INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/109

ZIMBABWE

May 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THE THIRD REVIEW OF THE STAFF-MONITORED PROGRAM—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZIMBABWE

In the context of the Zimbabwe 2016 combined Article IV and Third Review of the Staff–Monitored Program, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its May 2, 2016 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 2, 2016 following discussions that ended on March 11, 2016, 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 15, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Bank (IDA).
- A **Statement by the Executive Director** for Zimbabwe.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Zimbabwe*

*Also included in Staff Report

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COM COMMUNICATIONS DEPARTMENT

Press Release No. 16/194
FOR IMMEDIATE RELEASE
May 4, 2016

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

IMF Executive Board Concludes 2016 Article IV Consultation with Zimbabwe and Third Review Under the Staff Monitored Program

On May 2, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Zimbabwe.

Zimbabwe's economic difficulties have deepened. Drought, erratic rains, and increasing temperatures, have reduced agricultural output and disrupted hydropower production and water supplies. Economic activity is severely constrained by tight liquidity conditions resulting from limited external inflows and lower commodity prices. Inflation remains in negative territory, because of the appreciating U.S. dollar—the country's main currency—and lower commodity prices. Zimbabwe remains in debt distress and the level of international reserves is low. Despite the adverse environment, the authorities have reduced the fiscal deficit in both 2014 and 2015. They have started to rationalize public expenditures by implementing recommendations from the 2015 civil service audit. They are also amending the Public Financial Management and Procurement Acts. The Reserve Bank of Zimbabwe has taken measures to restore confidence in the financial sector. All banks in operations now have capital buffers above the minimum requirements.

Unless the country takes bold reforms, the economic difficulties will continue in medium-term. Given the outlook for the global economy, growth is projected to remain below levels needed to ensure sustainable development and poverty reduction. The current account deficit is expected to narrow, but remain high over the medium term, financed mainly by loans to the private sector.

The authorities have met their commitments under the Staff Monitored Program (SMP) that ended at end-December 2015, despite economic and financial difficulties. The program focused on implementing a limited number of key reforms to show that the country has the capacity to

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

implement the kind of reforms that would be required for a Fund-supported program. The SMP has been a useful anchor in a difficult macroeconomic and political environment.[2]

The authorities are pursuing a gradual, step-by-step approach to reengaging with the international community. Clearing arrears to the International Financial Institutions (IFIs) is seen as a first step in this process. The authorities presented a strategy to clear their external arrears to the IFIs and reforms plans going forward to creditors and development partners in October 2015. The strategy and reform plans received broad support and, once implemented, should provide positive signals to investors and creditors, and help unlock external flows to finance the authorities' development plans and private sector-led growth.

Going forward, the authorities intend to: (a) reduce the size of the wage bill to re-orient spending towards priority capital and social outlays; (b) improve debt management, develop a comprehensive public financial management strategy, and strengthen VAT policy and key processes in revenue administration; and (c) improve the business environment, including by a transparent and consistent application of their indigenization policy and a new comprehensive land reform program. The latter would include a framework for land compensation.

Risks to the already difficult outlook stem mainly from prolonged adverse weather conditions, and weak commodity prices and policy implementation in a difficult political environment. Timely implementation of measures to curb the wage bill and continued progress in State-Owned Enterprise (SOE) reforms would be needed to lower employments costs.

Executive Board Assessment[3]

Directors commended the Zimbabwean authorities for the successful implementation of the economic policies under the staff-monitored program despite difficult domestic and external circumstances. Directors noted that adverse weather conditions and lower commodity prices have taken a heavy toll on economic activity and social well-being. They underscored the importance of maintaining fiscal prudence and pressing ahead with ambitious structural reforms to address impediments to investment, foster private sector-led growth, and reduce poverty, making the best use of the Fund's targeted technical assistance. Further progress on these fronts, as well as on clearance of external arrears, will pave the way for full re-engagement with the

[2] 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. For more on Zimbabwe, SMP, go to: http://www.imf.org/external/country/zwe/index.htm

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

international community, allowing Zimbabwe to regain access to external financing, particularly from the Fund, in support of its development agenda.

