INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/105

ZIMBABWE

April 2015

FIRST REVIEW OF THE STAFF-MONITORED PROGRAM—STAFF REPORT; AND PRESS RELEASE

In the context of the First Review Under the Staff-Monitor 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 8, 2015, 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 April 17, 2015.
- A **Press Release**

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

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International Monetary Fund
Washington, D.C.

ZIMBABWE

FIRST REVIEW OF THE STAFF-MONITORED PROGRAM

April 17, 2015

EXECUTIVE SUMMARY

Context. The Zimbabwean authorities have made progress in implementing their macroeconomic and structural reform programs, despite the economic and financial difficulties. During 2015, the authorities' policy reform agenda will continue to focus on: (a) reducing the primary fiscal deficit to raise Zimbabwe's capacity to repay; (b) restoring confidence in the financial system; (c) improving the business climate; and (d) garnering support for an arrears clearance strategy.

Recent developments, outlook, and risks. Zimbabwe's economic prospects remain difficult. Growth has slowed and is expected to weaken further in 2015. Despite the favorable impact of lower oil prices, the external position remains precarious and the country is in debt distress. Key risks to the outlook stem largely from a further decline in global commodity prices, fiscal challenges, and possible difficulties in policy implementation. However, the authorities are committed to intensifying their efforts to ensure successful implementation of the program and to lay the ground for stronger, more inclusive, and lasting economic growth.

Program performance. All quantitative targets and structural benchmarks for the first review under the staff-monitored program (SMP) were met. The authorities demonstrated strong commitment to the program, in a difficult economic and financial environment. Moreover, they have made meaningful progress in implementing other key structural reforms, such as making operational an asset management company and amending the indigenization and empowerment law.

Reengagement with creditors. The authorities have stepped up their reengagement with creditors, including by increasing payments to the World Bank (WB) and the African Development Bank (AfDB), a key step in their roadmap toward seeking rescheduling of bilateral official debt under the umbrella of the Paris Club. These developments constitute important steps toward reengaging with the international financial institutions (IFIs). They plan to step up their efforts to build consensus among creditors and development partners on ways to address the external arrears.

Approved By
Anne-Marie Gulde-Wolf and Luis Cubeddu

Discussions took place in Harare from February 25 to March 11, 2015. The staff team comprised of Mr. Fanizza (head), Ms. Morgan, Ms. Koliadina (all AFR), Ms. Mendez (FIN), and Ms. Teferra (SPR). Ms. Gulde-Wolf joined the mission on March 5–8, 2015. Mr. Beddies (Resident Representative) assisted the mission. Mr. Tlelima (OED) participated in the discussions.

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RECENT DEVELOPMENTS, OUTLOOK AND PROGRAM PERFORMANCE

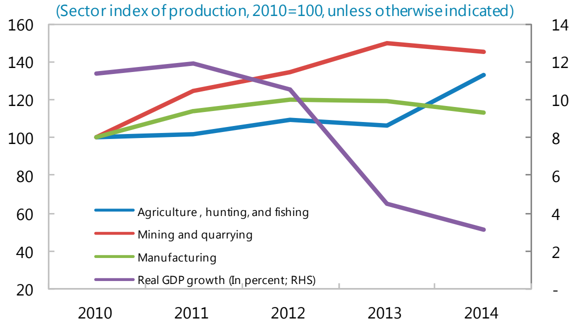
A. Background

1. The Zimbabwean authorities are implementing their macroeconomic stabilization and structural reform program, in the context of a SMP. This program constitutes the lynchpin of the authorities' roadmap for building a strong track record toward normalizing relationship with Zimbabwe's creditors and mobilizing development partners' support. The main objective of the 15-month program approved in October 2014 is to strengthen Zimbabwe's external position as a prerequisite toward arrears clearance, resumption of debt servicing, and restoring access to external financing. This will require further fiscal consolidation to rebuild the country's capacity to repay; restore financial stability; and mobilize international support for resolving the country's external debt situation. Strong performance under the SMP would improve Zimbabwe's repayment capacity and demonstrate that it can implement reforms that could justify a Fund-financial arrangement, which could help tackle the country's deep-rooted problems. The authorities remain committed to implementing sound macroeconomic and structural policies (¶1 and 2, LOI).

B. Recent Developments

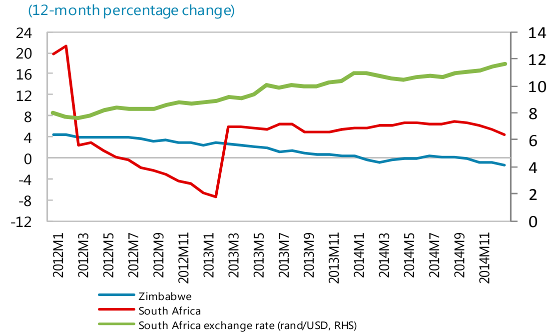
2. Real GDP growth slowed in 2014, despite strong performance in agriculture (Table 1). The recovery in agriculture offset contractions in the mining and manufacturing sectors. Mining activity suffered from supply constraints and adverse price developments, particularly for gold and platinum. The manufacturing sector remained depressed with firms operating amid inadequate infrastructure, rigid labor laws, and lack of financing. In addition, the sector faced strong competition from cheaper imports as the dollar strengthened. Inadequate external inflows remained a drag on economic activity, amid rising formal unemployment. Inflation remained low, reflecting the impact of the persistent depreciation of the South African rand.

Output Growth
(Sector index of production, 2010=100, unless otherwise indicated)



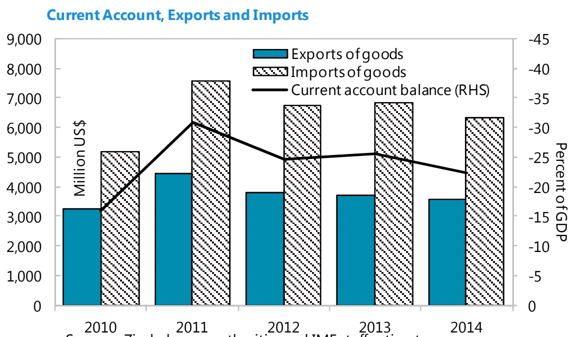
Sources: Zimbabwean authorities and IMF staff estimates.

Consumer Price Inflation
(12-month percentage change)

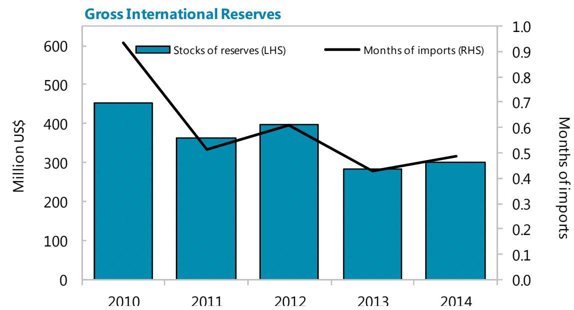


Sources: Zimbabwean authorities and IMF staff estimates.

3. Zimbabwe's external position improved in 2014, but remains precarious. The current account improved mainly because of the favorable agricultural season. The accumulation of external arrears has slowed. The international reserve coverage improved somewhat, but at about two weeks, remains inadequate (Table 2). The large current account deficit is mainly financed by short- and long-term loans to the private sector, which has continued to access international credit (¶1, LOI).

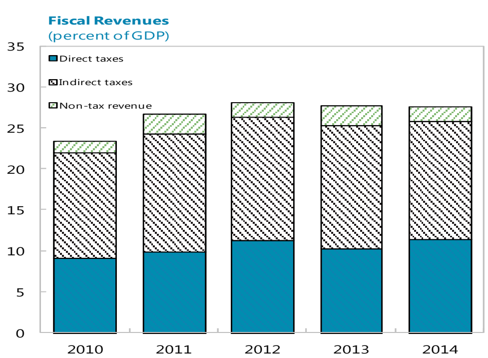


Sources: Zimbabwean authorities and IMF staff estimates.

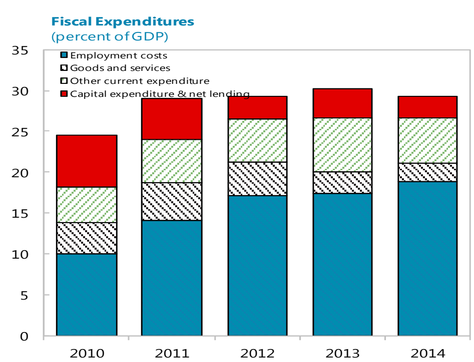


Sources: Zimbabwean authorities and staff estimates.

4. The primary cash deficit of the central government was well within the program target. Expenditure savings more than offset the lower-than-expected revenue, which reflected the weak economic activity and a growing informal sector. Nontax revenues were below program projections, mainly reflecting a shortfall in mining revenue.[1] While domestic arrears clearance exceeded programmed levels, lower-than-projected employment costs and capital spending helped reduce the adjusted primary fiscal deficit to 0.7 percent of GDP, compared with 1 percent of GDP under the program (Text table 1, Table 3).

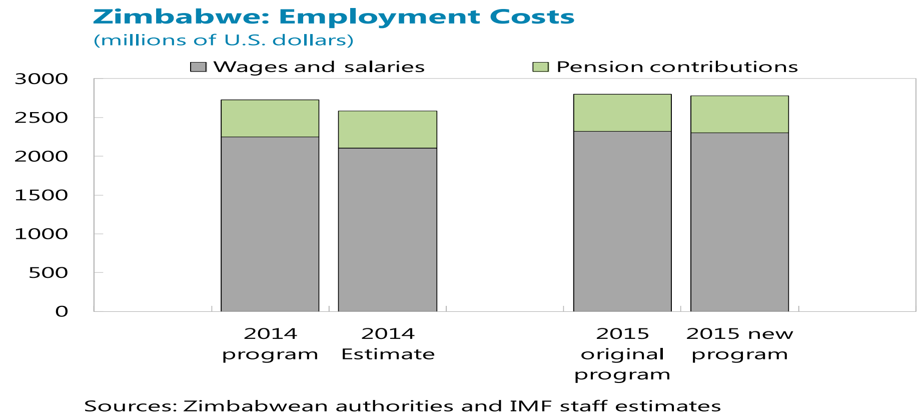


Sources: Zimbabwean authorities and IMF staff estimates.



Sources: Zimbabwean authorities and IMF staff estimates.

[1] The 15 percent special diamond dividend did not yield the expected revenue because of the drop in both production and exports.



