	1	1	1
Claims on other financial corporations	0	0	0	0	0	0	0	0	0
Claims on state and local government	0	0	0	0	0	0	0	0	0
Claims on public non-financial corporations	0	0	0	0	0	0	0	0	0
Claims on private sector	1	1	1	1	1	1	1	1	1
Other items (net)	971	940	921	956	955	955	954	954	952
Monetary base	**125**	**256**	**186**	**347**	**468**	**553**	**630**	**710**	**802**
Statutory reserves	71	83	83	0	0	0	0	0	0
Banks' current/RTGS accounts	54	173	102	347	468	553	630	710	801
Deposit money banks and other banking institutions									
Net foreign assets	**549**	**529**	**443**	**351**	**408**	**422**	**427**	**493**	**530**
Foreign assets	606	690	644	631	749	823	868	979	1,061
Foreign liabilities	-57	-162	-200	-280	-340	-400	-440	-485	-530
Net domestic assets	**832**	**1,799**	**2,657**	**3,857**	**4,756**	**5,672**	**6,514**	**7,336**	**8,308**
Net domestic claims	856	1,972	3,105	4,301	5,176	6,016	6,785	7,579	8,496
Claims on RBZ	205	272	349	591	712	797	873	954	1,045
Currency	0	0	0	0	0	0	0	0	0
Deposits	205	272	349	591	712	797	873	954	1,045
Net claims on central government	-59	13	0	90	65	40	7	7	8
Claims on other sectors	709	1,687	2,755	3,620	4,399	5,180	5,904	6,618	7,443
Claims on public non-financial corporations	25	23	45	30	30	30	30	30	30
Claims on private sector	684	1,664	2,710	3,590	4,369	5,150	5,874	6,588	7,413
Other items (net)	-24	-173	-448	-444	-420	-344	-270	-243	-189
Liabilities to RBZ	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Deposits included in broad money	**1,381**	**2,328**	**3,100**	**4,208**	**5,164**	**6,095**	**6,942**	**7,829**	**8,838**
Monetary Survey									
Net foreign assets	**-295**	**-151**	**-290**	**-257**	**-77**	**22**	**104**	**251**	**380**
Net domestic assets	**1,677**	**2,480**	**3,391**	**4,465**	**5,241**	**6,073**	**6,838**	**7,579**	**8,458**
Domestic claims	649	1,696	2,754	3,709	4,463	5,219	5,910	6,624	7,451
Net claims on central government	-61	8	-2	88	63	38	5	5	7
Claims on other sectors	710	1,688	2,756	3,621	4,399	5,180	5,905	6,619	7,444
Claims on public non-financial corporations	25	23	45	30	30	30	30	30	30
Claims on private sector	684	1,665	2,711	3,591	4,369	5,150	5,875	6,589	7,414
Other items (net)	1,027	784	636	756	778	855	928	955	1,008
Broad money liabilities (M3)	**1,381**	**2,329**	**3,100**	**4,208**	**5,164**	**6,095**	**6,942**	**7,829**	**8,838**
Deposits	1,381	2,329	3,100	4,208	5,164	6,095	6,942	7,829	8,838
			(annual percentage change)						
Monetary Base	1,738	104	-27	87	35	18	14	13	13
Broad Money (M3)	340	69	33	36	23	18	14	13	13
Currency	…	…	…	…	…	…	…	…	…
Deposits	340	69	33	36	23	18	14	13	13
Private Sector Credit	388	143	63	32	22	18	14	12	13
Memorandum Items:									
Loan-to-deposit ratio (in percent)	50	71	87	85	85	84	85	84	84
Reserves-to-deposit ratio (in percent)	9	11	6	8	9	9	9	9	9
Money multiplier (M3/monetary base)	11	9	17	12	11	11	11	11	11
Velocity (GDP/M3)	4.4	3.2	3.1	2.6	2.4	2.2	2.2	2.1	2.1

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

1/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory

2/ About $150 million of short-term loans reclassified to domestic liabilities in 2010.

Table 7. Zimbabwe: Selected Economic Indicators, 2009–17 (Active Policies Scenario)

	Actual		Est.	Projected					
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP growth (annual percent change) 1/	6.3	9.6	9.4	5.0	7.0	7.0	7.0	7.0	7.0
Nominal GDP (US$ millions)	6,133	7,433	9,458	10,796	12,399	13,928	15,755	17,843	20,206
GDP deflator (annual percent change) 1/	23.3	10.6	16.3	8.7	7.3	4.9	5.7	5.9	5.8
Inflation (annual percent change)									
Consumer price inflation (annual average)	6.5	3.0	3.5	5.0	5.7	4.3	4.4	4.5	4.6
Consumer price inflation (end-of-period)	-7.7	3.2	4.9	6.5	4.3	4.3	4.5	4.6	4.6
Central government (percent of GDP, measured in US$)									
Revenue and grants	15.9	29.6	30.9	33.6	32.0	32.6	33.3	33.6	33.8
Expenditure and net lending	18.7	31.9	34.1	36.4	33.8	33.8	33.4	33.1	33.1
Of which: cash expenditure and net lending	15.0	30.0	31.4	34.7	33.1	32.2	31.8	31.6	31.7
Of which: employment costs	8.4	14.3	19.2	23.5	21.4	20.1	18.7	17.4	16.1
Quasi-fiscal activity by RBZ	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including quasi-fiscal activity) 2/	-3.2	-2.5	-3.2	-2.8	-1.8	-1.2	-0.1	0.6	0.7
Primary balance (including quasi-fiscal activity) 2/	0.1	-0.1	-1.1	-0.8	0.0	0.6	1.6	2.2	2.2
Cash balance	0.9	-0.4	-0.6	-1.5	-1.2	0.4	1.4	2.0	2.1
Money and credit (US$ millions)									
Broad money (M3)	1,381	2,329	3,100	4,208	5,231	6,287	7,361	8,556	9,952
Net foreign assets	-295	-151	-290	-236	87	415	821	1,275	1,895
Net domestic assets	1,677	2,480	3,391	4,444	5,144	5,872	6,540	7,281	8,057
Domestic credit (net)	649	1,683	2,754	3,686	4,574	5,376	6,044	6,797	7,628
Of which: credit to the private sector	684	1,665	2,711	3,524	4,412	5,294	6,238	7,315	8,519
Reserve money	125	256	186	347	431	518	606	705	819
Velocity (M3)	4.4	3.2	3.1	2.6	2.4	2.2	2.1	2.1	2.0
Balance of payments (US$ millions; unless otherwise indicated)									
Merchandise exports 3/	1,613	3,317	4,496	5,195	5,899	6,664	7,581	8,555	9,615
Value growth (annual percent change) 3/	-2.8	…	35.5	15.5	13.5	13.0	13.8	12.9	12.4
Merchandise imports 3/	-3,213	-5,162	-7,562	-7,223	-7,910	-8,472	-9,201	-10,091	-11,064
Value growth (annual percent change) 3/	22.2	…	46.5	-4.5	9.5	7.1	8.6	9.7	9.6
Current account balance (excluding official transfer	-1,359	-2,141	-3,427	-2,199	-2,273	-2,251	-2,340	-2,560	-2,805
(percent of GDP)	-22.2	-28.8	-36.2	-20.4	-18.3	-16.2	-14.9	-14.3	-13.9
Overall balance	-239	-677	-751	-576	-209	147	338	535	728
Official reserves (end-of-period)									
Gross international reserves (US$ millions) 4/	437	453	366	477	700	987	1,350	1,773	2,096
Usable international reserves (US$ millions) 5/	312	197	182	130	270	470	744	1,069	1,443
(months of imports of goods and services)	1.0	0.4	0.3	0.2	0.4	0.6	0.9	1.1	1.4
Debt (end-of-period)									
Total external debt (US$ millions) 6/	7,602	9,018	10,726	12,545	14,305	15,712	17,048	18,396	19,843
(percent of GDP)	124.0	121.3	113.4	116.2	115.4	112.8	108.2	103.1	98.2
Total external arrears (US$ millions) 6/	5,284	5,868	6,344	6,798	7,300	7,817	8,307	8,815	9,341
(percent of GDP)	86.2	78.9	67.1	63.0	58.9	56.1	52.7	49.4	46.2

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ In constant 2009 prices. Discrepancies in projections between staff and the Zimbabwean authorities partly reflect differences in methodology in computing sectoral contributions to growth.
2/ Quasi-fiscal activity includes subsidies provided by the central bank to the public sector and producers/exporters.
3/ Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.
4/ Excluding encumbered deposits and securities.
5/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.
6/ Includes arrears and amounts for unidentified financing.

Table 8. Zimbabwe: Risk Assessment Matrix[17]

Source of Risks	Relative Likelihood	Impact if Realized
1. Resurgence in domestic political instability ahead of the elections.	**Medium to High** Preparations for elections, now expected in 2013, and the deteriorating relationship between the coalition partners could complicate decision-making within government.	**Medium** Possible political instabilities and stalemates in government decision-making could result in policy setbacks, lower business confidence and possibly cause further contraction of economic activity.
2. Strong intensification of the euro area crisis.	**Medium** Zimbabwe's economy is currently sustained by strong demand for key exports. In addition, the country is heavily dependent on external credit flows (including short term) alongside accumulation of arrears, to finance its large current account deficit.	**Low to Medium** Zimbabwe's key exports could be impacted by a global economic downturn. In particular, if a sharper slowing in Europe and deceleration in China would significantly lower commodity prices, as well as activity in South Africa – Zimbabwe's major trading partner – balance of payments pressures could heighten. For instance, a 10 percent fall in metals and diamond prices would worsen the 2013 current account deficit by about 2½ percent of GDP. In addition, minerals and diamond production may also contract in response to price developments. If production fell by 10 percent, the current account deficit would increase by another 2 percent of GDP and also growth would fall by 1½ percentage points. In addition, such a shock could also reduce debt inflows and balance of payments difficulties could quickly ensue in light of the low levels of reserves.
3. Potential destabilizing effects of the indigenization and empowerment policy.	**Medium** Uncertainty and inconsistent around the application of the policy has affected investment decisions, particularly for new investments, across the productive sector and for FDI.	**Medium** Continued uncertainties over policy implementation would limit flows of well-needed foreign direct investment, including in the mining sector. Indigenization in the banking sector could exacerbate existing liquidity and credit risks, and reduce potential sources of external credit flows.
4. Fiscal slippages.	**Medium** There is a risk that diamond revenues could fall short even of the revised projection. There are pressures from trade unions to increase civil servants' wages. If these materialize, especially in the run-up to elections, the authorities are likely to draw down on already low levels of deposits and further accumulate domestic arrears.	**Medium** If nominal wages were increased by 20 percent for civil servants in 2013 employment costs would increase by about 2 percent of GDP. This along with further shortfall in diamond revenue would undermine service delivery and critical social and capital spending. It might lead to a draw down in government deposits causing another liquidity crunch and new accumulation of domestic arrears
5. Financial sector instabilities, including liquidity constraints.	**Medium** Several banks remain weakly capitalized with imprudently low liquidity buffers, particularly small banks. Asset quality has deteriorated, reflecting unsound lending practices and poor risk management; and several banks are overstretched.	**Medium to High** In the absence of a LOLR facility, deterioration in bank capitalization would lead to further loss of confidence in the banking system, aggravation of already tight liquidity conditions, and possible bank runs.

[17] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

APPENDIX I. FORECASTING CPI INFLATION IN ZIMBABWE

The CPI inflation rate in Zimbabwe is highly associated with both the CPI and PPI inflation rates in South Africa with a lag, mostly due to the high share of imports from South Africa. Regression results indicate that a 1-precentage point increase in the CPI inflation rate (PPI inflation rate) in South Africa leads to 0.6-percentage point (0.5-percentage point) increase in the CPI inflation rate in Zimbabwe five months later. A forecast using the CPI for South Africa indicates that the rising trend will continue until November 2012, whereas a forecast using PPI for South Africa indicates a weaker trend.

1. **The CPI inflation rate in Zimbabwe is highly associated with both CPI and PPI inflation rates in South Africa with a lag.** Although CPI inflation in Zimbabwe is more volatile than CPI inflation in South Africa, they are positively correlated with a correlation coefficient of 0.51 (Chart 1).[1] Considering that more than half of Zimbabwe's imports are from South Africa, the relationship between PPI inflation in South Africa and CPI inflation in Zimbabwe was also observed. These are also positively correlated, with a correlation coefficient of 0.51 between CPI inflation in Zimbabwe and one-month lagged PPI inflation in South Africa (Chart 2).[2]

Chart 1: CPI inflation in Zimbabwe and South Africa

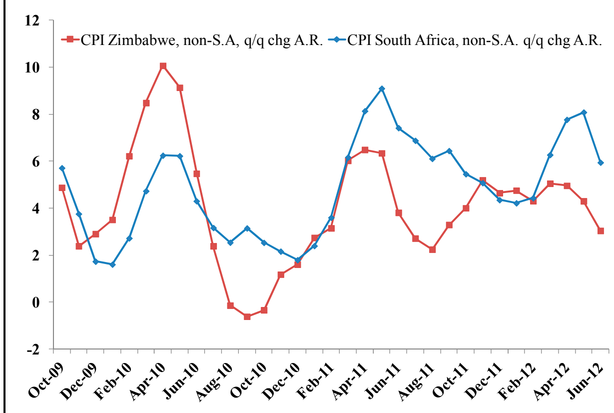
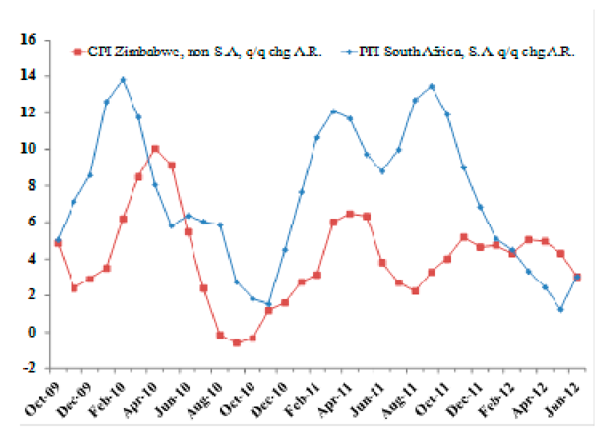


Chart 2: CPI inflation in Zimbabwe and PPI inflation in South Africa



2. **Regression results indicate that there are five-month lags in the relationships between CPI inflation in Zimbabwe and CPI and PPI inflation in South Africa.** We analyze how fluctuations of the CPI inflation rate in Zimbabwe can be explained by either the CPI inflation rate or the PPI inflation rate in South Africa. Considering that Zimbabwe adopted the multicurrency regime in 2009, we also include the rand/US dollar exchange rate (period average) as an explanatory variable. Throughout the analysis,

[1] The CPI inflation rate for South Africa is the annualized quarterly-change in the 3-month moving average of the non-seasonally adjusted Headline CPI series. The CPI inflation rate for Zimbabwe is the annualized quarterly-change in the 3-month moving average of the non-seasonally adjusted CPI series.

[2] The PPI inflation rate for South Africa is the annualized quarterly-change in the 3-month moving average of the seasonally adjusted PPI for domestic output, as the non-seasonally adjusted PPI series is highly volatile.

we use non-seasonally adjusted year-on-year percentage changes of monthly series of CPI, PPI, and the exchange rate.

3. **The CPI inflation rate in Zimbabwe responds to the South African CPI inflation rate with some lags (Table 1).** Measured in terms of root mean squared error (RMSE), the fluctuations of the CPI inflation rate in Zimbabwe are best explained by five-month lags of the CPI inflation rate in South Africa and the rand/US dollar exchange rate. A 1-percentage point increase in the South African CPI inflation rate this month leads to a 0.6-percentage point increase in Zimbabwe's CPI inflation rate 5 months later. On the contrary, a 1-percentage point increase in the rand/US dollar exchange rate reduces Zimbabwe's CPI inflation rate five months later only marginally (-0.02 percentage point).

4. **The CPI inflation rate in Zimbabwe also reacts to the South African PPI inflation rate with some lags (Table 2).** RMSEs indicate that the CPI inflation rate in Zimbabwe can also be best explained by changes in South Africa's PPI inflation rate and the rand/US dollar exchange rate with a five month lag: A 1-percentage point increase in South Africa's PPI inflation rate this month leads to a 0.5-percentage point increase in Zimbabwe's CPI inflation rate five months later.

5. **The two regressions provide different predictions of Zimbabwe's CPI inflation over the next five months (Chart 3, Table 3).** While the rising trend is expected to continue until November 2012, according to a forecast using the CPI for South Africa, a forecast based on the PPI for South Africa presents a weaker trend. It is also worth noting that forecasts based on the South African CPI or PPI do not capture any Zimbabwe-specific inflationary factors, such as increases in electricity tariffs and fuel excises.

Table 1: Zimbabwe: Regression Results Using CPI Inflation in South Africa

Explanatory variables	CPI inflation rate in Zimbabwe (y-o-y change)						
(CPI – South Africa, contemporary)	-0.18	-	-	-	-	-	-
(CPI – South Africa, with lag-1)	-	0.11	-	-	-	-	-
(CPI – South Africa, with lag-2)	-	-	0.44	-	-	-	-
(CPI – South Africa, with lag-3)	-	-	-	0.63***	-	-	-
(CPI – South Africa, with lag-4)	-	-	-	-	0.61***	-	-
(CPI – South Africa, with lag-5)	-	-	-	-	-	**0.58*** **	-
(CPI – South Africa, with lag-6)	-	-	-	-	-	-	0.50***
(Rand/US$ exchange rate, contemporary)	0.05**	-	-	-	-	-	-
(Rand/US$ exchange rate, lag-1)	-	0.02	-	-	-	-	-
(Rand/US$ exchange rate, lag-2)	-	-	-0.01	-	-	-	-
(Rand/US$ exchange rate, lag-3)	-	-	-	-0.03***	-	-	-
(Rand/US$ exchange rate, lag-4)	-	-	-	-	-0.02***	-	-
(Rand/US$ exchange rate, lag-5)	-	-	-	-	-	**-0.02** **	-
(Rand/US$ exchange rate, lag-6)	-	-	-	-	-	-	-0.01
(constant)	0.05***	0.03***	0.02	0.01	0.01	**0.01***	0.01**
N	25	25	25	25	25	**25**	25
Adjusted R squared	0.28	0.19	0.25	0.50	0.57	**0.62**	0.52
RMSE	0.0059	0.0063	0.0061	0.0050	0.0046	**0.0043**	0.0048

Notes: *, **, and *** correspond to 10, 5, and 1 percent levels of significance. Newey-West standard errors with 3 lags are used.

