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ZIMBABWE

July 2014

FIRST AND SECOND REVIEWS UNDER THE STAFF-MONITORED PROGRAM—STAFF REPORT; AND PRESS RELEASE

In the context of the first and second reviews under the Staff-Monitored Program, the following documents have been released and are included in this package:

- The **staff report** prepared by a staff team of the IMF for the Executive Board's information following discussions that ended on March 26, 2014, 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 July 1, 2014.
- A **Press Release**

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Zimbabwe*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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Washington, D.C.

INTERNATIONAL MONETARY FUND

ZIMBABWE

July 1, 2014

FIRST AND SECOND REVIEWS UNDER THE STAFF MONITORED PROGRAM

EXECUTIVE SUMMARY

Zimbabwe's performance under the Staff-Monitored Program (SMP) has been broadly satisfactorily through the difficult electoral transition period, and the authorities have taken corrective measures to restore a track record of policy implementation going forward. In the attached Letter of Intent (LOI), the authorities outline progress in implementing the SMP; the agreed quantitative targets and structural benchmarks to be monitored for the third review; and their plans to advance the structural reform agenda and to more generally strengthen performance under the SMP.

Performance under the staff-monitored program. The SMP provided a useful anchor for Zimbabwe in an election year. However, progress in implementing the program was slowed by a long electoral process and a protracted post-election transition, as well as an adverse external environment. Thus, a number of quantitative targets and structural benchmarks were not met. The authorities have began implementing policy measures and a program of reforms aimed at addressing the fiscal gap that has emerged for 2014; improving the quality of public expenditures; enhancing financial sector stability; and moving forward delayed structural reform measures. The authorities have reiterated their continued commitment to the policies agreed under the SMP, and to enhanced engagement with the creditors and the international community.

The authorities have agreed to the publication of the Letter of Intent, and the staff report.

Approved By
Anne-Marie Gulde-Wolf and Vivek, Arora

Prepared By
The African Department (in consultation with other departments)

Discussions took place in Harare from March 12 to 26, 2014. The staff team comprised Mr. Cuevas (head), Ms. Morgan, Mr. Slavov (all AFR), Mr. Cipollone (SPR), and Ms. Mendez (FIN). There were follow-up discussions during the 2014 Spring Meetings in April with participation from Mr. Fanizza.

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BACKGROUND AND RECENT DEVELOPMENTS

1. **In December 2013, Management approved the authorities' request for a six-month extension of the SMP through June 30, 2014,**[1] to provide additional time to strengthen their policies and to deliver on outstanding commitments. Discussions for the combined first and second reviews took place during the March mission and continued at headquarters during the 2014 Spring Meetings. However, lower-than-expected tax revenue collections in the last quarter of 2013, as a result of a slowdown in economic activities, made it difficult to attain the quantitative targets for end-2013. This combined with expenditure pressures—including on the wage bill—placed the 2014 budget targets in jeopardy. In addition, progress on structural reforms was not as fast as envisaged under the program, mainly because of the prolonged electoral and post-election transition process.

2. **The authorities and staff reached understandings on a number of policy actions necessary for completing the reviews.** These actions included: (a) a package of fiscal measures to address the fiscal gaps that have arisen in the context of the weaker economic forecast and wage pressures; (b) publication of the Zimbabwe Mining Development Corporation's 2012 audited financial statements —a key measure to increase transparency in diamond revenue; and (c) adoption the Finance Bill to allow for implementation of the tax measures announced in the 2014 Budget Statement. The authorities have now satisfactorily undertaken these measures.

3. **The macroeconomic environment remains challenging[2].** The economic rebound experienced since 2009 has dwindled. After averaging 10 percent over 2009–12, economic growth decelerated to 3.3 percent in 2013, reflecting adverse weather conditions, election-year uncertainty, weak demand for key exports, and tight liquidity conditions (Figures 1-7, Tables 1-4). Inflation continued its downward trend (-0.2 percent in May, year-on-year), mainly reflecting the appreciation of the US dollar against the South African rand. Pressures on the fiscal position have continued in 2014, with revenues underperforming during the first four months, against the background of the economic slowdown and weak demand. To offset these pressures, the authorities have identified revenue and expenditure measures to fill the fiscal gap that has emerged for 2014 (¶12 below; ¶24, LOI). The financial sector remains vulnerable from high levels of nonperforming loans, low capitalization and tight liquidity conditions—albeit with wide differentiations across banks. However, the authorities are taking steps to enhance financial stability (¶30-34, LOI). The external position remains precarious with large current account deficits and low international reserves. The outlook is for continued sluggish growth with risks of further deceleration, amid persistent low confidence, liquidity shortages, a weak financial sector and subdued exports.

[1] The SMP was approved in June 2013, for the April-December 2013 period.

[2] See "Recent Developments"; "Outlook and Risks" in *Zimbabwe—Staff Report for the 2014 Article IV Consultation, SM/14/139, June 3, 2014*.

PERFORMANCE UNDER THE SMP

4. Performance under the SMP has been uneven, but the program has provided a useful anchor in an election year and succeeded in keeping macroeconomic conditions relatively stable and in starting key structural reforms. Of the six quantitative targets for the first SMP review, two were met and four were missed (Table 1, LOI), although most deviations were moderate. The authorities met the floors on protected social spending and on payments to the PRGT. The continuous ceiling on the stock of nonconcessional external debt was met the at end-June, but subsequently exceeded by a relatively small amount, following the signing of a US$ 319 million nonconcessional loan with China Eximbank in November 2013 to finance an essential regional infrastructure project —the overhaul of the Kariba hydropower plant. The floor on the primary fiscal balance was missed by 1.3 percent of GDP, mainly due to outlay overruns— some of which reflected the authorities' efforts to clear old domestic arrears. The continuous zero ceiling on new domestic arrears was missed, in part because the authorities gave the priority to clear old verified arrears over payment of unverified new bills. In fact, although the authorities accumulated some new domestic arrears in 2013, on balance, the overall stock of arrears declined by US$ 54 million (about 0.4 percent of GDP) in 2013, which compares favorably with the reduction of US$ 23 million targeted under the program. Reflecting the fiscal constraints, the floor on usable international reserves was missed by a small margin, as reserves stayed unchanged rather than show the small increase targeted for end-June 2013.

5. The electoral process and the post-election transition delayed the implementation of structural reforms. Three of the five structural benchmarks for the first review were met (Table 2, LOI), although two were met with delay:

- The new Income Tax Bill was submitted to Parliament in May 2013, and passed in June 2013;
- The new framework for contingency planning and systemic risk management was submitted to the RBZ Board and approved in October 2013; and
- The time-bound action plan by the Public Service Commission[3] on measures to modernize human resource management and payroll systems was submitted to the Ministry of Finance and Economic Development (MoFED) in mid-December 2013.

6. The report on the stock of verified pre-2013 domestic arrears was finalized in mid-December 2013. The authorities made public the total stock of domestic arrears and the strategy to clear it in the context of the 2014 National Budget Statement submitted to Parliament in December 2013.

[3] The Public Service Commission was renamed the Civil Service Commission under the new Constitution.

7. The authorities did not issue a statutory instrument establishing a formula for diamond dividends as envisaged under the program, but took broadly equivalent measures to increase diamond revenues and boost transparency in the industry:

- The 2014 Finance Act, signed into law in April 2014, introduced the withholding of a special dividend equal to 15 percent of the gross proceeds from diamond sales; which is scheduled to become operational after consultation and the review of the tax regime for the mining sector (¶17, LOI).
- The authorities constituted a joint task force composed of technical staff from MoFED, the Ministry of Mines and Mining Development (MoMMD), and the Zimbabwe Revenue Authority to forecast and monitor diamond-related revenue flows.
- The 2012 audited financial accounts of the Zimbabwe Mining Development Corporation (ZMDC) was submitted to Parliament and published online in May 2014.
- Following the lifting of EU sanctions against the ZMDC, the Minerals Marketing Corporation of Zimbabwe successfully conducted two diamond auctions in Antwerp (in December 2013 and February 2014) and one in Dubai (March 2014). Going forward, the authorities intend to ensure that all diamonds are sold through auctions at international trading centers.
- More fundamentally, with technical support from the World Bank, the authorities are analyzing the structure of the diamond sector to streamline the number of companies in it. They also intend to undertake a thorough reassessment of the tax regime for mining, including diamond mining.

8. For the second SMP review, the authorities met three of the six revised quantitative targets. The authorities met the floors on the stock of usable international reserves and on PRGT payments, and the continuous ceiling on the stock of new non-concessional external debt. The target for the primary fiscal balance on a cash basis was missed by about 1.6 percent of GDP, due to the weaker economic growth and the associated tax revenues weakness in Q4 of 2013. Given the weak economic activity and the very tight fiscal space in Q4 of 2013, the authorities missed the floor on protected social spending by about 0.3 percent of GDP and the stock of domestic arrears overshot its ceiling by a similar margin.

9. One of the five structural benchmarks for the second review was met. The RBZ Debt Assumption Bill (formerly the RBZ Debt Relief Bill) was approved by Cabinet in November 2013 and submitted to Parliament in April 2014.

10. Regarding a new Mines and Minerals Act, the authorities have decided to amend the existing Act, rather than adopting a new act as envisaged under the program. After extensive consultations with stakeholders, the amendments should be submitted to Cabinet by-end June 2014 (structural benchmark for the third review). The authorities also decided to prioritize these amendments over amendments to the Precious Stones Trade Act, which are now expected to be completed in the second half of 2014.

11. The authorities are currently reviewing the Banking Act, for which they have prepared a draft. The principles for the amendments will be approved by Cabinet by end-June 2014 (structural benchmark for the third review) and submitted to Parliament by August 2014.

12. The authorities agreed to take steps to protect the 2014 fiscal targets under the program and to advance the implementation of macro-relevant structural reforms, as a basis for completion of the combined reviews. In early June, the Minister of Finance informed the cabinet of recent fiscal developments and proposed a package of revenue and expenditure measures to fill the financing gap for 2014. These measures have been endorsed by the cabinet; and would yield revenue gains of 4.1 percent of GDP, and expenditure savings of 2.8 percent of GDP, while protecting priority social spending and ongoing critical capital outlay. While these policy measures are challenging, if fully implemented, they would protect the revised budget target an overall cash deficit of 0.6 percent of GDP in 2014, but provide sufficient buffer (2.4 percent of GDP), should revenues continue to underperform. The authorities have already implemented a number of the measures (see attached letter). As a show of commitment to increasing diamond revenue transparency, the authorities published the 2012 audited financial statements of the ZMDC on the website of the MoMMD in early May. Furthermore, as discussed above, in April 2014, the Finance Act was adopted, paving the way for the implementation of the tax measures announced in the 2014 Budget Statement, including withholding of a special dividend on diamond sales and collection of depletion fees for direct payments to the Treasury.

PROGRAM DESIGN AND MONITORING

13. The SMP will continue to be monitored based on quantitative targets and structural benchmarks (Tables 1 and 3, LOI). The proposed marginal increase in the continuous ceiling on the stock of new non-concessional debt to US$400 million aims to keep that ceiling constant as a percent of GDP. The ceiling on the total stock of domestic arrears reflects some modest expected accumulation of new arrears, given the very tight fiscal space in 2014 (¶26, LOI)[4]. The structural benchmarks focus on improving fiscal transparency and accountability, enhancing public financial management, and increasing financial stability. While the third review under the SMP will assess performance relative to quantitative targets for and through end-June 2014, the authorities have also adopted their own targets for end-September and end-December 2014 to help guide their forward-looking policies. A successful conclusion of the third review could pave the way to a successor SMP, which the authorities have indicated they may request.

[4] See also ¶29, *SM/14/139, June 3, 2014;*

MACROECONOMIC OBJECTIVES AND POLICIES 2014

14. The economic environment remains difficult, posing significant risks to the budget. Against the background of continued weakness in economic activity, the authorities revised down their growth projection for 2014 to about 3 percent from 6 percent announced in the 2014 Budget Statement. With the budget targets in jeopardy, the authorities have adopted a package of revenue and expenditure measures to fill the fiscal gap that has emerged. The fiscal operation is projected to result in a deficit of 0.6 percent of GDP in 2014, compared with a deficit of 0.3 percent of GDP in the Budget Statement, implying a significant fiscal effort when compared to the overall deficit of 2.2 percent of GDP in 2013. This adjustment in 2014 should allow for a modest re-building of international reserves.

15. Consistent with the objectives of the SMP, policy efforts should continue to aim to restore fiscal and external sustainability and reduce financial vulnerabilities, complemented by fast-tracking of structural reforms. The authorities' program for 2014 is guided by the objectives of their development plan— ZIM ASSET, and seeks to advance their reform agenda. In support of these objectives, the authorities plan to implement macro-critical structural measures aimed at: (i) strengthening fiscal transparency and accountability—advancing the amendments to mining legislation, reviewing the fiscal regime for the mining sector, and continued sale of diamonds through international trading centers; (ii) improving public financial management— strengthening debt management legislation and capability; and (iii) enhancing financial sector stability—advancing the amendments of the Baking Act and restructuring the RBZ's balance sheet.

AUTHORITIES VIEWS

16. The authorities have expressed a commitment to implementing the policies and reforms in the SMP, and to enhanced engagement with the Fund and other IFIs. Despite the challenges in implementing the program, the authorities believe that the SMP provided a useful anchor. They continue to see the program as playing a critical role in their reform efforts and in building a track record towards normalizing Zimbabwe's relationship with the international community. They remain committed to making regular payments to the IFIs, to engage in coordinated discussions with the Fund and other IFIs on future payments, and to increase theses payments as the country's capacity to pay improves. They have also agreed to refrain from drawing down their remaining SDR holdings (¶35-36, LOI).

