



# ZIMBABWE

December 2016

## SETTLEMENT OF OVERDUE FINANCIAL OBLIGATIONS TO THE POVERTY REDUCTION AND GROWTH TRUST, LIFTING OF DECLARATION OF NONCOOPERATION, LIFTING OF RESTRICTION ON FUND TECHNICAL ASSISTANCE, AND RESTORATION OF POVERTY REDUCTION AND GROWTH TRUST ELIGIBILITY—PRESS RELEASE; AND STAFF REPORT

In the context of the settlement of overdue financial obligations to the Poverty Reduction and Growth Trust, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis. It is based on the information available at the time it was completed on November 8, 2016.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund**  
**Washington, D.C.**



Press Release No. 16/505  
FOR IMMEDIATE RELEASE  
November 14, 2016

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Removes Remedial Measures Applied to Zimbabwe**

The Executive Board of the International Monetary Fund (IMF) approved today, on a lapse of time basis,<sup>1</sup> the removal of the remedial measures applied to Zimbabwe that had been in place because of the member's overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT), effective November 14, 2016. These measures are: (i) declaration of noncooperation with the IMF ([see Press Release No. 02/28](#)); (ii) the suspension of technical assistance (which had already been partially lifted, see [Press release No. 09/152](#) and [Press Release No. 12/405](#)); and (iii) the removal of Zimbabwe from the list of PRGT-eligible countries (see [Press Release No. 01/40](#)).

This follows Zimbabwe's full settlement of all of its overdue financial obligations to the PRGT of SDR 78.3 million (about US\$107.9 million) on October 20, 2016 (see [Statement by IMF on Zimbabwe](#)). Zimbabwe had been in continuous arrears to the PRGT since February 2001 and was the only case of protracted arrears to the PRGT. Zimbabwe is now current on all of its financial obligations to the IMF.

Notwithstanding the settlement of overdue financial obligations to the PRGT and the removal of remedial measures, consideration of any future request for IMF financing would also require Zimbabwe to comply with other applicable IMF policies, including to: (i) resolve its arrears to multilateral creditors (including the African Development Bank (AfDB), the World Bank, and other multilateral institutions), bilateral official creditors, and external private creditors (if any); and (ii) implement strong fiscal adjustment and structural reforms to restore fiscal and debt sustainability and foster private sector development.

***Useful link:***

[Key Questions on Zimbabwe](#)

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<sup>1</sup> The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.



# ZIMBABWE

November 8, 2016

## SETTLEMENT OF OVERDUE FINANCIAL OBLIGATIONS TO THE POVERTY REDUCTION AND GROWTH TRUST, LIFTING OF DECLARATION OF NONCOOPERATION, LIFTING OF RESTRICTION ON FUND TECHNICAL ASSISTANCE, AND RESTORATION OF POVERTY REDUCTION AND GROWTH TRUST ELIGIBILITY

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## INTRODUCTION

### **1. On October 20, 2016, Zimbabwe fully settled its overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT) using its SDR holdings.<sup>1</sup>**

Zimbabwe had been in continuous arrears to the PRGT since February 2001. The authorities had been making regular monthly payments of US\$0.15 million each since 2013, and four more such payments have been made since the last review of overdue financial obligations on May 2, 2016.<sup>2</sup> As of the day of repayment, Zimbabwe's arrears to the PRGT amounted to SDR 78.3 million, which comprised overdue PRGT principal of SDR 61.7 million, and total interest obligations of SDR 16.6 million, (covering overdue interest and interest accrued through October 20, 2016 on overdue principal and interest amounts). The repayment of SDR 78.3 million has been applied towards the PRGT's Reserve Account.

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<sup>1</sup> The repayment resulted in the release of SDR 66.4 million received by Zimbabwe under the special one-time allocation of special drawing rights in 2009 when the Fourth Amendment of the Fund's Articles of Agreement became effective. Pursuant to the Fourth Amendment, the SDR 66.4 million allocation to Zimbabwe was held in an escrow account due to Zimbabwe's then arrears to the PRGT. As set out in the Articles, such SDRs held in escrow are released upon discharge of all of the member's overdue financial obligations to the Fund. See paragraph 5(a) of Schedule M of the Fund's Articles of Agreement.