Table 2: Zimbabwe: Regression Results using PPI Inflation in South Africa

Explanatory variables	CPI inflation rate in Zimbabwe (y-o-y change)						
(PPI – South Africa, contemporary)	0.47***	-	-	-	-	-	-
(PPI – South Africa, with lag-1)	-	0.48***	-	-	-	-	-
(PPI – South Africa, with lag-2)	-	-	0.48***	-	-	-	-
(PPI – South Africa, with lag-3)	-	-	-	0.47***	-	-	-
(PPI – South Africa, with lag-4)	-	-	-	-	0.47***	-	-
(PPI – South Africa, with lag-5)	-	-	-	-	-	0.46***	-
(PPI – South Africa, with lag-6)	-	-	-	-	-	-	0.44***
(Rand/US$ exchange rate, contemporary)	0.01	-	-	-	-	-	-
(Rand/US$ exchange rate, lag-1)	-	0.00	-	-	-	-	-
(Rand/US$ exchange rate, lag-2)	-	-	-0.02	-	-	-	-
(Rand/US$ exchange rate, lag-3)	-	-	-	-0.05**	-	-	-
(Rand/US$ exchange rate, lag-4)	-	-	-	-	-0.06**	-	-
(Rand/US$ exchange rate, lag-5)	-	-	-	-	-	-0.07***	-
(Rand/US$ exchange rate, lag-6)	-	-	-	-	-	-	-0.09***
N	25	25	25	25	25	25	25
Adjusted Uncentered R squared	0.96	0.96	0.96	0.97	0.96	0.96	0.94
RMSE	0.0075	0.0074	0.0074	0.0068	0.0073	0.0073	0.0091

Notes: *, **, and *** correspond to 10, 5, and 1 percent levels of significance. Newey-West standard errors with 3 lags are used. Uncentered R squared is reported as a constant term is not included.

Chart 3: Zimbabwe CPI —Five-month Ahead forecasts and Actual

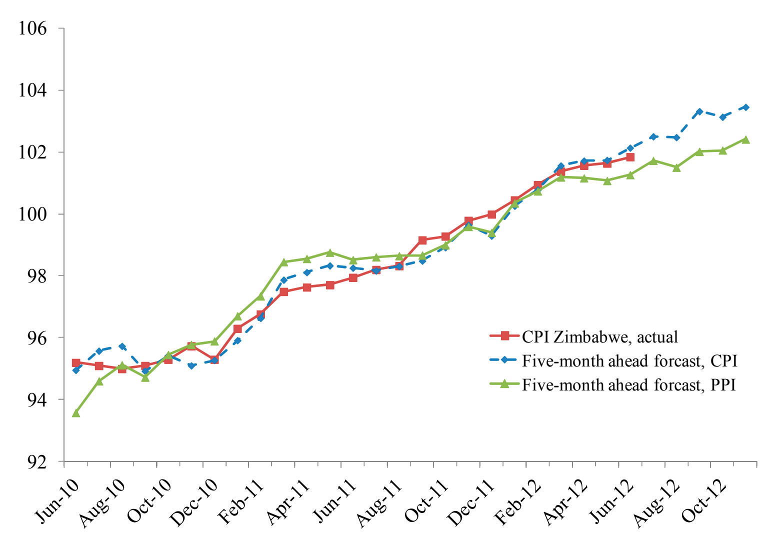


Table 3: Zimbabwe: CPI Forecasts and Actual

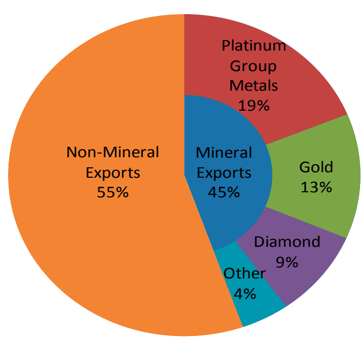
	Actual		Five-month Ahead Forecast (CPI in South Africa)		Five-month Ahead Forecast (PPI in South Africa)	
	Level	y/y % chg	Level	y/y % chg	Level	y/y % chg
Jan-11	96.3	3.5	*95.9*	*3.1*	*95.9*	*3.1*
Feb-11	96.8	3.1	*96.6*	*2.9*	*96.9*	*3.1*
Mar-11	97.5	2.7	*97.9*	*3.1*	*98.0*	*3.2*
Apr-11	97.6	2.7	*98.1*	*3.2*	*98.1*	*3.1*
May-11	97.7	2.5	*98.3*	*3.1*	*98.6*	*3.4*
Jun-11	97.9	2.9	*98.3*	*3.2*	*98.6*	*3.6*
Jul-11	98.2	3.3	*98.2*	*3.2*	*98.8*	*3.9*
Aug-11	98.3	3.5	*98.3*	*3.5*	*99.0*	*4.2*
Sep-11	99.2	4.3	*98.5*	*3.6*	*99.2*	*4.3*
Oct-11	99.3	4.2	*98.9*	*3.8*	*99.5*	*4.4*
Nov-11	99.8	4.2	*99.6*	*4.1*	*99.8*	*4.3*
Dec-11	100.0	4.9	*99.3*	*4.2*	*99.4*	*4.3*
Jan-12	100.4	4.3	*100.3*	*4.1*	*100.4*	*4.3*
Feb-12	100.9	4.3	*100.8*	*4.2*	*100.8*	*4.2*
Mar-12	101.4	4.0	*101.6*	*4.2*	*101.4*	*4.0*
Apr-12	101.6	4.0	*101.7*	*4.2*	*101.6*	*4.0*
May-12	101.6	4.0	*101.7*	*4.1*	*101.3*	*3.7*
Jun-12	101.8	4.0	*102.1*	*4.3*	*101.5*	*3.6*
Jul-12			*102.5*	*4.4*	*101.8*	*3.7*
Aug-12			*102.5*	*4.2*	*101.5*	*3.3*
Sep-12			*103.3*	*4.2*	*102.0*	*2.9*
Oct-12			*103.1*	*3.9*	*102.1*	*2.8*
Nov-12			*103.4*	*3.7*	*102.2*	*2.4*

Notes: Forcasts are based on the data observed five months ago from the projected month.

APPENDIX II. ZIMBABWE—MINERAL RESOURCES

1. **Zimbabwe has significant exports of non-renewable minerals, including platinum, gold, and diamonds.** The mining sector, accounting for 12 percent of GDP in 2011, significantly contributed to exports, supported by favorable world metal prices (Chart 1). Zimbabwe's platinum production has been the world's third largest, following South Africa and Russia, since 2009 when the third domestic producer (Unki) started its full operation.[1] Gold production has been rapidly recovering from a plunge during the hyperinflation period, although the 2010 production was only yet one third of peak levels reached in 1999.[2]

Chart 1: Mining Exports
(share of total export value in 2011)



Source: Zimbabwean authorities

2. **Zimbabwe has large potential for alluvial diamond production.** Production in the Marange fields started in 2006, and estimates of its potential range from 25 to 36 million carats per year, with total gross revenue of US$ 1–2 billion, which could be sustained for 14 years.[3] In addition, trial mining started in the Chimanimani fields in 2010. The government holds large shares in several diamond mining companies through the Zimbabwe Mining Development Corporation, a parastatal (Table 1). While international experience shows that treasuries receive 15 to 30 percent of total revenue on average, Zimbabwe could receive more given the high stakes held by the public sector.

Table 1. Zimbabwe: Shares of Diamond Mining Companies.

Company Name	Location	Type	Public Share
Anjin Investments (Private) Ltd.	Marange	Alluvial	50
Marange Resources	Marange	Alluvial	100
Mbada Diamonds	Marange	Alluvial	50
Diamond Mining Corporation (DMC)	Marange	Alluvial	50
Sino-Zimbabwe Ltd.	Marange	Alluvial	100
DTZ-OZGEO	Chimanimani	Alluvial	0
Rio Tinto	Murowa	Kimberlite	0
Rani Investment LLC.	River Ranch	Kimberlite	0

Sources: Global Witness, Partnership Africa Canada, and Sokwanele.

3. **Policies need to be strengthened for the country to fully benefit from its mineral wealth.** The current regulatory framework needs to be strengthened, especially in light of concerns about smuggling of precious metals.[4] The government should fast-track the new diamond act and advance the process under the Zimbabwe Mining Revenue Transparency Initiative – a home grown version of the Extractive Industry Transparency Initiative standards. The plan to introduce onsite monitoring by the revenue authority at mining locations from September 2012 onward is a welcomed development.

[1] Source: Annual reports from Johnson Matthey. There are three mining operators: Zimplats, Mimosa and Unki. Zimbabwe has the second largest known deposits of platinum in the world.

[2] Source: Chamber of Mines of Zimbabwe.

[3] Source: Compliance Verification Reports on Anjin and DMC by Kimberley Process Monitoring Team in 2011-12, and the Partnership Africa Canada report, "Diamonds and clubs," June 2010.

(continued)

[4] Source: Eastern and Southern Africa Anti-Money Laundering Group, "Mutual Evaluation Report for the Republic of Zimbabwe," August 2007.

APPENDIX III. ZIMBABWE: INDIGENISATION AND ECONOMIC EMPOWERMENT ACT

1. **The Indigenisation and Economic Empowerment (IEE) Act (Chapter 14:33) of 2008 is the first legal basis for the indigenization** policy framework in Zimbabwe, although the government has been conducting indigenization activities, including land reform, since independence in 1980. The objectives of the IEE Act include:

- to endeavor to secure that at least 51 percent of the shares of every public company and any other business shall be owned by indigenous Zimbabweans.[1]
- to establish the National Indigenisation and Economic Empowerment Board and Fund—an advisory body to the government on IEE policies and administers the Fund. The objective of the Fund is to provide financial assistance to indigenous Zimbabweans for the purposes of share acquisitions and business start-ups, rehabilitation, and expansion. A transfer of $3 million to the Fund in 2012 is envisaged in the revised budget in the mid-year fiscal policy review.

2. **Implementation of the IEE Act began in March 2010 with the publication of specific regulations, with different treatments across sectors.** At first, it was announced that all businesses with net asset value in excess of $500,000 would be required to formulate plans to transfer 51 percent of their assets to indigenous Zimbabweans within five years from the date of the operation of the regulations.[2] Later, different implementation rules were specified in various sectors (Table 1).

Table 1: Treatment by Sector

Sector	Minimum Net Asset Value	Timeframe
Mining	$1	No later than December 24, 2011
Manufacturing	$100,000	Yr. 1 - 26%, Yr. 2 - 36%, Yr. 3 - 46%, Yr. 4 -51%; begining October 28, 2011
Finance	As per minimum capital prescribed by the RBZ	One year from July 2012
Other	$1 - $10,000,000	One year from July 2012

Sources: General Notice 114, 459 of 2011 and 280 of 2012.
Note: "Other" sectors include: education and sports; arts, entertainment and culture; engineering and construction; energy; services; telecommunications; and transport and motor industry. Minimum net asset value also varies across sub-sectors within these sectors.

[1] The definition of indigenous Zimbabweans is any person who was previously disadvantaged by racist colonial policies before independence in 1980. It also includes descendents and legal entities of indigenous Zimbabweans.

[2] Source: Statutory Instrument 21 of 2010.

APPENDIX IV. FINANCIAL SECTOR RISK AND VULNERABILITIES

1. **Zimbabwe's financial system has grown rapidly since the adoption of the multicurrency system in 2009, albeit from a low base.** Financial sector assets accounted for 52 percent of annual GDP at end-June 2012, up from 36 percent of GDP in 2009.[1] Deposits growth has slowed, in line with the economy. Banking sector concentration is high with the 5 largest commercial banks accounting for 63 percent of commercial bank deposits, and 54 percent of total banking sector deposits. Credit growth has been rapid, funded by unstable short-term deposits.

2. **The banking system remains vulnerable.** A number of banks, particularly the small ones, are weakly capitalized and show low liquidity buffers. Asset quality has deteriorated, reflecting unsound lending practices and poor risk management in some banks; and several banks are overstretched. Even if these have not been systemic, recent bank failures—Renaissance Merchant Bank, Interfin Bank Limited, Genesis Investment Bank and Royal Bank Zimbabwe Limited—highlight continuing banking sector vulnerabilities (Box 1). Zimbabwe's financial system would benefit from an orderly process of consolidation.

Table 1. Financial System Structure June 2012

	Number of Institutions[1]	Total Assets $ million	Total Assets Share (%)	Total Assets % of GDP[2]	Total Deposits $ million	Total Deposits Share (%)
Commercial Banks	19	4,730	84.8	43.8	2,931	85.7
o/w Domestic banks	11	2,328	41.7	21.6	1,369	40.0
Foreign-owned banks	8	2,402	43.0	22.3	1,562	45.6
o/w Large commercial banks	5	2,837	50.8	26.3	1,851	54.1
Merchant banks	2	181	3.2	1.7	92	2.7
Building societies	4	597	10.7	5.5	341	10.0
Post Office Bank	1	73	1.3	0.7	58	1.7
Total Banking sector	26	5,581	100.0	51.7	3,422	100.0

Source: Reserve Bank of Zimbabwe
[1] At end-July 2012, there were 25 banks, after Royal Bank surrendered it licence on July 27th.
[2] GDP estimate for 2012

3. **Enhancement of the financial regulatory framework is underway, but solvency risks are high.** The average solvency ratio (regulatory capital to risk-weighted assets) declined to 12.9 percent[2] at end-March 2012, slightly above the 10 percent minimum requirement, and with large variations across individual banks. In light of weak capital buffers and rising credit risks, in January 2012, undercapitalized banks were required to comply with the minimum capital requirements by end-March 2012, and/or merge their operations with stronger banks. In June 2012, the situation came to a head with the intervention of Interfin and deregistration of Genesis. At end-June, one bank had still not

[1] RBZ estimates some $2 billion (18 percent of GDP) to be circulating outside the formal banking sector. Based on the 2011 FinScope survey on financial inclusion, of the 65 percent of the population living in rural areas, 51 percent are excluded from the banking system.

[2] Illiquid claims on the RBZ are counted toward capital.

met the minimum requirements, and several banks remain barely above the minimum regulatory requirements. Although the weak banks accounted for about 7 percent of total banking system assets, recent bank failures erode confidence, particularly in the smaller banks.

4. **Against the background of weak capitalization, on August 1, 2012, the RBZ announced steep increases in the minimum capital requirements for banking institutions, to be phased over a two-year period.** The five largest banks should be able to manage the new requirements; but for the majority of the domestic banks, which tend to be small, meeting the new requirements will be present a significant challenge, and some merging activity would appear necessary. Indeed, this seems in part to be an underlying motivation of the reform. At end-March 2012, the average capitalization of the largest banks was $52 million, compared with an average of some $17 million for the remaining 21 banking institutions.

New Capital Requirements $ Million		
Category	Current Minimum Capital	New Minimun Capital
Commercial Banks	12.5	100
Merchant Banks	10	80
Building Societies	10	60
Finance Houses	7.5	60
Discount Houses	7.5	60
Microfinance Banks	1	5
Compliance with New Capital Requirements		
25 percent	Dec-12	
50 percent	Jun-13	
75 percent	Dec-13	
100 percent	Jun-14	
Source: Reseve Bank of Zimbabwe		

5. **Asset quality deteriorated over the last 1½ years, exacerbating credit risks.** Loan origination from weak banks remains high, funded by unstable short-term deposits. Non-performing loans (NPLs) increased from 6 percent on average at end-December 2011 to 10 percent at end-June 2012. NPLs could rise further with the ongoing deceleration in economic activity. The serious improprieties uncovered in Interfin confirm persistent concerns over lending practices, risk management and the quality of corporate governance in some of the banks. Moreover, the RBZ has uncovered misrepresentation in some banks reporting, giving rise to concerns that NPLs may be underestimated.

Box 1: Recent Bank Failures

In June 2011, Renaissance Merchant Bank was placed under 6-month curatorship after the RBZ's audit revealed an inappropriate shareholding structure, chronic undercapitalization and liquidity challenges, high level of nonperforming insider and related party exposures, persistent losses, and corporate governance and internal control deficiencies. The curatorship was lifted in March 2012, following a cash injection by the National Social Security Authority, which acquired 84 percent share in the holding company and installed new management.

Interfin Bank Limited was placed under recuperative curatorship on June 11, 2012, after a RBZ audit determined that it was operating in an unsound and unsafe manner involving: inadequate capitalization; concentrated shareholding; abuse of corporate structures; high level of non-performing insider and related party loan exposures; chronic liquidity; income generating challenges; weak governance and management oversight, and violation of banking laws and regulations.

Genesis Investment Bank voluntarily surrendered its banking license to the RBZ in June 2012, after failing to realize adequate financing from partners that the bank had been courting since 2009. The RBZ has commenced the modalities on liquidating the bank.

On July 27, 2012, Royal Bank Zimbabwe Limited surrendered its banking license to the RBZ. Onsite inspection by the RBZ determined that the bank was critically undercapitalized, faced chronic liquidity challenges and liabilities to the RTGS system, had high non-performing insider loans, and had been misrepresenting information to the RBZ.

6. **The absence of a lender-of-last-resort (LOLR) facility, in the context of a multicurrency system, increases liquidity risks and hence, financial sector vulnerabilities.** The situation is compounded by the unequal distribution of liquidity in the system and the acute shortage of assets that could serve as collateral for lending. In addition to plans to establish a liquidity facility, the authorities need to consider steps to help restore an official interbank market, including developing a collateral policy that is efficient in the context of Zimbabwe's business environment.

7. **Continuing vigilance and more proactive supervision will be critical going forward. Key recommendations include**; (i) intensified monitoring of banks with low liquidity buffers and high and increasing risk exposures; (ii) enforcement of minimum capital adequacy and liquidity requirements; (iii) close monitoring of provisioning practices; (iv) enhancement of risk management frameworks; and (vi) fast-tracking the restructuring of the RBZ.

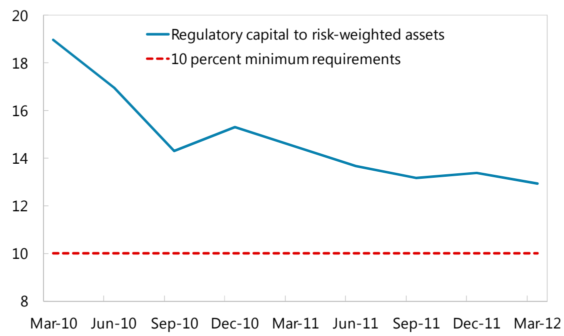
Table 2 : Zimbabwe Financial Soundness Indicators, Dec. 2009-March 2012
(In percent, unless otherwise indicated [1])

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Capital Adequacy										
Regulatory capital to risk-weighted assets	21.6	19.0	17.0	14.3	15.3	14.5	13.7	13.2	13.4	12.9
Capital to assets	12.0	11.4	10.2	9.0	9.4	9.4	9.2	9.0	9.3	8.4
Asset quality										
Past-due loans to gross loans[2]	19.9	16.9	16.9	16.7	16.1	17.4	19.9	21.5	21.1	26.2
Nonperforming loans[3]	1.8	1.7	1.9	2.1	3.1	3.5	4.0	6.5	5.9	9.2
Watch-listed loans [4]	18.0	15.2	15.1	14.6	13.0	13.9	15.9	15.0	15.2	16.9
Provisions as percent of past-due loans	10.8	7.1	11.9	10.0	10.8	9.9	10.5	12.0	14.0	13.4
Earnings and profitability										
Net profit (before tax and extraordinary items)/net income	188.1	139.5	127.7	173.3	166.0	111.1	147.8	152.5	139.7	167.6
Return on assets	0.5	0.5	0.8	1.0	1.9	1.0	1.5	2.0	2.7	0.4
Return on equity	1.9	3.0	5.5	5.4	11.0	7.9	9.5	12.5	17.6	2.1
Expenses/ income	95.5	84.6	88.3	89.4	84.1	77.5	78.0	80.3	80.2	88.0
Liquidity										
Loans/deposits	48.1	57.7	60.7	51.6	79.1	76.8	77.2	86.2	88.0	85.2
Excess Reserves to Broad Money	0.03	5.27	7.13	5.65	7.42	5.40	7.04	7.04	7.04	7.04
Sensitivity to market risk										
Net foreign exchange assets (liabilities) to shareholders' funds	5.2	5.2	6.5	6.1	8.0	33.1	26.6	26.6	26.6	26.6
Interest rates										
Lending rate minus demand deposit rate	3.0	2.9	2.8	3.3	3.1	2.0	4.2	6.2	9.3	2.6
Commercial banks fixed deposits (12 months)	10.3	9.9	9.4	9.1	9.0	8.3	8.6	8.6	8.6	8.6
Commercial banks lending rate (weighted average)	11.0	7.2	7.2	7.1	7.5	5.3	18.0	18.0	18.0	18.0
Saving deposit rate	1.0	1.1	1.3	1.3	1.4	1.0	2.6	2.6	2.6	2.6

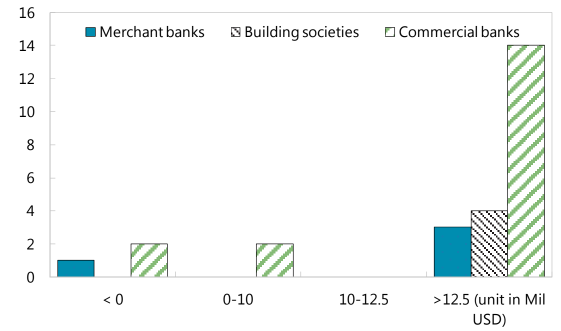
Source: Reserve Bank of Zimbabwe
[1] Based on commercial banks only
[2] Past due loans are defined as the aggregate of special mention, substandard, doubtful, and loss loans.
[3] Non-perfoming assets are defined as the aggregate of substandard, doubtful, and loss loans.
[4] Watch- listed loans refers to the aggregate of special mention loans.