17. The authorities reaffirmed their strategy to continue to seek non-concessional external financing for critical development projects only. They pointed out the challenges to obtain grants and concessional loans for their development agenda in the context of their large external arrears. They reaffirmed their objective to reach agreements with creditors on reconciled external debt data, ideally before September 2014. The authorities also shared staff's views on the need to speed up the implementation of structural reforms, particularly those which do not incur significant budgetary costs, in order to regain external competitiveness.

18. The authorities' detailed plans to advance the structural reform agenda and to more generally strengthen performance under the SMP are outlined in the attached LOI. They expressed their commitment to set government finances on a sustainable footing—including reducing the weight of the public sector wage bill in total spending over time; strengthening PFM, including improving the oversight of SOEs. Moreover, to enhance financial soundness, they have taken steps to recapitalize the RBZ to allow it to resume some of its core functions. The authorities stand ready to take additional measures, if necessary, to achieve the program objectives. They are appreciative of the Fund's support for their ongoing reform efforts and for Fund technical assistance (TA) to address policy challenges and capacity building.

STAFF APPRAISAL

19. Staff agrees that the current SMP has provided a useful anchor for Zimbabwe in a challenging economic and political environment, by helping policies to limit the risks of macroeconomic instability. In the context of a lengthy electoral process and post-election transition, progress in implementing the policies under the SMP was uneven, as a number of policy decisions were postponed. However, significant progress has been made, in the right direction. Budgetary stability, although tested, was broadly preserved; usable external reserves were maintained; nonconcessional borrowing was kept below the program target for the second review; and key structural reforms have been restarted, particularly in the key area of diamond transparency. In addition, the authorities continued to make regular payments to the PRGT, and to the other IFIs at the agreed levels. Overall, staff believes that performance has been broadly consistent with the program, because policy reforms have moved ahead and macroeconomic stability has been broadly preserved despite difficulties following the change in government. In addition, continued Fund engagement remains essential to assist the authorities move forward their reform agenda.

20. Staff welcomes the authorities' commitment to the program and urges them to step up reform efforts to address vulnerabilities and foster sustainable and inclusive growth. Given the weak economic outlook and the risk of fiscal underperformance, staff urges the authorities to fully implement the recently adopted measures. Staff agrees that these measures are adequate to fill the 2014 financing gap; and are consistent with the fiscal stance envisaged under the program. Recent measures to increase diamond sector transparency are steps in the right direction, and advancing the reforms remains critical for improving revenue, fiscal management and good governance. Staff urges the authorities to follow through to modernize the mining legislation and implement the withholding of interim diamond dividends. Enhancing financial sector stability and restoring confidence in the banking system must also remain a priority. To ensure an environment conducive to successful implementation of the program, the authorities should strive to deliver clear, sound policies, and advance the legislative agenda.

21. Staff welcomes the authorities' commitment to continue making regular payments to the PRGT, to rebuild external buffers, and to refrain from drawing down

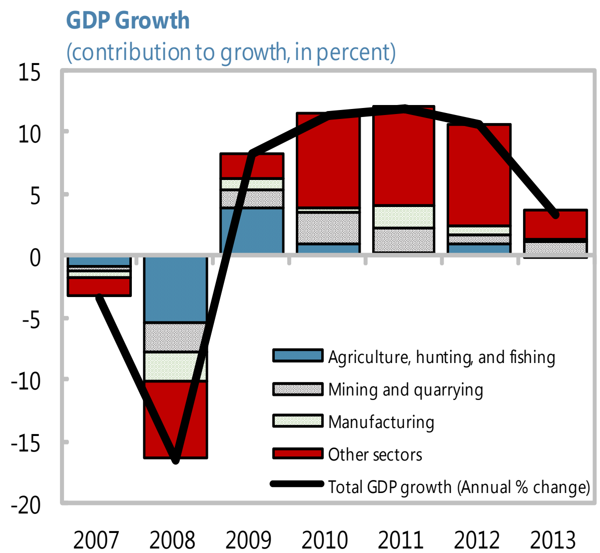
their remaining SDR holdings. Strong macroeconomic policies and a comprehensive arrears clearance framework, supported by development partners, will be essential to addressing Zimbabwe's debt problems. Staff urges the authorities to engage in coordinated discussions with the World Bank Group and the other IFIs on future payments, to increase the size of payments as capacity to repay improves, and to respect the preferred creditor status of the IFIs. Selective debt service to bilateral creditors should be avoided, as this will complicate reaching an agreement with creditors on a debt resolution strategy. Staff encourages the authorities to continue to minimize new non-concessional external debt and to seek external financing on terms as favorable as possible for critical development projects with high economic returns.

22. The authorities have made good use of Fund TA to address policy challenges, support their ongoing reform efforts, and strengthen policy institutional capacity. Staff welcomes the authorities' gradual implementation of TA recommendations, despite considerable capacity and resource constraints; and encourages them to strengthen their policy implementation capacity by taking advantage of the broadened range of TA available, further to the Board's relaxation of most restrictions on TA to Zimbabwe.

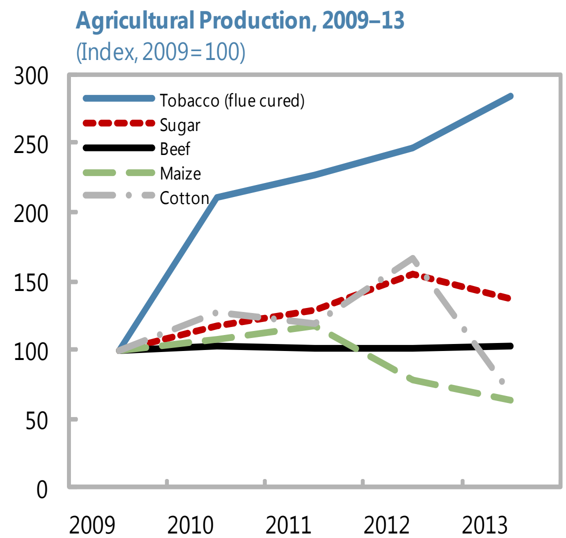
23. In light of the progress made in a challenging environment and the authorities' commitment to strengthen their policies, going forward, staff believes that a favorable policy performance under the SMP would ease the way for deeper reengagement with Zimbabwe.

Figure 1. Zimbabwe: Recent Economic Performance

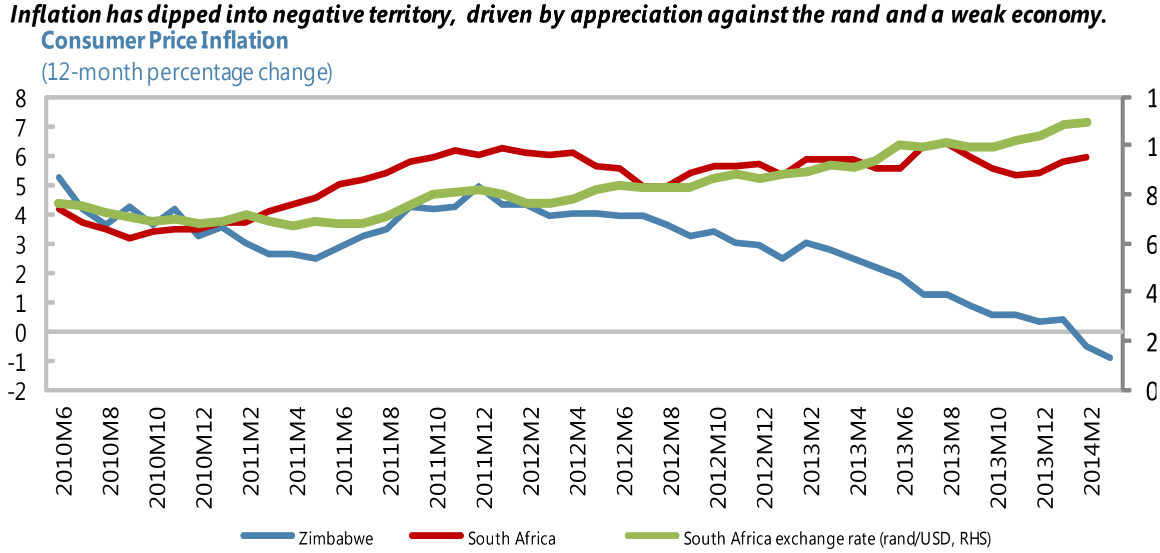
Growth decelerated in 2013, due to policy uncertainty and weakness in agriculture and manufacturing.



Erratic weather contributed to a marked contraction in maize and cotton production.



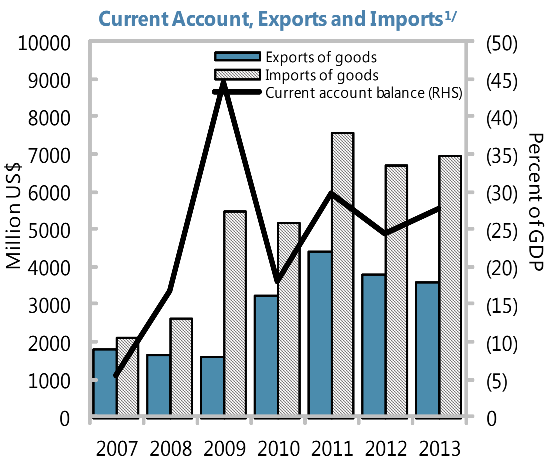
Inflation has dipped into negative territory, driven by appreciation against the rand and a weak economy.



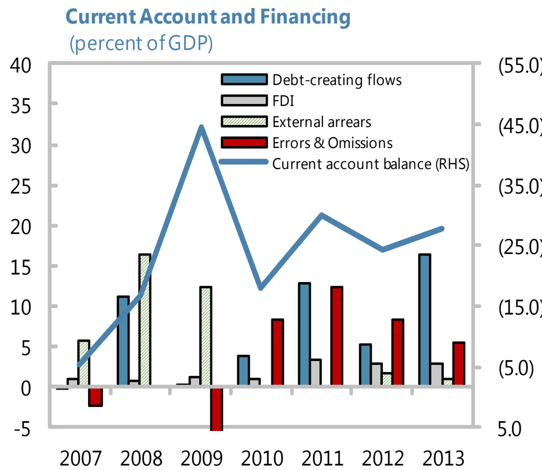
Sources: Zimbabwean authorities and IMF staff estimates.

Figure 2. Zimbabwe: External Sector Performance

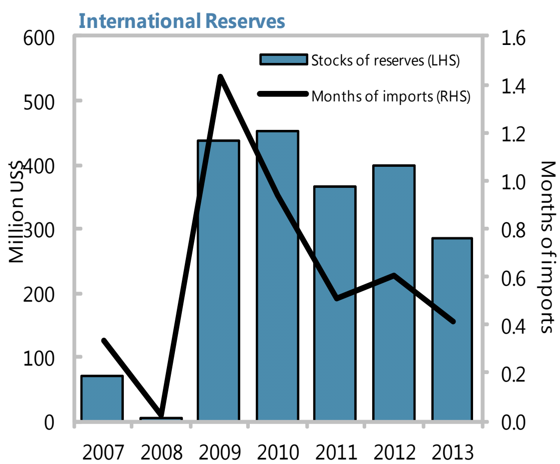
The current account deficit remained high in 2013, mainly due to lower mining exports.



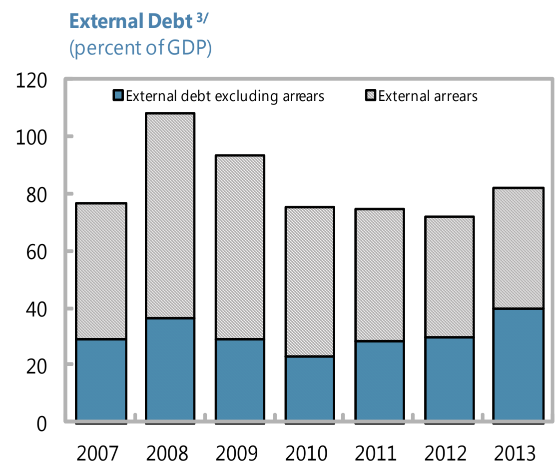
External financing has come to rely more on short-term private sector debt and large flows remain unregistered. 2/



International reserves have stabilized at very low levels...



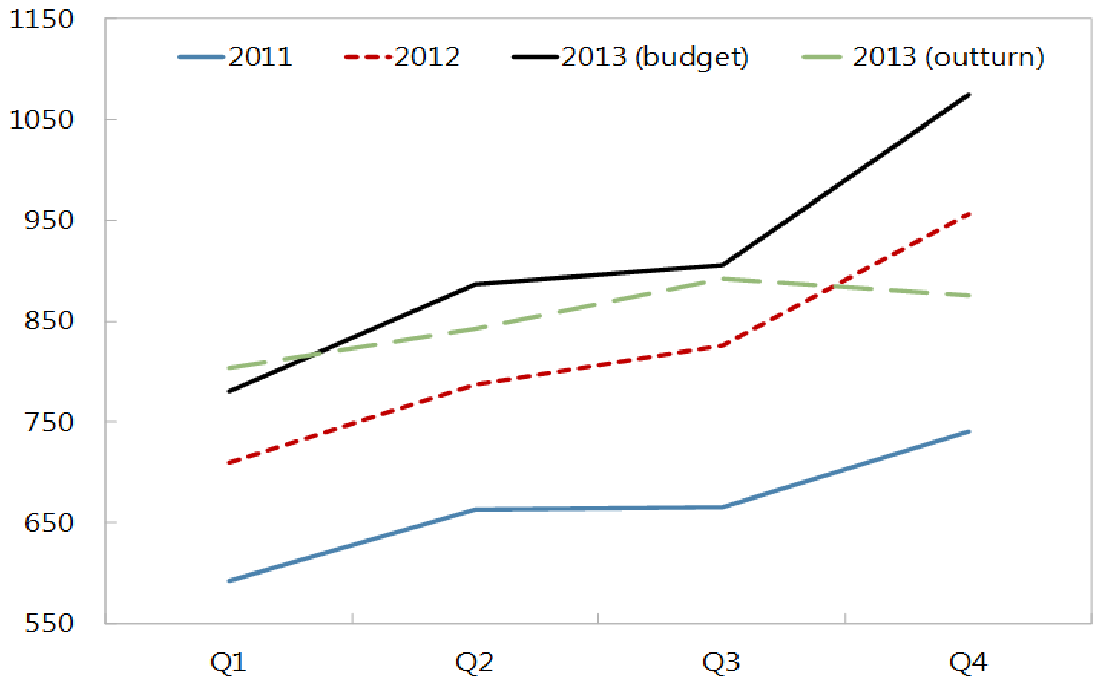
...and the external debt remains unsustainably high.