Text Table 1. Zimbabwe: Central Government Operations, 2014

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

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

	Adjusted Program	Estimate	Difference	Estimate (% of GDP)
Total revenue	3,928	3,770	-158	27.6
Tax revenue	3,608	3,519	-89	25.7
Nontax revenue	320	251	-69	1.8
Total expenditure & net lending	4,290	4,007	-282	29.3
Of which: Cash expenditure	4,106	3,912	-194	28.6
Of which: Employment costs	2,728	2,583	-145	18.9
Overall balance (commitment basis)	-361	-237	124	-1.7
Primary balance (commitment basis)	-312	-92	220	-0.7
Overall balance (cash basis)	-178	-142	36	-1.0
Primary balance (cash basis)	-137	-98	39	-0.7

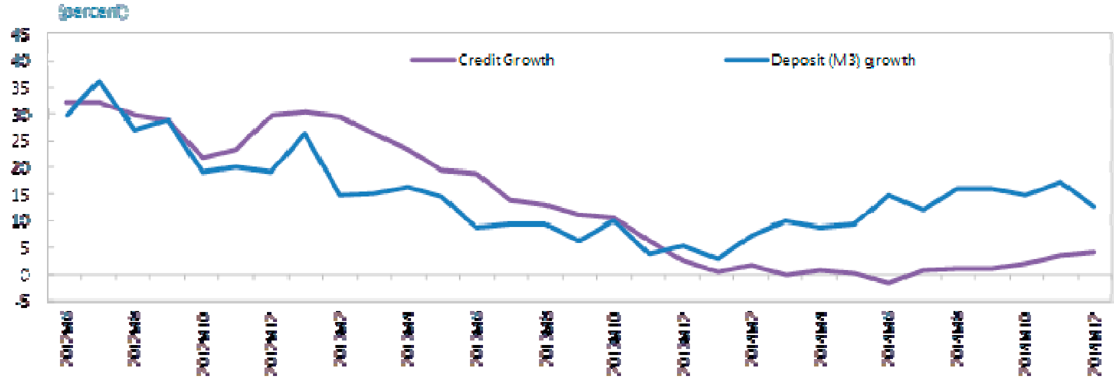
Sources: Ministry of Finance and Economic Development; and staff estimates.
1/ This column takes into account the adjusters to the primary balance target spelt out in the TMU of the SMP. The adjusted programmed primary balance is 1.0 percent of GDP, compared with an estimated outturn of 0.7 percent of GDP. The floor was adjusted by the full amount of domestic borrowing ($77 million) for clearance of domestic arrears.

5. **The banking sector has shown signs of improvements.** Deposit growth picked up in 2014, buoyed in the first half of the year by tobacco-related inflows. Private-sector credit increased slightly but remained constrained by an uneven distribution of liquidity in the system, a very cautious approach to lending by banks, and a weak economy (Figure 1-2). The financial sector remains highly segmented with very limited exposure between the large strong banks and the smaller weak ones (Text table 2). The Afreximbank-supported interbank liquidity facility that became operational in March 2015 is expected to help unlock liquidity from surplus to deficit participating banks.[2] In December 2014, the Reserve Bank of Zimbabwe (RBZ) introduced "bond coins" to address the absence of small denomination dollar coins, a situation that had resulted in

[2] The $200 million facility is managed by the RBZ, acting as agent bank for the Afreximbank.

the rounding up of prices to $1.00.[3] The bond coins are fully backed by a US dollar facility[4], which should help mitigate fears that the coins constitute a return of the Zimbabwe dollar.

Loans and Deposits
(percent)



Sources: Zimbabwean authorities and IMF staff estimates.

Text Table 2. Zimbabwe: Selected Financial Sector Indicators, December 2014[1]

	Share of assets	Share of deposits	Loan/ Deposits	Liquidity Ratio	NPLs/ Total Loans	Capital Adequacy Ratio 2/	ROA	ROE
Commercial Banks (14)	80.3	82.1	76.5	32.6	16.3	16.9	0.8	4.6
Top five	53.6	57.3	72.9	36.7	12.1	16.7	1.4	9.9
Top domestic bank	23.4	27.7	108.2	30.3	8.3	13.8	1.1	12.1
Top foreign-owned banks	29.2	27.0	71.8	40.4	12.8	18.8	1.9	10.4
Merchant banks (1)	0.9	1.5	94.1	2.4	98.8	-45.4	-42.7	-157.8
Building societies (4)	17.3	14.7	92.3	39.6	6.3	27.8	3.6	16.7
Post Office Bank (1)	1.5	1.7	72.2	82.8	7.2	11.2	2.4	9.0
Total Banking sector	100.0	100.0	78.9	39.3	15.7	17.9	0.9	5.2
of which troubled banks (3) 3/	4.2	4.6	76.3	7.8	80.3	-8.9	-18.3	-136.0

Source: Reserve Bank of Zimbabwe.

1/ Preliminary.

2/ The minimum capital adequacy ratio was increased from 10 percent to 12 percent effective August 1, 2012.

3/ Includes two commercial banks and one merchant bank. In November 2014, the RBZ suspended the merchant bank from taking deposits and granting loans until it is capitalized. By early-February 2015, there were only two remaining troubled banks following the closure of another commercial banks.

[3] These coins which are minted in South Africa, are denominated in 1 cent, 5 cents, 10 cents, 25 cents and 50 cents.

[4] The coins are backed by a dedicated $50 million facility managed by the RBZ.

C. Macroeconomic Outlook and Risks

6. Zimbabwe's economic prospects remain difficult. The outlook is for continued weak growth in 2015, as late and erratic rains would affect agriculture. A subdued recovery in mining and manufacturing is projected, underpinned by improved mining techniques and efforts to increase value added[5], and improved water and power supply following government investment in key infrastructure projects. Inflation is projected to remain in negative territory in 2015. Ongoing financial sector reforms are likely to spur deposit and credit growth. The external position is expected to continue improving, as a result of further fiscal tightening and the impact of lower oil prices, but will remain precarious. International reserves are projected to increase. The country will remain in debt distress until a comprehensive arrears clearance strategy is in place (Figure 3).

7. Key risks to the outlook stem largely from further decline in global commodity prices, fiscal challenges and possible difficulties in policy implementation. Declines in the global prices for Zimbabwe's main mineral exports—gold, platinum, and diamonds—which were already facing high production costs, would negatively impact the fiscal and external accounts. While lower oil prices could dampen fiscal revenue, on the upside, they could benefit the external position and domestic demand.[6]

D. Performance under the Program

8. All quantitative targets for end-December 2014 test date were met, despite the economic and financial difficulties, demonstrating the authorities' commitment to the program. On the quantitative targets, the adjusted floor on the primary budget balance of the central government was met by a significant margin, and expenditure on priority social spending and domestic arrears clearance was well above targeted levels. The tighter fiscal stance enabled the authorities to comfortably meet the floor on the stock of international reserves. The floor on payments to the PRGT was also met, and newly contracted nonconcessional external debt has been within the ceiling (Table 1, LOI).

9. All the structural benchmarks for the first review were met. The cabinet approved the Public Debt Management Bill, and the Board of the Zimbabwe Asset Management Corporation (Pvt.) Limited (ZAMCO) approved its mandate, strategy, and objectives (Table 2, LOI).[7] In addition, the authorities have made meaningful progress in implementing other key structural reforms.

[5] Improvements are expected to come from such techniques as washing, sizing of particulates, and the separation of valuable minerals from the other raw materials.

[6] There are no subsidies on fuel.

[7] The approval by ZAMCO's board, and not the RBZ's Board, was in line with recommendations from Fund technical assistance mission in December 2014, based on international best practices.

POLICY DISCUSSIONS AND RISKS

A. Restoring Fiscal Sustainability and Advancing Fiscal Reforms

10. Continued fiscal consolidation is critical for achieving fiscal sustainability, rebuilding international reserves and restoring the country's repayment capacity. The authorities are committed to bringing the primary fiscal deficit (on a cash basis) close to balance in 2015, while protecting priority social spending, and gradually reducing the stock of domestic arrears.

11. Following significant savings in the wage bill in 2014, the authorities have started to take steps to keep employment costs to below budgeted amounts for 2015, while developing a medium-term strategy for public sector reform. In addition to the hiring freeze already in place, they are currently elaborating near-term measures to contain employment costs in 2015, including freezing promotions and eliminating redundancies. The savings from these measures would be channeled to finance capital investment and social outlays. The authorities have no plans of raising wages and salaries in 2015. The cabinet has mandated the Ministry of Finance and Economic Development (MoFED) and the Ministry of Labour and Social Welfare to explore options to reduce the wage bill and rationalize the public service over the medium term. The authorities plan to submit a strategy paper to cabinet by the second review (structural benchmark, ¶6, LOI).

12. Continued revenue mobilization efforts would help lower the primary fiscal deficit. To protect revenue, they have also raised excise duties on fuel, beer and cigarettes, and increased the levy on tobacco growers. In addition, they have been strengthening revenue administration, with Fund technical assistance (TA) and stepped up efforts to collect outstanding tax arrears, (¶4, LOI). The bulk of the revenue gains from additional measures (about 1 percent of GDP) would materialize only in the second half of the year. In the event these measures yield less revenue than expected, the authorities would offset this shortfall through cuts in lower-priority current and capital spending.

13. The authorities have made progress in modernizing mining legislation (¶5, LOI). They expect submitting the amended Mines and Minerals Act, including the fiscal regime for mining, to the Attorney General by end-March, to be submitted to Parliament in the third quarter of 2015. They have already started developing regulations to support the implementation of the amended Act, which would help strengthening the tax regime for the mining sector and improving mining revenue transparency. The authorities have committed to continue publishing the audited financial statements of the Zimbabwe Mining Development Corporation.

14. Further strengthening of the public financial management system (PFM) would improve the efficiency of the delivery of government services and reduce their cost. With Fund TA, the authorities have been working on a PFM reform strategy aimed at improving budget preparation and execution, and strengthening expenditure control (¶7, LOI). They have also been working on the amendments to the Public Finance Management Act (PFMA) to improve the public procurement framework, with the assistance of the WB (¶8, LOI). To help alleviate fiscal costs, the authorities have embarked on restructuring 10 parastatals. External audits of the parastatals have started and will inform the restructuring exercises (¶9, LOI).

B. Restoring Confidence and Financial Stability

15. The authorities have made significant progress in advancing financial sector reforms aimed at restoring confidence and enhancing financial stability. The recapitalization of the RBZ is well underway. The MoFED provided the bank with interest-bearing long-term government securities in December 2014, and has started to assume the noncore debt of the RBZ—related to previous quasi-fiscal activities— following the central government's decision to assume these debts.[8] This will enhance the RBZ's ability to carry out its core functions and to supervise the financial sector. Risks to the financial system have been reduced after the RBZ placed three troubled banks into liquidation, resulting in a marked decline in the level of nonperforming loans (NPLs). The RBZ continues to closely monitor the remaining two troubled banks, including meeting with shareholders and boards on the banks' recapitalization strategies. However, the RBZ plans to rid the system of all distressed banks by end-June 2015. (¶10–11, LOI). In light of the improvements in the anti-money laundering and combating the financing of terrorism (AML/CFT) regime, in February 2015, the Financial Action Task Force (FATF) removed Zimbabwe from the list of countries subject to the FATF monitoring process. (¶16, LOI).