Figure 1. Zimbabwe: Banking Performance and Soundness
March 2012

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

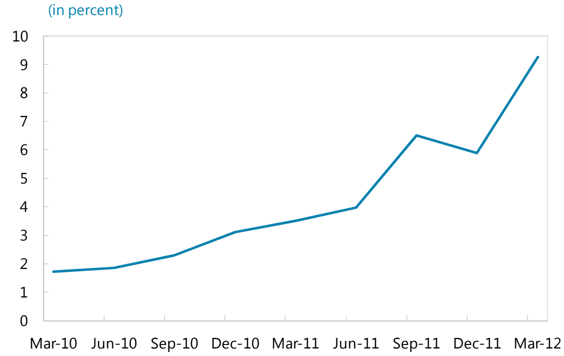


Distribution of Bank Capital 1/ 2/
(Number of banks, as of March 2012)

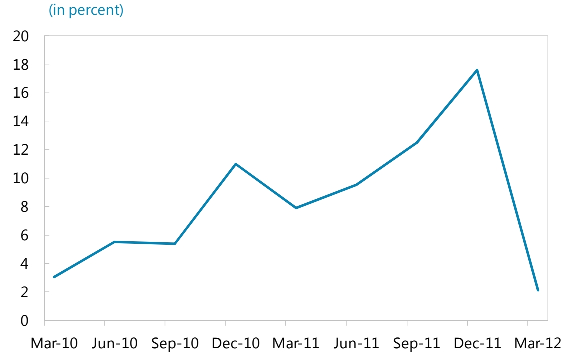


NPL's continue to increase, exacerbating credit risks

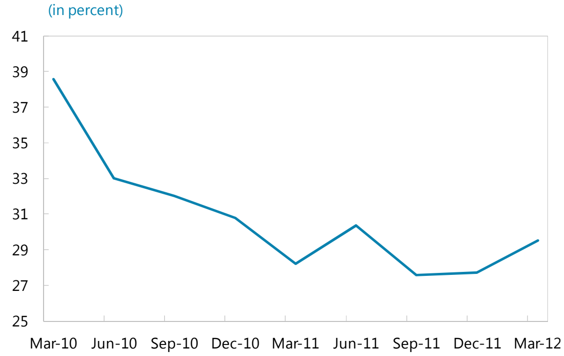
Nonperforming Loans to Total Loans
(in percent)



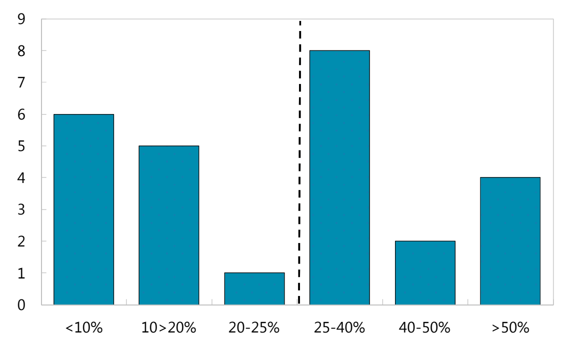
Return on Equity
(in percent)



Liquidity Ratio 3/
(in percent)



Distribution of liquidity ratio 3/
(Number of banks, as at March 2012)



Source: Reserve Bank of Zimbabwe

1/ Illiquid claims on the RBZ count toward capital.

2/ Minimum capital requirements are US$10 million for merchant banks and building societies, and US$12.5 million for commercial banks.

3/ The ratio of liquid assets to short-term liabilities. Liquid assets are defined as cash, claims on non-resident banks, interbank claims and clearing balances at the RBZ. Illiquid claims on the RBZ are excluded. Short-term liabilities comprise all deposits, interbank liabilities, and liabilities to non-residents. Time series are proxied and do not include quoted securities and other short term liabilities.

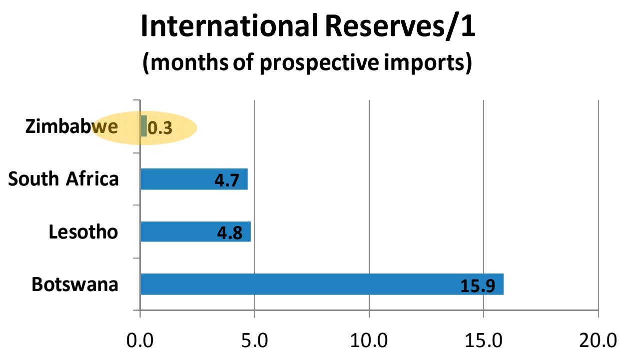
Box 2. Zimbabwe: Financial Sector Technical Assistance (TA) History—2009–2012

The Fund has been providing financial sector TA to support financial sector reforms underway in Zimbabwe. Since 2009, Zimbabwe has received the following financial sector TA:

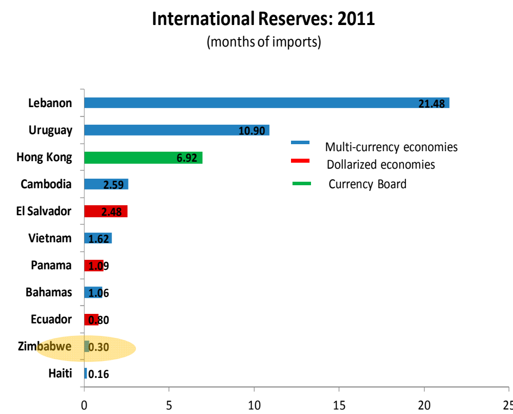
Date	Purpose of the mission
May 2009	Banking Supervision, Central Bank Accounting and Governance, and Payment Systems
August 2010	Reserve Bank of Zimbabwe –Balance Sheet Bifurcation, and Reform of Financial and Statistical Reporting
January 2011	Review of Stress Testing Framework and Action Plan for Its Enhancement
March 2011	Central Bank Accounting
May 2011	Central Bank Restructuring
August 2011	Systemic Liquidity, Stress Testing, and Bank Distress Resolution
November 2011	Systemic Liquidity, Stress Testing, and Financial Sector Safety Net
July 2012	Reserve Bank of Zimbabwe Debt Relief and Liquidity Support to the Banking System

APPENDIX V. RESERVE ADEQUACY ASSESSMENT IN ZIMBABWE

1. **Zimbabwe's usable reserves (USD 182 million, 0.3 months of imports at end of 2011) were well below levels observed in officially dollarized economies and benchmarks for sub-Saharan fragile states with fixed exchange rate regimes.**[1] This report discusses the necessity of international reserves in Zimbabwe, and quantitatively assesses Zimbabwe's reserve adequacy using the Dabla-Norris et al. (2011) model.[2]



/1: 2011 level for Zimbabwe and South Africa, 2005 for Lesotho and 2010 for Swaziland.



2. **In a dollarized economy, reserves are not only insurance against external shocks, but also a key tool for managing domestic financial instability**. Sudden stop risk is difficult to judge, as some of the current account financing is not well identified, but it is probably high as the country is facing large current account deficits and is in debt distress, with large payment arrears. In addition, the credit and liquidity risks are high given the weakly capitalized banking system. Full dollarization constrains a country's lender-of-last-resort function and hence the central bank's response to financial system emergencies. With low liquid assets of its own, the Reserve Bank of Zimbabwe (RBZ) can provide only limited short-term liquidity to banks, and cannot be the ultimate guarantor of the stability of the financial and payments systems in the event of a systemic bank run.

3. **The methodology developed by Dabla-Norris et al. (2011) is used to assess reserve adequacy in Zimbabwe**. This methodology takes into account both costs and benefits of holding reserves for low

[1] After the 2008 hyperinflation, the Zimbabwean dollar was withdrawn, and a multi-currency regime introduced. The US dollar, South African rand, British pound, and the euro are among currencies in circulation, with the US dollar the main currency.

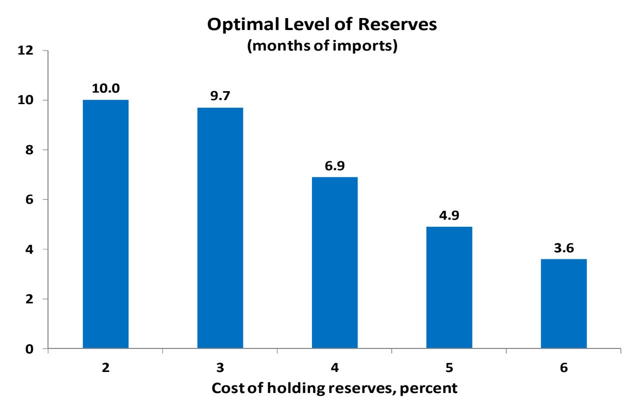
[2] Era Dabla-Norris, Jun Il Kim, and Kazuko Shirono (2011) "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis" IMF Working Paper.

income countries. In this framework, the benefit of holding reserves is to smooth domestic consumption/absorption in response to external shocks, which include sharp swings in foreign aid, external demand, FDI, and terms of trade, as well as natural disasters. The cost of holding reserves is defined as the difference between the return on short-term foreign currency assets and the return on more profitable alternative investment opportunities. The methodology takes into account a country's CPIA rating.

4. **Due to the data limitation and the hyperinflation before 2009, only historical and projected data starting from 2009 are used as references for possible severe shocks to the country**. The shocks, summarized in the text table, are set at the lowest value since 2009, or use the latest data available (a CPIA rating of 1.8). The calculated reserve holding (see figure) is the optimal level needed to face large negative shocks, given the unit cost of holding reserves.

5. **There are some limitations to this methodology**. First, it does not consider the case of a rapid domestic bank run, which is the internal withdrawal of dollars. In this case, reserves will be needed to inject into banks' balance sheets to ensure liquidity. Therefore, the optimal level of reserves could be underestimated in this methodology. Second, the cost of holding reserves, in the case of Zimbabwe, could be higher than 6 percent, the highest cost of holding reserves assumed in this methodology. Instead of holding reserves, the authorities could pay back the interest on arrears or invest in infrastructure, such as power plants and transportation. As a result, the optimal level of reserves could be overestimated in this methodology. However, in case of the second limitation, if the authorities restructure the debt with creditors, the cost of arrears could drop sharply, resulting in a lower cost of holding reserves.

Shock Variables	Magnitude of shocks[3]
Government balance, % of GDP	-2.8
External demand growth, %	-1.8
Terms of trade growth, percent	-1.6
Change in FDI to GDP	-0.3
Change in aid to GDP	-0.5



[3] Historical values of the year 2009 are used for severe negative shocks on government balance, CPIA, external demand growth, as these values were the lowest in recent years. Historical values for 2011 are used for severe negative shocks, terms of trade growth, and change in FDI to GDP.

6. **To summarize, according to this methodology, recommended reserve holdings for Zimbabwe could range between 3.6 and 10 months of imports**. Therefore, the current reserve holdings are much lower than the lower limit of the recommended range, and are among the lowest among countries with similar exchange rate regimes. To increase the level of reserves, the authorities should aim to generate fiscal surpluses.

APPENDIX VI. ZIMBABWE: DEBT CLEARANCE AND MACROECONOMIC MANAGEMENT STRATEGIES

1. **The Zimbabwean authorities recently formulated–the Zimbabwe Arrears Clearance, Debt and Development Strategy (ZAADDS)** —a policy framework for arrears clearance and debt management; and the Zimbabwe's Accelerated Re-engagement Economic Program (ZAREP)—an economic policy framework covering an 18–24 month period. The ZAADDS and the ZAREP are key elements of the authorities' economic reform agenda, which is expected to lay the foundation for sustainable development. The policies were adopted in March 2012.

2. **The ZAADDS is a hybrid debt resolution strategy that includes the adoption of the traditional debt resolution initiatives,** combined with leveraging Zimbabwe's natural resources in pursuit of economic development. The main objectives are to secure comprehensive external debt relief and arrears clearance from creditors and to lay foundation for economic growth through sound macroeconomic management and reengaging with the international community.

3. **The ZAREP is designed to establish a track record of sound policies to support the government's agenda of achieving debt relief and arrears clearance.** It seeks to build on the macroeconomic stability achieved under the authorities' Short-term Emergency Recovery Programs (STREP I and II) through implementation of sound macroeconomic policies, containing and managing the public sector wage bill and securing support from development partners for debt relief.

4. **In recognition of the need to restore credibility and reengage the international community,** a Friends of Zimbabwe roundtable was held in March 2012 in Tunis with a follow-up meeting in Washington during the Spring Meetings. There was a general concern about Zimbabwe's unsustainable debt and arrears situation and the call was made for a coordinated approach to resolve these problems.

ZIMBABWE

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 7, 2012

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

FUND RELATIONS ____ 2

WORLD BANK—IMF COLLABORATION ____ 7

STATISTICAL ISSUES ____ 11

I. FUND RELATIONS

A. Financial Relations

As of July 31, 2012

Membership Status

Joined: September 29, 1980; Article VIII

General Resources Account:	SDR Million	%Quota
Quota	353.40	100.00
Fund holdings of currency	353.07	99.91
Reserve position	0.33	0.09

SDR Department:	SDR Million	%Allocation
Net cumulative allocation[1]	272.18	100.00
Holdings[1]	93.12	34.21

[1] Excluding SDRs allocated and placed in escrow account under the Fourth Amendment of the IMF's Articles of agreement (SDR 66,402,156). Such holdings will be available to Zimbabwe upon the settlement of all overdue obligations to the Fund.

Outstanding Purchases and Loans:	SDR Million	%Quota
ECF arrangements	67.86	19.20

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	Aug 02, 1999	Oct 01, 2000	141.36	24.74
Stand-by	Jun 01, 1998	Jun 30, 1999	130.65	39.20
ECF[1]	Sep 11, 1992	Sep 10, 1995	200.60	151.90

[1] Formerly PRGF

Projected Payments to Fund[1, 2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	Mar 31, 2011	2012	2013	2014	2015	2015
Principal	67.86					
Charges/interest	16.41	0.12	0.23	0.23	0.23	0. 23
Total	84.27	0.12	0.23	0.23	0.23	0.23

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

[2] Projected amounts do not include additional interest levied on overdue PRGT interest.

Implementation of HIPC Initiative:

Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

Not Applicable

Application of Remedial Measures under the Arrears Strategy

Zimbabwe has been in continuous arrears to the Fund since February 2001. On September 24, 2001, the Executive Board declared Zimbabwe ineligible to use the general resources of the Fund and removed it from the list of PRGT-eligible countries. On June 13, 2002, the Board issued a declaration of non-cooperation with respect to Zimbabwe and suspended all technical assistance to the country. On June 6, 2003, the Board suspended Zimbabwe's voting and related rights in the Fund. A complaint with respect to compulsory withdrawal was issued on February 6, 2004. The Executive Board considered the complaint on July 7, 2004, on February 15, 2005, and again on September 9, 2005 and decided to postpone the recommendation on Zimbabwe's compulsory withdrawal from the Fund to the Board of Governors so as to give more time for Zimbabwe to improve cooperation with the Fund. On February 15, 2006, Zimbabwe fully settled its arrears to the General Resources Account. As a consequence, the Managing Director withdrew his complaint for compulsory withdrawal. However, the Executive Board decided not to restore Zimbabwe's voting and related rights, nor did it terminate Zimbabwe's ineligibility to use the general resources of the Fund. The Executive Board kept in place the decisions taken to address Zimbabwe's arrears to the PRGT Trust—the declaration of noncooperation, the suspension of technical assistance, and the removal of Zimbabwe from the list of PRGT-eligible countries. On May 4, 2009, the Executive Board lifted the suspension of technical assistance to Zimbabwe in the following areas: (i) tax policy and administration; (ii) payments system; (iii) lender-of-last resort and banking supervision; (iv) central banking governance and accounting (EBS/09/55). On February 19, 2010, the Executive Board restored Zimbabwe's voting rights and its eligibility for general resources. On May 17, 2010, the Executive Board added macroeconomic statistics to the targeted areas for Fund technical assistance. The Executive Board reviewed Zimbabwe's overdue financial obligations to the PRGT Trust in January 2011 (EBS/11/4, 1/7/2011), and decided that the Fund should continue its technical assistance in targeted areas and added public financial management and anti-money laundering and combating the financing of terrorism to the list of targeted areas for technical assistance. However, the Executive Board judged that the other measures to address Zimbabwe's arrears to the PRGT Trust should remain in place. In the April 2012 review of overdue financial obligations (EBS/12/56), the

Executive Board maintained the decisions. Zimbabwe's arrears to the PRGT Trust remain, amounting to SDR 84.3 million (US$ 127 million) as of July 31, 2012.

B. Nonfinancial Relations

Exchange Arrangement

Zimbabwe's exchange system has been significantly liberalized and exchange rates have been unified. Apart from one remaining exchange restriction subject to IMF jurisdiction arising from unsettled balances under an inoperative bilateral payments agreement with Malaysia, payments and transfers for current international transactions can now be effected without restriction.

Since 2009, Zimbabwe has adopted a multi-currency regime, including the U.S. dollar, the South African rand, the British pound, the euro and the Botswana pula, with the U.S. dollar as principal currency. The use of the Zimbabwe dollar as domestic currency was discontinued. The de facto exchange regime is classified as *exchange arrangement with no separate legal tender*.

Article IV Consultations

Zimbabwe is on the standard 12-month consultation cycle. The Executive Board discussed the staff report for the 2011 consultation on June 1, 2011.