Sources: Zimbabwean authorities and IMF staff estimates.

1/ Structural break in trade data in 2010. Exchange control data are used up to 2009 and customs data are used starting in 2010.
2/ These unregistere flows are likely related to unregistered remittances and exports, which would lower the current account deficit.
3/ Debt stocks and arrears are estimates, except for the 2011 debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise concluded in January 2013.

Figure 3. Zimbabwe: Quarterly Tax Revenues (2011–13)
(millions of U.S. dollars)

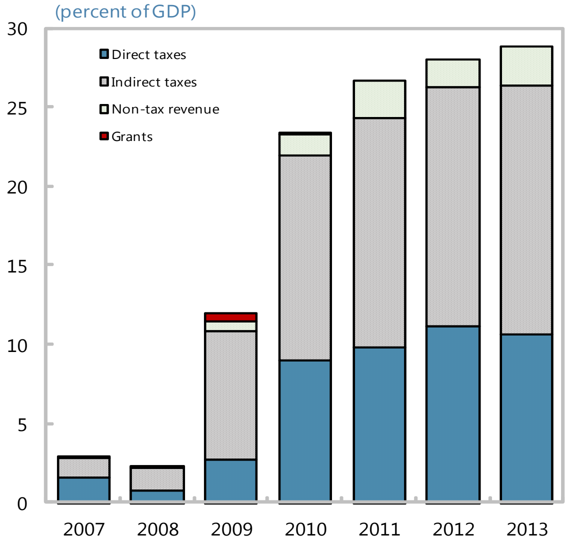


Sources: Zimbabwean authorities and IMF staff estimates.

Figure 4. Zimbabwe: Recent Budgetary Performance

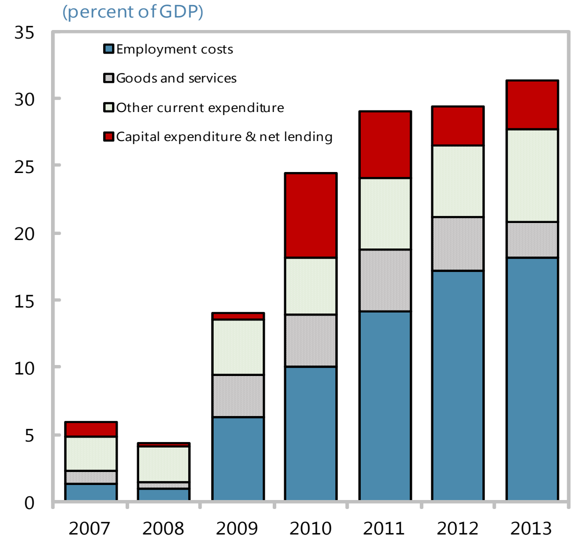
While tax revenues stagnated in 2013…

Fiscal Revenues
(percent of GDP)



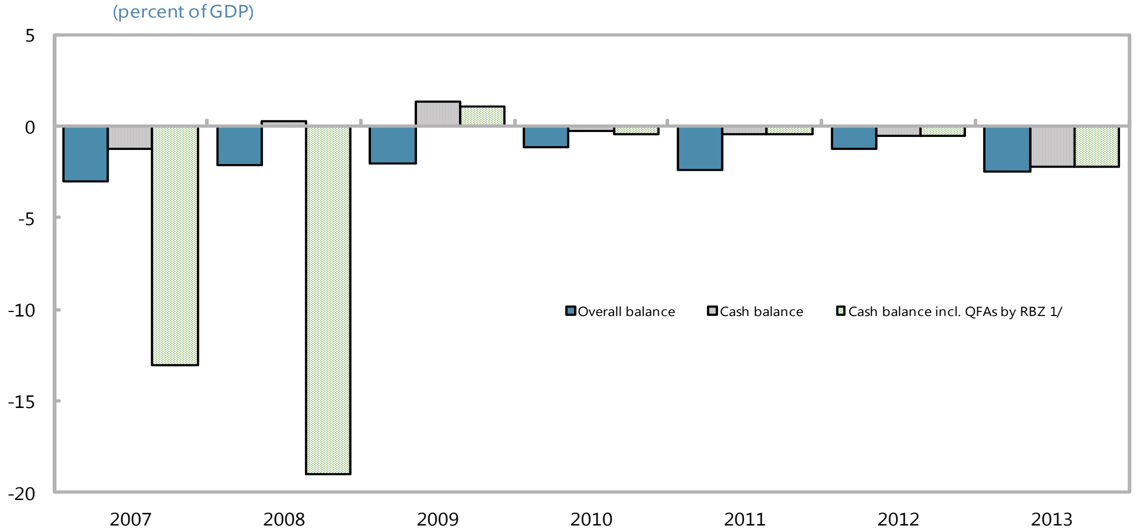
…employment costs have continued to grow, crowding out capital and social expenditures.

Fiscal Expenditures
(percent of GDP)



A cash deficit has emerged since 2010, financed mainly by SDR sales and some domestic debt issuance.

Fiscal Deficit
(percent of GDP)



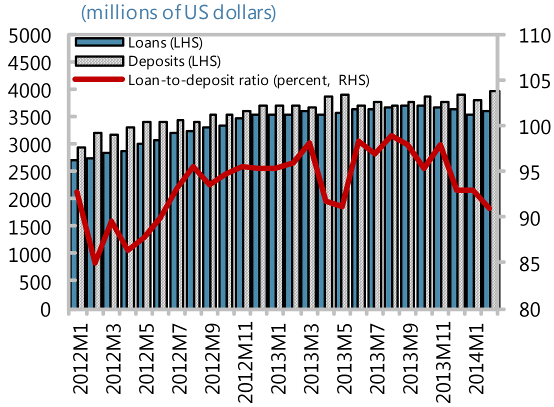
Sources: Zimbabwean authorities and IMF staff estimates.

Note: 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

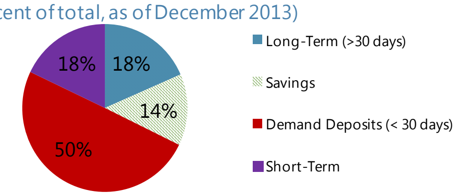
Deposits and credit continue to grow, but the pace is leveling off.

Loans and Deposits
(millions of US dollars)

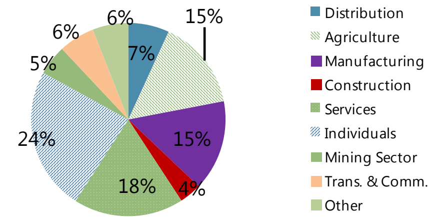


Deposits remain predominantly short-term and credit largely funds consumption.

Composition of Banking Sector Deposits
(percent of total, as of December 2013)

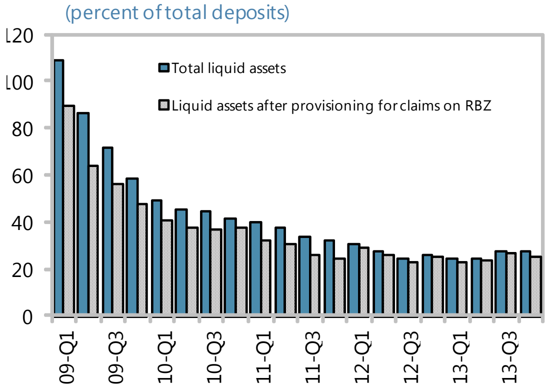


Composition of Private Sector Credit
(percent of total, as of December 2013)



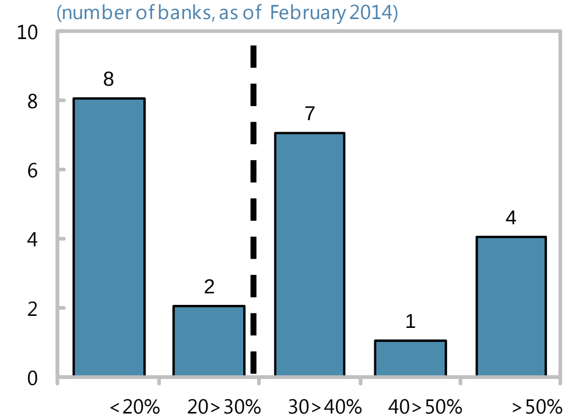
Liquidity risks remain…

Liquid Assets
(percent of total deposits)



…as 10 out of 22 operating financial instituions face tight liquidity.

Distribution of Liquidity Ratios [1/]
(number of banks, as of February 2014)



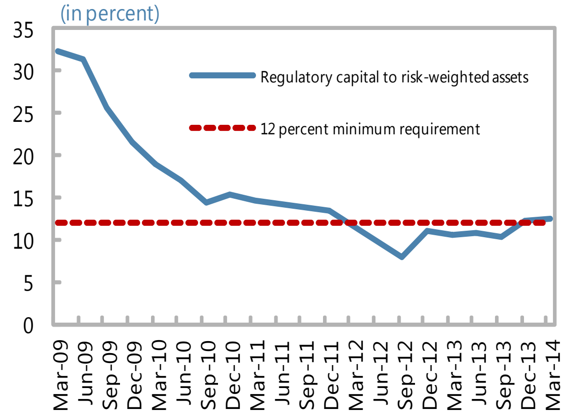
Sources: Zimbabwean authorities and IMF staff estimates.

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. The prudential liquidity ratio was increased from 25% in March 2012 to 30% in June 2012.

Figure 6. Zimbabwe: Banking System Performance and Soundness

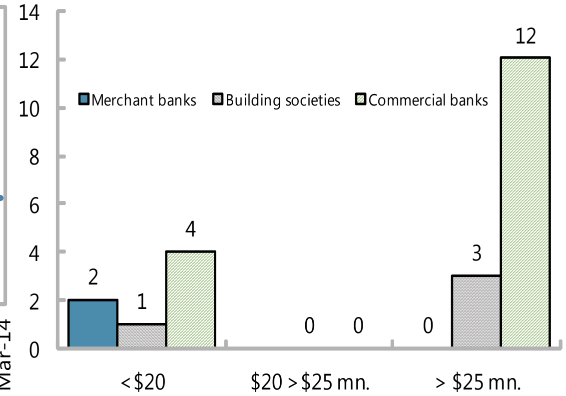
Banking system capital has begun to recover but remains low…

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



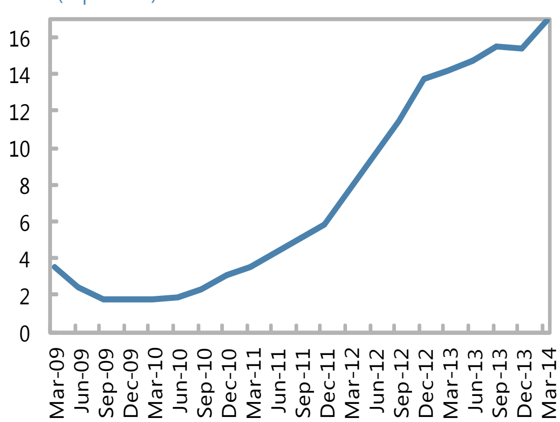
…and solvency remains an issue in a number of small banks.

Distribution of Bank Capital [1/ 2/]
(number of banks, as of December 2013)



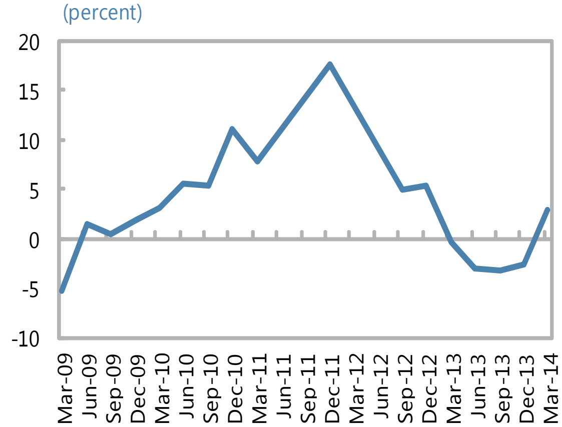
Assets quality has deteriorated, with high and rising levels of NPLs…

Nonperforming Loans to Total Loans
(in percent)



…and this, together with the economic slowdown, has impacted bank profitability.

Return on Equity
(percent)



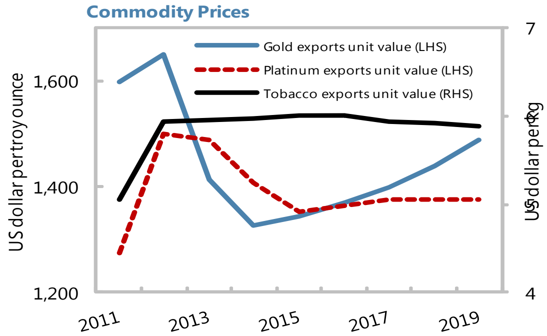
Source: Reserve Bank of Zimbabwe.

[1/] Illiquid claims on the RBZ count toward capital. The minimum capital ratio was increased from 10 percent to 12 percent in Aug ust 2012.