<sup>2</sup> Zimbabwe was the only case of protracted arrears to the PRGT.

**2. In light of Zimbabwe's settlement of its overdue financial obligations to the PRGT, staff proposes that the Board remove the remaining remedial measures.** The outstanding remedial measures, posed against Zimbabwe because of its arrears to the PRGT, are: (i) the declaration of noncooperation with the Fund; (ii) the partial suspension of provision of Fund technical assistance (TA); and (iii) the removal of Zimbabwe from the list of PRGT-eligible countries (see Attachment I).<sup>3</sup> Zimbabwe's failure to settle its financial obligations to the PRGT had formed the basis for applying these remedial measures, which were aimed to encourage the authorities to make payments to the PRGT and to undertake policies that would enable them to become current on its financial obligations to the PRGT. Accordingly, staff proposes that the remedial measures be lifted in light of the full settlement of the overdue financial obligations to the PRGT, and as Zimbabwe has no outstanding obligations to the PRGT that could result in the re-emergence of PRGT arrears.

**3. Zimbabwe is eligible for re-entry onto the PRGT-eligibility list.** Decisions on re-entry onto the PRGT-eligibility list can be adopted in the interim period between the general reviews of eligibility to use the Fund's facilities for concessional financing for any country that had been removed from the list in the context of overdue obligations to the PRGT, as long as the country at the time of re-entry does not meet the criteria for graduation.<sup>4</sup> Zimbabwe has a GNI per capita of US\$850, as of end-2015, well below the income thresholds required for graduation from the PRGT-eligibility list based on the income criterion or market access criterion, and continues to face severe short-term vulnerabilities as evidenced by the recent DSA rating (in debt distress).

**4. The Zimbabwean authorities continue their efforts to resolve arrears to international financial organizations and official bilateral creditors.** The authorities provided an updated arrears clearance plan on the sidelines of the 2016 Annual Meetings. The plan no longer envisages clearing Zimbabwe's arrears to the Fund, the World Bank, and African Development Bank (AfDB), simultaneously, but sequentially within a defined period, through: (i) use of their SDR holdings to clear the arrears to the Fund (completed on October 20, 2016); (ii) bridge financing from financial institutions for clearing the arrears to the AfDB; and (iii) loans on market terms to repay the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA). As of end-September 2016, Zimbabwe's total arrears to the IBRD and IDA amounted to US\$1,156.7 million, and arrears to the AfDB amounted to US\$632.5 million. The authorities also are engaging in discussions with the European Investment Bank (EIB) on an arrears clearance plan, and plan to seek debt treatment from official bilateral creditors, under the umbrella of the Paris Club.

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<sup>3</sup> See [Press Release No. 02/28 on June 14, 2002](#) (on issuing the declaration of noncooperation and suspending Fund TA to Zimbabwe) and [Press Release No. 01/40 on September 25, 2001](#) (on removing Zimbabwe from the list of PRGT-eligible countries). The suspension of the Fund provision of TA to Zimbabwe had been largely lifted, but the Fund provision of TA to Zimbabwe remained restricted, subject to the Fund's periodic reviews of Zimbabwe's arrears to the PRGT (see [Press Release No. 09/152 on May 6, 2009](#)). For the description of current TA areas that Zimbabwe may receive from the Fund, see [Press Release No. 12/405 on October 30, 2012](#).

<sup>4</sup> See [Decision No. 14521-\(10/3\), adopted January 11, 2010](#); see also [Eligibility to Use the Fund's Facilities for Concessional Financing, 2015](#) (footnote 2 of Table 1).

**5. The settlement of arrears is a step in the right direction to cooperate with the international community, but needs to be followed by reforms that address Zimbabwe’s structural imbalances.** The authorities demonstrated strong commitment to implementing key macroeconomic policies and structural reforms under the most recent Staff-Monitored Program, despite economic difficulties. In the absence of external financing and reflecting delays in reform implementation, however, the authorities did not fully address the fiscal and external imbalances. More recently, Zimbabwe’s economic and social conditions and the health of its financial system have deteriorated, reflecting the impact of insufficient policy adjustment, and exogenous shocks (a drought, lower commodity prices, and the appreciation of the US dollar). The resulting cash shortages have led the authorities to delay wage payments, restrict imports, require export surrenders, and announce the issuance of bond notes backed by an external credit facility. The extremely difficult situation has been exacerbated by political uncertainty, social unrest, and loss of confidence.