Technical Assistance

2009 MCM mission on payments systems, lender-of-last resort operations and banking supervision, and central banking governance and accounting

2009 FAD mission on tax policy

2009 FAD mission on revenue administration

2009 FAD follow-up mission on tax policy

2010 MCM mission on accounting

2010 FAD mission on general tax policy and mining taxation

2010 STA mission on compilation of national accounts

2010 MCM mission on central bank balance sheet restructuring and reporting

2010 STA mission on compilation of monetary statistics for the central bank

2010 FAD follow-up mission on general tax policy and mining taxation

2010 LEG mission on fiscal law

2011 MCM mission on banking supervision

2011 MCM mission on Review of Stress Testing Framework and Action for its Enhancement

2011 MCM mission on Central Bank Accounting

2011 MCM mission on Central Banking Restructuring

2011 MCM mission on Systemic Liquidity, Stress Testing, and Bank Distress Resolution

2011 FAD mission on Development of PFM regulations

2011 FAD mission on Strengthening PFM and Statistics

2011 FAD mission on Status Review of Revenue Administration Reforms and Updating the Reform Agenda

2012 LEG mission on AML/CFT Diagnostic: Precious Metals and Stones

2012 MCM mission on Central Bank Debt Relief and Liquidity Support to the Banking system

2012 FAD mission on PFM and Government Finance Statistics

II. WORLD BANK—IMF COLLABORATION

1. **The Fund Zimbabwe team led by Mr. A. Cuevas (mission chief)** met with the World Bank Zimbabwe team, led by Mr. N. Lenneiye (country manager).

2. **The teams agreed that Zimbabwe will require a vigorous program of reforms focused on strengthening public financial management,** improving control over the payroll, raising the productivity of government expenditure, reducing financial sector vulnerabilities, tackling infrastructure bottlenecks and improving the business environment.

3. **Based on this assessment, the teams agreed to the following division of labor:**

- **PFM reform:** The Fund will offer TA in: (i) forecasting and budgeting within a medium-term expenditure framework; (ii) strengthening budget preparation, including more rigorous costing of services; (iii) improving fiscal oversight at the general government and public sector levels, including SOEs; and (iv) revising the legal and regulatory framework. The Bank will implement the finding of the Country Integrated Fiduciary Assessment and the Country Procurement Assessment Report. Specifically the Bank will (i) expand (phase II) its TA to strengthen the computerized PFM system and expand its functionality; (ii) support strengthening of the legal framework for PFM to increase compliance; (iii) provide TA in human resource management and payroll systems supported by electronic document and records management system, following the completion of the payroll and skills audit; and (iv) provide TA to strengthen and decentralize public procurement.

- **Wage bill management:** The Bank will provide support on a medium-term framework for compensation and employment.

- **Public investment program:** The Bank is providing analytical and capacity-building support for implementation of the capital budget, including support for capacity building on public-private-partnerships and elaboration of medium-term investment frameworks in water, energy, agriculture, transport and information and communications technology.

- **Tax reform:** The authorities have made progress on tax reform. The Fund will continue to offer TA in tax policy and tax administration reform, including that related to the income tax act.

- **Diamond sector reform:** The lack of transparency in the diamond sector is a major concern, reinforced by the significant underperformance of diamond revenue in the 2012 budget. Further to the June 2012 diagnostic Fund TA mission on AML/CFT standards in diamond and precious metal sectors, the Fund will develop detailed recommendations to increase transparency and revenue collection in the precious minerals sector. The Bank is providing technical support for improving mineral revenue transparency through a domesticated EITI-initiative – Zimbabwe Mining Revenue Transparency Initiative, and initiated a survey of potential of existing mineral projects to improve mineral revenue forecasting and, jointly with the Fund, will build on the dialogue initiated in the October 2011 joint workshop and provide technical advice on mining sector tax policy and revenue management.

- **Delivery of basic services and social safety nets:** The Bank will deliver TA in preparation of 2013 budget preparation, supporting scaling up of key programs for the delivery of basic services and improved social safety nets (within the context of ZAREP). The Bank is implementing a results-based financing program for maternal and child health and a public works rapid social response program. Analytical support is being provided for safety nets tracking survey, health financing issues note, and design of social transfer framework. The Fund will also provide policy advice and TA support to the budget preparation.

- **Business environment reform:** The Bank has completed a business enterprise survey, and trade facilitation assessment. The Bank is undertaking analysis on growth, trade diagnostic and competitiveness strategy to identify costs for businesses, including labor costs, and strategies to develop strategic sectors, such as information technology and agriculture.

- **Financial sector reform:** Financial sector risks and vulnerabilities persist, notwithstanding ongoing efforts to enhance the financial regulatory framework and systemic liquidity in the banking system. There is need for further strengthening of and a more proactive banking supervision. Fund staff will continue to provide TA in banking supervision to enhance compliance with Basle core principles and stress testing for liquidity and credit risks. The Bank has finalized the FINSCOPE survey to assess access to finance.

- **Central bank reform:** Following Parliamentary approval of the RBZ debt relief bill and advances towards establishing a lender-of-last-resort facility, the Fund will offer additional TA in governance and central bank accounting and financial controls.

- **Reform of the statistical system:** The Bank assisted ZIMSTAT in developing a System Wide Approach to statistics to implement the National Statistics Development Strategy. The Fund will offer TA in national accounts, monetary statistics, and government finance statistics.

- **Debt and arrears strategy:** In the context of the 2012 Article IV Consultation, Bank and Fund staff produced a joint DSA. The Bank has carried out a reconciliation and Debt Management Reform mission.

- **Poverty Analysis and Poverty Reduction Strategy.** The Bank is providing technical guidance to analyze the 2011 household survey data, and the August 2012 census and produce updated poverty analysis. The Bank will deliver TA to support the preparation of a poverty reduction strategy.

4. The teams agreed to the following sharing of information:

- The Fund team requests to be kept informed of progress in the above macro-critical structural reform areas, timing of Bank missions; and to share outputs when requested by the Fund team.

- The Bank team requests to be kept informed of progress in the above cited areas where the Fund takes the lead and shares outputs when requested by the Bank team.

5. The appendix lists the teams' separate and joint work programs during June 2012–June 2013. The Bank team noted that the Zimbabwe Interim Strategy Note is under revision and the program listed here represents the team's best judgment at this stage.

Table 1 Zimbabwe: Bank and Fund Planned Activities in Macro-critical Structural Reform Areas, June 2012-June 2013

Title	Products	Provisional Timing of Missions	Expected Delivery Date
Bank Work Program	- Strengthening PFM and Procurement Systems	Q3 2012 – Q3 2013	Q4 2013
	-TA for Human Resource Management and payroll Systems,	May, Sept 2012	October 2012
	- TA on wage bill and employment issues	July, Sept 2012	November 2012
	-Results-based financing program in health	Q3-Q4 2012	Q1 2013
	-Support to 2013 Budget Preparation	September-October 2012	November 2012
	-Technical support for improving mineral revenue transparency	Q3-Q4 2012	Q1 2013
	- Growth recovery notes	Aug. 2012	Q3-2012
	- Trade and Competitiveness	Q3-2012-Q2 2013	Q2 2013
	- Poverty Analysis and Poverty Strategy	Q3-Q4 2012	Q1 2013
Fund Work Program	-Article IV Consultations	June 2013	June 2013
	-		
	-MCM TA mission on Central Bank Debt Relief and liquidity support to the Banking system	Q2 2012	June 2012
	- MCM TA mission on Lender of Last Resort	Q2-Q3 2012	June/July 2012
	-FAD/ATS TA mission on PFM and Government Finance Statistics	Q4 2012	October/November 2012
	-Support to 2013 Budget Preparation	Q4 2012	November 2012
	Possible TA:		
	-LEG TA on AML/CFT(subject to external financing)		
	- MCM TA mission on Banking Supervision; governance, and central bank accounting and financial controls		
	- FAD/ATS mission on strengthening the natural resource tax regime		
	-STA/ATS TA on national accounts		
	-FAD/ ATS follow-up mission in PFM		

III. STATISTICAL ISSUES

As of July 2012

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings but the data is broadly adequate for surveillance. Despite recent improvements in timeliness and coverage, there are some shortcomings stemming from weak data sources, insufficient coverage and capacity constraints. On May 17, 2010, the Executive Board approved a list of targeted TA, including macrostatistics. In April 2012, ZIMSTAT resumed publishing the "Quarterly Digest of Statistics"– a booklet that shows most of economic/social data. A census was carried out in [August] 2012. Labor market statistics, including unemployment rate are expected to be available in 2013.

National Accounts: The most recent official publication of national accounts data includes developments in 2010 based on surveys of industrial production, a quarterly employment survey and a survey of non-profit institutions. The production of national accounts is constrained by insufficient input data, low survey response rates, and resource capacity. Benchmark data for industrial production have improved with the 2010 update but the last income, consumption, and expenditure survey of any reasonable quality was made in 2001 (a survey made in 2007/08 collected data that are distorted due to hyperinflation). At the same time, despite the revision of the base year to 2009 for GDP, value added for most sectors including agriculture is still based on 1990 weights for individual commodities, because of the difficulty in constructing weights based on relative prices in 2009, when prices were not stable just after the end of hyperinflation and the adoption of the multicurrency system. Analysis of the 2011 household survey is underway.

Price statistics: In March 2009, ZIMSTAT published a new consumer price index (CPI) based on prices in U.S. dollars, with December 2008 as the base. The index uses 2001 weights for the consumer basket. However, when aggregating the CPI from individual prices and sub-groups CPIs, ZIMSTAT's calculation omits items/regions for which information on prices is not available. This effectively results in time-varying weights that are significantly different from the original 2001 weights. There are concerns that the CPI does not adequately reflect the price changes faced by households. A review of the weights, coverage, and outlet and product selections is expected to be completed by end-2012.

Government finance statistics: The Ministry of Finance (MoF) does not yet compile government finance statistics in line with the Government Finance Statistics Manual (GFMS) 2001, but is in the process of moving to GFSM 2001, with IMF TA. Budget data are complied only for the budgetary central government. Reporting of government finance statistics for the central government has improved significantly over the past three years. The MoF collects data on revenue and expenditure, which are published on its website on a monthly basis, along with budget statements. There is limited data on government financing. The MoF is in the final stages of reconciling and validating its external debt data with creditors.

Monetary statistics: The RBZ produces monthly monetary and financial statistics which is published on their website. The RBZ has has not published an annual report or audited financial statement since 2008. They are far advanced with the audit of the 2010 financial statements that carry a qualified audit opinion and present a negative equity position of US$ 1,235.9 million. The basis of the qualification relates to disputed liabilities totaling US $20.5 million that will require resolution prior to any transfer of liabilities from the RBZ. MCM and STA technical assistance and the Article IV missions have made recommendations on central bank accounting and reporting. Timeliness and coverage of data continue to improve.

External sector statistics: Balance of payments and external debt statistics are subject to a number of data issues. There is a structural break in trade data in 2010. The source of trade data is the Exchange Control Department of the RBZ for years prior to 2010, and in 2010 onwards, it is based on customs data. In 2010 and 2011, there are very large, unidentified financing flows in the BOP which are financing imports, but cannot be explained. Labor income and workers' remittances do not include estimates of cash and in-kind transfers from Zimbabweans working abroad. Interest payments are not yet reconciled with creditors' records and do not contain accrued interest on overdue financial obligations. Data on outstanding debt stocks and principal payments are inconsistent with data received by staff directly from Paris Club and major multilateral creditors, but finalization of the authorities' debt reconciliation exercise is expected to remedy this. Current and capital transfers to nongovernmental organizations and to the government are not fully reconciled with donors' data. The financial account is incomplete, as it does not record substantial transactions in assets that are reported by central banks that are members of the Bank for International Settlements. The RBZ's initial submission of flows and stocks of gross international reserves and its net foreign assets position often require substantial adjustments. Exceptional financing does not fully capture the flow of overdue financial obligations. External sector data are reported to the staff irregularly with significant delays.

II. Data Standards and Quality

Participant in the General Data Dissemination System since November 1, 2002.	No data ROSC is available.

III. Reporting to STA

Zimbabwe does not report balance of payments statistics or the international investments position to STA for redissemination in the International Financial Statistics or the Balance of Payments Statistics Yearbook. No monetary or fiscal data are currently reported to STA for publication in the International Financial Statistics, and annual fiscal data are also not reported for inclusion in the Government Finance Statistics Yearbook. National accounts data have not been reported since 2005 and no data are being reported for the new CPI.

Table 1. Table of Common Indicators Required for Surveillance

	Date of latest observation (dd/mm/yy)	Date received (dd/mm/yy)	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates[2]	NA	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities[3]	6/12	7/12	W	W	NA
Reserve/base money	6/12	7/12	W	W	NA
Broad money	6/12	7/12	M	M	NA
Central bank balance sheet	5/12	7/12	W	M	NA
Consolidated balance sheet of the banking system	9/11	1/12	Q	Q	NA
Interest rates[4]	3/12	6/12	Q	I	NA
Consumer price index	01/11	02/11	M	M	M
Revenue, expenditure, balance and composition of financing[5]—General government[6]	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing[5]—Central government	06/12	07/12	M	M	NA
Stocks of central government and central government-guaranteed debt[7]	2011	05/12	M	I	NA
External current account balance	2011	02/12	A	I	NA
External capital and financial account	Q1 2012	06/12	Q	I	NA
Exports and imports of goods	04/12	06/12	M	I	NA
GDP/GNP	2009	02/11	A	I	NA
Gross external debt	2010	02/11	A	I	NA
International investment position[8]	NA	NA	NA	NA	NA

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[2] The Zimbabwe dollar is no longer traded against foreign currencies on the exchange market.

[3] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[4] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[5] Foreign, domestic bank, and domestic nonbank financing.

[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[7] Including currency and maturity composition.

[8] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

ZIMBABWE

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

September 7, 2012

Approved By
Anne-Marie Gulde-Wolf and Vivek Arora (IMF)
Marcelo Giugale and Jeffrey Lewis (IDA)

Prepared by
The International Monetary Fund
The International Development Association

Based on the external LIC DSA, Zimbabwe is in debt distress. The public DSA suggests that Zimbabwe's overall public debt remains unsustainable in light of current fiscal policies and the current size and evolution of the debt stock. The authorities broadly agreed with these conclusions. Under a country-specific alternative upside scenario, debt burden indicators would decline faster but the country's external debt ratios would still remain above indicative thresholds.

[1] This exercise was guided by the Staff Guidance Note on the Application of the Joint Fund Bank Debt Sustainability Framework for Low Income Countries (SM/10/16),

BACKGROUND

1. **Large advances are being made in the reliability of Zimbabwe's debt data.** Commendably, the authorities' recently established Debt Management Office (ZADMO) is expecting to conclude by September its debt stock taking exercise by completing the current reconciliation of their debt stock and debt service data with individual creditors, with the assistance of UNCTAD. Given some delays during the process and in receiving creditors' responses, preliminary data for end-2011 debt stocks are expected to become available upon completion of the stock taking exercise. This debt sustainability analysis is therefore still based on mostly estimated figures. A comprehensive data base is expected to be completed by end 2012.

2. **Zimbabwe is in debt distress, with arrears to most of its creditors continuing to accumulate.** At end-2011, total external debt is estimated at $10.7 billion or 113½ percent of GDP (Text Table 1). While total external debt increased by $1.7 billion compared to end-2010, the debt-to-GDP ratio declined by 8 percentage points on account of higher GDP growth. Total public and publicly-guaranteed (PPG) external debt at end-2011 is estimated at 84 percent of GDP, of which 65 percent of GDP were in arrears. Most PPG external debt is medium- to long-term and owed to official creditors. Zimbabwe's overdue financial obligations to IFIs include the World Bank ($911 million), African Development Bank ($587 million), EIB ($244 million) and the IMF ($138 million) (Text Table 2).

Table 1. Zimbabwe: Total External Debt Stock by Creditor, 2010-11 1/

	2010		2011	
	in millions of USD	in percent of GDP	in millions of USD	in percent of GDP
Total	**9,018**	**121.3**	**10,726**	**113.4**
MLT Debt	**6,927**	**93.2**	**8,207**	**86.8**
Bilateral Creditors	3,107	41.8	3,311	35.0
Paris Club	2,680	36.1	2,758	29.2
Non-Paris Club	427	5.7	553	5.8
Multilateral institutions	2,687	36.1	2,828	29.9
IMF	133	1.8	138	1.5
AfDB	582	7.8	645	6.8
WB	1,279	17.2	1,336	14.1
EIB	305	4.1	305	3.2
Others	388	5.2	404	4.3
Private Creditors	1,133	15.2	2,068	21.9
Suppliers credits	**313**	**4.2**	**273**	**2.9**
Short-Term Debt	**1,673**	**22.5**	**1,921**	**20.3**
Unidentified financing gap (public sector)	**105**	**1.4**	**325**	**3.4**

Sources: WB, AfDB, Zimbabwean authorities, and staff estimates.
1/ For the multilateral institutions, short-term debt, and suppliers credits, estimates reflect compound factor; late interest is included under interest arrears.

Text Table 2. Zimbabwe: 2011 External Debt Stock by Servicing Status (in million US dollars) 1/

	Remaining Principal Due	Total Arrears	Principal Arrears	Total Debt
Total	**4,383**	**6,344**	**3,671**	**10,727**
MLT Debt	2,848	5,360	2,847	**8,208**
Bilateral Creditors	881	2,430	1,341	**3,311**
Paris Club	487	2,271	1,242	**2,758**
Non-Paris Club	394	159	99	**553**
Multilateral institutions	600	2,228	1,371	**2,829**
IMF	0	138	112	**138**
AfDB	58	587	314	**645**
WB	425	911	556	**1,336**
EIB	62	244	149	**306**
Others	55	349	240	**404**
Private Creditors	1,366	702	135	**2,068**
Suppliers credits	0	273	228	**273**
Short-term debt	1,210	711	595	**1,921**
Unidentified financing gap (public sector)	325	0	0	**325**

Sources: WB, AfDB, Zimbabwean authorities, and staff estimates.
1/ For the multilateral institutions, short-term debt, and suppliers credits, estimates reflect compound factor; late interest is included under interest arrears.

3. **While domestic public debt remains a comparatively small component of total debt, it is, nevertheless, another source of vulnerability.** Total domestic government debt is estimated at $507 million at end-2011. The domestic debt incurred by the Reserve Bank of Zimbabwe (RBZ) accounts for the largest part of this ($342 million), but also some other expenditure arrears of $160 million have accumulated.[2] Unidentified domestic contingent liabilities within the parastatal sector or related to RBZ restructuring are another source of potential debt.

[2] These figures are provisional estimates, and could rise if additional liabilities of the central bank and its subsidiaries are identified.

MACROECONOMIC AND FINANCING ASSUMPTIONS

4. **The baseline scenario assumes a slightly more positive macroeconomic outlook compared with the previous DSA.**[3] This is due mostly to relatively robust prices for Zimbabwe's key exports and increased diamond production. However, downside risks from commodity prices and potentially weaker policy implementation remain. During the first half of 2012 fiscal policy implementation experienced significant slippages. Implementation of the fast-tracked indigenization policy has created uncertainties and may further discourage new private capital inflows. Annual real GDP growth is projected to slow under the baseline scenario in light of the weak business environment, including erratic electricity supply, an unfavorable agricultural season, absence of ambitious growth-oriented reforms, and potential political uncertainty surrounding the pending elections. Growth is projected to be lower than in the recent past, averaging 4.7 percent for the period 2012–17 and 3 percent for 2018–32 (Box 1). The external current account deficit is projected to halve from 36¼ percent of GDP in 2011 to about 18½ percent in 2017, as a large 2011 spike in car imports is reversed[4] and exports would continue to be underpinned by still solid commodity price.