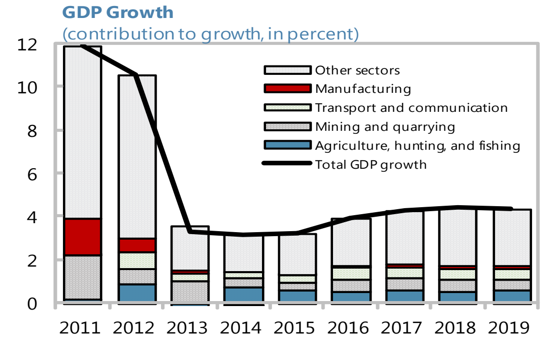
[2/] Excludes the Post Office Saving Bank .At end -September there were 21 operational banks s of end -December 2012, minimum capital requirements are $25 million for commercial banks and merchant banks, and $20 million for building societies.

Figure 7. Zimbabwe: Program Scenario

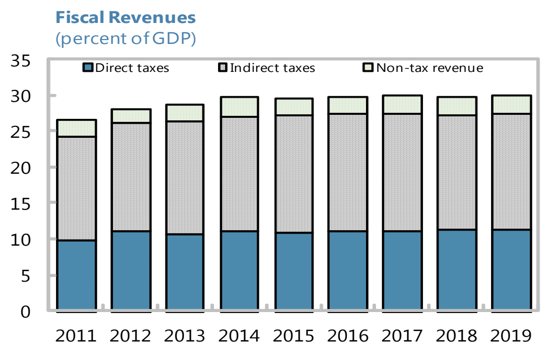
The prices of Zimbabwe's main exports are expected to stabilize at comfortable levels...



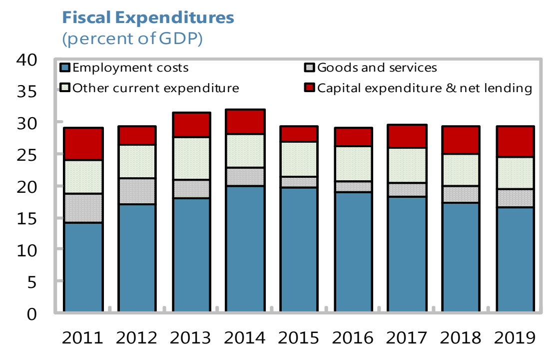
...but growth in 2014 will be weak, led by services, mining, and a recovery in agriculture.



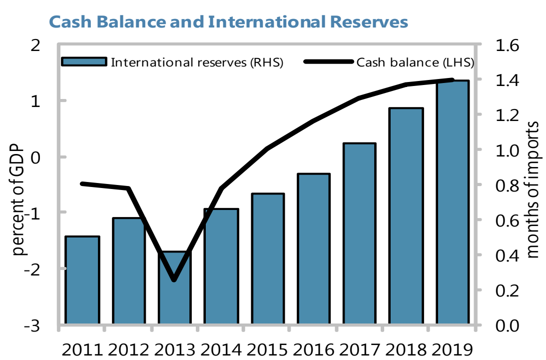
As fiscal revenues are projected to stabilize around 30 percent of GDP...



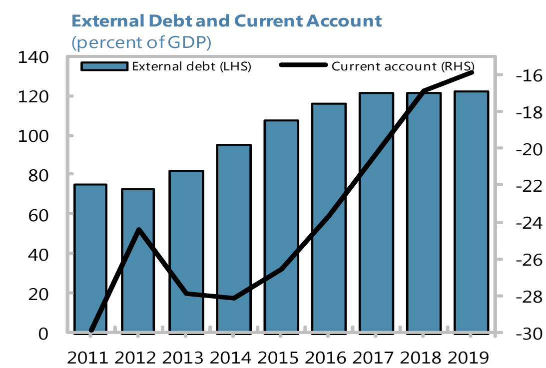
...employment costs need to be contained, to make space for high-priority capital and social spending.



An improved fiscal position will allow for the re-building of buffers against external shocks...



...but the large current account deficit will persist and external debt will remain unsustainable. 1/



Sources: Zimbabwean authorities and IMF staff estimates.

1/ Debt stocks include arrears and are estimates, except for the 2011 debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise concluded in January 2013.

Table 1. Zimbabwe: Selected Economic Indicators, 2011–19

Population (millions):	13.0 (2012)	Per capita GDP: US$	961 (2012)
Quota (current, SDR millions, % of total)	353.4 (0.15%)	Literacy rate (%):	91.9 (2009)
Main products and exports:	Platinum, gold, diamonds, tobacco		
Key export markets:	South Africa, European Union		

	Actual		Projected						
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth (annual percentage change) 1/	11.9	10.6	3.3	3.1	3.2	3.9	4.3	4.4	4.4
Nominal GDP (US$ millions) 2/	10,956	12,472	12,974	13,483	14,060	14,974	15,975	17,284	18,491
GDP deflator (annual percentage change)	3.7	3.0	0.7	0.8	1.1	2.5	2.3	3.6	2.5
Inflation (annual percentage change)									
Consumer price inflation (annual average) 9/	3.5	3.7	1.6	0.3	1.2	1.8	2.4	2.5	2.5
Consumer price inflation (end-of-period)	4.9	2.9	0.3	1.2	1.7	2.0	2.5	2.5	2.5
Central government (percent of GDP) 2/									
Revenue and grants	26.7	28.0	28.8	29.8	29.6	29.8	29.9	29.9	30.1
Expenditure and net lending	29.0	29.3	31.4	31.9	29.3	29.0	29.6	29.3	29.4
Of which: cash expenditure and net lending	27.1	28.6	31.0	30.4	29.5	29.1	28.9	28.6	28.7
Of which: employment costs (incl. grants & transfers)	16.7	20.1	21.3	23.4	23.0	22.2	21.3	20.2	19.3
Overall balance (commitment basis)	-2.4	-1.3	-2.5	-2.2	0.3	0.8	0.3	0.6	0.7
Overall balance (cash basis)	-0.5	-0.6	-2.2	-0.6	0.1	0.6	1.0	1.3	1.4
Primary balance (cash basis)	-0.2	-0.4	-2.0	-0.3	0.6	1.1	1.5	1.7	1.8
Money and credit (US$ millions)									
Broad money (M3)	3,100	3,694	3,888	4,011	4,252	4,478	4,827	5,295	5,762
Net foreign assets	-290	-435	-809	-744	-722	-625	-457	-226	46
Net domestic assets	3,391	4,129	4,697	4,754	4,974	5,102	5,284	5,520	5,716
Domestic credit (net)	2,754	3,559	3,993	3,993	4,172	4,407	4,718	5,121	5,521
Of which: credit to the private sector	2,711	3,524	3,618	3,551	3,821	4,121	4,457	4,854	5,321
Reserve money	186	273	272	280	297	313	337	370	402
Velocity (M3)	3.5	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.2
Balance of payments (US$ millions; unless otherwise indicated)									
Merchandise exports 3/	4,421	3,808	3,572	3,812	4,091	4,438	4,908	5,563	6,089
Value growth (annual percentage change) 3/	36.1	-13.9	-6.2	6.7	7.3	8.5	10.6	13.4	9.5
Merchandise imports 3/	-7,562	-6,710	-6,952	-7,105	-7,368	-7,615	-7,881	-8,341	-8,889
Value growth (annual percentage change) 3/	46.5	-11.3	3.6	2.2	3.7	3.3	3.5	5.8	6.6
Current account balance (excluding official transfers)	-3,269	-3,048	-3,613	-3,796	-3,737	-3,546	-3,235	-2,912	-2,942
(percent of GDP) 2/	-29.8	-24.4	-27.8	-28.2	-26.6	-23.7	-20.2	-16.8	-15.9
Overall balance 4/	123	-184	-244	-676	-225	-122	-132	-152	-75
Official reserves (end-of-period)									
Usable international reserves (US$ millions) 5/	366	398	284	464	543	651	809	1,009	1,210
(months of imports of goods and services)	0.5	0.6	0.4	0.7	0.7	0.9	1.0	1.2	1.4
Debt (end-of-period)									
Total external debt (US$ millions, e.o.p.) 6/ 7/ 8/	8,231	9,057	10,646	12,798	15,046	17,283	19,269	20,929	22,530
Percent of GDP 2/	75.1	72.6	82.1	94.9	107.0	115.4	120.6	121.1	121.8
PPG external debt (US$ millions, e.o.p.) 6/	6,268	6,706	6,862	7,127	7,429	7,629	8,033	8,528	8,888
Percent of GDP 2/	57.2	53.8	52.9	52.9	52.8	50.9	50.3	49.3	48.1
Of which: Arrears	5,101	5,313	5,448	5,602	5,749	5,898	6,043	6,193	6,348
Percent of GDP 2/	46.6	42.6	42.0	41.5	40.9	39.4	37.8	35.8	34.3
Other external debt (US$ millions, e.o.p.) 6/ 7/ 8/	1,964	2,351	3,784	5,671	7,618	9,653	11,236	12,402	13,642
Percent of GDP 2/	17.9	18.9	29.2	42.1	54.2	64.5	70.3	71.8	73.8

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.

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

4/ Includes errors and omissions through 2012.

5/ Defined as the higher of Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves, and amounts in SDR escrow account.

6/ Includes arrears.

7/ Debt stocks are estimates, except for the 2011 debt stock which is based on preliminary results of the authorities' external debt reconciliation exercise concluded in January 2013.

8/ The revisions are due to new information provided by the authorities about their previous projections of withdrawn amounts from approved foreign banks' overdrafts.

9/ For 2014, the authorities project average inflation of 0.8 percent.

Table 2. Zimbabwe: Balance of Payments, 2011–19

(Millions of U.S. dollars; unless otherwise indicated)

	Actual		Projected						
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Current account (excluding official transfers)	-3,269	-3,048	-3,613	-3,787	-3,737	-3,572	-3,276	-2,957	-2,999
Trade balance	-3,141	-2,902	-3,379	-3,286	-3,279	-3,203	-3,016	-2,824	-2,850
Exports, f.o.b.	4,421	3,808	3,572	3,827	4,116	4,448	4,909	5,563	6,088
Imports, f.o.b.	-7,562	-6,710	-6,952	-7,113	-7,395	-7,651	-7,925	-8,387	-8,938
Food	-513	-731	-658	-589	-567	-546	-555	-585	-625
Nonfood	-7,050	-5,980	-6,294	-6,524	-6,828	-7,105	-7,370	-7,802	-8,313
Nonfactor services (net)	-759	-866	-941	-1,007	-1,057	-1,069	-1,077	-1,088	-1,136
Investment income (net)	-906	-959	-928	-1,049	-1,085	-1,066	-1,042	-966	-989
Interest	-96	121	92	18	5	-4	-5	-5	-3
Receipts	168	294	179	197	217	238	262	287	316
Payments	-265	-173	-87	-179	-212	-242	-267	-292	-318
Other	-810	-1,080	-1,020	-1,068	-1,090	-1,063	-1,036	-961	-986
Private transfers (including transfers to NGOs)	1,538	1,679	1,635	1,555	1,683	1,766	1,858	1,921	1,976
Remittances	570	646	764	764	840	874	909	945	988
Capital account (including official transfers)	2,038	1,740	2,738	3,100	3,513	3,429	3,112	2,769	2,877
Official transfers	0	0	0	0	50	51	52	54	55
Direct investment	373	351	373	347	558	579	604	631	659
Portfolio investment	10	99	114	119	125	132	141	152	163
Long-term capital	684	10	1,044	1,375	1,492	1,537	1,437	1,153	1,147
Government[1]	-154	-116	16	238	343	376	515	583	572
Receipts	0	20	184	336	396	429	568	614	657
Payments	-154	-136	-167	-99	-53	-53	-53	-31	-85
Public enterprises	29	14	13	6	7	8	7	8	8
Private sector	809	113	1,015	1,131	1,142	1,154	915	562	567
Short-term capital	625	543	956	1,003	926	911	654	551	621
Public sector	0	0	0	0	0	0	0	0	0
Private sector (loans mediated outside DMBs)	539	365	692	886	872	903	667	584	654
Cash in circulation (non-banks, - denotes increase)	0	0	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	85	178	264	116	53	7	-13	-33	-33
Change in assets	47	2	-62	-15	3	-38	-58	-78	-78
Change in liabilities	39	176	326	131	50	45	45	45	45
SDR Allocation	0	0	0	0	0	0	0	0	0
Errors and omissions[2]	1,358	1,038	726	0	0	0	0	0	0
Overall balance	127	-270	-149	-688	-224	-143	-164	-188	-122
Financing	-127	270	149	688	224	143	164	188	122
IMF (net)	0	0	0	0	0	0	0	0	0
Central bank (net)	54	-27	111	-181	-79	-79	-79	-79	-79
Assets	69	-34	109	-181	-79	-79	-79	-79	-79
Change in usable official reserves	86	-32	114	-181	-79	-79	-79	-79	-79
Monetary authorities operations (non-reserve)	-17	-2	-5	0	0	0	0	0	0
Liabilities	-16	7	1	0	0	0	0	0	0
Change in arrears (– denotes decrease)	0	212	135	154	147	149	144	150	155
Debt relief/rescheduling; adjustment for debt reconciliation[3]	201	0	0	0	0	0	0	0	0
Unidentified financing[2]	20	0	-96	714	155	101	178	240	168
Memorandum items:									
Current account balance (percent of GDP)[4]	-29.8	-24.4	-27.4	-27.6	-26.1	-23.5	-20.2	-16.8	-16.0
Usable international reserves (US$ millions, e.o.p.)	366	398	284	465	543	651	808	1,010	1,211
Months of imports of goods and services	0.5	0.6	0.4	0.7	0.7	0.9	1.0	1.2	1.4
SDR holdings (US$ millions, e.o.p.)[5]	252	143	143	175	236	328	411	416	420
Total external debt (US$ millions, e.o.p.)[3,6]	8,231	9,057	10,660	12,826	15,089	17,340	19,344	21,024	22,643
Percent of GDP[3]	75	73	81	94	106	114	119	120	121
PPG external debt (US$ millions, e.o.p.)[6]	6,268	6,706	6,862	7,128	7,429	7,630	8,038	8,539	8,904
Percent of GDP[4]	57	54	52	52	52	50	50	49	47
Of which: Arrears	5,101	5,313	5,448	5,602	5,749	5,898	6,043	6,193	6,348
Percent of GDP[4]	47	43	41	41	40	39	37	35	34
Other external debt (US$ millions, e.o.p.)[3,6]	1,964	2,351	3,798	5,699	7,660	9,710	11,306	12,485	13,739
Percent of GDP[4]	18	19	29	42	54	64	70	71	73
Nominal GDP (US$ millions)[4]	10,956	12,472	13,207	13,701	14,296	15,216	16,229	17,551	18,774
Percentage change	16.0	13.8	5.9	3.7	4.3	6.4	6.7	8.1	7.0
Exports of goods and services	4,694	4,076	3,849	4,123	4,413	4,768	5,263	5,945	6,497
Percentage change	35.2	-13.2	-5.6	7.1	7.0	8.1	10.4	13.0	9.3
Imports of goods and services	-8,594	-7,844	-8,169	-8,415	-8,748	-9,040	-9,356	-9,858	-10,483
Percentage change	47.9	-8.7	4.1	3.0	4.0	3.3	3.5	5.4	6.3

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] Large errors and omissions (past data) and unidentified financing (future projections) are likely generated by under-recording of exports, remittances, and FDI.
[3] Debt stocks are estimates, except for the 2011 debt stock which is based on preliminary results of the authorities' external debt reconciliation exercise concluded in January 2013.
[4] Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.
[5] Excludes amounts in SDR escrow account.
[6] Includes arrears.