16. The RBZ has taken measures to make ZAMCO operational, in line with international best practices, with Fund TA (¶12, LOI). ZAMCO is an important element of the authorities' multi-pronged strategy to tackle the high levels of NPLs in the banking system, and has been tasked with acquiring and resolving NPLs from banks on commercial terms. A sound operational framework for ZAMCO is key to freeing the banking system from the burden of the high NPLs that limit the banks' ability to extend credit to the private sector and keep the cost of credit high. To complement ZAMCO's work, a credit registry unit has been established in the RBZ, and the authorities are working with the WB to set up credit reference bureaus (¶13, LOI).

17. Fast-tracking of legislation reforms to strengthen the legal and regulatory framework and enhance financial sector stability is a priority for the authorities in 2015. They plan to submit amendments to the Banking Act to the parliament by mid-2015 (structural benchmark for the second review, ¶14, LOI).

C. Resolving External Payments Arrears

18. The large external debt burden and outstanding arrears continue to limit the country's access to financing, stifling growth prospects. The financing needs to meet

[8] The MoFED provided the RBZ with $100 million (0.7 percent of GDP) in securities for its recapitalization, and at end-December 2014, some $311 million (2.3 percent of GDP) in government securities was issued for the takeover of RBZ noncore debt.

Zimbabwe's development agenda are substantial, and accessing concessional financing is very difficult because the country is in debt distress. In December 2014, two new loans amounting to $53 million were contracted: (i) a concessional $3 million loan to finance micro-, small- and medium-sized enterprises; and (ii) a $50 million non-concessional loan for essential equipment to fight wildlife poaching and support the tourism sector. The authorities also guaranteed two commercial facilities, a $100 million in December 2014 and $13 million in February 2015, both for purchases of mining equipments. (¶20, LOI). These projects are essential to raise the country's capacity to repay by supporting priority sectors under ZIM ASSET, although recently contracted nonconcessional borrowing was not consistent with previous definition in the Technical Memorandum of Understanding.

19. The authorities have reiterated their commitment to make all efforts to contract or guarantee loans on concessional terms and only opt for nonconcessional loans in the absence of grants or concessional loans.[9] In this regard, they will contract or guarantee nonconcessional loans for critical growth-enhancing projects that can enhance the country's capacity to repay.[10] For large projects they are committed to consult with reputable and independent institutions, such as the WB or AfDB before signing loan agreements.
The authorities are currently exploring options to finance the construction and rehabilitation of schools, and considering guarantees for the expansion of fiber optics networks and power generation[11] (¶21, LOI). Moreover, they plan to request feasibility assessments of these projects from the AfDB.

20. The authorities have stepped up their reengagement strategy with creditors and the international community. They have proposed a roadmap for debt resolution with the multilateral institutions and the Paris Club. As a first step, they are exploring options for arrear clearance with the IFIs. Zimbabwe's progress in program implementation and cooperation on policies and payments has helped catalyze support from development partners. The AfDB recently approved a $103 million grant for infrastructure development and institutional strengthening.[12] In addition, the WB and other development partners have established the Zimbabwe Reconstruction Fund[13] to support the implementation of ZIM ASSET[14]—the authorities' medium-term developmental agenda. The European Union also lifted its 12 year

[9] IMF Country Report No. 14/32214/202, November 2014; IMF Country Report No. 14/202, July 2014.

[10] These projects would be consistent with the key sectors expected to drive economic growth under ZIM ASSET, including mining, agriculture, infrastructure, transport, tourism, ICT, SMEs and cooperatives, supported by investment in education and health facilities.

[11] The expansion of power supply by commissioning two thermal turbine units of 300 megawatts each by 2020, including transmission infrastructure, is among the strategic projects identified under ZIM ASSET.

[12] The funds are to be used for power generation, infrastructure rehabilitation, water and sanitation projects; capacity building for parliament, public enterprise reforms, and youth and women empowerment.

[13] The partners include the EU, the UK, Germany, Norway, Denmark, Sweden, and the World Bank State and Peace Building Fund. The fund is expected to raise $100 million.

[14] IMF Country Report No. 14/202, July 2014.

suspension of direct financial aid to the government of Zimbabwe, and starting in 2015, Zimbabwe will receive a five-year support toward health, agriculture and governance initiatives. Furthermore, the private sector will be able to access lines of credit directly from the European Investment Bank.

21. Zimbabwe continues to make efforts to cooperate with the Fund on policies and payments, and to make good use of Fund TA to address policy challenges and strengthen capacity. The authorities have now met the Bank's *pari passu* requirement and they plan to engage the Bank on the options for arrear clearance. The authorities began making *pari passu* payments to the AfDB in March 2015; and they have begun making token payments to the EIB. The authorities continue to make monthly payments of $150,000 to the PRGT. They have committed to increase repayments to all the IFIs as their capacity to pay improves, consistent with their roadmap.

D. Unlocking Potential for Sustained Growth

22. Zimbabwe is currently performing below its growth potential, requiring strong polices and reforms. The timely and full implementation of ZIM ASSET could accelerate growth substantially. However, with limited financial resources and limited access to external capital flows, unleashing that potential will require swiftly addressing macroeconomic vulnerabilities, structural impediments—including the infrastructure gap, poor business climate, and property rights and longstanding land-related issues.

23. The authorities see progress in improving the business climate as a priority to restoring investor confidence and competitiveness. In January 2015, the Indigenisation and Economic Empowerment (IEE) Act was amended to include new roles for the line ministries to approve indigenization plans, issue compliance certificates, and monitor implementation. Line ministries are required to define and publish the parameters for their respective sectors. To further clarify the policy, the authorities plan to publish a simplified summary of the law on the Zimbabwe Investment Authority's website (structural benchmark for the third review) (¶23, LOI). In addition, they are reviewing the 1985 Labour Relations Act to adapt it to the competitiveness challenges arising from a fast-changing global environment, and to promote labor market flexibility, and enhance productivity and competitiveness. The cabinet has approved the principles for amending the Act and the amendments are to be submitted to cabinet for approval by end-December (structural benchmark for the third review). An inter-ministerial committee has been established and tasked with identifying, recommending, implementing and monitoring reforms to improve the business climate (¶24, LOI).

PROGRAM DESIGN AND MONITORING

24. The SMP will continue to be monitored based on quantitative targets and structural benchmarks (Tables 1 and 3, LOI). The authorities have proposed some modifications to the quarterly quantitative targets. The proposed floor on the primary balance accommodates the lower revenue and expenditure projections, in line with the weaker outlook for growth in 2015. Accordingly, the target for the floor on the primary balance for end-June and the indicative target for end-September have been lowered to take account of the expected timing for the additional revenue measures to impact collection. The floor on the stock of reserves has been adjusted to take account of the weaker-than-programmed fiscal performance and larger current account deficit. The structural benchmarks continue to focus on further improving fiscal transparency and accountability, enhancing PFM, restoring confidence in the financial system, and improving the business climate.

STAFF APPRAISAL

25. Achievements: Zimbabwe has started to implement reforms that could raise growth prospects, by restoring confidence in its financial sector and improving its business climate. The adverse trend in the external position has been reversed, with a lower accumulation of external arrears, a slightly higher external reserve coverage, and a lower external current account deficit. Fiscal discipline has been maintained, with initial, but important, steps toward rebalancing spending away from a too high wage bill. Moreover, the recent EU decision to not renew economic sanctions against Zimbabwe and to resume program support constitutes sign of favorably evolving attitudes among development partners.

26. Challenges: Growth continues to slowdown amid rising competitive pressures, insufficient external inflows that do not generate the liquidity necessary to support economic activity, and declining prices for mineral exports. The country continues to be in debt distress. There is a pressing need to improve the business environment and change foreign investors' perceptions to attract much needed investment. The tight fiscal budgetary position provides little leg room for rehabilitating the country's debilitated infrastructures. Restoring access to finance from both multilateral and bilateral creditors constitutes a necessary condition for improving the country's growth prospects.

27. Creditor relations: Staff welcomes the authorities' decision to raise payments to the WB and the AfDB, because it has opened the way to a constructive dialogue to identify feasible options for clearing the arrears with these institutions—a key step in the authorities' road map toward seeking rescheduling of bilateral official debt under the Paris Club umbrella. To this purpose, continued strong performance under the SMP is necessary to show that Zimbabwe has improved its capacity to repay and that it can implement reforms that could justify a financial arrangement with the Fund. To advance their roadmap, the authorities should seize all opportunities to reach out to creditors and keep them apprised of their progress in economic reforms, while paying close attention to any area of concern that may delay the reengagement process.

28. Fiscal Policy: Progress toward bringing the primary fiscal accounts close to balance in 2015 has started, but needs to continue. Staff believes that this objective is appropriately ambitious but within reach, given the authorities' commitment to reduce lower-priority spending in the event of a revenue shortfall. Staff welcomes the authorities' resolve in tackling the wage bill, as demonstrated by both the savings already achieved in 2014 and the ongoing efforts to keep employment costs well below budgetary projections in 2015. In the event these efforts yield larger savings than currently anticipated, the authorities should devolve additional resources to capital and social spending. Over the medium term, the objective should be to reform the civil service not only to curb wage costs, but also to improve service delivery and accountability. On the revenue side, the authorities have already taken measures to limit the impact of weaker economic activity on collections for 2015, but it will be important to continue to implement the agreed measures on tax and customs administration. The ongoing reform of the PFM system should help reduce costs, ensure efficiency in service delivery, and raise transparence in the use of public resources.

29. Financial Sector: The reform agenda has moved forward substantially. In fact, the RBZ has taken decisive actions against the troubled banks and set a June 2015 deadline for the two remaining undercapitalized banks to comply with requirements. While these steps have translated into significantly lower NPLs, getting ZAMCO to operate in accordance to best practices can help to further reduce the NPLs' burden, which should improve confidence in the banking sector and make it easier to extend credit to the private sector. A sound financial system needs a strong supervisor; thus, staff welcomes the progress in recapitalizing the RBZ. The FATF's decision to remove Zimbabwe from the list of counties subject to enhanced monitoring because of improvements is its AML/CFT regime constitutes a significant accomplishment, which should help the authorities' efforts to reintegrate in the international financial community.

30. Investment Climate: The recent amendments to the indigenization law go toward creating an environment that can attract foreign investment. Nevertheless, the authorities should make all possible efforts to inform potential investors of these changes, and reassure them that property rights will be fully respected. In this sense, the authorities' decision to summarize the laws' content through a guide for investors to comply with the new requirements goes in the right direction by reducing the scope for discretion and uncertainty, which many investors have indicated as their main concern. Staff welcomes the authorities' decision to modify the Labour Relations Act that should contribute to a better investment climate by reducing rigidities in the labor market, which investors perceive as major obstacle to private sector activity.