Directors agreed that a step-up to a comprehensive and deep economic policy adjustment agenda will be critical to address Zimbabwe's daunting economic challenges. In this context, they concurred that achieving a sustainable fiscal position requires a significant reduction in the wage bill, while rebalancing the budget toward much-needed infrastructure investment and social outlays to stimulate growth. Noting the relatively high tax-to-GDP ratio, Directors considered it appropriate to focus efforts on base-broadening, increasing non-tax revenue from mineral resources, improving the efficiency of VAT collections, and enhancing tax administration. Further steps are needed to accelerate the reform of state-owned enterprises, strengthen public financial management, and enhance transparency in the mining sector.

Directors welcomed progress in enhancing the resilience of the financial system and reducing nonperforming loans. They encouraged the authorities to continue to strengthen bank supervision and risk management, facilitate financial deepening, and promote financial inclusion.

Directors stressed the importance of stepping up structural reforms to raise potential growth and living standards, and to secure support from Zimbabwe's development partners. They highlighted the need to implement the indigenization policy in a business-friendly and transparent manner, and to resolve outstanding land issues swiftly. Other priorities include improving the investment climate, tackling corruption, and promoting economic diversification.

Directors acknowledged the difficult and unique debt situation of Zimbabwe. Noting that Zimbabwe continues to be in debt distress, they called on the authorities to pursue a strong debt management strategy, including by limiting non-concessional borrowing to critical growth-enhancing and poverty-reducing projects that would ultimately improve the country's repayment capacity.

Directors welcomed the comprehensive strategy for normalization of relations with international financial institutions (IFIs). In this context, they urged the authorities to clear all arrears to the Poverty Reduction and Growth Trust (PRGT) and other IFIs. Once arrears to the PRGT are cleared, Directors looked forward to the next stage whereby remedial measures against Zimbabwe can be removed, including the reinstatement of Zimbabwe to the list of PRGT-eligible countries.

Zimbabwe: Selected Economic Indicators, 2012–15				
	2012	2013	2014	2015 Est.
Real GDP Growth (annual percentage change)	10.6	4.5	3.8	1.1
Nominal GDP (US$ millions)	12,472	13,490	14,197	14,680
GDP deflator (annual percentage change)	3.0	3.5	1.3	2.3
Inflation (annual percentage change)				
Consumer price index (annual average)	3.7	1.6	-0.2	-2.4
Consumer price index (end-of-period)	2.9	0.3	-0.8	-2.5
Central government (percent of GDP)				
Revenue and grants	28.0	27.7	26.6	25.5
Expenditure and net lending	29.2	30.1	28.3	26.5
Overall balance (commitment basis)	-1.2	-2.4	-1.8	-1.1
Money and credit (US$ millions)				
Broad money (M3)	3,719	3,888	4,377	4,736
Net foreign assets	-401	-755	-717	-676
Net domestic assets	4,120	4,643	5,094	5,412
Reserve money	273	272	464	563
Money and credit (annual percentage change)				
Domestic credit (net)	91.6	6.2	4.2	15.5
Of which: credit to the private sector	27.1	3.7	4.7	-2.4
Balance of payments (US$ millions)				
Current account balance	-1,818	-2,461	-2,157	-1,506
(percent of GDP)	-14.6	-18.2	-15.2	-10.3
Official reserves (end-of-period)				
Gross international reserves (US$ millions)	398	284	303	340
(months of imports of goods and services)	0.6	0.4	0.5	0.6
Debt (end-of-period)				
PPG external debt (US$ millions)	6,655	7,015	6,979	7,313
(percent of GDP)	53.4	52.0	49.2	49.8

Sources: Zimbabwean authorities and IMF staff estimates.

INTERNATIONAL MONETARY FUND

ZIMBABWE

April 15, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THE THIRD REVIEW OF THE STAFF-MONITORED PROGRAM

KEY ISSUES

Context. The authorities met all their commitments under the Staff–Monitored Program (SMP), despite economic and financial difficulties. Inadequate external inflows, lower commodity prices, the dollar appreciation, and the El-Niño-induced drought hurt economic activity. The authorities have started to rationalize civil service by exploiting opportunities for cost savings, amended the Public Financial Management and Procurement Acts for Parliament and Cabinet approval, respectively, and rid the financial sector of problem banks and reduced non-performing loans. They garnered broad support for their reengagement strategy from creditors and development partners, in particular their plans to clear arrears to the International Financial Institutions.