5. **The central government is projected to run cash deficits through 2015.** These deficits are expected to be financed by non-concessional loans from Chinese creditors contracted in 2011 and 2012.[5] It is assumed that the central government cash balance would shift from a deficit to a surplus in 2016, as external loan disbursements cease while amortizations remain. Central government revenues are projected to rise to around 33¼ percent in 2012 on the back of improved tax collection. Customs revenues may decline somewhat over the medium term as Zimbabwe simplifies its tariff structure in line with its commitments under regional trade agreements. Other revenues are expected to remain broadly unchanged relative to GDP. Central government cash expenditures are expected to peak at around 36½ percent of GDP in 2012, before leveling off at around

[3] See the Joint IMF/World Bank Debt Sustainability Analysis (IMF Country Report No. 11/135, Supplement). The baseline scenario is referred to as the unchanged policies scenario in the 2012 Article IV report.

[4] Anticipation in 2011 of a policy, subsequently shelved, banning imports of older used cars caused many agents to bring purchases forward. Consequently machinery and transport equipment import value surged by 68 percent in 2011. Import data for the first

(continued)

months of 2012 suggests that this spike is now being largely reversed.

[5] Total non-concessional loans contracted with Chinese creditors amounted to $817 million, to finance (i) agricultural equipment; (ii) medical equipment and supplies; (iii) the rehabilitation of municipal water and sewage treatment for Harare; (iv) the National Defense College; (v) rehabilitation of Victoria Falls Airport; and (iv) working capital for NetOne – a telecommunication company. Newly contracted nonconcessional external borrowing was comprised of a loan from China for renovation of Victoria Falls Airport ($161 million) and a facility from South Africa for parastatal development banks to finance on-lending for agricultural and industrial equipment ($31 million).

32 percent in the medium term. Current expenditures are expected to gradually level off to 30 percent of GDP after from 30½ percent of GDP in 2012. Employment costs would remain a large share of the government budget at 22½ percent of GDP over the medium term. Meanwhile capital expenditure is expected to be the item to adjust—after the non-concessional loans have fully disbursed—to bring expenditure in line with revenues and achieve slight cash budget surpluses after 2016. Therefore, both nonwage current expenditure and public investment would remain constrained over the medium- to long-term.

Box 1. Key Macroeconomic Assumptions: Baseline Scenario

- Real GDP is projected to grow by about 4.7 percent in the medium term and 3 percent in the long term. After rises in mining production including diamond production in the near term, growth is projected to decelerate in the medium term. Slow progress in addressing structural bottlenecks, including relatively high public wage costs, poorly maintained infrastructure, liquidity problems in the financial sector, and a poor business climate, is expected to pose constraints to higher growth in other sectors. Inflation would remain contained at an average of about 4½ percent in the medium to long term.
- Donor support is assumed to remain confined to humanitarian assistance. Zimbabwe is expected to remain in debt distress– even after accounting for higher mineral receipts and increased FDI, except in the context of a comprehensive arrears clearance and debt relief strategy. No debt relief is expected under the baseline scenario.
- FDI will remain limited in the medium and long term against the backdrop of uncertainty relating to the implementation of the indigenization policy. The balance of payments would remain financed largely by debt-related inflows. The possibility of their drying up constitutes an important downside risk.
- Import growth would gradually decline in line with slower economic growth, with limited private capital inflows and lack of access to non-humanitarian assistance also posing constraints.
- Fiscal cash deficits of 1½, 2 and ¾ percent of GDP are projected in 2012, 2013 and 2014, respectively, given already-contracted external borrowing from Chinese creditors for capital spending projects. Thereafter, it is assumed that small cash surpluses of ¼ to ½ percent of GDP would be attained and no further external loans would be contracted.

RESULTS OF BASELINE DEBT SUSTAINABILITY ANALYSIS

Public and Publicly-Guaranteed External Debt Sustainability

6. **Under the baseline scenario, at end-2011, all PPG external debt indicators exceed thresholds for LICs that have low Country Policy and Institutional Assessment (CPIA) scores (Figure 1).**[6] All ratios are projected to continue to exceed their respective thresholds by

[6] Zimbabwe is considered as a country with weak institutions for the purpose of this LIC DSA with a CPIA score of 2.0. The policy-based thresholds for the present value (PV) of PPG external debt are as follows: 200 percent of revenue; 100 percent of exports; and

(continued)

a wide margin in the medium term, and decline only gradually over the long term. The present values of debt relative to GDP and exports remain above the thresholds throughout 2032. Continued PPG external debt accumulation of about 4 percent of GDP in the medium term is a result of most debt service payments continuing to build up into arrears.[7]

7. **The sensitivity analysis illustrates that Zimbabwe's unsustainable debt situation could worsen further (Table 4).** Analysis shows that, if key variables returned to recent historical averages even temporarily, external debt indicators could deteriorate rapidly compared to the baseline scenario. In particular, the country's debt is highly susceptible to renewed growth shocks. However, in the short term, a combination shock would be the most damaging, increasing present value of debt-to-GDP could increase by more than 70 percentage points by 2015.[8]

Public Debt Sustainability

8. **While Zimbabwe's overall public debt indicators are expected to improve over the long term, they will remain elevated.** The schedule of debt service payments will remain high and rise throughout the next several years as financing gaps in the balance of payments are assumed to be filled through public sector short-term borrowing.[9] Under the baseline scenario no sizable primary surpluses are expected, and growth is expected to weaken in the medium term. Nevertheless, on account of nominal GDP growth, the debt-to-GDP ratio is projected to gradually decline from 89.2 percent of GDP in 2011 to 74.5 percent of GDP in 2017, but ratios would remain elevated and above indicative benchmarks.[10] Debt service, including arrears, would continue to rise and remain unaffordable due to the large size of arrears. Continued reforms to underpin high growth would be essential for debt sustainability alongside a comprehensive arrears clearance framework. Results of the most extreme stress test show that the present value of the public debt-to-GDP ratio could more than double over the next ten years if Zimbabwe suffers another large growth shock in the near future (Table 3).[11]

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30 percent of GDP. For debt service indicators, the ratios are 15 percent of exports and 18 percent of revenue.

[7] Some loans from these Chinese creditors are the only ones that are currently serviced, with all other public debt service going into arrears. This assumption is maintained for the projection period.

[8] The combination shock assumes that real GDP and export growth, the GDP deflator and net non-debt creating flows would be at their historical averages less ½ standard deviation in 2013 and 2014.

[9] These BOP financing gaps result in residuals remaining large over the medium term in Table 1.

[10] World Bank and IMF staff estimations suggest that for countries with a low CPIA rating, public debt in excess of 50 percent of GDP signals heightened debt vulnerabilities ("Revisiting the Debt Sustainability Framework for Low-Income Countries," January 2012, PIN No. 12/17).

[11] The most extreme stress test assumes that real GDP growth is at historical average minus one standard deviation in 2013-14.

ALTERNATIVE SCENARIO

9. An alternative active scenario[12] assumes that the government would implement strong policy measures to address existing impediments to sustainable growth. Under this scenario, the country's external debt ratios would decline much faster than under the baseline scenario and all indicators would be within prudent thresholds by 2023. If the government strengthens fiscal discipline, improves the quality of expenditures, ensures that the implementation of the indigenization legislation takes into account investors' concerns, presses ahead with key structural reforms, and takes forceful steps to address financial sector vulnerabilities, the country could potentially boost growth performance by about 2–3 percentage points relative to the baseline scenario over the medium term. Alongside the achievement of cash surpluses over the medium term, this would allow debt indicators to decline substantially faster (Tables 5–8 and Figures 3 and 4). Higher growth would be supported by a positive response of private investment in mining and industry to a better business climate. In addition, a lower wage bill would help contain wage costs and leave more resources for higher public spending on infrastructure.

Box 2. Key Macroeconomic Assumptions: Alternative Scenario

- Real GDP is projected to grow at an average of 7 percent over the medium term driven by mainly by increased investment in mining and strong growth in construction, electricity and manufacturing as the business environment improves. Inflation would remain contained at an average of about 4½ percent in the medium to long term.

- The external account is expected to benefit from increased capital inflows as the business climate improves. The current account deficit would decrease to around 14 percent of GDP by 2017, largely financed by foreign direct investment. No debt relief is assumed under the alternative scenario.

- The fiscal path is projected to generate cash surpluses averaging 1½ percent over the medium term, mainly reflecting higher diamond revenue as transparency in the sector improves, a declining wage bill (as a percent of GDP) reflecting payroll control measures and containment of wage increases at or below inflation. This would enable a more sustainable fiscal path allowing for the rebuilding of fiscal buffers and the international reserves, while improving service provision.

- Enforcement of prudential requirements and fast-tracking of the restructuring of the central bank to enhance financial sector stability.

[12] The alternative scenario is referred to as the active policy scenario in the 2012 Article IV report.

CONCLUSION

10. **Zimbabwe is likely to remain in debt distress for the foreseeable future.** The country's debt overhang remains a serious impediment to macroeconomic stability and sustainable growth and development. It will need to be addressed in the context of a comprehensive arrears clearance framework and will also require a further considerable strengthening of economic policies, as described in the staff report.

Table 1. Zimbabwe: External Debt Sustainability Framework, Baseline Scenario, 2009–32 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**124.0**	**121.3**	**113.4**			**116.0**	**119.6**	**124.4**	**126.8**	**128.2**	**128.7**		**142.4**	**131.1**	
o/w public and publicly guaranteed (PPG)	108.7	97.9	83.9			79.5	78.4	78.1	76.6	74.6	72.4		70.6	57.2	
Change in external debt	-10.0	-2.7	-7.9			2.6	3.6	4.8	2.4	1.4	0.5		1.1	-2.1	
Identified net debt-creating flows	-11.3	5.5	6.3			13.8	11.4	11.3	11.1	11.2	10.8		6.5	1.6	
Non-interest current account deficit	**16.3**	**23.9**	**31.4**	**10.9**	**10.2**	**15.3**	**14.8**	**13.8**	**13.1**	**12.7**	**12.4**		**5.6**	**0.3**	4.8
Deficit in balance of goods and services	30.4	30.8	39.2			24.0	22.8	21.0	19.5	18.4	17.4		6.5	-6.2	
Exports	29.3	47.6	50.4			51.1	49.7	48.8	47.7	46.3	44.6		44.5	44.2	
Imports	59.7	78.5	89.7			75.1	72.5	69.8	67.2	64.6	62.0		51.0	38.0	
Net current transfers (negative = inflow)	-15.1	-7.7	-8.5	-7.2	4.4	-9.2	-8.6	-8.0	-7.4	-6.8	-6.4		-5.3	-3.4	-4.7
o/w official	-10.6	-3.0	-2.6			-3.5	-3.0	-2.6	-2.3	-2.0	-1.8		-1.3	-0.7	
Other current account flows (negative = net inflow)	1.0	0.8	0.7			0.5	0.5	0.8	1.0	1.2	1.3		4.3	9.9	
Net FDI (negative = inflow)	**-1.7**	**-1.6**	**-3.9**	**-1.2**	**1.1**	**-1.6**	**-2.5**	**-2.6**	**-2.7**	**-2.9**	**-3.0**		**-2.2**	**-2.0**	-2.2
Endogenous debt dynamics 2/	**-25.9**	**-16.8**	**-21.1**			**0.1**	**-0.8**	**0.1**	**0.8**	**1.4**	**1.4**		**3.1**	**3.3**	
Contribution from nominal interest rate	5.9	4.9	4.8			5.1	5.3	5.6	5.8	5.9	6.0		7.0	7.0	
Contribution from real GDP growth	-6.4	-9.8	-8.9			-5.0	-6.1	-5.4	-5.0	-4.6	-4.6		-4.0	-3.7	
Contribution from price and exchange rate changes	-25.3	-11.8	-17.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**1.3**	**-8.1**	**-14.2**			**-11.3**	**-7.8**	**-6.5**	**-8.7**	**-9.8**	**-10.2**		**-5.3**	**-3.7**	
o/w exceptional financing	-17.7	-7.9	-5.0			-4.2	-4.1	-3.8	-3.3	-3.1	-3.0		-3.0	-2.1	
PV of external debt 4/	...	...	125.9			126.3	127.6	131.0	132.1	132.4	132.1		142.2	130.4	
In percent of exports	...	...	249.6			247.3	256.6	268.4	276.8	286.3	295.9		319.9	295.2	
PV of PPG external debt	**...**	**...**	**96.4**			**89.8**	**86.4**	**84.7**	**81.9**	**78.8**	**75.7**		**70.4**	**56.5**	
In percent of exports	**...**	**...**	**191.1**			**175.9**	**173.7**	**173.6**	**171.6**	**170.4**	**169.7**		**158.5**	**127.9**	
In percent of government revenues	**...**	**...**	**312.1**			**270.1**	**270.0**	**264.7**	**257.2**	**248.6**	**240.3**		**230.8**	**198.0**	
Debt service-to-exports ratio (in percent)	**33.1**	**15.7**	**16.4**			**19.9**	**22.3**	**26.4**	**30.1**	**33.9**	**37.5**		**50.1**	**47.0**	
PPG debt service-to-exports ratio (in percent)	**26.8**	**17.8**	**9.9**			**15.1**	**17.1**	**21.0**	**24.0**	**27.5**	**30.5**		**41.0**	**37.4**	
PPG debt service-to-revenue ratio (in percent)	**51.6**	**28.7**	**16.2**			**23.2**	**26.6**	**32.0**	**36.0**	**40.1**	**43.2**		**59.7**	**58.0**	
Total gross financing need (Billions of U.S. dollars)	2.0	3.0	4.7			4.3	5.2	6.2	7.3	8.5	9.7		15.3	27.0	
Non-interest current account deficit that stabilizes debt ratio	26.3	26.6	39.3			12.7	11.1	9.0	10.7	11.4	11.8		4.5	2.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.3	9.6	9.4	-3.8	9.9	5.0	6.0	5.0	4.5	4.0	4.0	4.7	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	23.3	10.6	16.3	7.7	7.6	8.7	7.4	5.1	5.9	6.0	6.0	6.5	3.8	3.6	3.7
Effective interest rate (percent) 5/	5.7	4.8	5.1	4.7	1.0	5.1	5.2	5.1	5.1	5.1	5.2	5.2	5.3	5.6	5.4
Growth of exports of G&S (US dollar terms, in percent)	-1.8	97.2	34.7	10.7	33.3	15.5	10.9	8.3	8.1	6.7	6.4	9.3	6.8	6.6	6.8
Growth of imports of G&S (US dollar terms, in percent)	21.8	59.3	45.4	15.9	21.5	-4.5	10.0	6.2	6.4	5.9	5.8	5.0	3.7	1.1	3.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	14.1	0.1	-11.3	-11.3	-11.0	-11.0	-5.1	-11.0	-11.0	-11.0
Government revenues (excluding grants, in percent of GDP)	15.2	29.6	30.9			33.2	32.0	32.0	31.9	31.7	31.5		30.5	28.5	29.9
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/ 9/	...	...	...			0.1	0.0	-0.2	-0.1	0.0	0.0		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/ 9/	...	...	...			14.1	0.1	-11.3	-11.3	-11.0	-11.0		-11.0	-11.0	-11.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.1	7.4	9.5			10.8	12.3	13.6	15.0	16.5	18.2		25.0	49.1	
Nominal dollar GDP growth	31.0	21.2	27.2			14.2	13.9	10.3	10.6	10.2	10.2	11.6	6.9	6.7	6.8
PV of PPG external debt (in Billions of US dollars)			9.1			9.7	10.6	11.5	12.3	13.0	13.8		17.6	27.8	
(PVt-PVt-1)/GDPt-1 (in percent)						6.1	8.6	7.1	5.9	4.9	4.7	6.2	3.4	2.1	3.2
Gross workers' remittances (Billions of US dollars)	0.2	0.3	0.5			0.5	0.6	0.6	0.7	0.7	0.7		0.9	1.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	91.8			85.6	82.4	80.9	78.4	75.7	72.9		68.1	55.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	173.9			160.5	158.4	158.2	157.0	156.3	155.9		147.0	121.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.0			13.8	15.6	19.1	22.0	25.2	28.1		38.0	35.5	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

9/ Negative grant-equivalent financing stems from zero grants and negative grant elements of new borrowing, the latter of which result from higher interest rates (about 7 percent) than the assumed discount rate (4 percent). The higher interest rate assumption is based on the non-concessional loans contracted in 2011.

Table 2. Zimbabwe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009–32

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2009	2010	2011	Average 5/	Standard Deviation 5/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	117.5	104.1	89.2			83.8	82.0	81.2	79.2	76.9	74.5		72.2	58.0	
o/w foreign-currency denominated	117.5	104.1	89.2			83.8	82.0	81.2	79.2	76.9	74.5		72.2	58.0	
Change in public sector debt	-17.4	-13.4	-14.9			-5.3	-1.9	-0.8	-2.0	-2.3	-2.4		-1.0	-1.7	
Identified debt-creating flows	-27.1	-16.4	-17.7			-6.5	-4.9	-3.6	-4.3	-4.2	-4.0		-1.3	-0.3	
Primary deficit	-0.5	0.0	1.1	-0.4	1.7	1.1	2.0	0.6	-0.1	-0.4	-0.4	0.5	-0.5	-0.3	-0.4
Revenue and grants	15.9	29.6	30.9			33.2	32.0	32.0	31.9	31.7	31.5		30.5	28.5	
of which: grants	0.7	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	15.4	29.6	32.0			34.4	34.0	32.7	31.8	31.3	31.1		30.1	28.2	
Automatic debt dynamics	-26.6	-16.4	-18.8			-7.6	-6.8	-4.2	-4.3	-3.8	-3.6		-0.9	0.0	
Contribution from interest rate/growth differential	-26.6	-16.4	-18.8			-7.6	-6.8	-4.2	-4.3	-3.8	-3.6		-0.9	0.0	
of which: contribution from average real interest rate	-18.6	-6.0	-9.9			-3.4	-2.1	-0.3	-0.8	-0.8	-0.7		1.3	1.7	
of which: contribution from real GDP growth	-8.0	-10.3	-8.9			-4.3	-4.8	-3.9	-3.5	-3.0	-2.9		-2.1	-1.7	
Contribution from real exchange rate depreciation	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	9.7	2.9	2.8			1.2	3.0	2.8	2.4	2.0	1.6		0.3	-1.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	101.7			94.2	90.0	87.8	84.5	81.2	77.9		72.0	57.3	
o/w foreign-currency denominated	...	...	101.7			94.2	90.0	87.8	84.5	81.2	77.9		72.0	57.3	
o/w external	...	...	96.4			89.8	86.4	84.7	81.9	78.8	75.7		70.4	56.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.9	15.7	12.1			16.5	18.9	20.6	22.3	24.1	25.8		33.9	30.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	329.3			283.2	281.3	274.4	265.3	256.0	247.0		235.8	200.7	
PV of public sector debt-to-revenue ratio (in percent)	…	…	329.3			283.2	281.3	274.4	265.3	256.0	247.0		235.8	200.7	
o/w external 3/	…	…	312.1			270.1	270.0	264.7	257.2	248.6	240.3		230.8	198.0	
Debt service-to-revenue and grants ratio (in percent) 4/	49.7	28.6	16.2			23.2	26.6	32.0	36.0	40.1	43.3		59.7	58.0	
Debt service-to-revenue ratio (in percent) 4/	51.9	28.7	16.2			23.2	26.6	32.0	36.0	40.1	43.3		59.7	58.0	
Primary deficit that stabilizes the debt-to-GDP ratio	16.9	13.4	16.0			6.5	3.8	1.4	1.9	1.8	2.0		0.5	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.3	9.6	9.4	-3.8	9.9	5.0	6.0	5.0	4.5	4.0	4.0	4.7	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	5.2	4.3	4.3	4.6	1.0	4.4	4.6	4.6	4.8	4.9	5.0	4.7	5.6	6.6	5.9
Average real interest rate on domestic debt (in percent)	...	...	...	…	…	...	...	...	...	...	...	…	...	...	…
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	23.3	10.6	16.3	7.7	7.6	8.7	7.4	5.1	5.9	6.0	6.0	6.5	3.8	3.6	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	1.1	0.2	-0.2	3.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent) 6/	...	...	...	…	…	14.1	0.1	-11.3	-11.3	-11.0	-11.0	-5.1	-11.0	-11.0	...