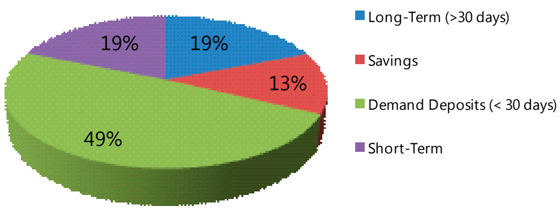
31. Balance of Risks: Continued implementation of the program is instrumental to a successful reengagement with multilateral and bilateral creditors that could eventually lead to debt rescheduling and resumption of official financing flows. Under this favorable scenario Zimbabwe's growth prospects would rise dramatically with major benefits for its population. In the event policy slippages do not allow for progress toward reengagement, the country's economic issues would remain unattended, leaving the country's difficult economic prospects unchanged. Thus, the benefits from successful program engagement outweigh the costs of possible slippages.

32. External Loans and Repayments to the IFIs: Staff welcomes the authorities' intention to continue seeking financing through grants or loans that are as concessional as possible, and to limit contracting nonconcessional loans to within the ceilings set under the program, and to prioritize investments that would eventually raise Zimbabwe's capacity to repay. It also welcomes the authorities' intention to raise payments to all the IFIs as their capacity to repay improves.

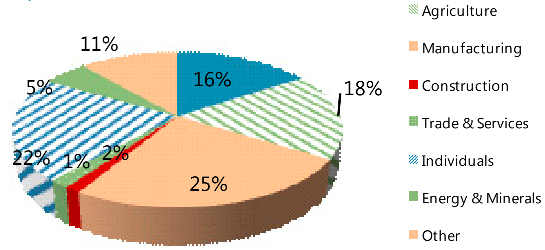
Figure 1. Zimbabwe: Banking System Indicators

Deposits remain predominantly short-term.

Composition of Banking Sector Deposits
(percent of total, as of December 2014)

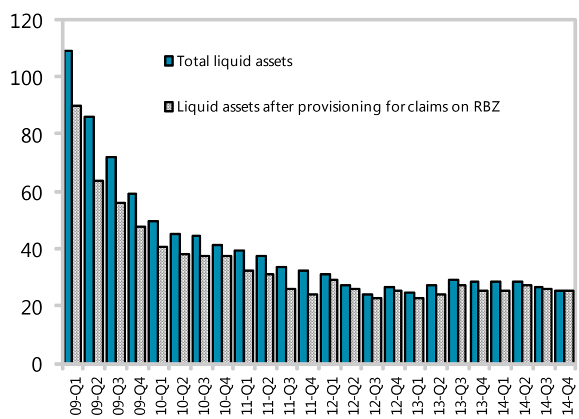


Composition of Private Sector Credit
(percent of total, as of December 2014)



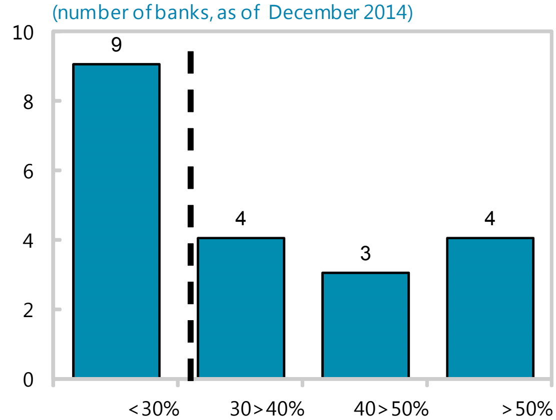
Liquidity risks remain…

Liquid Assets
(percent of total deposits)



…as 9 out of 20 operating financial institutions face tight liquidity.

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



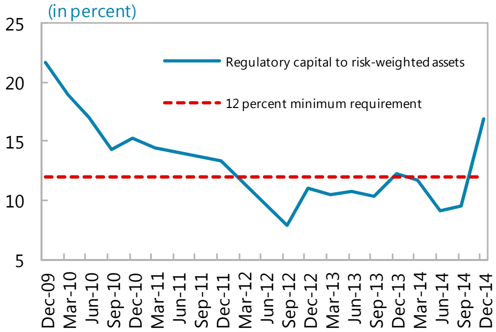
Sources: Zimbabwean authorities and IMF staff estimates.

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 2. Zimbabwe: Banking System Performance and Soundness

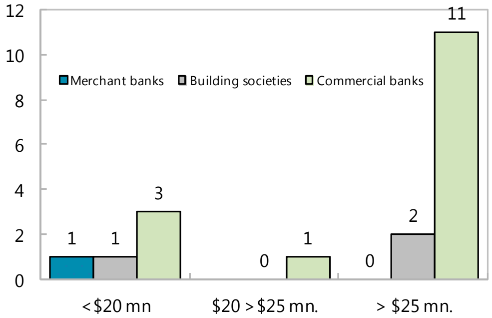
Banking system capital has improved, but remains very low…

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



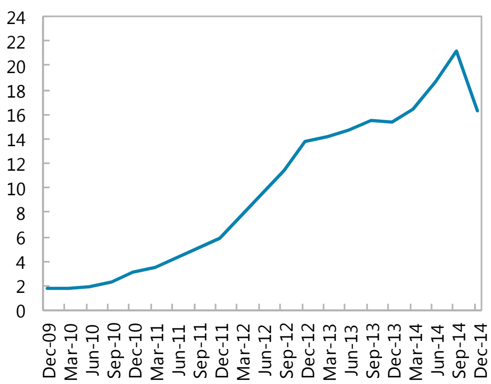
…due to a number of weak small banks.

Distribution of Bank Capital [1/ 2/]
(number of banks, as of December 2014)



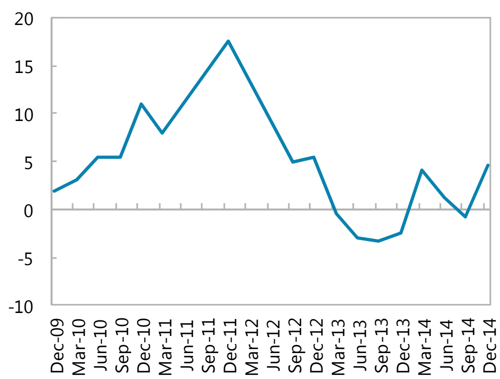
Assets quality is poor, as inincated by high NPLs…

Nonperforming Loans to Total Loans [3/]
(in percent)



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

Return on Equity
(percent)



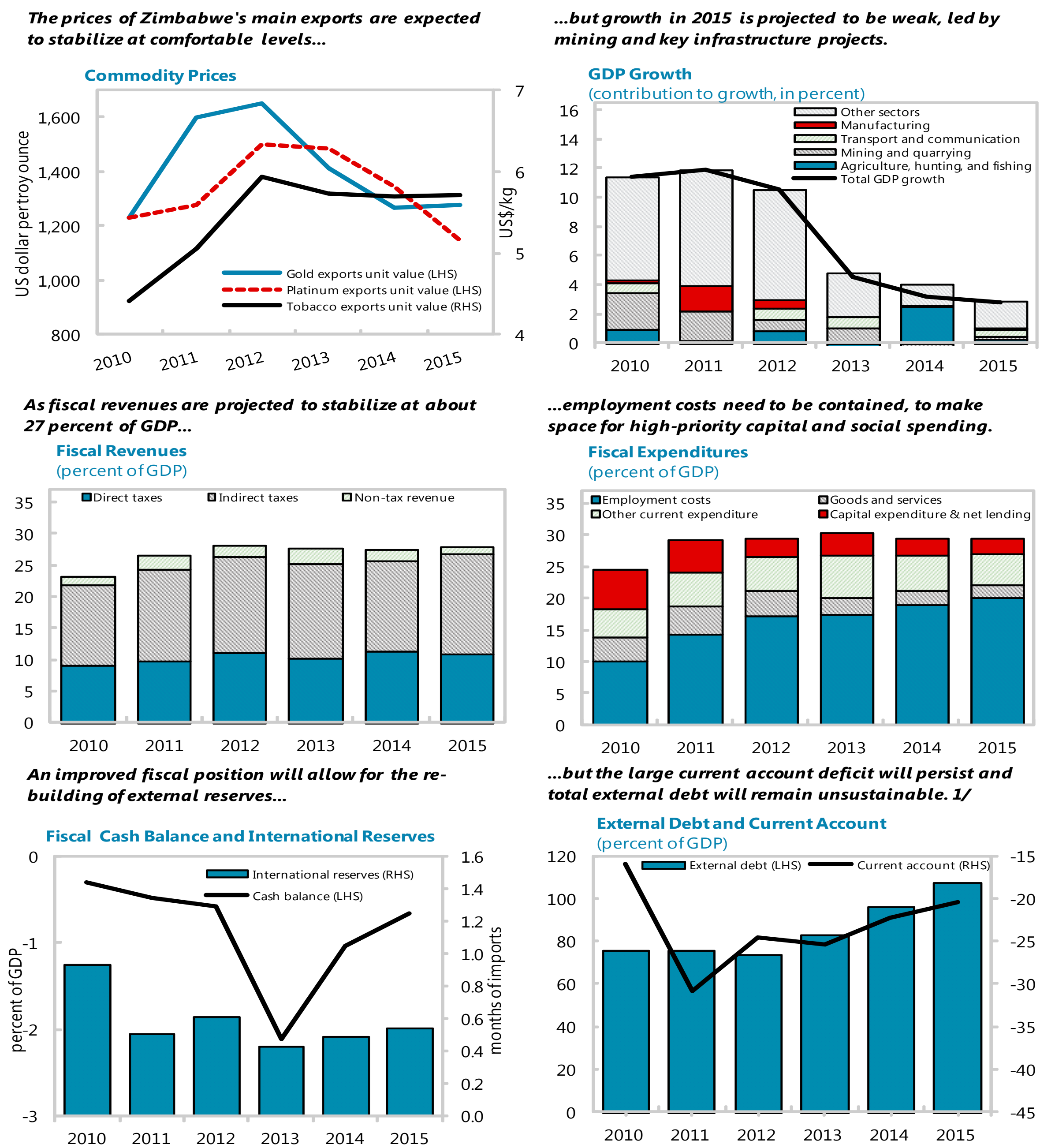
Source: Reserve Bank of Zimbabwe.

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

2/ Excludes the Post Office Saving Bank. As of December 2013, minimum capital requirements are $25 million for commercial banks and merchant banks, and $20 million for building societies.

3/ Nonperforming loans of commercial banks.

Figure 3. Zimbabwe: Program Scenario



Sources: Zimbabwean authorities and IMF staff estimates.

1/ Total external debt stocks include arrears and are estimates, except for the 2011-2013 public and publicly guaranteed debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise initiated in 2013.