Outlook and Risks. Growth will stay below levels needed to ensure sustainable development and poverty reduction unless the authorities take bold policy reforms. Risks to this difficult outlook stem mainly from adverse weather conditions, weak commodity prices, fiscal challenges, and weak policy implementation in a challenging domestic political environment. Conversely, progress in curbing the wage bill, reforming state owned enterprises, pushing forward market-oriented reforms, and advancing the arrears clearance strategy could establish a virtuous circle of foreign investments and financing, normalization of relations with the international community, and sustained growth.

Key Challenges. Discussions focused on how to reprioritize spending toward capital and social outlays, move towards fiscal sustainability, and remove structural impediments for a thriving private sector. Reforms need to progress in parallel with the normalization of relations with the international community. Difficult reforms would not be sustainable without fresh financial support.

Key Policies. The authorities intend to: (a) reduce the size of the wage bill to re-orient spending towards priority capital and social outlays; (b) improve debt management, develop a comprehensive public financial management strategy, and strengthen VAT policy and key processes in revenue administration; (c) improve the business environment, including by ensuring transparency and consistency of application of their indigenization policy and implementing a new comprehensive land reform program; and d) pursue normalization of their relations with the international community.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Catherine Pattillo (SPR)

Discussions took place in Harare from February 24 to March 11, 2016. The staff team comprised of Mr. Fanizza (head), Ms. Morgan, Mr. Ruggiero (all AFR), Mr. Simmonds (FAD), Mr. Al-Sadiq (FIN), and Ms. Teferra (SPR). Mr. Beddies (Resident Representative) and Ms. Chishawa (local economist) assisted the mission. Mr. Sitimawina (Senior Advisor to Executive Director) participated in the discussions. The mission met with Minister of Finance and Economic Development Patrick Chinamasa, Chief Secretary to the President and Cabinet Misheck Sibanda, Minister of Lands and Rural Resettlement Douglas Mombeshora, Minister of Public Service and Labor Priscilla Mupfumira, RBZ Governor John Mangudya, and members of the Parliamentary Committee on Finance and Economic Development, other senior government officials, and representatives of the private sector, civil society and development partners.

CONTENTS

TABLES

ANNEXES

APPENDIX

BACKGROUND

1. **The Staff-Monitored Program (SMP) ended at end-December 2015.** The authorities have met their commitments under the program, despite economic and financial difficulties. The program focused on implementing a limited number, but key reforms. The SMP has been a useful anchor in a difficult macroeconomic and political environment. The authorities demonstrated strong commitment to the program, and made significant progress in advancing their macroeconomic and structural reforms. Zimbabwe's performance under the SMP has laid the basis for the country to undertake more ambitious reforms, and it set the stage for advancing the reengagement process and to justify an eventual request for a Fund-financial arrangement. The authorities have garnered broad support for their reengagement strategy from creditors and development partners, in particular their strategy to clear arrears to the international financial institutions (IFIs).[1]

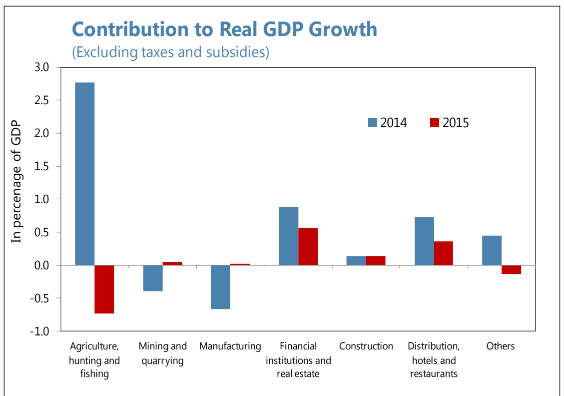
2. **The authorities have indicated their interest in seeking financial support from the IFIs in the context of their ambitious medium-term transformation agenda.** Restoring fiscal and external sustainability, bolstering financial stability, and addressing the debt overhang remain critical for achieving the country's development objectives. Going forward, bold, comprehensive medium-term reforms and policies are needed to tackle the structural impediments and accelerate growth, transform the economy, and reduce poverty. The authorities have started to develop a medium-term economic transformation program, in line with their broader reform agenda presented at the Lima meetings on arrears clearance in October 2015. The financing needs to support the reforms are substantial and the authorities recognize that normalizing relationship with the international community is paramount to unlock Zimbabwe's access to much-needed financing. Based on their step-by-step, pragmatic approach, the authorities see clearing the arrears to the IFIs and advancing their reform agenda as precursors for seeking financial support from the IFIs, and eventually traditional debt treatment under the umbrella of the Paris Club.