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of public sector is nonfinancial public sector. Gross debt is used.

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

3/ Revenues excluding grants.

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

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

6/ Negative grant elements result from higher interest rates (about 7 percent) than the assumed discount rate (4 percent). The higher interest rate assumption is based on the non-concessional loans contracted in 2011.

Table 3. Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

		Projections						
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	94	90	88	85	81	78	72	57
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	94	96	101	104	108	112	142	208
A2. Primary balance is unchanged from 2012	94	89	87	85	83	81	81	79
A3. Permanently lower GDP growth 1/	94	92	93	94	95	96	130	274
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	94	119	159	170	181	191	269	411
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	94	89	87	84	80	76	68	48
B3. Combination of B1-B2 using one half standard deviation shocks	94	102	114	122	129	135	184	274
B4. One-time 30 percent real depreciation in 2013	94	127	123	118	114	110	114	146
B5. 10 percent of GDP increase in other debt-creating flows in 2013	94	101	98	94	90	86	78	59
PV of Debt-to-Revenue Ratio 2/								
Baseline	283	281	274	265	256	247	236	201
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	283	300	314	328	341	354	464	729
A2. Primary balance is unchanged from 2012	283	278	272	266	261	256	267	277
A3. Permanently lower GDP growth 1/	283	289	292	294	298	305	427	960
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	283	371	496	535	571	607	880	1440
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	283	278	273	263	252	242	222	169
B3. Combination of B1-B2 using one half standard deviation shocks	283	320	356	382	406	428	603	960
B4. One-time 30 percent real depreciation in 2013	283	398	386	372	360	350	373	511
B5. 10 percent of GDP increase in other debt-creating flows in 2013	283	317	308	296	285	273	256	207
Debt Service-to-Revenue Ratio 2/								
Baseline	23	27	32	36	40	43	60	58
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	29	38	46	54	63	125	248
A2. Primary balance is unchanged from 2012	23	27	32	36	40	44	66	77
A3. Permanently lower GDP growth 1/	23	27	34	39	45	50	92	198
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	23	33	50	59	72	86	171	292
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	23	27	32	36	40	43	60	58
B3. Combination of B1-B2 using one half standard deviation shocks	23	31	42	48	55	61	122	203
B4. One-time 30 percent real depreciation in 2013	23	32	46	53	61	68	115	176
B5. 10 percent of GDP increase in other debt-creating flows in 2013	23	27	34	38	46	49	65	65

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 4. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032

(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	90	86	85	82	79	76	**70**	56
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	90	91	91	92	92	94	**120**	188
A2. New public sector loans on less favorable terms in 2012-2032 2	90	87	85	82	79	76	**71**	56
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	90	106	127	123	118	113	**105**	84
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	90	103	129	122	111	101	**74**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	90	93	96	92	89	85	**79**	64
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	90	96	102	97	91	86	**72**	57
B5. Combination of B1-B4 using one-half standard deviation shocks	90	123	171	161	148	136	**103**	79
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	90	120	118	114	109	105	**98**	78
PV of debt-to-exports ratio								
Baseline	176	174	174	172	170	170	**158**	128
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	176	182	187	192	200	210	**270**	425
A2. New public sector loans on less favorable terms in 2012-2032 2	176	174	174	172	171	170	**159**	127
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	176	174	174	172	170	170	**158**	128
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	176	298	529	511	483	456	**336**	257
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	176	174	174	172	170	170	**158**	128
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	176	192	210	204	198	192	**162**	128
B5. Combination of B1-B4 using one-half standard deviation shocks	176	242	339	328	312	296	**226**	174
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	176	174	174	172	170	170	**158**	128
PV of debt-to-revenue ratio								
Baseline	270	270	265	257	249	240	**231**	198
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	270	284	285	288	291	297	**393**	658
A2. New public sector loans on less favorable terms in 2012-2032 2	270	271	266	258	249	241	**231**	197
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	270	332	396	385	372	359	**345**	296
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	270	323	402	382	351	322	**244**	198
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	270	290	298	290	280	271	**260**	223
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	270	299	320	306	289	272	**236**	198
B5. Combination of B1-B4 using one-half standard deviation shocks	270	384	533	506	468	432	**338**	277
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	270	375	367	357	345	333	**320**	275

Table 4a. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032

(In percent)

Debt service-to-exports ratio

Baseline	15	17	21	24	27	31	**41**	37
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	15	18	22	26	31	36	**60**	105
A2. New public sector loans on less favorable terms in 2012-2032 2	15	16	19	23	26	29	**39**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	15	16	20	23	26	29	**39**	34
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	15	23	43	65	86	90	**87**	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	15	16	20	23	26	29	**39**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	15	16	21	27	33	35	**41**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	15	19	29	43	55	58	**58**	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	15	16	20	23	26	29	**39**	34

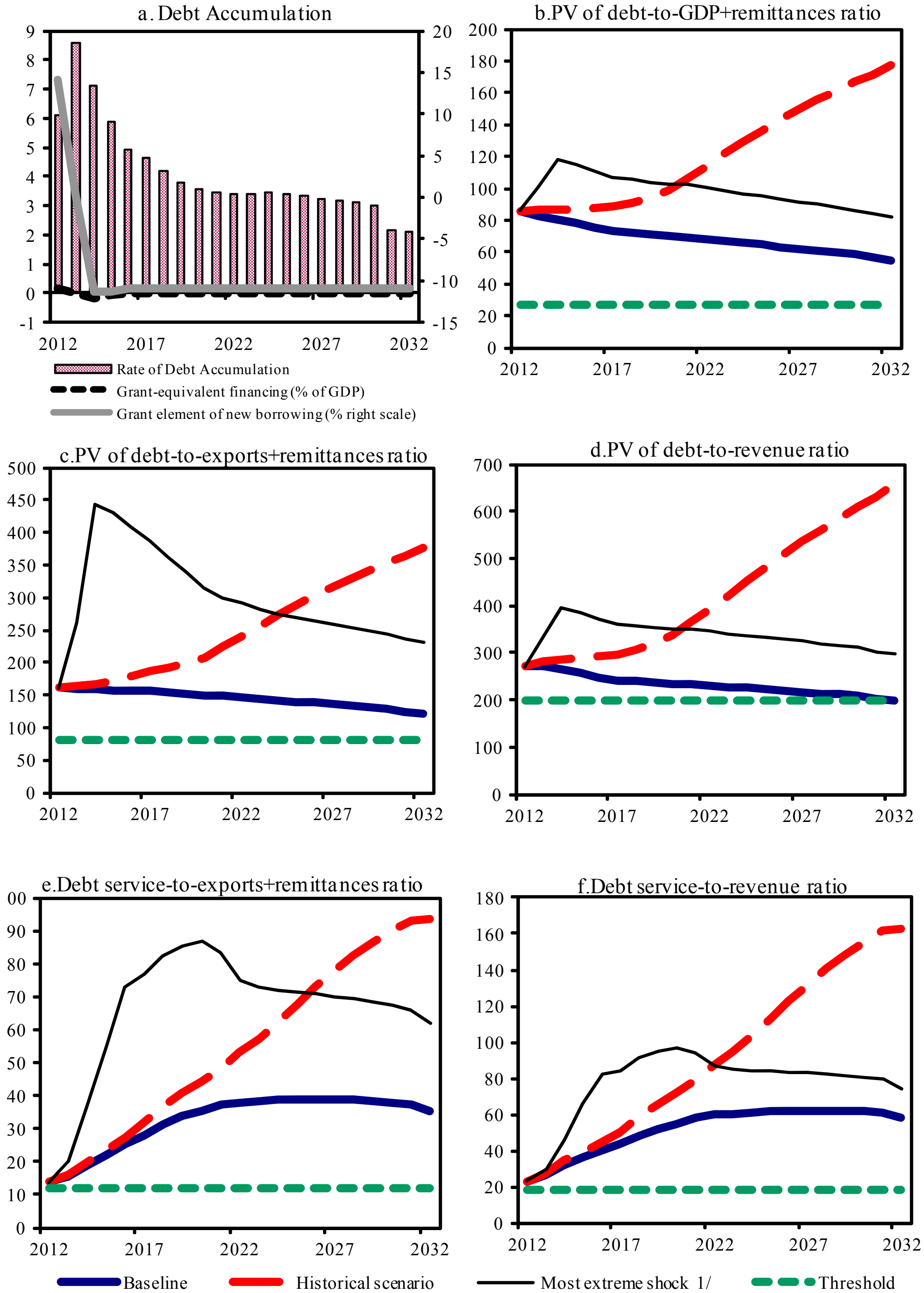
Debt service-to-revenue ratio

Baseline	23	27	32	36	40	43	**60**	58
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	23	27	34	39	45	50	**87**	163
A2. New public sector loans on less favorable terms in 2012-2032 2	23	25	30	34	38	41	**56**	52
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	23	30	45	51	57	61	**86**	79
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	23	25	33	49	62	64	**63**	53
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	23	27	34	38	43	46	**65**	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	23	25	32	41	48	50	**60**	53
B5. Combination of B1-B4 using one-half standard deviation shocks	23	30	46	66	82	84	**87**	75
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	23	34	41	47	53	57	**80**	74
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-14	-14	-14	-14	-14	-14	**-14**	-14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

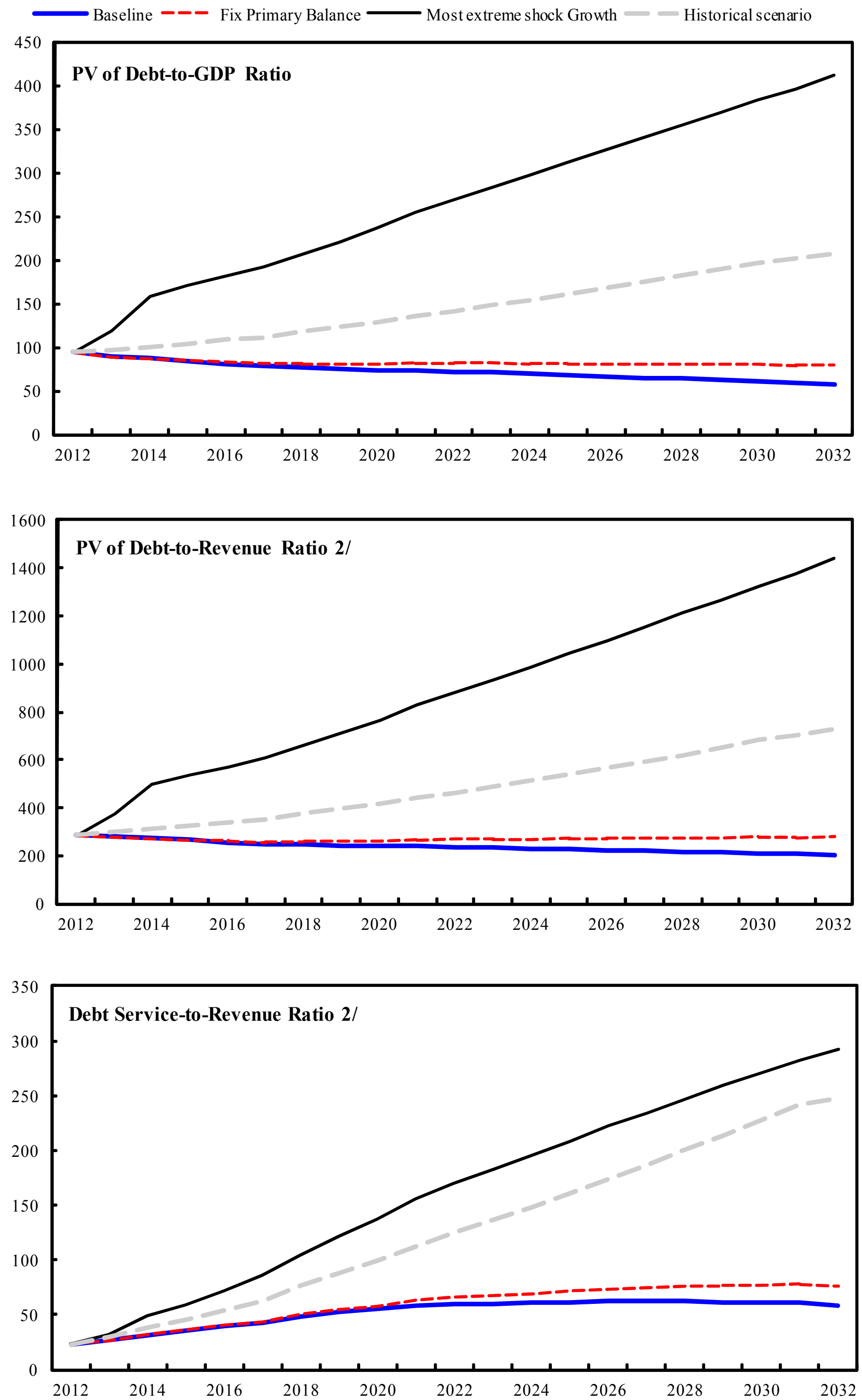
Figure 1. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Baseline Scenario, 2012-2032



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Growth shock; in c. to a Exports shock; in d. to a Growth shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2. Zimbabwe: Indicators of Public Debt Under Baseline Scenario, 2012-2032



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 5. Zimbabwe: External Debt Sustainability Framework, Alternative Scenario, 2009–32 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**124.0**	**121.3**	**113.4**			**116.0**	**115.6**	**113.3**	**109.1**	**104.3**	**99.5**		**87.5**	**58.6**	
o/w public and publicly guaranteed (PPG)	108.7	97.9	83.9			79.5	74.7	68.2	61.3	54.7	48.8		32.5	17.0	
Change in external debt	-10.0	-2.7	-7.9			2.6	-0.5	-2.3	-4.1	-4.8	-4.8		-2.7	-3.2	
Identified net debt-creating flows	-11.3	5.5	6.3			13.8	7.1	3.1	0.6	-0.6	-1.6		3.1	5.4	
Non-interest current account deficit	**16.3**	**23.9**	**31.4**	**10.9**	**10.2**	**15.3**	**13.1**	**10.8**	**9.4**	**8.9**	**8.5**		**9.9**	**11.0**	10.3
Deficit in balance of goods and services	30.4	30.8	39.2			24.0	21.1	17.5	14.6	12.7	11.0		10.7	9.8	
Exports	29.3	47.6	50.4			51.1	50.5	50.8	50.9	50.7	50.4		50.6	51.5	
Imports	59.7	78.5	89.7			75.1	71.6	68.2	65.5	63.4	61.4		61.4	61.3	
Net current transfers (negative = inflow)	-15.1	-7.7	-8.5	-7.2	4.4	-9.2	-8.5	-7.8	-7.0	-6.3	-5.7		-4.0	-1.9	-3.4
o/w official	-10.6	-3.0	-2.6			-3.5	-3.0	-2.5	-2.1	-1.8	-1.6		-1.0	-0.4	
Other current account flows (negative = net inflow)	1.0	0.8	0.7			0.5	0.5	1.1	1.8	2.5	3.2		3.2	3.2	
Net FDI (negative = inflow)	**-1.7**	**-1.6**	**-3.9**	**-1.2**	**1.1**	**-1.6**	**-4.1**	**-5.9**	**-7.2**	**-8.2**	**-9.0**		**-7.6**	**-6.5**	-7.3
Endogenous debt dynamics 2/	**-25.9**	**-16.8**	**-21.1**			**0.1**	**-1.8**	**-1.8**	**-1.6**	**-1.3**	**-1.1**		**0.8**	**0.8**	
Contribution from nominal interest rate	5.9	4.9	4.8			5.1	5.2	5.4	5.5	5.4	5.4		5.3	3.9	
Contribution from real GDP growth	-6.4	-9.8	-8.9			-5.0	-7.1	-7.2	-7.0	-6.7	-6.5		-4.5	-3.1	
Contribution from price and exchange rate changes	-25.3	-11.8	-17.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**1.3**	**-8.1**	**-14.2**			**-11.2**	**-7.6**	**-5.4**	**-4.8**	**-4.2**	**-3.2**		**-5.8**	**-8.7**	
o/w exceptional financing	-17.7	-7.9	-5.0			-4.2	-4.0	-3.7	-3.1	-2.8	-2.6		-2.1	-1.1	
PV of external debt 4/	...	...	125.9			126.4	123.6	119.8	114.2	108.3	102.6		87.3	58.2	
In percent of exports	...	...	249.6			247.5	244.8	235.9	224.3	213.4	203.8		172.5	112.9	
PV of PPG external debt	**...**	**...**	**96.4**			**89.9**	**82.7**	**74.7**	**66.4**	**58.7**	**51.9**		**32.4**	**16.5**	
In percent of exports	**...**	**...**	**191.1**			**176.1**	**163.8**	**147.1**	**130.5**	**115.6**	**103.0**		**64.0**	**32.1**	
In percent of government revenues	**...**	**...**	**312.1**			**270.4**	**258.7**	**229.0**	**199.8**	**174.4**	**153.6**		**99.0**	**53.9**	
Debt service-to-exports ratio (in percent)	**33.1**	**15.7**	**16.4**			**19.9**	**21.8**	**19.4**	**13.2**	**8.5**	**5.1**		**-3.8**	**-5.4**	
PPG debt service-to-exports ratio (in percent)	**26.8**	**17.8**	**9.9**			**15.1**	**16.8**	**14.3**	**7.7**	**3.1**	**-0.4**		**-9.9**	**-10.1**	
PPG debt service-to-revenue ratio (in percent)	**51.6**	**28.7**	**16.2**			**23.2**	**26.5**	**22.3**	**11.8**	**4.7**	**-0.6**		**-15.3**	**-17.0**	
Total gross financing need (Billions of U.S. dollars)	2.0	3.0	4.7			4.3	4.8	4.6	3.9	3.3	2.9		3.0	7.3	
Non-interest current account deficit that stabilizes debt ratio	26.3	26.6	39.3			12.7	13.6	13.1	13.5	13.7	13.3		12.6	14.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.3	9.6	9.4	-3.8	9.9	5.0	7.0	7.0	7.0	7.0	7.0	6.7	5.5	5.5	5.5
GDP deflator in US dollar terms (change in percent)	23.3	10.6	16.3	7.7	7.6	8.7	7.3	4.9	5.7	5.9	5.8	6.4	4.5	4.5	4.5
Effective interest rate (percent) 5/	5.7	4.8	5.1	4.7	1.0	5.1	5.2	5.2	5.4	5.6	5.8	5.4	6.5	7.0	6.7
Growth of exports of G&S (US dollar terms, in percent)	-1.8	97.2	34.7	10.7	33.3	15.5	13.5	13.0	13.5	12.9	12.4	13.5	10.4	10.5	10.4
Growth of imports of G&S (US dollar terms, in percent)	21.8	59.3	45.4	15.9	21.5	-4.5	9.5	7.1	8.6	9.7	9.6	6.7	10.2	10.2	10.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	8.8	-0.5	-12.1	-12.1	-11.0	-11.0	-6.3	-11.0	-11.0	-11.0
Government revenues (excluding grants, in percent of GDP)	15.2	29.6	30.9			33.2	32.0	32.6	33.3	33.6	33.8		32.7	30.7	32.1
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/ 9/	...	...	...			0.1	0.0	-0.2	-0.1	0.0	0.0		0.0	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/ 9/	...	...	...			8.8	-0.5	-12.1	-12.1	-11.0	-11.0		-11.0	-11.0	-11.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.1	7.4	9.5			10.8	12.4	13.9	15.8	17.8	20.2		32.9	87.2	
Nominal dollar GDP growth	31.0	21.2	27.2			14.2	14.8	12.3	13.1	13.3	13.2	13.5	10.2	10.2	10.2
PV of PPG external debt (in Billions of US dollars)			9.1			9.7	10.3	10.4	10.5	10.5	10.5		10.7	14.4	
(PVt-PVt-1)/GDPt-1 (in percent)						6.2	5.0	1.2	0.5	0.0	0.1	2.2	0.2	1.1	0.5
Gross workers' remittances (Billions of US dollars)	0.2	0.3	0.5			0.5	0.6	0.6	0.7	0.7	0.7		0.9	1.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	91.8			85.7	78.9	71.4	63.7	56.5	50.1		31.6	16.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	173.9			160.7	149.6	134.8	120.5	107.4	96.2		60.8	31.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.0			13.8	15.3	13.1	7.1	2.9	-0.4		-9.4	-9.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

9/ Negative grant-equivalent financing stems from zero grants and negative grant elements of new borrowing, the latter of which result from higher interest rates (about 7 percent) than the assumed discount rate (4 percent). The higher interest rate assumption is based on the non-concessional loans contracted in 2011.