Table 1. Zimbabwe: Selected Economic Indicators 2011–15

Population (millions): 13.1 (2013) — Per capita GDP: US$ 1028 (2013)
Quota (current, SDR millions, % of total): 353.4 (0.15%) — Literacy rate (%): 96 (2011)
Main products and exports: Tobacco, platinum, gold, diamonds
Key export markets: South Africa, Mozambique, United Arab Emirates

	Actual			Program [1/]	Est.	Proj.
	2011	2012	2013	2014	2014	2015
Real GDP growth (annual percentage change) [2/]	11.9	10.6	4.5	3.1	3.2	2.8
Nominal GDP (US$ millions)	10,956	12,472	13,490	14,012	13,673	13,973
GDP deflator (annual percentage change)	3.7	3.0	3.5	0.8	-1.8	-0.6
Inflation (annual percentage change)						
Consumer price inflation (annual average)[3/]	3.5	3.7	1.6	0.0	-0.2	-1.0
Consumer price inflation (end-of-period)	4.9	2.9	0.3	0.4	-0.8	-0.5
Central government (percent of GDP)						
Revenue and grants	26.7	28.0	27.7	28.0	27.6	27.9
Expenditure and net lending	29.0	29.3	30.2	30.6	29.3	29.4
Of which: cash expenditure and net lending	27.1	28.6	29.8	28.8	28.6	28.6
Of which: employment costs (incl. grants & transfers)	16.7	20.1	20.5	22.9	22.2	23.4
Overall balance (commitment basis)	-2.4	-1.3	-2.5	-2.6	-1.7	-1.5
Overall balance (cash basis)	-0.5	-0.6	-2.1	-0.7	-1.0	-0.7
Primary balance (cash basis)	-0.2	-0.4	-1.9	-1.0	-0.7	-0.1
Money and credit (US$ millions)						
Broad money (M3)	3,100	3,694	3,888	4,215	4,378	4,676
Net foreign assets	-290	-435	-809	-565	-725	-749
Net domestic assets	3,390	4,129	4,697	4,779	5,103	5,424
Domestic credit (net)	2,754	3,559	3,993	4,106	4,321	4,502
Of which: credit to the private sector	2,711	3,524	3,618	3,499	3,765	3,974
Reserve money	186	273	272	450	464	495
Balance of payments (US$ millions; unless otherwise indicated)						
Merchandise exports	4,421	3,808	3,694	3,728	3,590	3,627
Value growth (annual percentage change)	36.1	-13.9	-3.0	0.9	-2.8	1.0
Merchandise imports	-7,562	-6,710	-6,809	-6,538	-6,306	-6,195
Value growth (annual percentage change)	46.5	-11.3	1.5	-4.0	-7.4	-1.8
Current account balance (excluding official transfers)	-3,383	-3,062	-3,432	-3,024	-3,034	-2,858
(percent of GDP)	-30.9	-24.6	-25.4	-21.6	-22.2	-20.5
Overall balance [4/]	148	-186	-405	-439	-40	-110
Gross international reserves (US$ millions)	366	398	284	304	303	337
(months of imports of goods and services)	0.5	0.6	0.4	0.5	0.5	0.6
Net international reserves (US$ millions)	220	259	149	172	177	214
Debt (end-of-period)						
Public and publicly guaranteed external debt (US$ millions, e.o.p.) [4/5/6/]	6,268	6,709	7,013	7,249	7,181	7,607
Percent of GDP	57.2	53.8	52.0	51.7	52.5	54.4
Of which: Arrears	5,101	5,313	5,607	5,761	5,760	5,903
Percent of GDP	46.6	42.6	41.6	41.1	42.1	42.2

Sources: Zimbabwean authorities; IMF staff estimates and projections.
1/ This column takes into account the adjusters to the primary balance target spelled out in the TMU of the SMP. The adjusted programmed primary balance is 1 percent of GDP, compared with an estimated outturn of 0.7 percent of GDP. The floor was adjusted by the full amount of domestic borrowing ($77 million) for clearance of domestic arears.
2/ At constant 2009 prices.
3/ For 2014, the authorities project average inflation of 0.8 percent.
4/ Includes errors and omissions through 2012.
5/ Includes arrears.
6/ Debt stocks are estimates, except for the 2011-13 debt stock which are based on preliminary results of the authorities' external debt reconciliation exercise initiated in 2013.

Table 2. Zimbabwe: Balance of Payments 2011–15

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

	Actual			Program	Estimates	Projected
	2011	2012	2013	2014	2014	2015
Current account (excluding official transfers)	-3,383	-3,062	-3,432	-3,024	-3,034	-2,858
Trade balance	-3,141	-2,902	-3,115	-2,810	-2,717	-2,568
Exports, f.o.b.	4,421	3,808	3,694	3,728	3,590	3,627
Imports, f.o.b.	-7,562	-6,710	-6,809	-6,538	-6,306	-6,195
Nonfactor services (net)	-759	-866	-919	-937	-863	-871
Investment income (net)	-1,021	-973	-1,034	-1,058	-1,116	-1,118
Interest	-96	123	-92	10	13	8
Receipts	168	294	179	197	196	216
Payments	-265	-171	-271	-187	-183	-208
Other	-925	-1,096	-942	-1,068	-1,129	-1,126
Current transfers (net)	1,538	1,679	1,635	1,781	1,663	1,699
Remittances	570	646	764	891	837	873
Capital account (including official transfers)	2,008	1,772	2,900	2,585	2,894	2,748
Official transfers	346	738	251	256	368	342
Direct investment	373	351	390	346	368	399
Portfolio investment	10	99	241	120	248	200
Long-term capital	654	43	1,092	1,193	1,150	1,126
Government[1]	-154	-116	81	188	41	287
Receipts	0	20	199	265	200	456
Payments	-154	-136	-118	-77	-159	-170
Public enterprises	-1	-28	-4	0	-4	26
Private sector	809	187	1,015	1,005	1,113	813
Short-term capital	625	543	927	670	759	681
Private sector (loans mediated outside DMBs)	539	365	663	781	696	619
Change in NFA of DMBs	85	178	264	-111	63	62
Change in assets	47	2	-62	-53	171	-31
Change in liabilities	39	176	326	-58	-108	93
Errors and omissions[2]	1,523	1,104	127	0	99	0
Overall balance	148	-186	-405	-439	-40	-110
Financing	-148	186	405	439	40	110
Central bank (net)	54	-27	111	-126	-113	-33
Assets	69	-34	109	-21	-18	-35
Change in gross official reserves	86	-32	114	-20	-19	-34
Monetary authorities operations (non-reserve)	-17	-2	-4	-1	1	0
Liabilities	-16	7	1	-105	-95	2
Change in arrears (– denotes decrease)	0	212	294	154	153	143
Debt relief/rescheduling; adjustment for debt reconciliation[3]	201	0	0	0	0	0
Unidentified financing[2]	0	0	0	411	0	0
Memorandum items:						
Current account balance (percent of GDP)	-30.9	-24.6	-25.4	-21.6	-22.2	-20.5
Gross international reserves (US$ millions, e.o.p.)	366	398	284	304	303	337
Months of imports of goods and services	0.5	0.6	0.4	0.5	0.5	0.6
SDR holdings (US$ millions, e.o.p.)[4]	252	143	143	142	134	134
Total external debt (US$ millions, e.o.p.)[3,5]	8,231	9,134	11,116	13,137	13,093	14,951
Percent of GDP[3]	75	73	82	94	96	107
PPG external debt (US$ millions, e.o.p.)[5]	6,268	6,709	7,013	7,249	7,181	7,607
Percent of GDP	57	54	52	52	53	54
Of which: Arrears	5,101	5,313	5,607	5,761	5,760	5,903
Percent of GDP	47	43	42	41	42	42
Other external debt (US$ millions, e.o.p.)[3,5]	1,964	2,425	4,103	5,889	5,912	7,344
Percent of GDP	18	19	30	42	43	53
Nominal GDP (US$ millions)	10,956	12,472	13,490	14,012	13,673	13,973
Percentage change	16.0	13.8	8.2	3.9	1.4	2.2
Exports of goods and services	4,694	4,076	3,972	4,011	3,873	3,913
Percentage change	35.2	-13.2	-2.6	1.0	-2.5	1.0
Imports of goods and services	-8,594	-7,844	-8,005	-7,759	-7,453	-7,352
Percentage change	47.9	-8.7	2.1	-3.2	-6.9	-1.4
Terms of Trade (Percentage change)	-1.0	3.4	-0.7		-2.3	7.8

Sources: Zimbabwean authorities; IMF staff estimates and projections.

[1] May not match data for government external financing in the fiscal table because this line is on an accrual basis.
[2] 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] Excludes amounts in SDR escrow account.
[5] Includes arrears.

Table 3. Zimbabwe: Central Government Operations 2011–15

(Millions of U.S. dollars)

	Actual			Program[1/]	Estimates	Budget	Projected
	2011	2012	2013	2014	2014	2015	2015
Total revenue & on-budget grants	**2,921**	**3,496**	**3,741**	**3,928**	**3,770**	**3,990**	**3,900**
Tax revenue	2,660	3,279	3,414	3,608	3,519	3,763	3,747
Personal income tax	588	661	744	929	900	835	855
Corporate income tax	296	445	404	417	365	448	380
Other direct taxes	188	287	227	288	284	295	295
Customs	333	354	361	347	351	390	391
Excise	307	394	510	536	517	590	628
VAT	912	1,086	1,068	968	972	1,051	1,045
Other indirect taxes	36	52	98	122	129	154	154
Non-tax revenue	261	217	327	320	251	227	154
Total expenditure & net lending	**3,181**	**3,656**	**4,075**	**4,290**	**4,007**	**4,179**	**4,104**
Of which: Cash expenditure	2,974	3,568	4,027	4,030	3,912	4,065	3,993
Current expenditure	2,629	3,301	3,592	3,805	3,637	3,839	3,762
Employment costs	1,544	2,134	2,344	2,728	2,583	2,798	2,778
Wages & salaries	1,269	1,732	1,926	2,251	2,106	2,320	2,300
Pensions	275	402	418	477	477	478	478
Interest payments	113	115	126	147	145	188	183
Foreign	113	112	120	121	118	129	124
Of which: Paid	34	18	17	15	17	14	14
Domestic	0	3	6	26	26	59	59
Of which: Paid	0	3	6	26	26	59	59
Goods & services	504	505	359	350	296	344	305
Grants & transfers	468	548	763	580	613	510	496
Of which: Employment costs	290	370	423	480	457	504	490
Capital expenditure and net lending	551	355	483	484	370	340	342
Overall balance (commitment basis)	**-260**	**-160**	**-334**	**-361**	**-237**	**-189**	**-203**
Primary balance (commitment basis) 2/	-147	-45	-208	-214	-92	-1	-20
Overall balance (cash basis)	**-53**	**-72**	**-286**	**-102**	**-142**	**-75**	**-93**
Primary balance (cash basis) 2/	-19	-51	-262	-137	-98	-1	-20
Financing	**260**	**160**	**322**	**361**	**237**	**189**	**203**
Domestic financing (net)	-25	13	270	178	197	277	160
Bank	4	49	198	175	304	318	40
Non-bank	-30	-36	72	3	-107	-41	120
Foreign financing (net)	-48	6	-127	-255	-151	-168	-134
Disbursements	78	0	72	8	0	10	8
Amortization due	127	102	199	234	151	178	142
Of which: Paid	0	49	68	54	55	54	75
Change in arrears	333	141	179	439	192	80	177
Domestic	128	-6	-55	154	-6	-159	0
Arrears accumulation	128	116	123	177	77	0	30
Arrears clearance	0	-122	-178	-23	-83	-159	-30
Foreign	205	147	233	285	198	239	177
Interest	79	94	103	106	101	115	110
Principal	127	53	130	179	97	124	66

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

1/ This column takes into account the adjusters to the primary balance target spelt out in the TMU of the SMP. The adjusted programmed primary balance is 1.0 percent of GDP, compared with an estimated outturn of 0.7 percent of GDP. The floor was adjusted by the full amount of domestic borrowing ($77 million) for clearance of domestic arears.