Table 3. Zimbabwe: Central Government Operations, 2011–19
(Millions of U.S. dollars)

	Actual		Budget 1/	Prog. 1/	Actual	Budget	Projected					
	2011	2012	2013	2013	2013	2014	2014	2015	2016	2017	2018	2019
Total revenue & on-budget grants	**2,921**	**3,496**	**3,860**	**3,828**	**3,741**	**4,120**	**4,014**	**4,162**	**4,456**	**4,783**	**5,167**	**5,561**
Tax revenue	2,660	3,279	3,646	3,507	3,414	3,825	3,636	3,845	4,099	4,381	4,715	5,061
Personal income tax	588	661	685	765	744	760	803	797	849	906	980	1048
Corporate income tax	296	445	457	418	404	426	405	436	464	495	536	573
Other direct taxes	188	287	404	242	227	294	284	309	344	383	432	481
Customs	333	354	392	376	361	430	558	449	466	478	497	519
Excise	307	394	483	512	510	569	535	560	596	644	689	737
VAT	912	1086	1,165	1,111	1068	1235	939	1181	1260	1346	1443	1555
Other indirect taxes	36	52	61	84	98	111	112	112	120	128	138	148
Non-tax revenue	261	217	214	320	327	295	378	318	357	402	451	499
Of which: Licensing fees	0	40	0	164	158	5	11	0	0	0	0	0
Of which: Diamond dividends	151	44	70	17	18	96	82	107	132	162	192	222
Budget grants	0	0	0	0	0	0	0	0	0	0	0	0
Total expenditure & net lending	**3,181**	**3,658**	**3,935**	**3,904**	**4,069**	**4,191**	**4,306**	**4,120**	**4,342**	**4,735**	**5,067**	**5,433**
Of which: Cash expenditure	2,974	3,568	3,862	3,898	4,027	4,165	4,092	4,144	4,362	4,619	4,945	5,306
Current expenditure	2,629	3,303	3,370	3,521	3,586	3,709	3,791	3,768	3,922	4,128	4,324	4,527
Employment costs	1,544	2,134	2,260	2,340	2,344	2,543	2,696	2,763	2,832	2,903	2,976	3,050
Wages & salaries	1,269	1,733	1,841	1,922	1,926	2,093	2,218	2,274	2,331	2,389	2,449	2,510
Pensions	275	401	419	418	418	450	478	490	502	514	527	540
Interest payments	113	116	118	122	120	142	149	173	186	193	200	206
Foreign	113	114	114	114	114	121	121	131	137	142	149	155
Of which: Paid	34	18	18	15	17	15	16	21	24	25	26	28
Domestic	0	3	4	8	6	21	28	43	49	51	51	51
Of which: Paid	0	3	4	8	6	21	28	43	49	51	51	51
Goods & services	504	505	407	322	359	397	368	225	270	367	449	536
Grants & transfers	468	548	585	737	763	628	579	606	634	664	699	734
Of which: Employment costs	290	370	402	427	423	455	461	473	485	497	509	522
Of which: Referendum costs	0	0	25	46	46	0	0	0	0	0	0	0
Of which: Election costs	0	0	0	132	132	0	0	0	0	0	0	0
Capital expenditure and net lending	551	355	565	382	483	482	515	351	419	607	743	906
Overall balance (commitment basis)	**-260**	**-162**	**-75**	**-76**	**-328**	**-71**	**-292**	**43**	**114**	**48**	**99**	**128**
Primary balance (commitment basis) 2/	-147	-45	43	46	-208	70	-144	216	300	241	299	334
Overall balance (cash basis)	**-53**	**-73**	**47**	**-70**	**-286**	**-45**	**-78**	**19**	**93**	**164**	**222**	**254**
Primary balance (cash basis) 2/	-19	-52	69	-47	-262	-9	-35	83	167	241	299	334
Financing	**260**	**162**	**26**	**76**	**310**	**71**	**292**	**-43**	**-114**	**-48**	**-100**	**-128**
Domestic financing (net)	-25	8	-46	63	265	87	145	95	50	19	-26	36
Bank	4	44	-46	85	193	152	112	192	50	19	-26	36
Non-bank	-30	-36	0	-22	72	-65	33	-98	0	0	0	0
Foreign financing (net)	-48	8	-65	-26	-247	-266	-243	-235	-262	-296	-290	-438
Disbursements	78	0	90	72	72	18	18	0	0	0	0	0
Amortization due	127	101	125	98	319	254	231	175	172	166	125	233
Of which: Paid	0	44	61	65	68	30	54	53	53	53	31	85
Movement in Zimbabwe's SDR holdings (net)	0	109	-30	0	0	-30	-30	-60	-90	-80	0	0
Other	0	0	0	0	0	0	0	0	0	-50	-165	-205
Change in arrears	333	146	137	39	293	250	391	98	99	229	216	274
Domestic	128	-6	-23	-93	-55	-79	109	-134	-134	0	0	0
Arrears accumulation	128	116	0	79	123	0	132	0	0	0	0	0
Arrears clearance	0	-122	-23	-172	-178	-79	-23	-134	-134	0	0	0
Foreign	205	152	160	132	347	329	282	231	232	229	216	274
Interest	79	96	96	99	97	106	105	109	113	116	122	127
Principal	127	57	64	33	251	224	177	122	119	113	94	148
Statistical discrepancy / Financing gap	**0**	**0**	**-48**	**0**	**-17**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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

1/ Presentation in keeping with the definitions in the Technical Memorandum of Understanding.
2/ The difference between the primary balance on a commitment and cash basis is the change in domestic arrears.

Table 3. Zimbabwe: Central Government Operations, 2011–19 (concluded)

(Percent of GDP) 1/

	Actual		Budget 2/	Prog. 2/	Projected	Budget			Projected			
	2011	2012	2013	2013	2013	2014	2014	2015	2016	2017	2018	2019
Total revenue & on-budget grants	**26.7**	**28.0**	**29.8**	**29.5**	**28.8**	**30.6**	**29.8**	**29.6**	**29.8**	**29.9**	**29.9**	**30.1**
Tax revenue	24.3	26.3	28.1	27.0	26.3	28.4	27.0	27.3	27.4	27.4	27.3	27.4
Personal income tax	5.4	5.3	5.3	5.9	5.7	5.6	6.0	5.7	5.7	5.7	5.7	5.7
Corporate income tax	2.7	3.6	3.5	3.2	3.1	3.2	3.0	3.1	3.1	3.1	3.1	3.1
Other direct taxes	1.7	2.3	3.1	1.9	1.8	2.2	2.1	2.2	2.3	2.4	2.5	2.6
Customs	3.0	2.8	3.0	2.9	2.8	3.2	4.1	3.2	3.1	3.0	2.9	2.8
Excise	2.8	3.2	3.7	3.9	3.9	4.2	4.0	4.0	4.0	4.0	4.0	4.0
VAT	8.3	8.7	9.0	8.6	8.2	9.2	7.0	8.4	8.4	8.4	8.4	8.4
Other indirect taxes	0.3	0.4	0.5	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Non-tax revenue	2.4	1.7	1.6	2.5	2.5	2.2	2.8	2.3	2.4	2.5	2.6	2.7
Of which: Diamond dividends	1.4	0.4	0.5	0.1	0.1	0.7	0.6	0.8	0.9	1.0	1.1	1.2
Budget grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					-0.9							
Total expenditure & net lending	**29.0**	**29.3**	**30.3**	**30.1**	**31.4**	**31.1**	**31.9**	**29.3**	**29.0**	**29.6**	**29.3**	**29.4**
Of which: Cash expenditure	27.1	28.6	29.8	30.0	31.0	30.9	30.4	29.5	29.1	28.9	28.6	28.7
Current expenditure	24.0	26.5	26.0	27.1	27.6	27.5	28.1	26.8	26.2	25.8	25.0	24.5
Employment costs	14.1	17.1	17.4	18.0	18.1	18.9	20.0	19.7	18.9	18.2	17.2	16.5
Wages & salaries	11.6	13.9	14.2	14.8	14.8	15.5	16.5	16.2	15.6	15.0	14.2	13.6
Pensions	2.5	3.2	3.2	3.2	3.2	3.3	3.5	3.5	3.4	3.2	3.1	2.9
Interest payments	1.0	0.9	0.9	0.9	0.9	1.1	1.1	1.2	1.2	1.2	1.2	1.1
Foreign	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8
Of which: Paid	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Domestic	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Of which: Paid	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Goods & services	4.6	4.0	3.1	2.5	2.8	2.9	2.7	1.6	1.8	2.3	2.6	2.9
Grants & transfers	4.3	4.4	4.5	5.7	5.9	4.7	4.3	4.3	4.2	4.2	4.0	4.0
Of which: Employment costs	2.6	3.0	3.1	3.3	3.3	3.4	3.4	3.4	3.2	3.1	2.9	2.8
Of which: Referendum costs	0.0	0.0	0.2	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Election costs	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	5.0	2.8	4.4	2.9	3.7	3.6	3.8	2.5	2.8	3.8	4.3	4.9
Overall balance (commitment basis)	**-2.4**	**-1.3**	**-0.6**	**-0.6**	**-2.5**	**-0.5**	**-2.2**	**0.3**	**0.8**	**0.3**	**0.6**	**0.7**
Primary balance (commitment basis) 3/	-1.3	-0.4	0.3	0.4	-1.6	0.5	-1.1	1.5	2.0	1.5	1.7	1.8
Overall balance (cash basis)	-0.5	-0.6	0.4	-0.5	-2.2	-0.3	-0.6	0.1	0.6	1.0	1.3	1.4
Primary balance (cash basis) 3/	-0.2	-0.4	0.5	-0.4	-2.0	-0.1	-0.3	0.6	1.1	1.5	1.7	1.8
Financing	**2.4**	**1.3**	**0.2**	**0.6**	**2.4**	**0.5**	**2.2**	**-0.3**	**-0.8**	**-0.3**	**-0.6**	**-0.7**
Domestic financing (net)	-0.2	0.1	-0.4	0.5	2.0	0.6	1.1	0.7	0.3	0.1	-0.2	0.2
Bank	0.0	0.4	-0.4	0.7	1.5	1.1	0.8	1.4	0.3	0.1	-0.2	0.2
Non-bank	-0.3	-0.3	0.0	-0.2	0.6	-0.5	0.2	-0.7	0.0	0.0	0.0	0.0
Foreign financing (net)	-0.4	0.1	-0.5	-0.2	-1.9	-2.0	-1.8	-1.7	-1.8	-1.9	-1.7	-2.4
Disbursements	0.7	0.0	0.7	0.6	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Amortization due	1.2	0.8	1.0	0.8	2.5	1.9	1.7	1.2	1.2	1.0	0.7	1.3
Of which: Paid	0.0	0.4	0.5	0.5	0.5	0.2	0.4	0.4	0.4	0.3	0.2	0.5
Movement in Zimbabwe's SDR holdings (net)	0.0	0.9	-0.2	0.0	0.0	-0.2	-0.2	-0.4	-0.6	-0.5	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.0	-1.1
Change in arrears	3.0	1.2	1.1	0.3	2.3	1.9	2.9	0.7	0.7	1.4	1.3	1.5
Domestic	1.2	0.0	-0.2	-0.7	-0.4	-0.6	0.8	-0.9	-0.9	0.0	0.0	0.0
Arrears accumulation	1.2	0.9	0.0	0.6	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Arrears clearance	0.0	-1.0	-0.2	-1.3	-1.4	-0.6	-0.2	-0.9	-0.9	0.0	0.0	0.0
Foreign	1.9	1.2	1.2	1.0	2.7	2.4	2.1	1.6	1.6	1.4	1.3	1.5
Interest	0.7	0.8	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Principal	1.2	0.5	0.5	0.3	1.9	1.7	1.3	0.9	0.8	0.7	0.5	0.8
Statistical discrepancy / Financing gap	**0.0**	**0.0**	**-0.4**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

1/ Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.
2/ Presentation in keeping with the definitions in the Technical Memorandum of Understanding.
3/ The difference between the primary balance on a commitment and cash basis is the change in domestic arrears.