Table 6. Zimbabwe: Public Sector Debt Sustainability Framework, Alternative Scenario, 2009–32 1/

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2009	2010	2011	Average 5/	Standard Deviation 5/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	117.5	104.1	89.2			83.9	77.4	70.6	63.5	56.6	50.5		33.6	17.4	
o/w foreign-currency denominated	117.5	104.1	89.2			83.9	77.4	70.6	63.5	56.6	50.5		33.6	17.4	
Change in public sector debt	-17.4	-13.4	-14.9			-5.3	-6.5	-6.8	-7.1	-6.9	-6.2		-2.8	-0.6	
Identified debt-creating flows	-27.1	-16.4	-17.7			-6.5	-7.5	-5.9	-6.8	-6.9	-6.4		-3.5	-2.1	
Primary deficit	-0.5	0.0	1.1	-0.4	1.7	1.1	0.0	-0.6	-1.6	-2.2	-2.2	-0.9	-1.9	-1.5	-1.8
Revenue and grants	15.9	29.6	30.9			33.2	32.0	32.6	33.3	33.6	33.8		32.7	30.7	
of which: grants	0.7	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	15.4	29.6	32.0			34.4	32.0	32.0	31.7	31.4	31.5		30.8	29.2	
Automatic debt dynamics	-26.6	-16.4	-18.8			-7.6	-7.5	-5.3	-5.2	-4.7	-4.2		-1.6	-0.6	
Contribution from interest rate/growth differential	-26.6	-16.4	-18.8			-7.6	-7.5	-5.3	-5.2	-4.7	-4.2		-1.6	-0.6	
of which: contribution from average real interest rate	-18.6	-6.0	-9.9			-3.4	-2.0	-0.2	-0.6	-0.6	-0.4		0.3	0.3	
of which: contribution from real GDP growth	-8.0	-10.3	-8.9			-4.3	-5.5	-5.1	-4.6	-4.1	-3.7		-1.9	-0.9	
Contribution from real exchange rate depreciation	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	9.7	2.9	2.8			1.2	1.0	-0.9	-0.3	0.1	0.2		0.8	1.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	101.7			94.3	85.4	77.1	68.6	60.6	53.5		33.4	16.9	
o/w foreign-currency denominated	...	...	101.7			94.3	85.4	77.1	68.6	60.6	53.5		33.4	16.9	
o/w external	...	...	96.4			89.9	82.7	74.7	66.4	58.7	51.9		32.4	16.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.9	15.7	12.1			16.5	16.9	12.7	5.3	-0.1	-3.8		-13.5	-13.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	329.3			283.5	267.3	236.5	206.3	180.1	158.6		102.2	55.2	
PV of public sector debt-to-revenue ratio (in percent)	…	…	329.3			283.5	267.3	236.5	206.3	180.1	158.6		102.2	55.2	
o/w external 3/	…	…	312.1			270.4	258.7	229.0	199.8	174.4	153.6		99.0	53.9	
Debt service-to-revenue and grants ratio (in percent) 4/	49.7	28.6	16.2			23.2	26.5	22.3	11.8	4.7	-0.6		-15.3	-17.0	
Debt service-to-revenue ratio (in percent) 4/	51.9	28.7	16.2			23.2	26.5	22.3	11.8	4.7	-0.6		-15.3	-17.0	
Primary deficit that stabilizes the debt-to-GDP ratio	16.9	13.4	16.0			6.4	6.5	6.2	5.5	4.7	3.9		0.8	-0.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.3	9.6	9.4	-3.8	9.9	5.0	7.0	7.0	7.0	7.0	7.0	6.7	5.5	5.5	5.5
Average nominal interest rate on forex debt (in percent)	5.2	4.3	4.3	4.6	1.0	4.4	4.6	4.7	4.7	4.8	4.9	4.7	5.5	6.6	5.8
Average real interest rate on domestic debt (in percent)	...	...	...	…	…	...	...	...	...	...	...	…	...	...	…
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	23.3	10.6	16.3	7.7	7.6	8.7	7.3	4.9	5.7	5.9	5.8	6.4	4.5	4.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	1.1	0.2	-0.2	3.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Grant element of new external borrowing (in percent) 6/	...	...	...	…	…	8.8	-0.5	-12.1	-12.1	-11.0	-11.0	-6.3	-11.0	-11.0	...

Sources: Country authorities; and staff estimates and projections.
1/ Coverage of public sector is nonfinancial public sector. Gross debt is used.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
6/ Negative grant elements result from higher interest rates (about 7 percent) than the assumed discount rate (4 percent). The higher interest rate assumption is based on the non-concessional loans contracted in 2011.

Table 7. Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt, (Alternative Scenario) 2012–2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	94	85	77	69	61	54	33	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	94	94	95	96	98	101	135	329
A2. Primary balance is unchanged from 2012	94	87	80	74	70	66	63	71
A3. Permanently lower GDP growth 1/	94	88	82	77	73	71	87	204
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	94	115	149	154	160	166	222	332
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	94	87	80	72	63	56	37	23
B3. Combination of B1-B2 using one half standard deviation shocks	94	100	108	110	113	116	151	227
B4. One-time 30 percent real depreciation in 2013	94	123	112	101	90	81	56	25
B5. 10 percent of GDP increase in other debt-creating flows in 2013	94	97	88	78	70	63	43	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	284	267	237	206	180	159	102	55
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	284	295	291	289	291	299	412	1072
A2. Primary balance is unchanged from 2012	284	271	245	224	208	197	193	230
A3. Permanently lower GDP growth 1/	284	275	252	232	218	210	266	663
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	284	359	457	465	476	493	678	1080
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	284	271	246	215	189	167	114	74
B3. Combination of B1-B2 using one half standard deviation shocks	284	314	330	332	336	344	463	739
B4. One-time 30 percent real depreciation in 2013	284	384	343	303	269	241	170	80
B5. 10 percent of GDP increase in other debt-creating flows in 2013	284	303	269	236	208	185	131	88
Debt Service-to-Revenue Ratio 2/								
Baseline	23	26	22	12	5	-1	-15	-17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	29	27	16	7	0	-25	-14
A2. Primary balance is unchanged from 2012	23	26	22	12	6	2	-3	10
A3. Permanently lower GDP growth 1/	23	27	23	13	6	1	-4	58
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	23	33	36	24	19	20	49	136
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	23	26	23	12	6	1	-14	-16
B3. Combination of B1-B2 using one half standard deviation shocks	23	31	31	17	9	5	21	83
B4. One-time 30 percent real depreciation in 2013	23	32	32	18	9	2	-20	-37
B5. 10 percent of GDP increase in other debt-creating flows in 2013	23	26	24	14	10	4	-11	-13

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 8. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, (Alternative Scenario) 2012–2032

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	90	83	75	66	59	52	**32**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	90	91	94	99	104	111	**116**	116
A2. New public sector loans on less favorable terms in 2012-2032 2	90	83	75	67	59	52	**33**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	90	103	115	102	90	80	**50**	25
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	90	101	123	109	92	78	**36**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	90	89	84	75	66	58	**36**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	90	94	97	86	74	64	**34**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	90	123	174	154	131	111	**51**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	90	115	104	92	81	72	**45**	23
PV of debt-to-exports ratio								
Baseline	176	164	147	130	116	103	**64**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	176	181	185	194	206	219	**228**	225
A2. New public sector loans on less favorable terms in 2012-2032 2	176	164	148	131	116	104	**64**	32
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	176	164	147	130	116	103	**64**	32
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	176	293	517	457	390	331	**152**	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	176	164	147	130	116	103	**64**	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	176	186	191	169	146	127	**67**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	176	243	347	306	261	222	**102**	47
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	176	164	147	130	116	103	**64**	32
PV of debt-to-revenue ratio								
Baseline	270	259	229	200	174	154	**99**	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	270	286	288	297	310	327	**353**	377
A2. New public sector loans on less favorable terms in 2012-2032 2	270	260	230	201	175	155	**100**	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	270	321	352	307	268	236	**152**	83
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	270	316	376	327	274	230	**110**	54
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	270	277	258	225	196	173	**111**	61
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	270	293	298	259	221	189	**104**	54
B5. Combination of B1-B4 using one-half standard deviation shocks	270	385	534	464	390	328	**157**	78
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	270	359	318	277	242	213	**137**	75

Table 8a. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, (Alternative Scenario) 2012–2032 (continued)

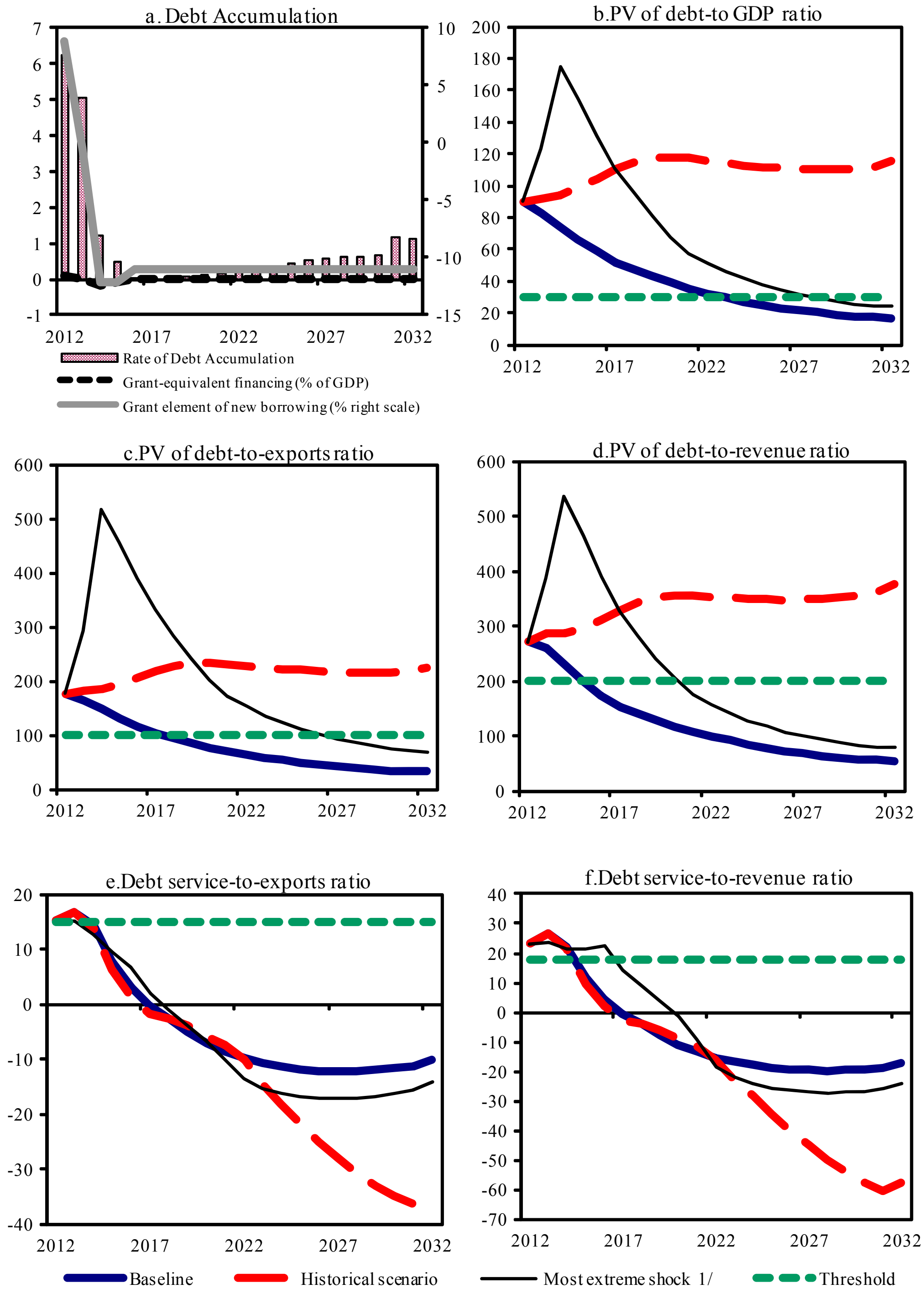
(In percent)

				Debt service-to-exports ratio				
Baseline	15	17	14	8	3	0	**-10**	-10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	15	17	14	6	1	-2	**-10**	-34
A2. New public sector loans on less favorable terms in 2012-2032 2	15	15	11	4	-1	-5	**-15**	-14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	15	15	12	4	-1	-5	**-15**	-14
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	15	22	29	30	32	21	**-26**	-31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	15	15	12	4	-1	-5	**-15**	-14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	15	15	13	10	7	2	**-14**	-14
B5. Combination of B1-B4 using one-half standard deviation shocks	15	18	20	20	21	13	**-18**	-21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	15	15	12	4	-1	-5	**-15**	-14
				Debt service-to-revenue ratio				
Baseline	23	26	22	12	5	-1	**-15**	-17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	23	26	22	10	2	-3	**-16**	-58
A2. New public sector loans on less favorable terms in 2012-2032 2	23	24	18	7	-1	-7	**-23**	-24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	23	30	28	10	-2	-11	**-35**	-37
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	23	24	21	22	23	14	**-19**	-24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	23	26	20	8	-1	-8	**-26**	-27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	23	24	20	15	10	3	**-21**	-24
B5. Combination of B1-B4 using one-half standard deviation shocks	23	29	31	31	32	20	**-27**	-34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	23	33	25	9	-2	-10	**-32**	-33
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-14	-14	-14	-14	-14	-14	**-14**	-14

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

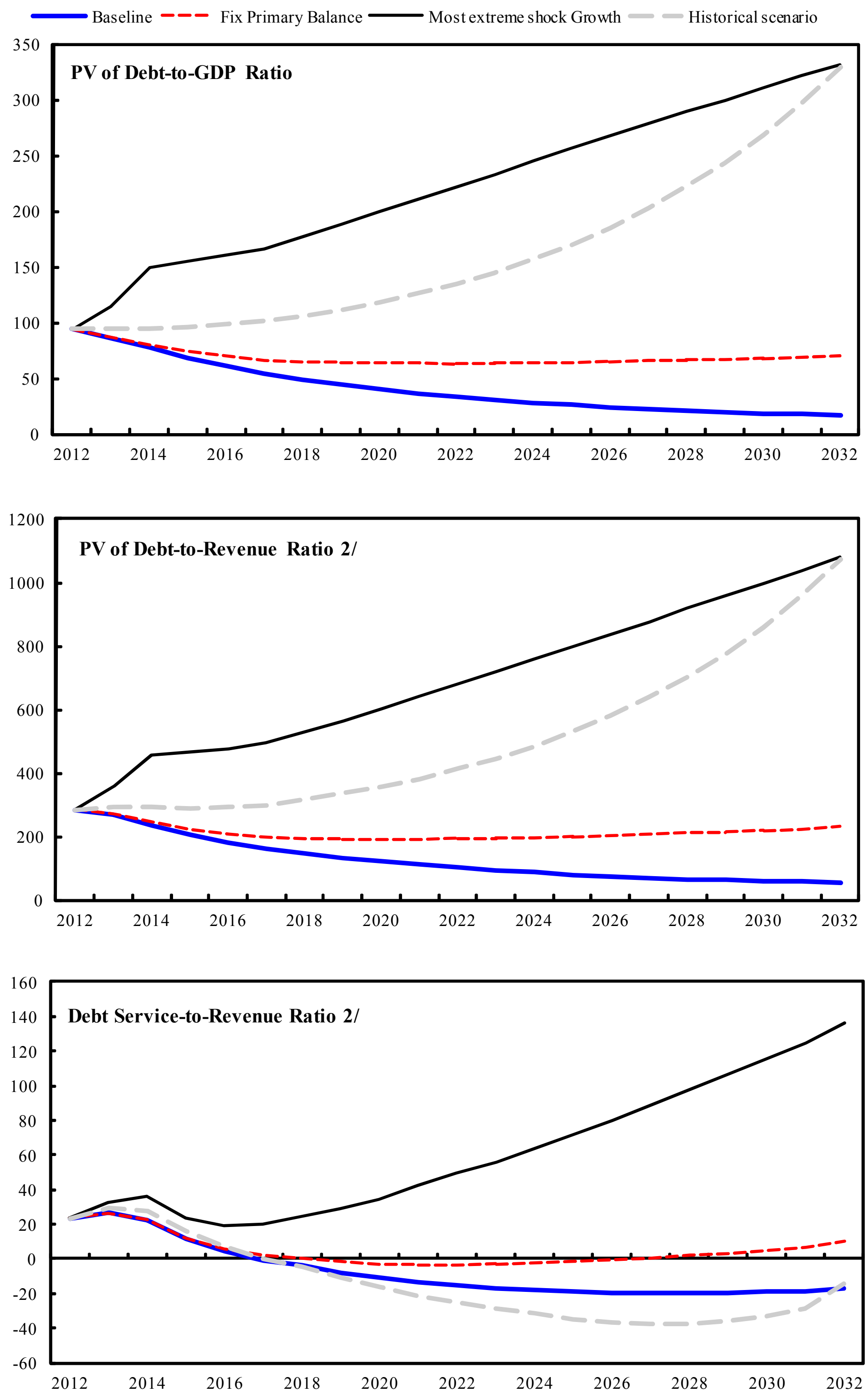
Figure 3. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenario, 2012-2032



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Non-debt flows shock and in figure f. to a Exports shock

Figure 4. Zimbabwe: Indicators of Public Debt under Alternative Scenario, 2012-2032



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
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EXTERNAL RELATIONS DEPARTMENT

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IMF Executive Board Concludes 2012 Article IV Consultation with Zimbabwe

On September 21, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Zimbabwe.[1]

Background

After a prolonged period of economic and political crisis, Zimbabwe's economic stabilization and recovery began with the end of hyperinflation in 2009, supported by the formation of a coalition government, a favorable external environment, the adoption of the multicurrency system and cash budgeting, and the discontinuation of quasi-fiscal activities by the Reserve Bank of Zimbabwe (RBZ).