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 2011–15 (concluded).

(Percent of GDP)

	Actual			Program [1/]	Estimates	Budget	Projected
	2011	2012	2013	2014	2014	2015	2015
Total revenue & on-budget grants	**26.7**	**28.0**	**27.7**	**28.0**	**27.6**	**28.6**	**27.9**
Tax revenue	24.3	26.3	25.3	25.7	25.7	26.9	26.8
Personal income tax	5.4	5.3	5.5	6.6	6.6	6.0	6.1
Corporate income tax	2.7	3.6	3.0	3.0	2.7	3.2	2.7
Other direct taxes	1.7	2.3	1.7	2.1	2.1	2.1	2.1
Customs	3.0	2.8	2.7	2.5	2.6	2.8	2.8
Excise	2.8	3.2	3.8	3.8	3.8	4.2	4.5
VAT	8.3	8.7	7.9	6.9	7.1	7.5	7.5
Other indirect taxes	0.3	0.4	0.7	0.9	0.9	1.1	1.1
Non-tax revenue	2.4	1.7	2.4	2.3	1.8	1.6	1.1
Total expenditure & net lending	**29.0**	**29.3**	**30.2**	**30.6**	**29.3**	**29.9**	**29.4**
Of which: Cash expenditure	27.1	28.6	29.8	28.8	28.6	29.1	28.6
Current expenditure	24.0	26.5	26.6	27.2	26.6	27.5	26.9
Employment costs	14.1	17.1	17.4	19.5	18.9	20.0	19.9
Wages & salaries	11.6	13.9	14.3	16.1	15.4	16.6	16.5
Pensions	2.5	3.2	3.1	3.4	3.5	3.4	3.4
Interest payments	1.0	0.9	0.9	1.0	1.1	1.3	1.3
Foreign	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Of which: Paid	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Domestic	0.0	0.0	0.0	0.2	0.2	0.4	0.4
Of which: Paid	0.0	0.0	0.0	0.2	0.2	0.4	0.4
Goods & services	4.6	4.0	2.7	2.5	2.2	2.5	2.2
Grants & transfers	4.3	4.4	5.7	4.1	4.5	3.6	3.5
Of which: Employment costs	2.6	3.0	3.1	3.4	3.3	3.6	3.5
Capital expenditure and net lending	5.0	2.8	3.6	3.5	2.7	2.4	2.4
Overall balance (commitment basis)	**-2.4**	**-1.3**	**-2.5**	**-2.6**	**-1.7**	**-1.4**	**-1.5**
Primary balance (commitment basis) 2/	-1.3	-0.4	-1.5	-1.5	-0.7	0.0	-0.1
Overall balance (cash basis)	-0.5	-0.6	-2.1	-0.7	-1.0	-0.5	-0.7
Primary balance (cash basis) 2/	-0.2	-0.4	-1.9	-1.0	-0.7	0.0	-0.1
Financing	**2.4**	**1.3**	**2.4**	**2.6**	**1.7**	**1.4**	**1.5**
Domestic financing (net)	-0.2	0.1	2.0	1.3	1.4	2.0	1.1
Change in government deposits at the RBZ(- = increase	n.a.	n.a.	n.a.	n.a.	-0.1	n.a.	-0.2
Bank	0.0	0.4	1.5	1.2	2.2	2.3	0.3
Non-bank	-0.3	-0.3	0.5	0.0	-0.8	-0.3	0.9
Foreign financing (net)	-0.4	0.1	-0.9	-1.8	-1.1	-1.2	-1.0
Disbursements	0.7	0.0	0.5	0.1	0.0	0.1	0.1
Amortization due	1.2	0.8	1.5	1.7	1.1	1.3	1.0
Of which: Paid	0.0	0.4	0.5	0.4	0.4	0.4	0.5
Change in arrears	3.0	1.1	1.3	3.1	1.4	0.6	1.3
Domestic	1.2	0.0	-0.4	1.1	0.0	-1.1	0.0
Arrears accumulation	1.2	0.9	0.9	1.3	0.6	0.0	0.2
Arrears clearance	0.0	-1.0	-1.3	-0.2	-0.6	-1.1	-0.2
Foreign	1.9	1.2	1.7	2.0	1.4	1.7	1.3
Interest	0.7	0.8	0.8	0.8	0.7	0.8	0.8
Principal	1.2	0.4	1.0	1.3	0.7	0.9	0.5

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

1/ This column takes into account the adjusters to the primary balance target spelled out in the TMU of the SMP. The adjusted programmed primary balance is 1 percent of GDP, compared with an estimated outturn of 0.7 percent of GDP. The floor was adjusted by the full amount of domestic borrowing ($77 million) for clearance of domestic arears.

2/ The difference between the primary balance on a commitment and cash basis is the change in domestic arrears.

Table 4. Zimbabwe: Monetary Survey 2011–15
(Millions of U.S. dollars; unless otherwise stated)

	Actual			Program	Actual	Projected
	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2014	Dec. 2015
Monetary authorities						
Net foreign assets	**-734**	**-700**	**-810**	**-677**	**-663**	**-625**
Claims on non-residents	516	550	441	461	453	487
Liabilities to non-residents	-1,250	-1,250	-1,251	-1,138	-1,116	-1,112
Short-term foreign liabilities	-662	-658	-655	-546	-551	-549
Short-term official reserves liabilities	-146	-138	-135	-133	-125	-123
Of which: Liabilities to IMF	-134	-127	-126	-121	-116	-112
Other foreign liabilities	-588	-592	-596	-593	-565	-563
Net domestic assets	**919**	**973**	**1,082**	**1,127**	**1,127**	**1,120**
Net domestic claims	-1	-8	2	-32	-22	-52
Net claims on central government	-2	-11	-1	-35	-25	-55
Claims on other sectors	1	4	3	3	3	3
Claims on private sector	1	4	3	3	3	3
Other items (net)	921	980	1,080	1,159	1,149	1,171
Monetary base	**186**	**273**	**272**	**450**	**464**	**495**
Banks' current/RTGS accounts	102	273	272	450	463	495
Deposit money banks and other banking institutions						
Net foreign assets	**443**	**266**	**1**	**112**	**-62**	**-124**
Foreign assets	644	642	704	757	533	564
Foreign liabilities	-200	-376	-702	-644	-595	-688
Net domestic assets	**2,657**	**3,428**	**3,886**	**4,102**	**4,438**	**4,799**
Net domestic claims	3,105	3,892	4,397	4,615	4,822	5,066
Claims on RBZ	349	325	406	478	479	512
Deposits	349	325	406	478	478	510
Net claims on central government	0	-5	315	580	515	514
Claims on other sectors	2,755	3,572	3,676	3,557	3,828	4,040
Claims on public non-financial corporations	45	52	61	62	67	69
Claims on private sector	2,710	3,520	3,615	3,495	3,762	3,971
Other items (net)	-448	-463	-510	-513	-383	-266
Deposits included in broad money	**3,100**	**3,694**	**3,888**	**4,215**	**4,377**	**4,675**
Monetary Survey						
Net foreign assets	**-290**	**-435**	**-809**	**-565**	**-725**	**-749**
Net domestic assets	**3,390**	**4,129**	**4,697**	**4,779**	**5,103**	**5,424**
Domestic claims	2,754	3,559	3,993	4,106	4,321	4,502
Net claims on central government	-2	-17	314	545	489	459
Claims on other sectors	2,756	3,575	3,679	3,561	3,832	4,043
Claims on public non-financial corporations	45	52	61	62	67	69
Claims on private sector	2,711	3,524	3,618	3,499	3,765	3,974
Other items (net)	636	570	704	674	781	922
Broad money liabilities (M3)	**3,100**	**3,694**	**3,888**	**4,215**	**4,378**	**4,676**
Deposits	3,100	3,694	3,888	4,215	4,377	4,676
	(annual percentage change)					
Monetary Base	-27	47	0	66	71	7
Broad Money (M3)	33	19	5	8	13	7
Currency	...	...	...	...	...	...
Deposits	33	19	5	8	13	7
Private Sector Credit	63	30	3	-3	4	6
Memorandum Items:						
Loan-to-deposit ratio (in percent)	87	95	93	83	86	85
Reserves-to-deposit ratio (in percent)	6	7	7	11	11	11

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

Appendix I. Letter of Intent

April 17, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street, N.W.
Washington, DC 20431
United States

Dear Ms. Lagarde:

The third and final review of our 2013–14 Staff-Monitored Programme (SMP) and a new 15-month SMP were approved by Fund Management in October 2014. We are grateful to the IMF for its continued support of our economic reform programme and valuable technical assistance. This support, in our view, is an important step on the path toward normalizing relations with our creditors and Fund-financial support.

Our continued engagement under the SMPs has played a pivotal role in setting the stage for a more stable macroeconomic environment and for rebalancing the economy gradually toward fostering private sector-led growth. However, the macroeconomic environment remains difficult. Slower growth, low productivity in the manufacturing sector, weak domestic demand, lower commodity prices, and the appreciation of the dollar, continue to weigh on the economy.

The programme remains on track and the Government is committed to the reforms agreed in the context of the SMP. We have met all end-December 2014 quantitative targets, despite the economic and financial difficulties. In particular, we lowered the fiscal deficit and managed to improve the external position, which remains problematic. We also met all structural benchmarks for the first review: Cabinet has approved the Public Debt Management Bill and the Board of the Zimbabwe Asset Management Corporation (Pvt) Limited (ZAMCO) has approved its mandate, strategy, and specific objectives. In addition, we have made substantial progress in the area of public financial management, financial sector reform, and improving transparency and governance.

Against this background, we would like you to approve completion of the first review under our 15-month SMP, and the modification of quantitative targets for 2015. The Government believes that the economic and financial policies set forth in our Letter of Intent (LOI) and Memorandum of

Economic and Financial Policies (MEFP) of November 3, 2014, supplemented with this LOI are adequate to meet the objectives of the SMP, but stands ready to take additional measures. Furthermore, we will consult with the IMF staff in advance of any revisions to the policies contained in the LOI and MEFP of November 3, 2014 and this updated LOI, in accordance with the IMF's policies on such consultations, at the initiative of the Government or the IMF staff.