**6. The settlement of overdue obligations and lifting of remedial measures do not automatically provide Zimbabwe with access to IMF financing.** Consideration of a request for IMF financing will also require Zimbabwe to comply with other applicable Fund policies, including to: (i) resolve its arrears to multilateral creditors (including the AfDB, the World Bank, and other multilateral institutions), bilateral official creditors, and external private creditors (if any);<sup>5</sup> and (ii) implement strong fiscal adjustment and structural reforms to restore fiscal and debt sustainability and foster private sector development.

## STAFF ASSESSMENT

**7. Staff proposes that the Board lift the declaration of noncooperation, remove the remaining restriction on the provision of Fund TA, and reinstate Zimbabwe on the list of PRGT-eligible countries.** The basis for staff’s proposal is that Zimbabwe has settled its overdue financial obligations to the PRGT, which was the basis for the Executive Board’s decision to apply these remedial measures. Zimbabwe is now current on all of its financial obligations to the Fund, and has no outstanding financial obligations to the Fund. Zimbabwe does not meet the criteria for graduation from PRGT eligibility that would prevent the member from being reinstated on the list of PRGT-eligible countries.

<sup>5</sup> For the Fund’s policies on arrears to multilateral creditors and external private creditors, see *Sovereign Debt Restructuring—Recent Developments and Implications for the Fund’s Legal and Policy Framework*, Annex I, paragraphs 8–13; for the Fund’s policy on arrears to official bilateral official creditors, see *Reforming the Fund’s Policy on Non-Tolerance of Arrears to Official Creditors* and *Press Release 15/555*.

## Attachment I. Overdue Financial Obligations to the Poverty Reduction and Growth Trust—Timetable of Remedial Measures<sup>1</sup>

Time After Emergence of Arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the Executive Director concerned. At this stage, the member's access to Fund resources, including PRGT and HIPC resources, is suspended.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation to the Trust is overdue, and informs the Executive Board of the nature and level of arrears and the steps being taken to secure payment.
6 weeks	The Managing Director notifies the member that, unless the overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within two weeks. The Managing Director would also consult with and recommend to the Executive Board whether a written communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of the Executive Directors will be held to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board meeting will be held to consider a draft text and preferred timing.
2 months	The Managing Director issues a report to the Executive Board requesting that the Board limit the member's use of PRGT resources.
3 months	The Executive Board gives the report substantive consideration. A factual statement noting the existence and amount of arrears is posted on the member's country-specific page on the Fund's external website. This statement also indicates that the member's access to Fund resources, including PRGT and HIPC resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release is issued following the Executive Board's decision to limit the member's use of PRG Trust resources. A similar press release will be issued following a decision to lift such limitation.
6 months	The Annual Report and the financial statements will identify those members with overdue obligations to the Trust outstanding for more than six months.

Time After Emergence of Arrears	Action
12 months	<p>The Executive Board reviews the situation of the member and may remove the member from the list of PRGT-eligible countries. Reinstatement of the member to the list will require a new decision of the Executive Board. A press release is issued following the Executive Board's decision to remove a member from the list of PRGT-eligible countries. A similar press release will be issued when the member is reinstated on the list. The information contained in such press releases, where pertinent, shall be included in the Annual Report for the year concerned.</p> <p>The Executive Board may issue a declaration of noncooperation with the PRG Trust. The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Trust, taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to creditors other than the Fund while continuing to be in arrears to the Trust; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The Executive Board may at any time terminate the declaration of noncooperation in view of the member's progress in the implementation of adjustment policies and its cooperation with the Fund in the discharge of its financial obligations.</p> <p>Upon a declaration of noncooperation, the Fund may also decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.</p> <p>The Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report(s) for the year(s) concerned.</p>

<sup>1</sup> Based on Decision No. 12545-(01/84), adopted on August 22, 2001.