The economic rebound is moderating following a period of robust growth, with real GDP growth averaging some 9½ percent during 2010–11, sustained by strong external demand for key mineral exports and continued recovery in domestic demand. Real GDP growth in 2012 is projected to slow to 5 percent, reflecting the impact of adverse weather conditions on agriculture, erratic electricity supply, and tight liquidity conditions. Mining production is expected to benefit from the lifting of restrictions on diamond exports from the Marange fields as a result of certification by the Kimberley process. Inflation slowed to 4 percent in June 2012 from 4.9 percent in December 2011, reflecting in part some moderation in imported goods inflation.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The external position remained precarious, albeit with some recent moderation in the current account deficit. Despite higher exports, the current account deficit widened to 36 percent of GDP in 2011 (from 29 percent of GDP in 2010), due in part to a spike in imports associated with some one-off factors. The deficit was financed by debt-related flows, arrears, and a drawdown of SDR holdings, as uncertainties regarding policy implementation continued to affect foreign investment flows. Usable international reserves remained very low at 0.3 months of imports at end-2011, amplifying the country's vulnerability to shocks. The current account deficit is projected to narrow to 20½ percent of GDP in 2012, as the 2011 import spike is reversed and exports continue to expand. Zimbabwe remains in debt distress with total external debt estimated at $10.7 billion (113½ percent of GDP) at end-2011, of which 67 percent of GDP are in arrears. The large debt overhang remains a serious impediment to medium-term fiscal and external sustainability.

The public finances came under pressure in 2011 and early-2012. Despite better-than-expected revenue performance, central government operations recorded a cash deficit of 0.6 percent of GDP in 2011 and domestic arrears accumulation of about 1 percent of GDP, due mainly to two salary increases that raised employment costs by 22 percent, crowding out social and capital investment. The effect of the salary hikes was compounded in early-2012 by an increase in employee allowances and unbudgeted recruitment. Fiscal pressures were exacerbated by significant underperformance by diamond revenues during the first half of 2012. In response to the fiscal slippages, in July the government announced expenditure and revenue measures, as well as a reassessment of diamond revenue flows. The measures include a hiring freeze, suspension of a number of diamond-revenue-financed projects, increases in excises on fuel, and enhanced monitoring of the mineral resources.

The financial regulatory framework is being enhanced after a long period of forbearance, but financial system vulnerabilities persist. The banking system is recovering from a recent liquidity crunch, following a period of rapid credit growth funded by unstable short-term deposits, but liquidity remains relatively low and unequally distributed across banks. The RBZ raised the prudential liquidity ratio from 25 percent to 30 percent by end-June 2012. Some banks, particularly the small ones, show weak capitalization, insufficient liquidity, and low asset quality, reflecting unsound lending practices and poor risk management. The situation of three troubled banks came to a head in mid-2012, with the RBZ placing one in recuperative curatorship and two surrendering their licenses. In August 2012, the RBZ announced steep increases in the minimum capital requirements to be phased over a two-year period.

The medium-term outlook, under an unchanged policy scenario, is for growth to moderate to average some 4 percent, although constraints on energy supply and weak competitiveness may pose a challenge to achieving these rates. Foreign investment is likely to be hampered by a poor business climate, uncertainties over the implementation of the indigenization policy and political instability, while domestic investors may face difficulties accessing long-term credit. A vigorous program of structural reform and strengthened macroeconomic management would allow the country to sustain higher rates of growth.

Executive Board Assessment

Executive Directors welcomed Zimbabwe's economic recovery and stabilization in recent years. Progress has however been uneven, and the impact of adverse weather conditions on agriculture, an uncertain political situation ahead of elections, and a difficult global environment pose further risks to the outlook. To achieve sustained and inclusive growth, Directors stressed the importance of full commitment to policies focusing on strengthening fiscal management, reducing financial sector vulnerabilities, and improving the business climate.

Directors urged the authorities to fully implement the measures announced in the mid-year fiscal policy review, and take additional measures if necessary, to address earlier slippages and close the financing gap. They underscored the need to rebalance the expenditure mix, especially by containing the growth of the wage bill, to create the fiscal space needed for increased social spending and public investment. Improving public financial management would help reinforce expenditure control. Directors emphasized that enhancing transparency in the diamond sector, including timely finalization and implementation of the Diamond Act, is key to strengthening revenues and reducing fiscal pressures. They noted that a prudent medium-term fiscal framework remains critical for restoring fiscal sustainability.

Directors welcomed actions taken to strengthen the financial regulatory framework and address systemic liquidity. Noting recent bank failures and persistent vulnerabilities in the banking system, they called for more proactive banking supervision and enforcement of prudential regulations, focusing on banks with low liquidity buffers and high risk exposures. Directors urged the authorities to fast-track the restructuring of the financially distressed Reserve Bank of Zimbabwe. They also underscored the importance of increasing the level of reserves, over time.

Directors agreed that addressing Zimbabwe's large debt overhang and achieving external sustainability will require strong macroeconomic policies and a comprehensive arrears clearance framework supported by donors. They urged the authorities to refrain from further nonconcessional borrowing and avoid selective debt servicing as these may complicate reaching agreement with creditors on a debt resolution strategy. Directors also cautioned against further use of SDR holdings to finance expenditures.

Directors underscored that improving the business climate is necessary to strengthen competitiveness, build investor confidence, and boost the growth potential. In particular, they stressed the importance of ensuring that the indigenization and empowerment policies are implemented in accordance with transparent rules and preserving property rights.

Directors welcomed Zimbabwe's continued improvement in cooperating with the Fund on policies and payments to the PRGT as this will allow the lifting of relevant technical assistance restrictions, making it possible to advance toward negotiation of a staff-monitored program (SMP) to support the country's reform efforts. Most Directors indicated their readiness to support such a lifting. Directors commended the authorities on meeting the outstanding marker on steps towards removing irregularly hired workers from the payroll, which allowed the initiation of a stock taking on the feasibility of the SMP. In this regard, Directors welcomed the authorities' renewed commitment to make regular payments to the PRGT. They concurred that strong implementation of recently announced measures to address policy slippages would be an important demonstration of policy cooperation. Some Directors particularly stressed that a credible government commitment to comprehensive reforms will be necessary before embarking on an SMP.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Zimbabwe: Selected Economic Indicators, 2009–12

	Actual		Est.	Proj.
	2009	2010	2011	2012
Real GDP growth (annual percent change) 1/	6.3	9.6	9.4	5.0
Nominal GDP (US$ millions)	6,133	7,433	9,458	10,796
GDP deflator (annual percent change) 1/	23.3	10.6	16.3	8.7
Inflation (annual percent change)				
Consumer price inflation (annual average)	6.5	3.0	3.5	5.0
Consumer price inflation (end-of-period)	-7.7	3.2	4.9	6.5
Central government (percent of GDP, measured in US$)				
Revenue and grants	15.9	29.6	30.9	32.6
Expenditure and net lending	18.7	31.9	34.1	36.4
Of which: cash expenditure and net lending	15.0	30.0	31.4	35.2
Of which: employment costs	8.4	14.3	19.2	23.5
Overall balance (including quasi-fiscal activity) 2/	-3.2	-2.5	-3.2	-3.8
Primary balance (including quasi-fiscal activity) 2/	0.1	-0.1	-1.1	-1.8
Cash balance	1.7	-0.4	-0.6	-1.5
Money and credit (US$ millions)				
Broad money (M3)	1,381	2,329	3,100	4,208
Net foreign assets	-295	-151	-290	-257
Net domestic assets	1,677	2,480	3,391	4,465
Domestic credit	649	1,696	2,754	3,709
Of which: credit to the private sector	684	1,665	2,711	3,591
Reserve money	125	256	186	347
Velocity (M3)	4.4	3.2	3.1	2.6
External trade (US$ millions; annual percent change)				
Merchandise exports 3/	-2.8	105.6	35.5	15.5
Merchandise imports 3/	22.2	60.7	46.5	-4.5
Balance of payments (US$ millions; unless otherwise indicated)				
Merchandise exports 3/	1,613	3,317	4,496	5,195
Merchandise imports 3/	-3,213	-5,162	-7,562	-7,223
Current account balance (excluding official transfers)	-1,359	-2,141	-3,427	-2,199
(percent of GDP)	-22.2	-28.8	-36.2	-20.4
Overall balance	-239	-677	-751	-569
Official reserves (end-of-period)				
Gross international reserves (US$ millions) 4/	437	453	366	477
Usable international reserves (US$ millions) 5/	312	197	182	130
(months of imports of goods and services)	1.0	0.4	0.3	0.2
Debt (end-of-period)				
Total external debt (US$ millions) 6/	7,602	9,018	10,726	12,540
(percent of GDP)	124.0	121.3	113.4	116.2
Total external arrears (US$ millions) 6/	5,284	5,868	6,344	6,798
(percent of GDP)	86.2	78.9	67.1	63.0

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ In constant 2009 prices. Discrepancies in projections bewteen staff and the Zimbabwean authorities partly reflect differences in methodology in computing sectoral contributions to growth.

2/ Quasi-fiscal activity includes subsidies provided by the central bank to the public sector and producers/exporters.

3/ Structural break in trade data in 2010. Trade data based on information from exchange control data up to 2009 and customs data starting in 2010.

4/ Excluding encumbered deposits and securities.

5/ Gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves.

6/ Includes arrears and amounts for unidentified financing.

Statement by Mr. Majoro on Zimbabwe
Executive Board Meeting
September 21, 2012

Introduction

On behalf of my Zimbabwean authorities, I thank the mission team for the focused and constructive discussions on macroeconomic developments and policy issues during the 2012 Article IV Consultation mission to Harare. My authorities are also very appreciative of the support the IMF Management and the entire staff has given to Zimbabwe over the years. As regards the staff reports, my authorities are in broad agreement with the analysis and policy thrust and would like the Executive Board to consider it with due regard to the severe political and economic difficulties (both domestic and external) the country is facing even as it tries to improve its relations with the Fund. The Fund's support particularly in the lifting of all restrictions on technical assistance (TA) and a favorable disposition toward a Staff Monitored Program (SMP) is very critical to my authorities. In this sense, and based on Zimbabwe's improved relations with the Fund, we request the Board to lift all TA restrictions on Zimbabwe.

Recent developments and outlook

Zimbabwe has come a long way since the hyperinflation era with an appreciable rate of economic growth and macroeconomic stability recorded between 2009 and 2011. This was made possible by a number of factors including policy reforms implemented, the formation of the coalition government in February 2009, the adoption of the multicurrency system and cash budgeting, and the discontinuation of quasi-fiscal activities by the Reserve Bank of Zimbabwe (RBZ). This was supported by sizeable off-budget grants and a favorable external environment. In 2011, the economy grew by an estimated 9 percent while inflation closed at 4.9 percent (year-on-year) in December. The widening of current account deficit to 35½ percent of GDP in 2011was accompanied by useable international reserves of just 0.3 months of imports at year end. The growth rate in 2012 is, however, expected to moderate to about 5 percent mainly on account of the negative impact on agricultural production of the drought in the south of the country and a slowdown in investment arising from uncertainty surrounding the implementation of the indigenization policy and the political process. Inflation is also expected to moderate further with the July figure standing at 3.9 percent while the current account deficit is projected to narrow to 20 ½ percent on the back of moderating imports and improved export performance.

Overall, the economic outlook is good and the growth potential is quite high. This could, however, be dampened if the identified downside risks to growth - the possible resurgence of political instability ahead of the elections, global economic downturn, potentially destabilizing effects of indigenization policy on the banking system and investment, as well as fiscal slippages and financial sector instability - materialize. My authorities are fully aware of these risks and have taken appropriate measures to address them.

Public Finances

Zimbabwe lacks fiscal space. Revenue underperformance – mainly diamond revenue - witnessed since the beginning of the year has put public finances under severe pressure. This is exacerbated by expenditure overruns, weak payroll and commitment controls, irregularities in employment practices, and losses by public enterprises due to inadequate oversight. In response, the authorities have scaled down the 2012 budget, taken steps to improve revenue collection, rationalize expenditure – often at the expense of growth enhancing public sector investments - and impose stricter expenditure control measures.

The most critical of these measures is improvement in the transparency of diamond revenue. Government is amending the relevant legislation to provide for the physical presence of the Zimbabwe Revenue Authority (ZIMRA) personnel at mining locations to monitor the various mining processes, including auctioning and processing of export customs documents. Mining fees and charges, revenue retention policy, and all aspects of VAT processes are being reviewed. Redrafting of the Income Tax legislation remains a government priority with the Income Tax Bill already approved by the Cabinet Committee. Both the recurrent and capital expenditures have been realigned and rationalized in line with the anticipated revenues while the limited cash flows have been ring fenced to finance some critical capital projects. To adequately manage the already over bloated wage bill, government has decided to maintain a general freeze on recruitment of staff into the public service, align any wage bill reviews to economic improvement and effectively implement the recommendations of the public service audit and conclude work on it.

Financial Sector Policies

The Zimbabwean financial sector has improved since the introduction of multicurrency system in February 2009 coupled with efforts to enhance the financial regulatory framework and recapitalize banks. Both deposits and credit to the economy have increased albeit modestly, although the lending rates are quite high. The banking sector is relatively sound and safe except for three banks – Interfin which is under curatorship, Genesis which has been deregistered, and Royal bank that has been closed for operating in an unsound manner. Overall, the weak and troubled banks are few, small in size and of low systemic importance although the impact of their failures on the banking public is enormous.

In spite of these positive developments, financial sector vulnerabilities persist. There are evidences of high credit risks, deteriorating asset quality, high non-performing loans, uneven distribution of deposits, liquidity crunch, and poor quality of corporate governance. This is compounded by the delay in the completion of the RBZ restructuring, and the RBZ's limited capacity to perform lender of last resort (LOLR) functions.

The authorities are working assiduously to address these vulnerabilities. Already a phased recapitalization plan for all banking institutions through end-June 2014 is in place with a provision for merger and/or acquisition in the event that some banks fail to meet the recapitalization deadline. The RBZ is also strengthening its oversight (financial and regulatory) and liquidity management activities including through enhanced supervision and upward review of both the minimum prudential liquidity requirement and capital adequacy/tier 1 ratio in line with Basel III requirements. The recent directive for repatriation by banks of funds held in offshore accounts has helped improve liquidity in banks.

Government, through the Ministry of Finance is finalizing amendments to the Banking Act to improve RBZ's oversight and surveillance over the financial sector and to also strengthen the Troubled and Insolvent Bank Resolution Framework. To further improve liquidity in the economy, Government issued bonds in March 2012 to reimburse the commercial banks for the US$83 million statutory reserves blocked at the RBZ. These bonds which are tradable have a maturity period of 2-4 years. Government has also established a US$150 million "LOLR Fund" in which private investors are expected to contribute US$120 million while the Ministry of Finance will contribute US$30 million (including $7 million already in the RBZ). The fund is meant to deal with emergency liquidity requirements of fundamentally solvent entities. The remaining challenge is identifying the private investors and establishing strong safeguards on accountability and governance of the Fund. Restructuring of the RBZ including the removal of both non-core assets and liabilities from the RBZ's balance sheet is receiving adequate attention.

External sustainability and debt

The external position remains precarious with substantial balance of payments deficit, limited international reserves, and excruciating debt overhang. While current efforts to increase export earnings albeit modestly, and moderate import growth are encouraging, the likely surge in food imports due to the drought which affected agricultural production, and debt service requirements - in the phase of dwindling foreign capital inflows - would put severe pressure on external sustainability. Already the Joint IMF/World Bank DSA shows that Zimbabwe's overall public debt is unsustainable going by the current fiscal policies and the current size and evolution of the debt stock.

My authorities are deeply concerned about the situation, particularly the issue of public debt to international financial institutions and contracting of new non-concessional loans. While the latter can be justified by the need to finance critical growth enhancing infrastructural projects given death of new credit lines to the country on concessional terms, the former is not in any way acceptable by my authorities. It is in this sense that the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) was put in place. This was followed by a High Level Debt Forum hosted by the African Development Bank in Tunis on 23 March 2012, and a Forum with Development Partners held on the side-lines of the April 2012 IMF/World Bank Spring meetings in Washington DC. The aim is to accelerate arrears clearance and secure debt relief thereby creating opportunities for new financing and normalizing relations with creditors. So far, the outcome is quite encouraging as creditors and development partners have expressed their willingness to assist Zimbabwe.

Structural Reforms

My Zimbabwean authorities are committed to structural reforms. They understand that consistency in macroeconomic policies and a transparent legal and regulatory environment are prerequisite to sustained economic growth and development. In this regard, Government is taking measures to address uncertainties surrounding the implementation of the indigenization policy and the infrastructure deficit as a way of improving the business environment. Already some aspects of the Indigenization and Empowerment Regulations are being reviewed with a view to harmonizing and fine-tuning gray areas, including those relating to the Banking sector. Government has also ring-fenced expenditure on critical infrastructure projects - power, water, roads, railways, and information and communication technology - under its emergency response package. Overall, my authorities are of the view that the implementation of sound macroeconomic policies under the Zimbabwe Accelerated Re-engagement Economic Programme (ZAREP): 2012-2015 will support and sustain inclusive economic growth.

Relations with the IMF

Normalizing relations with the Fund and other IFS is of great importance to my authorities. As indicated in the Staff report, both Fund staff and the authorities agreed that the two markers for initiating discussions on a Staff Monitored Program (SMP) - adequate data reporting and removal of “ghost workers,”- had been met. The recent report from the Public Service Commission (PSC) indicates that some 6,000 irregularly employed youth officers have been removed from the payroll and that red flags raised in the Payroll and Skills audit have been either explained or addressed. The authorities have also resumed regular payments to the PRGT in line with previous commitments. Three payments totaling $7.5 million have so far been made in 2012. There is also a commitment by the authorities to persevere with efforts to address the identified policy slippages going forward. All these point to Zimbabwe’s improved relations with the Fund: a situation which opened the way for joint staff/authorities stocktaking exercise on the road to a possible SMP during the just concluded 2012 Article IV Consultation mission to Harare.

Finally, I would like to stress that my Zimbabwean authorities regard SMP as very critical to their economic restructuring and inclusive growth efforts. They are also aware that getting SMP depends on the lifting by the Board of all restrictions on technical assistance (TA) to Zimbabwe imposed in June 2002 which itself is also dependent on the favorable assessment by staff, and the conviction by the Board that Zimbabwe’s cooperation with the Fund has improved. We are of the view that Zimbabwe has done enough to warrant lifting of these restrictions. In this regard, we urge the Executive Board to consider lifting the TA restrictions which will pave the way for the commencement of discussion with the Zimbabwean authorities for a Staff Monitored Program.