In line with our commitment to transparency in government operations, which we believe is essential for good governance, we consent to the publication of all SMP-related documents on the IMF's web site.

POLICIES FOR THE REMAINDER OF THE YEAR

1. The current economic situation remains difficult, but Government policies continue to focus on improving the country's growth prospects and capacity to repay:

- Growth continues to slow down reflecting low business and investment confidence, scarce liquidity, and the substantial decline in international prices for our major exports. Risks are tilted to the downside. Over the medium term, we expect that the timely and full implementation of our economic blue print, ZIM ASSET, would accelerate growth substantially.
- The external position remains precarious with low levels of international reserves, a large current account deficit and growing external arrears. The large current account deficit is mainly financed by short- and long-term loans to the private sector, which has continued to access international credit and has remained current on its payments. Nevertheless, we have succeeded in reversing the trend by slightly improving reserve coverage and reducing the accumulation of external arrears.
- Inflation continues to be quite low, reflecting the depreciation of the South Africa rand and weak domestic demand.
- We remain committed to improving our fiscal position as a means for further raising our capacity to repay. To this end, we have already started taking actions to lower the wage bill.
- We will continue to carefully monitor external borrowing. Moreover, we will step-up our efforts to mobilize international support for clearing our external arrears.
- We will make progress in key structural reform areas to improve the business climate, boost productivity and competitiveness, and restore confidence in the financial sector.

2. Over the medium term, we are committed to implementing sound macro-economic and structural policies. These policies will allow us to maintain macro-economic stability, fully harness

Zimbabwe's growth potential, tackle fiscal challenges, restore confidence in the financial sector, improve the external position and set the stage for strong private sector-led growth.

A. Fiscal Policy

3. We intend to bring the central government primary account close to balance in 2015, despite the tight economic conditions. We are planning to offset revenue shortfall, if any, through cuts in lower priority current and capital spending. Nevertheless, we will continue to protect priority social spending.

4. The weak economic environment has constrained revenue collection. Thus, we have stepped up our efforts by increasing the excise duties on fuel, cigarettes and beer, and the levy on tobacco growers. We continue our efforts to collect tax arrears and have also started working on strengthening revenue administration, in collaboration with our international partners. Specifically, the World Bank has been supporting our efforts in developing skills in VAT management and addressing transfer pricing issues. The Fund, through AFRITAC South, has been assisting us in strengthening risk management processes, focusing on risk mitigation techniques. We have also been working on improving registration, filing and payment compliance, with a special focus on the informal sector. Going forward, we plan to: (i) develop an incentive system for small and medium businesses, so that they continue operating in the formal sector; (ii) strengthen the mechanism for monitoring and evaluating the tax expenditure regime; and (iii) enhance the revenue forecasting capacity of the ZIMRA and the MoFED. We plan to request technical assistance in these areas.

5. We are making progress in improving the fiscal regime for the mining sector, which would help generate additional revenue without undermining investors' incentives.
The process of reviewing the fiscal regime for the mining sector, conducted with the assistance of development partners, was completed and a fiscal model for the taxation of the mining sector has been presented to stakeholders. The recently completed draft amendments to the Mines and Minerals Act (MMA), together with the new fiscal regime, will be submitted to Cabinet once stakeholder consultations have been completed. We have already started working on the regulations supporting the implementation of the amended MMA. We have temporarily suspended the collection of the special dividend on diamond sales on the back of the drop in production and adverse price developments.

6. On the expenditure side, we have kept the overall wage bill below budget projections in 2014 and intend to lower it as a share of GDP in 2015. To this end, measures to reduce the wage bill will be presented to Cabinet. The Civil Service Commission (CSC) has been working on streamlining public sector employment by conducting a restructuring exercise to align ministries' staffing with their mandates, to identify duplication and redundancies. By end-2015 we expect to complete decentralization and modernization of the Salary Service Bureau, which would place a payroll assistant in every district, strengthening control over the wage bill and minimizing irregularities. At the same time, we will develop a medium term strategy to bring the wage bill to a level that would create sufficient room for development spending. We remain committed to reducing domestic arrears and improving service delivery.

7. The Public Finance Management Act is being amended to strengthen Treasury oversight of public enterprises and local authorities. Principles for the proposed amendments were approved by the Cabinet on March 3, 2015; and will be forwarded to the Attorney General's office for drafting.

8. Stakeholder consultations on improving the public procurement framework were held in February 2015 with support and input from development partners. An implementation road map has been developed that targets to have a new procurement bill enacted by end December 2015.

9. We have started work on restructuring parastatals to reduce fiscal costs, improve accountability and service delivery. We have identified 10 state-owned enterprises that, after restructuring, will play a more important role in the implementation of ZIM ASSET. We have been conducting performance audits of these companies which will be used to prepare restructuring strategies. We will continue to publish the audited financial statements of the Zimbabwe Mining Development Corporation.

B. Restoring Confidence in the Financial Sector

10. We have made good progress towards restoring confidence in the financial sector:

- In December 2014, the MoFED issued Government securities to the Reserve Bank of Zimbabwe (RBZ) for its recapitalization.
- The RBZ Debt Assumption Bill is being discussed in Parliament. The Bill will provide the legal framework for assumption of RBZ's non-core debt by the Government. The validation and reconciliation of the debt is ongoing, and following the Government's decision to assume these debts, medium-term securities are being issued to cover valid debts.

11. Our efforts to address the high levels of non-performing loans (NPLs) have already started to yield concrete results. The RBZ recently placed three troubled banks into liquidation and subsequently total NPL levels have declined from 20.4 percent at the end of September 2014 to

15.4 percent at the end of December 2014. The RBZ continues to work closely with the remaining two distressed banks to resolve their positions by the end of June 2015.

12. We have tasked ZAMCO to acquire and resolve NPLs from banks on commercial terms. The mandate, strategy and specific objectives for ZAMCO have been developed with the assistance of the Fund, and a Board of Directors has been appointed. Draft operational guidelines and manuals have been prepared and a corporate governance strategy is being defined. We are currently in the process of developing an institutional and operational framework for ZAMCO, targeting the legal and governance structure, asset evaluation and pricing, and the funding of ZAMCO, in line with international best practice. To strengthen ZAMCO's mandate, we will develop draft principles of the ZAMCO Bill (structural benchmark). We will provide ZAMCO with long-term government securities, but it will explore the possibility of funding from private investors interested in purchasing banks' NPLs. We also plan to establish a sinking fund where we will place some of the proceeds of the sales of NPLs to help meet the debt servicing obligations for the Government bonds.

13. In line with our commitments, we have established a credit registry unit in the RBZ to coordinate the collection of credit information from financial institutions and maintain a database. We are collaborating with the World Bank to set up credit reference bureaus. The credit reference system will complement the work of ZAMCO, and help enhance financial stability by promoting more robust risk management practices, reducing credit risk, increasing the supply of credit to fuel growth-related activities, and helping to promote lower interest rates.

14. Upon approval of amendments to the Banking Act by Cabinet aimed at strengthening the problem bank resolution framework, corporate governance, risk management and compliance, we will submit these amendments to Parliament by June 2015. Once in place, we expect to reduce systemic risks, and facilitate the licensing and regulation of private credit reference bureau. In addition, the amendments to the Banking Act will empower the RBZ to effectively deal with problem banks. Banking supervision will continue to be vigilant in monitoring weak banks, focusing on loan provisioning practices and risk management. In addition, we will resolve the remaining troubled banks by June 2015. To date, three institutions are facing liquidation.

15. The Afreximbank-guaranteed interbank liquidity facility is now operational and will augment the current bilateral inter-market trade between banks, and help unlock the interbank market by providing securities (Aftrades) to banks with excess liquidity to secure funding for banks requiring liquidity.

16. We are pleased that the Financial Action Task Force (FATF) has acknowledged the progress we made in strengthening our anti-money laundering and combating the financing of terrorism (AML/CFT) regime. As a result, Zimbabwe has been removed from the FATF monitored list.

17. We are taking steps to demonetize the Zimbabwe dollar (Z$) balances. All Zimbabwe dollar balances as at December 31, 2008 (excluding loan accounts) will be compensated using the United Nations exchange rate. We will publicize the *modus operandi* for the demonetization process.

C. Addressing Zimbabwe's Substantial Debt Burden

18. In the absence of a strategy to clear the outstanding arrears, Zimbabwe will not be able to reach its growth potential and debt sustainability. We have increased our payments to the World Bank, in line with its *pari passu* requirement and to the African Development Bank (AfDB) along the same lines. We have started to pay the European Investment Bank. As our payment capacity improves, we will increase our payments to all IFIs. Moreover, we have stepped up our reengagement with all creditors, with a view to garnering sufficient support to resolve our debt with bilateral creditors. To this end, we will meet with bilateral creditors on the sidelines of the Spring Meetings. The European Union has already lifted some of its sanctions and resumed development assistance.

19. During the remainder of this SMP, we will continue to treat current SDR holdings as our core international reserves. We will avoid selective debt servicing to bilateral creditors, as it may complicate reaching an agreement with creditors on a debt resolution strategy. Nevertheless, we will continue to make repayments to all creditors that are providing us with positive net new financing.

20. In the last quarter of 2014, we contracted the following loans: (a) a concessional loan of US$3 million to finance micro, small and medium enterprises; and (b) a non-concessional loan of US$50 million for essential equipment to fight wildlife poaching and enhancing tourism activities. We also guaranteed two loans: (a) a commercial facility in the amount US$100 million to finance the purchase of equipment for small-scale miners; and (b) in February 2015, a US$13 million non-concessional loan for the purchase of coal mining equipment.

21. As reiterated in our 2015 Budget Statement, we will continue to make best efforts to contract or guarantee concessional loans and resort to non-concessional loans only if grants and concessional financing are not available, subject to the limits proposed in Table 1, and for critical growth-enhancing projects that can improve the country's capacity to repay. For large projects, we are committed to consult with reputable and independent institutions, such as the WB or AfDB before signing loan agreements. We are currently conducting feasibility studies and exploring options for the construction and rehabilitation of schools amounting to US$18 million. In addition, we are considering guaranteeing two facilities: (a) US$98 million for fibre optic expansion; and (b) US$939 million for the expansion of power generation in Hwange.

22. The Public Debt Management Bill has been approved by Cabinet and will soon be submitted to Parliament. The passage of this Bill into law will statutorily establish the debt management office within the MoFED, and outline the legal and institutional framework that guides debt management operations.