Table 4. Zimbabwe: Monetary Survey, 2011–19
(Millions of U.S. dollars; unless otherwise indicated)

	Actual			Projected					
	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Monetary authorities									
Net foreign assets	**-734**	**-700**	**-810**	**-630**	**-555**	**-450**	**-297**	**-99**	**138**
Claims on non-residents	516	550	441	621	700	808	965	1,166	1,407
Gross international reserves [1/]	366	398	284	464	543	651	809	1,009	1,250
Of which: Other reserve assets	114	255	141	290	307	323	398	595	833
Liabilities to non-residents	-1,250	-1,250	-1,251	-1,251	-1,255	-1,258	-1,262	-1,265	-1,269
Short-term foreign liabilities	-662	-658	-655	-652	-651	-651	-650	-649	-648
Of which: Liabilities to IMF	-134	-127	-126	-123	-122	-121	-120	-120	-119
Other foreign liabilities	-588	-592	-596	-599	-603	-608	-612	-616	-620
Net domestic assets	**919**	**973**	**1,082**	**910**	**852**	**763**	**634**	**469**	**264**
Net domestic claims	-1	-8	143	2	2	2	2	2	2
Claims on other depository corporations	0	0	141	0	0	0	0	0	0
Net claims on central government	-2	-11	-1	-1	-1	-1	-1	-1	-1
Claims on other sectors	1	4	3	4	4	4	4	4	4
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	4	3	4	4	4	4	4	4
Other items (net)	921	980	939	908	850	761	632	467	262
Monetary base	**186**	**273**	**272**	**280**	**297**	**313**	**337**	**370**	**402**
Statutory reserves	83	0	0	0	0	0	0	0	0
Banks' current/RTGS accounts	102	273	272	280	297	313	337	370	402
Deposit money banks and other banking institutions									
Net foreign assets	**443**	**266**	**1**	**-114**	**-167**	**-174**	**-160**	**-126**	**-93**
Foreign assets	644	642	704	720	716	754	813	892	971
Foreign liabilities	-200	-376	-702	-834	-884	-929	-974	-1,019	-1,064
Net domestic assets	**2,657**	**3,428**	**4,027**	**4,124**	**4,419**	**4,652**	**4,988**	**5,421**	**5,854**
Net domestic claims	3,105	3,892	4,337	4,346	4,542	4,793	5,128	5,563	5,996
Claims on RBZ	349	325	347	355	372	388	412	445	477
Currency	0	0	0	0	0	0	0	0	0
Deposits	349	325	347	355	372	388	412	445	477
Net claims on central government	0	-5	315	382	288	221	193	195	126
Claims on other sectors	2,755	3,572	3,676	3,609	3,882	4,184	4,523	4,923	5,393
Claims on public non-financial corporations	45	52	61	62	64	67	70	72	75
Claims on private sector	2,710	3,520	3,615	3,547	3,817	4,117	4,454	4,851	5,318
Other items (net)	-448	-463	-310	-222	-123	-141	-141	-142	-142
Liabilities to RBZ	**0**	**0**	**141**	**0**	**0**	**0**	**0**	**0**	**0**
Deposits included in broad money	**3,100**	**3,694**	**3,888**	**4,011**	**4,252**	**4,478**	**4,827**	**5,295**	**5,761**
Monetary Survey									
Net foreign assets	**-290**	**-435**	**-809**	**-744**	**-722**	**-625**	**-457**	**-226**	**46**
Net domestic assets	**3,391**	**4,129**	**4,697**	**4,754**	**4,974**	**5,102**	**5,284**	**5,520**	**5,716**
Domestic claims	2,754	3,559	3,993	3,993	4,172	4,407	4,718	5,121	5,521
Net claims on central government	-2	-17	314	380	287	220	191	194	125
Claims on other sectors	2,756	3,575	3,679	3,613	3,885	4,188	4,527	4,927	5,396
Claims on public non-financial corporations	45	52	61	62	64	67	70	72	75
Claims on private sector	2,711	3,524	3,618	3,551	3,821	4,121	4,457	4,854	5,321
Other items (net)	636	570	704	761	802	695	566	400	195
Broad money liabilities (M3)	**3,100**	**3,694**	**3,888**	**4,011**	**4,252**	**4,478**	**4,827**	**5,295**	**5,762**
Deposits	3,100	3,694	3,888	4,011	4,252	4,478	4,827	5,295	5,762
				(annual percentage change)					
Monetary Base	-27	47	0	3	6	5	8	10	9
Broad Money (M3)	33	19	5	3	6	5	8	10	9
Currency	…	…	…	…	…	…	…	…	…
Deposits	33	19	5	3	6	5	8	10	9
Private Sector Credit	63	30	3	-2	8	8	8	9	10
Memorandum Items:									
Usable international reserves [2/]	182	128	143	184	246	338	471	640	848
Loan-to-deposit ratio (in percent)	87	95	93	88	90	92	92	92	92
Reserves-to-deposit ratio (in percent)	6	7	7	7	7	7	7	7	7
Money multiplier (M3/monetary base)	17	14	14	14	14	14	14	14	14
Velocity (GDP/M3) [3/]	3.5	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.2

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

1/ Defined as Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves, and amounts in SDRs escrow account.

2/ Defined as the higher of Zimbabwe's SDR holdings and gross international reserves less amounts deposited in banks' current/RTGS accounts and statutory reserves, and amounts in SDRs escrow account.

3/ Zimbabwe's statistical agency (ZIMSTAT) recently revised the GDP series since 2009. The new GDP series are 25-30 percent higher than the old ones.

Appendix I. Letter of Intent

July 1, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

1. We would like to take this opportunity to inform you of our progress in implementing Zimbabwe's Staff-Monitored Programme (SMP) that was approved by the Fund's Management in June 2013. You will recall that this is Zimbabwe's first program engagement with IMF staff in more than a decade. The SMP focuses on putting our public finances on a sustainable course (while protecting infrastructure investment and priority social spending), strengthening public financial management, enhancing diamond revenue transparency, and reducing financial sector vulnerabilities, including by restructuring the balance sheet of the Reserve Bank of Zimbabwe (RBZ). To this end, the programme is based on ambitious quantitative targets and structural reform measures.

2. You will also recall that the first review under the SMP could not be completed last year. Consequently, in December 2013 the Government of Zimbabwe requested, and you approved, a six-month extension of the SMP until June 2014, as well as modified quantitative targets for end-December 2013. The additional six months allow us time to strengthen our policies and deliver on outstanding commitments under the program.

3. Following a constitutional referendum in March 2013, the July 2013 harmonised elections delivered a victory for President R.G. Mugabe and ZANU-PF, which secured a more than two-thirds majority in the National Assembly. Our new Cabinet, which was appointed in September 2013, is a more cohesive body than its predecessor. We are confident that this cohesiveness will translate into strengthened policy formulation and implementation. This will enhance our ability to vigorously pursue our reform agenda.

4. The government's new economic blueprint for the next five years, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM ASSET) October 2013 to December 2018, aims to achieve sustainable development and social equity, propelled by the judicious exploitation of the country's abundant human and natural resources. As part of ZIM ASSET, we also intend to accelerate our re-engagement on debt resolution with the international financial institutions (IFIs) and with other creditors. Zimbabwe urgently requires a substantial amount of inflows of fresh capital to help jump-start the recovery of the economy.

5. Against the background of uncertainty typical of an election year, GDP growth in 2013 is estimated to have slowed down significantly to some 3 percent, from 10.6 percent in 2012. In particular, we faced a disappointing maize harvest for the 2012/2013 agricultural season due to late, unevenly distributed and erratic rains. This poor 2012/2013 harvest threatened food security for an estimated 2.2 million of our people during the lean period from January to March 2014, underscoring the need for us to come up with strategies for mitigating the effects of droughts and to support agriculture going forward. The electoral process also induced a wait-and-see attitude among many economic agents, further contributing to the economic slowdown.

6. A baseline projection for real GDP growth for 2014 is 3.1 percent, reflecting, among other factors, continuing low business and investment confidence, scarce liquidity, and subdued international prices for our major exports. However, the timely and full implementation of ZIM ASSET could accelerate growth to an average of 6 percent over the medium term.

7. Inflation continues to be very low and has recently dipped into negative territory, recording -0.3 percent year-on-year in April 2014, reflecting weak domestic demand, tight liquidity conditions and the appreciation of the US dollar against the South African rand, the currency of our main trading partner. We anticipate that inflation will average around 0.8 percent in 2014.

8. The SMP provided a useful anchor for the economy in an election year. However, the constitution-making and electoral processes created spending pressures and, together with the transition to a new government, slowed the pace of implementation of our structural reforms. The elections caused a more general delay in a variety of processes, including the preparation of the 2014 Budget. That is why our performance on the end-June 2013 and the modified end-December 2013 quantitative targets (Table 1) and the structural benchmarks for the first and second reviews (Table 2) was not as strong as we would have liked.

9. For the end-June 2013 test date, we met two of the six quantitative targets: the floor on protected social spending and the floor on payments to the Poverty Reduction and Growth Trust (PRGT). We nearly met the floor on the stock of usable international reserves. We missed the continuous ceiling on new non-concessional external debt by a small margin, due to the signing of a US$ 319 million loan with the Export-Import Bank of China in November 2013 to finance a critically important power generation project. We missed the target for the primary fiscal balance on a cash basis by about 1.3 percent of GDP, mostly due to spending overruns, some of which can be attributed to our efforts to advance the clearance of old domestic arrears.

10. Although the continuous zero ceiling on new domestic arrears was missed, we believe that we made significant progress on this issue than envisioned under the SMP. In fact, although we accumulated some new domestic arrears in 2013, we also prioritized the clearance of pre-2013 arrears, and on balance, the overall stock of arrears declined by US$ 54 million (about 0.4 percent of GDP) in 2013, which compares favourably with the reduction of US$ 23 million envisaged under the original programme.

11. For the end-December 2013 test date, we met three of the six revised quantitative targets: the floor on usable international reserves, the floor on payments to the PRGT, and the continuous ceiling on new non-concessional borrowing. We missed the modified target for the cumulative primary fiscal balance on a cash basis by about 1.7 percent of GDP, mostly due to substantial weakness in tax revenues in the last two months of 2013. Owing mostly to the weakness in revenue in Q4, we missed the floor on protected social spending by about 0.3 percent of GDP and our stock of domestic arrears overshot its ceiling by about 0.3 percent of GDP.

12. We made progress on the structural reform front by attaining three of the five structural benchmarks for the first review and one of the five structural benchmarks for the second review. In particular:

- we submitted the new Income Tax Bill to Parliament in May 2013;
- the time-bound action plan by the Civil Service Commission (formerly the Public Service Commission) on measures to modernize human resource and payroll systems was submitted to the Ministry of Finance and Economic Development (MoFED) in December 2013;
- the new framework for contingency planning and systemic risk management was submitted to and approved by the RBZ Board in October 2013;
- finally, the RBZ Debt Assumption Bill (formerly the RBZ Debt Relief Bill) was approved by Cabinet in November 2013 and submitted to Parliament on April 10, 2014.

13. The report on the stock of verified pre-2013 domestic arrears was completed. Although it was not published on MoFED's website, the total stock of arrears and the strategy to clear them were made public in the 2014 National Budget Statement submitted to Parliament last December.

14. Given the complexities of drafting a new Mines and Minerals Act, after some consideration the new government decided to accomplish its objectives through amendments to the Act. A series of workshops were held between March and May to discuss the amendments, involving the Ministry of Mines and Mining Development (MoMMD), MoFED, the Zimbabwe Revenue Authority (ZIMRA), the Attorney General's Office, the RBZ and the mining companies.

15. The Principles of the Mining legislation amendments (structural benchmark for the third review) have been approved by Cabinet on 1st July, 2014. Given the importance of these proposed amendments, they are receiving priority from the Ministry of Mines and Mining Development (MoMMD). This will push back the completion of the work on the amendments to the Precious Stones Trade Act into the second half of 2014.

16. The Statutory Instrument establishing a formula for calculating dividends from entities in which the government is a shareholder was not issued, owing to the absence of enabling legislation. However, we undertook other policy measures to attain the objective of mobilizing diamond revenue.

17. The Finance Act gazetted in April 2014 gave legal effect to the tax measures pronounced in the 2014 Budget Statement, including the withholding by the Mineral Marketing Corporation of Zimbabwe (MMCZ) and the Zimbabwe Mining Corporation (ZMDC) of a special dividend equal to 15 percent of the gross proceeds of diamond sales and collecting depletion fees for direct payment to the Treasury. The enforcement of this special dividend has been held in abeyance pending the completion of the review of the mining fiscal regime.

18. More fundamentally, with technical support from the World Bank, we are in the process of reviewing the fiscal regime for the mining sector to ensure that Zimbabwe maximizes its benefits from its mineral resources, while at the same time encouraging investment in the sector. As part of our consultative process, a workshop will be held on 30th June 2014 with key stakeholders. In addition, in order to increase diamond revenue transparency, the 2012 audited financial accounts of the ZMDC were posted on the website of the MoMMD's in May 2014.

19. Furthermore, we have constituted a joint task force composed of technical staff from MoFED, MoMMD, and the Zimbabwe Revenue Authority to forecast and monitor diamond-related revenue flows covering taxes, royalties, dividends, depletion fees and management fees. Finally, in December 2013 we dissolved the management boards of the three state-owned enterprises involved in the diamond sector: ZMDC, MMCZ, and Marange Resources, because of their failure to exercise proper oversight over the management of these public enterprises. More critically, we are undertaking a review of the structure of the diamond sector, with a view to streamlining the number of companies operating in the sector.

20. Going forward, it is our intention that all diamond sales must take place in a competitive environment at international trading centres. In fact, our first two diamond tenders, undertaken as test runs, took place in Antwerp in December 2013 and February 2014. In view of their positive outcome, we held another successful auction in Dubai in late March 2014, and additional auctions are planned in the coming months.

21. Turning to 2014, our proposed quantitative targets are presented in Table 1, while our structural reform agenda is presented in Table 3. The 2014 Budget was submitted to Parliament in December 2013 and approved in January 2014. It targeted a zero overall balance on a cash basis and was anchored on a revenue envelope of US$ 4.12 billion (30.6 percent of GDP). To enhance revenue, the government maintained the measures on excise duty introduced in early 2013 to help fund the constitutional referendum and harmonised elections. These measures had originally been slated to expire at end-2013. In addition, other tax policy measures were introduced, such as the removal of the deductibility of royalties for profit tax calculations by mining houses, and a new excise on ethanol.