3. **Zimbabwe's political situation appears broadly stable, but with rising rivalries within the ruling ZANU-PF party.** Infighting has intensified, with suspensions and expulsions from the party and the cabinet along factional lines since December 2014. A new opposition party led by former vice president Joice Mujuru, with support from some of those expelled from the ZANU-PF party was launched in early-March 2016. Presidential and legislative elections are scheduled for 2018. Despite these developments, there is broad political support for reforms and the reengagement process, the importance of which the president stressed in outlining a 10-point plan for economic growth and job creation in August 2015.

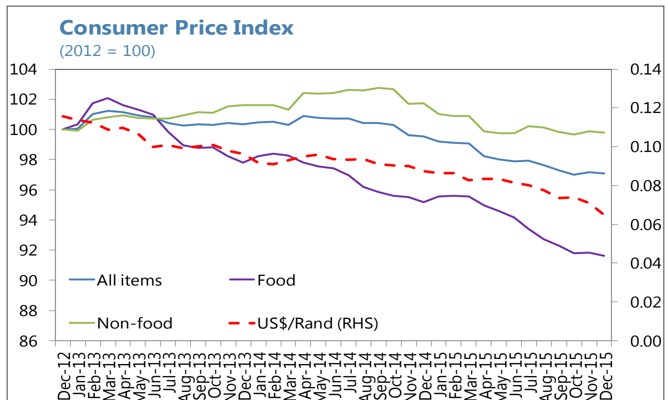
[1] The African Development Bank, the IMF, and the World Bank Group —IDA and the IBRD.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

4. Zimbabwe's economic difficulties have deepened. GDP growth slowed significantly to 1.1 percent in 2015, mainly because of the impact of adverse weather conditions on agricultural output, and power generation (Table 1). The mining sector, which has been hit by low commodity prices, erratic power supply, and policy uncertainties, recovered somewhat because of increased gold production. Meanwhile, significant investment is needed to transition from extracting alluvial diamonds to kimberlitic deposits.[2] Growth is projected to remain subdued in 2016, despite strong performance in mining—which is expected to benefit from increases in gold, platinum, and diamond output—construction, and financial services. Tight liquidity conditions stemming from inadequate external inflows, and lower commodity prices continued to hurt economic activity. Unemployment is rising (Annex II), and employment has been shifting to the informal sector. Inflation remained in negative territory, because of the appreciating U.S. dollar—the country's currency—and lower commodity prices, but this price adjustment has had only limited impact on competitiveness.



Sources: Zimbabwe authorities and IMF staff projections



Sources: Zimbabwe authorities, South African authorities, and IMF staff projections

5. The current account balance improved in 2015, because of lower prices for oil imports, subdued economic activity, and fiscal consolidation efforts (Table 2). The current account deficit will likely worsen in 2016, despite improving terms of trade, because the drought has raised the need for substantial maize imports. The levels of international reserves remain low, and Zimbabwe remains in debt distress.

6. Fiscal performance in 2015 was better than programmed, despite the adverse macroeconomic environment. Tax revenue benefitted from strong collection efforts on overdue payments and court decisions at year end in favor of the revenue authority (ZIMRA) that offset the impact of slower-than-anticipated growth, increased unemployment, reduced profitability, and lower commodity prices. On the expenditure side, the authorities kept employment costs well below budgetary projections—for the second year in a row—and saved on capital outlays, while protecting social spending. As a result, the primary cash deficit was lower than programmed (Table 3).

---

[2] Alluvial deposits are found on shallow soft ground while kimberlitic diamonds are found deep in the soil. The latter are more expensive to extract and require specialized machinery to break through hard strata.

