International Monetary Fund

Zimbabwe and the IMF

Press Release:
Press Release: Zimbabwe—IMF Management Completes First Review of Staff-Monitored Program
April 21, 2015

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Zimbabwe: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 17, 2015

The following item is a Letter of Intent of the government of Zimbabwe, which describes the policies that Zimbabwe intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Zimbabwe, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

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/
Patrick A. Chinamasa,
Minister of Finance & Economic Development
Government of Zimbabwe

/s/
John P. Mangudya,
Governor
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.