22. The 2014 Budget provided for an 8 percent increase to the overall wage bill. Following the conclusion of negotiations in the National Joint Negotiating Council in January 2014, the overall wage bill is now projected to increase by 14 percent this year. The larger increase resulted from the need to make good on the Government's election commitments. We have already identified cuts in non-wage non-interest spending, relative to the 2014 National Budget Statement, in order to completely offset these wage increases.

23. The wage increase significantly exceeds projected inflation for 2014. However, we remain committed to our objective of keeping the overall wage bill on a downward trend relative to Government revenues and expenditures in the medium term, while preserving the real value of salaries of the civil service. Like we did in 2013, we commit to granting only one salary adjustment in

2014. In addition, we will maintain the hiring freeze in Government which started in July 2012, while allowing some limited flexibility in filling critical vacancies that cannot be filled through internal mobility.

24. Given the downward revision to the economic outlook for 2014, there are significant risks to the revenue side of the budget. In addition, our financing space is quite constrained, as we are facing large maturities on domestic T-bills and loans in 2014. To address these challenges, the Minister of Finance and Economic Development presented a package of additional revenue and expenditure measures to Cabinet in early-June 2014. The package amounts to about US$ 933 million (6.9 percent of GDP) and places a heavier weight on revenue measures, including US$ 554 million (4.1 percent of GDP) from selective increases in customs duties, targeted tax compliance operations, non-tax revenues mobilized largely by redirecting surplus resources in several extra-budgetary funds, and from measures to address custom revenue leakages.

25. Capital and recurrent expenditure reduction measures will amount to US$ 379 million (2.8 percent of GDP). It is important to note that we have ring-fenced high-value and high-impact social spending. As a result, we are currently targeting for total revenue of US$ 4,014 million (29.8 percent of GDP), total cash expenditure of US$ 4,092 million (30.4 percent of GDP), and an overall cash deficit of US$ 78 million (0.6 percent of GDP) in 2014. The Government remains committed to taking the necessary measures to achieve the primary balance target, including through mobilization of diamond revenue, which we will discuss with stakeholders in the mid-June 2014 workshop discussed above. In line with our fiscal projections for 2014, we shall begin to make efforts to rebuild our international reserves in the second half of the year. During the coming months we will endeavour to mobilize additional financing so we can reverse some of the cuts in our capital spending.

26. We plan to extinguish the remaining stock of pre-2013 domestic payments arrears amounting to US$ 23 million by end-2014. However, given the very tight resource constraints in the 2014 Budget, it would be very difficult for us to continue reducing the total stock of arrears of domestic payment in 2014. We plan to eliminate the total stock of end-2014 domestic arrears by end-2016.

27. In addition, a number of governance issues have emerged within the country's public entities, including state-owned enterprises and local authorities. As a first step, we have as an interim measure, capped compensation for the senior managers of such public entities. Furthermore, we will seek to amend the Public Finance Management Act to strengthen oversight by the Ministry of Finance and Economic Development of public enterprises and local authorities. In

particular, the amendments will require all public entities to submit their corporate and financial plans to the Minister of Finance and Economic Development before the beginning of the new fiscal year. The Minister of Finance and Economic Development will be given powers to direct boards to amend the corporate and financial plans if necessary. The amendments will direct public entities to submit quarterly financial statements and performance reports not later than thirty days after the end of the respective quarter. In addition, we have started reviewing the Procurement Act, with the objective of tightening our public procurement framework and making it more transparent.

28. Finally, we have embarked on the reforms of our labour laws in 2014, in order to make our labour market more flexible, investment- and growth-friendly. To this extent, a Cabinet committee chaired by the Minister of Public Service, Labour and Social Welfare has been constituted to coordinate the review of our labour laws. A working party of senior government officials has also been set up to support the Cabinet committee. Existing regulations make it difficult for business to respond to the current environment, affecting profitability and discouraging hiring.

29. The financial sector continues to face vulnerabilities stemming from depressed economic activity, weak corporate governance, low capitalization, and poor asset quality in a number of banks. Following rapid credit growth in previous years, the ratio of non-performing loans (NPLs) to total advances reached 16.6 percent on average at end-March 2014. The high level of NPLs and the economic slowdown contributed to the deterioration in bank profitability in 2013. Industry averages, however, mask wide variations among banks, with the larger banks remaining solid and profitable, while several non-systemic banks are facing deep distress. Liquidity remains tight, as 11 out of 22 banks operated below the prudential liquidity requirement in December 2013. The high demand for cash and the resultant liquidity crunch in December 2013, strained some of the smaller banks. This, along with the absence of a lender of last resort, exacerbates financial sector vulnerabilities.

30. Against this challenging background, the Government of Zimbabwe reaffirms its commitment to take measures to reduce financial sector vulnerabilities. In recognition of the importance of a strong central bank to financial stability, the RBZ Debt Assumption Bill was submitted to Parliament in April 2014. It provides for the restructuring of the RBZ balance sheet by transferring its non-core domestic and foreign liabilities totalling US$1.35 billion to the central government. In this regard, the MoFED issued in late-March and in April 2014, securities to repay US$ 146 million of the validated RBZ's liabilities. In implementing the debt assumption process, the Government of Zimbabwe is guided by a strategy to minimise potential fiscal risks and to avoid the concentration of maturities.

31. We have taken the decision to move the Treasury's exchequer account from the Commercial Bank of Zimbabwe (CBZ), to the RBZ, with the process to commence in tandem with the policy measures discussed in paragraphs 30 above and 33 below. When the transfer process starts, we will proceed on the basis of allowing the balance in the account at CBZ to gradually decline, while we begin to direct tax revenue flows to the new exchequer account at RBZ. The transition arrangements will remain in effect while we complete the link between the RBZ's systems and the Public Finance Management Information System (PFMIS) at the MoFED. As we approach the end of the transition period, we will endeavor to minimize side effects on banking system liquidity and on the CBZ's own liquidity management. With this reform in mind, RBZ staff have for some time now been incorporated into the MoFED's cash-flow forecasting and management team. In this regard, we will be calling on IMF's technical assistance to strengthen the government's treasury management function.

32. Strengthening the financial regulatory and supervisory framework remains a priority for the new government. We, however, thought it necessary to review the initial work on the Banking Act amendments that was carried out under the previous government. Following a workshop held in early-May 2014 where we consulted with the banking sector, the principles for the amendments to the Banking Act were approved by Cabinet on 10 June 2014 (structural benchmark for the third review), and we will submit those to Parliament in July/August 2014. Once enacted, these amendments will improve corporate governance in the banking sector, strengthen the Troubled Bank Resolution Framework, enhance consumer protection, improve regulatory coordination, and facilitate the accreditation of a Credit Reference Bureau.

33. To help alleviate recurrent liquidity shortages, in February 2014 the Government of Zimbabwe signed a Memorandum of Understanding with the African Export-Import Bank (Afreximbank) to introduce a $100 million interbank liquidity facility. Under this facility, participating banks in temporary need of liquidity will be able to pledge as collateral eligible assets in their portfolios. Banks providing the liquidity will be protected by accepting as collateral securities issued by Afreximbank, which enjoys a BBB rating. While Government stands ready to support this mechanism, its possible exposure is strictly limited by the design of the facility.

34. We will continue to implement our policy to raise the minimum capital requirements for banking institutions. Against the background of attendant challenges in the macroeconomic environment, we will maintain the current minimum capital requirement levels as at 31 December 2012. We will monitor and evaluate progress made banks towards attainment of the capital milestones outlined in their recapitalization plans. We will intensify the monitoring of weaker banks,

with a particular focus on loan provisioning practices and risk management. Banks are required to review the levels of insider loans, ensure adequate provisioning, and report monthly to the RBZ. Finally, we will prioritize financial stability in designing and implementing any indigenization and empowerment policies for the financial sector.

35. As spelt out in ZIM ASSET, we are determined to accelerate our re-engagement with all of our creditors. We have started making quarterly payments to the African Development Bank (AfDB) and the World Bank, and organized an initial meeting between our Debt Management Office and all three major IFIs in late 2013 to launch discussions on appropriate payments going forward. We aim to continue this discussion in the period ahead with the objective of settling on a solution that can be satisfactory to all parties. While we continue these discussions, we will maintain payments to the IFIs at least at their current levels. As our capacity to pay improves over time, we will increase these payments.

36. In addition, we will refrain from making any draw-downs of our SDR holdings in 2014, as these constitute the core of our international reserves. We will avoid selective debt servicing, as this would complicate reaching an agreement with creditors on a debt resolution strategy. However, we will continue to make repayments to creditors that are providing us with positive net new financing.

37. In 2013 the Government of Zimbabwe contracted two new external loans with Export-Import Bank of China (US$ 319.5 million for power generation) and India (US$ 28.6 million for power and water infrastructure). The financial terms of these loans fall below the 35 percent concessionality requirement under the SMP. It is important to note that we could not afford to further postpone the contracting of these loans, as these will fund improvements in power generation and water infrastructure, which are essential for economic development and poverty reduction.

38. As indicated in our 2014 National Budget Statement, we will seek to avoid borrowing on non-concessional terms going forward. However, only if grants and concessional loans are not available, will we contract or guarantee non-concessional borrowing only subject to the limits proposed in Table 1, and only for critical infrastructure projects. Moreover, before signing any non-concessional loan agreement, we will seek project viability assessments from the AfDB, the Development Bank of South Africa, or the World Bank to ensure that the identified projects have high economic and social impact. We will also consult with Fund staff and provide them with all related documents regarding non-government guaranteed and non-concessional external borrowing by state-owned enterprises. We will inform the Fund staff when considering new

instruments to leverage our natural resources and/or major projects under the public-private partnerships model.

39. In order to strengthen public debt management, Cabinet approved the principles of a Public Debt Management Bill on June 18, 2014 (structural benchmark for the third review).

40. The Government of Zimbabwe believes that the policies outlined above will achieve the objectives of the programme, but stands ready to take further measures that might become necessary for this purpose, in consultation with the IMF staff. The Government will continue to provide IMF staff with the information required to accurately monitor the programme. Furthermore, the Government of Zimbabwe will consult with the IMF staff in advance of any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations, at the initiative of the Government or the IMF staff.

41. The Government of Zimbabwe authorizes the IMF to publish this letter, the attached TMU, and the related staff report. We authorize the IMF to arrange for these documents to be posted on its website following the conclusion of the review and subject to the removal of market-sensitive information.

Sincerely yours,

/s/	/s/
Patrick A. Chinamasa	John Mangudya
Minister of Finance & Economic Development	Governor
Government of Zimbabwe	Reserve Bank of Zimbabwe

Table 1. Zimbabwe: Quantitative Targets

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

	2013[1]									2014[1]		2014[1, 10]	
	March	June[2]			Sept.		Dec.[2]			March	June[2]	Sept.	Dec.
	Act.	Prog.	Act.	Status	Prog.	Act.	Prog.	Act.	Status	Est.	Proposed	Indicative	
1. Floor on primary budget balance of the central government[3,4,5,6,7]	-26	18			80		-47	-262		52	-43	5	-35
Adjusted floor		169	-3	Not met	170	-25	-53		Not met				
2. Continuous ceiling on new domestic payment arrears[8]	n.a.	0	n.a.	Not met	0	n.a.							
3. Floor on protected social spending	18	51	58	Met	93	98	144	100	Not met	5	25	70	107
4. Floor on stock of usable international reserves	143	149	143	Not met	169	175	143	143	Met	143	143	158	173
5. Floor on payments to the PRGT	0.45	0.90	1.05	Met	1.35	1.50	1.80	1.80	Met	0.60	0.90	1.35	1.80
6. Continuous ceiling on the stock of new non-concessional external debt contracted or guaranteed by the general government with original maturity of one year or more	0	330	29	Not Met[9]	330	29	350	348	Met	0	400	400	400
7. Ceiling on total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates			171			75	117	158	Not met	200	301	301	267
Memorandum Items:													
Broad Money (stock)	3,646	4,043	3,689		4,226	3,757	3,828	3,888		4,014	3,900	3,918	4,011
Reserve Money (stock)	227	232	337		243	276	283	272		274	276	278	280
Disbursements on medical equipment and supplies loan	0	90	30		90	30	72	72		0	0	18	18
Unbudgeted costs related to the referendum and elections	18	148	47		148	153	153	153					
Unbudgeted revenues from telecom licence fees	0	50	40		50	85	91	85					

[1] Value of cumulative flows for the calendar year, unless otherwise indicated.

[2] Program performance will be monitored based on the quantitative targets for June and December 2013 and for June 2014.

[3] To be adjusted downwards in any quarter and subsequent quarters by the full amount of any new borrowing disbursed and utilized by central government for priority infrastructure projects.

[4] To be adjusted downwards in any quarter and subsequent quarters by the full amount of any domestic debt issuance by central government ring-fenced for clearance of domestic payment arrears.

[5] To be adjusted upwards (downwards) in Q2 and Q3 of 2013 by the full amount of any shortfall (excess) in unbudgeted costs related to the constitutional referendum and national elections and incurred by central government, relative to programme assumptions.

[6] To be adjusted downwards (upwards) in any quarter and subsequent quarters in 2013 by the full amount of any shortfall (excess) in unbudgeted revenues from telecom licence fees received by central government, relative to programme assumptions.

[7] To be adjusted downwards in Q1 of 2013 by the value of the medical equipment and supplies project loan if the loan were disbursed in that quarter. To be adjusted upwards in Q2 and Q3 of 2013 by the shortfall in the cumulative disbursement on the loan effected through these quarters, relative to programme assumptions. To be adjusted downwards (upwards) in Q4 of 2013 and all 4 quarters of 2014 by the full amount of any excess (shortfall) in the cumulative disbursement on the loan for the calendar year effected through each date, relative to programme assumptions.