D. Other structural reforms

23. The Indigenisation and Economic Empowerment Act seeks to foster mutually beneficial partnerships between Zimbabwean and foreign investors. This Law, however, continues to be perceived as an obstacle to foreign investment purportedly for lack of simplicity. We are committed to providing policy clarity and consistency with a view to improving Zimbabwe's business climate and attracting much-needed capital flows. In this regard, in January 2015, as per our commitment in the 2015 National Budget, and under the SMP, we published an amendment to the Indigenisation and Economic Empowerment Act in the Government gazzette. Negotiations, approvals and certification are now executed by the respective line ministries. We consider this an important step toward alleviating investor concerns by decentralising responsibilities to the relevant line ministries. Moreover, by the third review, we will produce a guide on the Indigenisation and Economic Empowerment Law (structural benchmark) and publish it on the website of the Zimbabwe Investment Authority.

24. Job creation and equal opportunities for all Zimbabweans remain the over-arching goal of ZIM ASSET. In this regard, it will be very important for us to invigorate our domestic industry and improve Zimbabwe's competitiveness, which currently ranks low amongst regional partners. Our Labour Relations Act dates back to 1985, and even though several amendments have been introduced, the global economy in which we operate justifies a closer look at the legislation to improve the business climate, while preserving fairness to employers and employees. We are reviewing our labour laws, in consultation with stakeholders, with a view to modernising and aligning them with international standards and conventions. In this regard, the principles for amendment of the Act were approved by Cabinet and we have started working on the amendments to the Act for the submission to Cabinet (structural benchmark). The reform is expected to improve labour productivity and facilitate economic growth in line with ZIM ASSET.

PROGRAMME MONITORING

25. The SMP will continue to be monitored through quantitative targets and structural benchmarks. Updated quantitative targets are set out in Table 1 and the structural benchmarks in Table 3. The review of the SMP will be conducted semi-annually, and end-June 2015 and end-December 2015 will be test dates for the quantitative targets. The agreement between Zimbabwe and IMF staff regarding the technical definitions of quantitative targets and structural measures described in this LOI, as well as reporting requirements, are further specified in the attached Technical Memorandum of Understanding (TMU, Attachment 1).

26. The Government of Zimbabwe remains committed to ensuring that the programme remains on track, given its importance as one of the key steps towards a Fund-supported financial programme and hence the importance of establishing a good track record of implementing sound economic policies. To this end, we will continue to monitor the programme at both the technical and political levels. At the political level, the monitoring is coordinated by the Office of the President and Cabinet through monthly meetings. The technical monitoring committee, comprised of officials from the Ministry of Finance and Economic Development, the Reserve Bank of Zimbabwe, the Zimbabwe National Statistics Agency, and the Zimbabwe Revenue Authority, meets regularly.

Yours sincerely,

/s/	/s/
Patrick A. Chinamasa,	John P. 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)

	2014[1]			2015[1]			
	Dec.[2]	Dec.		March	June[2]	Sept.	Dec.[2]
	Program	Act.	Status	Program	Proposed	Proposed	Proposed
1. Floor on primary budget balance of the central government [3,4]	-60			-10	-142	-103	-20
Adjusted floor	-137	-98	Met				
2. Floor on protected social spending	60	95	Met	15	35	57	72
3. Floor on stock of net international reserves	172	178	Met	177	189	219	214
4. Floor on payments to the PRGT	1.80	1.95	Met	0.45	0.90	1.35	1.80
5. 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	400	369	Met	400	400	400	400
Memorandum Items:							
1. Ceiling on total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates	312	235		304	341	317	235

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

[2] Program performance will be monitored based on the quantitative targets for December 2014, June 2015, and December 2015.

[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. For end-December 2014, the adjusted floor reflects $76 million borrowed to clear domestic arrears.

Table 2. Zimbabwe: Structural Benchmarks for the First Review

Benchmarks[1]	Macroeconomic Rationale	Review	Status
Debt Management			
1. Approval of the Public Debt Management Bill by Cabinet.	Enhance public debt management	1st	Met
Financial Sector			
2. Approval of the mandate, strategy, and specific objectives of ZAMCO by the RBZ Executive Committee/Board.[2]	Address the problem of NPLs and strengthen banks' balance sheet	1st	Met

[1] Each structural benchmark is to be completed by the earlier of: (i) the time of the relevant review; or (ii) end-December 2015, the end of the SMP.
[2] Based on recommendations by the December 2014 Fund TA mission, approval was by the ZAMCO Board.

Table 3. Zimbabwe: Structural Benchmarks 2015

Benchmarks[1]	Macroeconomic Rationale	Review
Tax Policy		
1. Submit to Cabinet a report with MoFED's recommendations on reforms to the fiscal regime for the mining sector.	Enhance tax administration and improve revenue collection	2nd
Public Financial Management		
2. Submit to Cabinet a strategy paper on reducing the wage bill.	To manage the wage bill to allocate more resources towards the capital budget	2nd
3. Submit to Cabinet amendments to the Public Finance Management Act to strengthen Treasury's financial oversight of SOEs and local authorities.	Enhance public expenditure and financial management	3rd
4. Submit to Cabinet amendments to the Procurement Act to tighten the public procurement framework and make it more efficient and transparent.	Strengthen governance and accountability	3rd
Financial Sector		
5. Develop the operational framework for ZAMCO, specifying: • an appropriate legal and governance structure, including necessary powers; • an asset valuation and transfer pricing strategy; and • a feasible and sustainable funding strategy.	Address the problem of NPLs and strengthen banks' balance sheet	2nd
6. Develop draft principles of the ZAMCO Bill for submission to Cabinet.	Strengthen the mandate of ZAMCO	3rd
7. Submit to Parliament the amendments to the Reserve Bank of Zimbabwe Act.	Strengthen legal and regulatory framework and reduce financial sector vulnerability	2nd
8. Submit to Parliament the amendments to the Banking Act.	Strengthen legal and regulatory framework and reduce financial sector vulnerability	2nd
Investment Climate		
9. Produce a guide on the Indigenisation and Economic Empowerment Law for publication on the ZIA website.	Increase transparency and boost investor confidence	3rd
10. Submit to Cabinet amendments to the Labour Relations Act.	Improve the business climate by promoting labour market flexibility, as well as enhancing productivity and competitiveness	3rd

[1] Each structural benchmark is to be completed by the earlier of: (i) the time of the relevant review; or (ii) end-December 2015, the end of the SMP.

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 Table 1 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. **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. Payments for goods and services are in arrears if they have not been made within 90 days after invoice receipt from service providers; and after the invoice date for contractors executing capital projects for the government. Arrears will be monitored using the monthly Fiscal Monitor. Domestic service providers are defined to comprise the Central Mechanical Equipment Department (CMED), NetOne, TelOne, ZESA Holdings, ZINWA (water authority), and the local authorities.

QUANTITATIVE TARGETS

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

7. **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. Floor on Protected Social Spending

8. **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).

C. Floor on the Stock of Net Official International Reserves

9. **Net official international reserves (NIR)** are defined as the difference between the RBZ’s liquid, convertible gross official foreign reserve assets and its short-term official foreign

reserve liabilities. For the purpose of the programme, SDR-denominated accounts will be valued at the programme exchange rate of US$ 1.52 per SDR.

- **Gross official reserve assets** of the RBZ are defined as the sum of: (i) Zimbabwe's SDR holdings (excluding 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); (ii) refined gold: (iii) balances with foreign banks; (iv) foreign treasury bills, securities and investments, and foreign currency held by the Reserve Bank of Zimbabwe; and (v) Zimbabwe's reserve position in the Fund. Pledged or otherwise encumbered assets, including but not limited to, assets used as collateral or as guarantee for third-party external liabilities are excluded from official reserve assets.

- **Short-term official reserve liabilities** of the RBZ are defined as: (i) outstanding credit from the IMF; (ii) and short-term foreign currency liabilities to non-residents with maturity of up to and including one year. Official foreign liabilities used to calculate the NIR do not include long-term liabilities such as SDR allocations.

D. 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

10. 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 for the prevailing calendar year.

11. 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.

12. New non-concessional debt will be contracted or guaranteed only as financing for critical growth-enhancing projects that can improve the country's capacity to repay. These projects would be consistent with the key sectors expected to drive economic growth under ZIM ASSET, including mining, agriculture, infrastructure, transport, tourism, ICT, SMEs and cooperatives, supported by investment in education and health facilities. Large projects (above $100 million) will be 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.

E. Adjusters

13. 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.

DATA REPORTING

14. 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
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
External debt stock, disbursements, amortization, interest, other fees and charges, and repayment (by creditor and currency)	MOFED	Quarterly	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	1 month
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	6 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	3 months
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

Press Release No. 15/175
April 21, 2015

International Monetary Fund
Washington, D.C. 20431 USA

Zimbabwe—IMF Management Completes First Review of Staff- Monitored Program

On April 8, 2015, the Management of the International Monetary Fund (IMF) completed the first review under the Staff-Monitored Program (SMP)[1] with Zimbabwe.

The 15-month SMP approved in October 2014 constitutes the lynchpin of the authorities' roadmap for building a strong track record towards normalizing the relationship with Zimbabwe's creditors and mobilizing development partners' support. The main objective of the program is to strengthen Zimbabwe's external position as a prerequisite towards arrears clearance, normalization of debt servicing, and restoring access to external financing. This will require further fiscal consolidation to rebuild the country's capacity to repay; restoring financial stability; and mobilizing international support for resolving the country's external debt situation.

Zimbabwe's economic prospects remain difficult. Growth has slowed and is expected to weaken further in 2015. Despite the favorable impact of lower oil prices, the external position remains precarious and the country is in debt distress. Key risks to the outlook stem largely from a further decline in global commodity prices, fiscal challenges, and possible difficulties in policy implementation. However, the authorities are committed to intensifying their efforts to ensure successful implementation of the program and to lay the ground for stronger, more inclusive, and lasting economic growth.

Despite the economic and financial difficulties, the Zimbabwean authorities have made progress in implementing their macroeconomic and structural reform programs, particularly regarding clarifying the indigenization policy, restoring confidence and improving financial sector soundness, and strengthening public financial management. During 2015, the authorities' policy reform agenda will continue to focus on: (a) reducing the primary fiscal deficit to raise Zimbabwe's capacity to repay; (b) restoring confidence in the financial system; (c) improving the business climate; and (d) garnering support for an arrears clearance strategy.

Strong performance under the SMP would improve Zimbabwe's repayment capacity and demonstrate that it can implement reforms that could justify a Fund-financial arrangement,

[1] 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.

which could help tackle the country's deep-rooted problems. The Zimbabwean authorities remain committed to implementing sound macroeconomic and structural policies.

The authorities have stepped up their reengagement with creditors, including by increasing payments to the World Bank and the African Development Bank. These re-engagement steps open the way for further constructive dialogue to identify feasible options for clearing the arrears to these institutions—a key step towards seeking rescheduling of bilateral official debt under the umbrella of the Paris Club.

IMF staff will continue to support Zimbabwe's economic reforms and their pursuit towards a debt relief strategy. Staff will remain engaged with the authorities to monitor progress in the implementation of their economic program, and will continue to provide targeted technical assistance in order to support Zimbabwe's capacity-building efforts and its adjustment and ongoing reform process.