[8] For the second and third SMP reviews, the continuous ceiling on new domestic payment arrears is replaced with a ceiling on the total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates.

[9] A US$ 319 million non-concessional loan was signed with the Export-Import Bank of China in November, thus breaching the continuous US$ 330 million ceiling.

[10] Indicative targets are part of the authorities' reform agenda .

Table 2. Zimbabwe: Status of Structural Benchmarks for 1st and 2nd SMP Reviews			
Benchmarks	**Macroeconomic Rationale**	**Review**	**Status**
Tax Policy			
1. Submit to Parliament the new Income Tax Bill.	Enhance tax administration	1st	Met.
2. Issue a Statutory Instrument establishing a clear formula for the calculation and remittance of dividends from entities in which the Government holds shares.	Increase transparency and accountability	1st	Not met.
3. Submit to Cabinet amendments to the Precious Stones Trade Act to incorporate the principles of the Diamond Policy.	Increase transparency and accountability	2nd	Not met.
4. Submit to Parliament amendments to the Precious Stones Trade Act.	Increase transparency and accountability	2nd	Not met.
5. Submit to Parliament a new Mines and Minerals Act.		2nd	Not met.
Public Financial Management			
6. PSC to submit to MoFED a time-bound action plan on measures to modernize the human resources and payroll systems.	Enhance public expenditure and financial management	1st	Met.
7. Publish a report on the stock of verified arrears and a strategy to clear validated arrears by December 2013 on MoFED's website.	Enhance public expenditure and financial management	1st	Not met.
Financial Sector			
8. Submit to the RBZ Board a framework for contingency planning and systemic crisis management.	Reduce financial sector vulnerabilities	1st	Met.
9. Submit amendments to the Banking Act to Parliament aimed at strengthening the Troubled Bank Resolution Framework.	Strengthen legal and regulatory framework and reduce systemic liquidity risks	2nd	Not met.
10. Submit the RBZ Debt Relief Bill to Parliament to complete the restructuring of the RBZ balance sheet.	Reduce financial sector vulnerabilities	2nd	Met

Table 3. Zimbabwe: Proposed Structural Benchmarks for 3rd SMP Review

Benchmarks	Review	Macroeconomic Rationale
Tax Policy		
1. Submit to Cabinet amendments to the Mines and Minerals Act.	3rd	Increase transparency and accountability.
Public Financial Management		
2. Cabinet approval of the principles for a Public Debt Management Bill.	3rd	Enhance public debt management.
Financial Sector		
3. Cabinet approval of the principles for the amendments to the Banking Act.	3rd	Reduce financial sector vulnerability.

Attachment I. Technical Memorandum OF Understanding

INTRODUCTION

1. This memorandum sets forth the understandings between the Government of Zimbabwe and the IMF staff regarding the definitions of the quantitative targets, the structural benchmarks, the applicable adjusters, and the respective reporting requirements for the Staff-Monitored Programme (SMP). The quantitative targets and structural benchmarks are reported in Tables 1 and 3 of the Government's Letter of Intent (LOI).

DEFINITIONS

2. **Central government** represents a single institutional unit consolidating all the accounts whose total revenues and expenditures are authorized through the Blue Book (including line ministries, the Parliament of Zimbabwe, the Auditor General's Office, and Vote of Credit). The definition excludes public entities with autonomous legal personae whose own budgets are not included in the central government budget.

3. **The general government** comprises the central government, the Reserve Bank of Zimbabwe (RBZ), extra-budgetary funds, social security, and local governments.

4. **The public sector** comprises the general government and all state-owned enterprises.

5. **Non-interest expenditures** are measured on a cash basis. Non-interest expenditures include current expenditures (wages and salaries, pensions, goods and services, grants and transfers), capital expenditures, and net lending. Net lending comprises loans granted by the central government, except in the case of on-lending of externally borrowed funds, which is included as a negative domestic financing item ("below the line"). All expenditures and net lending financed with loans to be serviced by the central government fall within the programme's definition of expenditures and net lending, even if the cash did not transit through the treasury. Non-interest expenditures will be measured from the budget execution data.

6. **Broad money** is defined as total banking sector deposits, net of interbank deposits and excluding government deposits in the banking sector.

7. **Reserve money** comprises bank and non-bank deposits with the Reserve Bank of Zimbabwe, including bankers' current accounts.

QUANTITATIVE TARGETS

A. Floor on the Primary Budget Balance of the Central Government

8. **The primary budget balance of the central government** is measured on a cash basis and is defined as revenues and grants minus non-interest expenditures. The central government primary balance will be measured from above the line using budget execution data.

B. Ceiling on the Total Stock of Arrears to Domestic Service Providers, Agricultural Input Suppliers, and on Capital Certificates

9. **Domestic arrears** are defined as overdue domestic payment obligations of the central government, whether verified or not, to domestic service providers, agricultural input suppliers, and on capital certificates. Arrears will be monitored using the monthly fiscal data reporting. Domestic service providers are defined to comprise the Central Mechanical Equipment Department (CMED), NetOne, TelOne, ZESA (power company), ZINWA (water authority), and the local authorities.

C. Floor on Protected Social Spending

10. **Protected social spending** is measured on a cash basis and comprises central government spending in the following areas:

- **education** (recurrent spending on teaching and learning materials, on student stipend support from the National Education and Training Fund; and capital spending on upgrading of schools and other facilities);
- **health** (recurrent spending on government hospitals and health centres, on grant-aided institutions such as Parirenyatwa Hospital, mission hospitals, and local authorities, on maternal and child health, on results-based financing, on preventive health programmes, on procurement of ARVs and TB drugs; and capital spending on revitalization of health institutions, on medical equipment, and on procurement of ambulances and service vehicles);
- **social protection** (recurrent spending on the Basic Education Assistance Module (BEAM), on the harmonized cash transfer, on health assistance, on rehabilitation of disabled persons, on government social protection institutions; and capital spending on refurbishment of rehabilitation centres);
- **water and sanitation** (capital spending on water and sewer infrastructure for local authorities, on water supply infrastructure for small towns and growth points, and on water and sanitation for rural areas);

- **agriculture** (recurrent spending on animal diseases and risk management, and capital spending on irrigation rehabilitation and development and on input support for disadvantaged households); and
- **other** (capital spending on construction and rehabilitation of rural roads).

D. Floor on the Stock of Usable International Reserves

11. **Usable international reserves** are defined as the sum of (i) Zimbabwe's SDR holdings; and (ii) the higher of zero and the difference between gross international reserves as reported by the Government of Zimbabwe (adjusted for encumbered deposits and securities and excluding SDR holdings) and the amounts in commercial banks' current and Real Time Gross Settlement (RTGS) accounts. Gross international reserves, excluding Zimbabwe's SDR holdings, include refined gold, balances with foreign banks, foreign treasury bills, securities and investments, foreign currency held by the Reserve Bank of Zimbabwe, and Zimbabwe's reserve position in the Fund. SDRs allocated under the Fourth Amendment of the IMF's Articles of agreement and placed in escrow account at the IMF (SDR 66.4 million) are excluded from the definitions in this paragraph. For the purpose of the programme, SDR-denominated accounts will be valued at the programme exchange rate of US$ 1.54 per SDR.

E. Ceiling on the Amount of New Non-concessional External Debt Contracted or Guaranteed by the General Government with Original Maturity of One Year or More

12. **Contracting or guaranteeing of new external debt by the general government** applies to debt to non-residents with original maturity of one year or more. For the purposes of the programme, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis.

13. Debt is defined as concessional if, at the time of its contracting, the ratio between the present value (PV) and the face value of debt is less than 65 percent (equivalent to a grant element of at least 35 percent). The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

14. New non-concessional debt will be contracted or guaranteed only as financing for priority infrastructure projects that have been assessed in consultation with a reputable and independent

financial institution, such as the African Development Bank, the Development Bank of Southern Africa, or the World Bank, prior to the signing of the loan agreement and project documents.

F. Adjusters

15. **The quantitative target on the primary budget balance of the central government specified under the programme is subject to the following adjusters:**

- The floor on the cumulative primary budget balance in any quarter and subsequent quarters will be adjusted downwards by the full amount of any new borrowing disbursed and utilized by central government for priority infrastructure projects.
- The floor on the cumulative primary budget balance in any quarter and subsequent quarters will be adjusted downwards by the full amount of any domestic debt issued by central government ring-fenced for clearance of domestic payment arrears.
- The floor on the cumulative primary budget balance in Q4 of 2013 and all 4 quarters of 2014 will be adjusted downwards (upwards) by the full amount of any excess (shortfall) in the cumulative disbursement for the calendar year on the Medical Equipment and Supplies Project loan effected through each date, relative to programme assumptions. The disbursement dates for the purpose of this adjuster are the same as the disbursement dates officially communicated by the Lender to the Borrower, as explained in the loan contract.

DATA REPORTING

16. To facilitate the monitoring of programme implementation, the Government of Zimbabwe will prepare and forward to the Fund staff electronically information in accordance with the agreed reporting framework contained in Table 1.

Table 1. Zimbabwe: Data Reporting for Programme Monitoring

Data Description	Reporting Institution	Reporting Frequency	Submission Lag
Monetary and Financial Sector			
NIR, NFA, monetary control programme	RBZ	Weekly	1 week
Broad money survey	RBZ	Monthly	2 months
RTGS transactions	RBZ	Monthly	1 month
Prudential liquid asset ratios	RBZ	Monthly	1 month
Cash flow of the RBZ	RBZ	Monthly	1 month
Balance sheets and income statements for financial institutions	RBZ	Quarterly	2 months
Financial soundness indicators (aggregate and by bank)	RBZ	Quarterly	2 months
Lending activity of banks (by sector)	RBZ	Quarterly	2 months
Commercial bank interest rates	RBZ	Monthly	1 month
External Sector			
RBZ purchases and sales of foreign currency	RBZ	Monthly	1 month
Balance of payments (incl. revised outturn for previous quarters)	RBZ/ZIMSTAT	Quarterly	3 months
Import and export data, for aggregated sectors	RBZ/ZIMSTAT	Monthly	1 month
Net international reserves (incl. reserve assets/liabilities by currency)	RBZ	Monthly	1 week
Foreign exchange flow data (by type of flow)	RBZ	Monthly	1 month
Diamond production, exports, and prices	RBZ	Quarterly	1 month
RBZ Monthly Economic Review	RBZ	Monthly	6 weeks
Quarterly report on macroeconomic developments	MoFED	Quarterly	1 month
External debt stock, disbursements, amortization, interest, other fees and charges, and repayment (by creditor and currency); detailed terms and conditions of all new contracted and government-guaranteed external borrowing (concessional and non-concessional); and committed undisbursed balances (by creditor)	MoFED	Monthly	1 month

Table 1. Zimbabwe: Data Reporting for Programme Monitoring (concluded)

Data Description	Reporting Institution	Reporting Frequency	Submission Lag
Fiscal Sector			
Central government operations – revenue, expenditure, and financing	MoFED	Monthly	1 month
Detailed data on the execution of the recurrent budget (by economic and administrative classification and by line ministry)	MoFED	Monthly	1 month
Total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates at end-month	MoFED	Monthly	1 month
Stock of domestic debt, disbursements, amortization, interest, and other fees and charges; face value, maturity, interest rate, and payments schedule for new domestic loans and securities	MoFED	Monthly	1 month
Employment data for each ministry	MoFED	Monthly	1 month
Detailed data on resource revenue (by type)	MoFED	Quarterly	1 month
Detailed data on the budget execution of protected social spending (as defined in this document)	MoFED	Quarterly	1 month
Details of disbursed external budget support and project grants and loans	MoFED	Quarterly	1 month
Real Sector			
Consumer Price Index	ZIMSTAT	Monthly	1 month
Fuel price indices, including Petrol, Diesel, and Paraffin	ZIMSTAT	Monthly	2 months
Producer Price Index; Building Materials Price Index; Poverty Datum Lines; and Civil Engineering Materials Index	ZIMSTAT	Quarterly	6 weeks
Agricultural production data (volume/value of major products)	ZIMSTAT	Semi-annually	4 months
Mining production data (volume/value by minerals), excluding production from sand and stone quarries	ZIMSTAT	Quarterly	6 weeks
National Accounts (breakdowns of production and expenditure side in real and nominal terms)	ZIMSTAT	Annually	8 months
Quarterly Digest of Statistics	ZIMSTAT	Quarterly	6 weeks
Structural Benchmarks			
Update on the status of implementation of the structural benchmarks specified in Table 3 of the LOI	MoFED/RBZ	Quarterly	3 weeks

Guidelines on External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

    (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

    (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

    (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431 USA

IMF Management Completes Combined First and Second Reviews Under the Staff-Monitored Program Zimbabwe

On June 27, 2014, IMF Management completed the combined first and second reviews under the Staff-Monitored Program (SMP). An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board. This is Zimbabwe's first IMF agreement in more than a decade.

The Zimbabwean authorities' performance under the SMP has been broadly satisfactory and the authorities have taken corrective measures to ensure a track record of policy implementation going forward. The SMP provided a useful anchor for Zimbabwe in a difficult election year. However, progress in implementing the program was slowed by a long electoral process and a protracted post-election transition, as well as an adverse external environment. Thus, a number of quantitative targets and structural benchmarks were not met. The authorities have began implementing policy measures aimed at addressing the 2014 fiscal gap, improving the quality of public expenditures, enhancing financial sector stability, and moving forward delayed structural reform measures. The authorities have reiterated their continued commitment to the policies under the SMP and to enhanced engagement with their creditors and the international community. A successful conclusion of the third review (with a test date of end-June 2014) could pave the way to a successor SMP, which the authorities have indicated they may request, in order to build on their achievements and support a stronger policy framework.

IMF staff will remain engaged with the authorities to monitor progress in the implementation of their economic program, and will continue providing targeted technical assistance in order to support Zimbabwe's capacity-building efforts and its adjustment and reform program.