7. Despite spending pressures to mitigate the impact of the drought, the authorities remain committed to fiscal discipline, and target a primary cash deficit of 0.2 percent of GDP for 2016. Additional spending to provide maize to the poor and the vulnerable groups of the population (0.5 percent of GDP) is to be offset by lower allocation for non-priority current outlays. To generate additional resources, and restore the financial viability of the public service pension system, the authorities have re-established withholding of social security contributions[3]—resulting in an increase in non-tax revenue, and adopted measures to broaden the tax base.[4]

8. The authorities have started to implement measures to rationalize public expenditure and reduce public employment costs. In line with the recently completed civil service audit, they have started to eliminate duplications and redundancies, rationalize posts, revise leave policy in the education sector, reduce employment costs to grant-aided institutions, and cuts to government top-ups to teachers in private schools.[5]

9. Deposit growth in the banking sector continued to slow in 2015, constrained by the weak economy (Table 5). Domestic credit recorded a marked increase in 2015, driven by higher lending to the central government—the majority being debt issued to recapitalize the Reserve Bank of Zimbabwe (RBZ) and other public institutions, financing the asset management company (ZAMCO) and addressing legacy debt obligations. In addition to direct purchases, financial institutions have increased their holdings of government securities through purchases on the secondary market, particularly from corporates and individuals who acquired them as part of the government's clean-up of legacy debt obligations. Credit to the private sector declined by 2 percent, reflecting the combined effects of the weak economy, tight liquidity conditions, and banks' cautious approach to lending to the private sector. Deposit and credit growth is expected to benefit from the financial sectors reforms and implementation of the financial inclusion strategy (¶30–31).

10. The authorities remain committed to the multi-currency regime. While they acknowledge the costly constraints this regime imposes on macroeconomic policy, they do not see any feasible alternative in the short-to-medium term. To provide credibility to the multicurrency system, and promote consumer and business confidence, the RBZ undertook a three-month demonetization process (June-September 2015), effectively removing the legal status of the Zimbabwe dollar. The process addressed cash held by the public, and non-loan bank accounts as at end-2008. Some US$9 million was converted during the period. There was increased demand for the

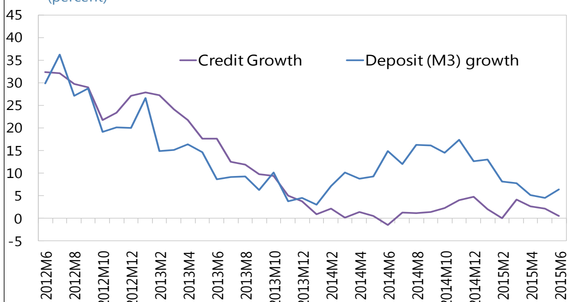
---

[3] Following hyperinflation, the authorities had stopped withholding public employees' social security contributions. The 2016 budget includes 0.7 percent of GDP in additional revenue as a result of this measure.

[4] These include: reducing: (a) the list of persons and organizations entitled to tax exemptions; (b) the list of VAT-exempt items; and (c) travelers' rebate on good imported at customs. To reduce undervaluation and evasion of revenue at customs, pre-shipment inspections became operational on March 1, 2016.

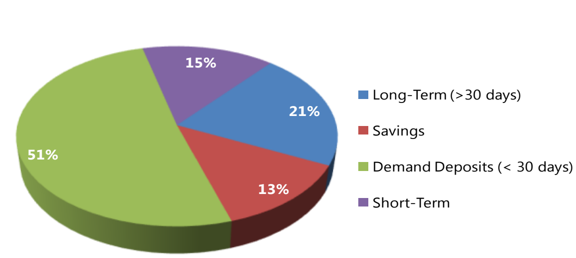
[5] Implementation of some of these measures started in November 2015: e.g., rationalizing posts in several government units, cutting government support to teachers in private schools, and reviewing vacation leave in the education sector. In the absence of these measures, the wage bill would be around 1 percentage point of GDP higher in 2016.

bond coins[6] as consumers switched from the depreciating rand coins. At end-December 2015, bond coins in circulation stood at US$10 million. The introduction of the coins has helped in correcting the pricing of goods and services.



Loans and Deposits
(percent)

Sources: Zimbabwean authorities and IMF staff estimates.

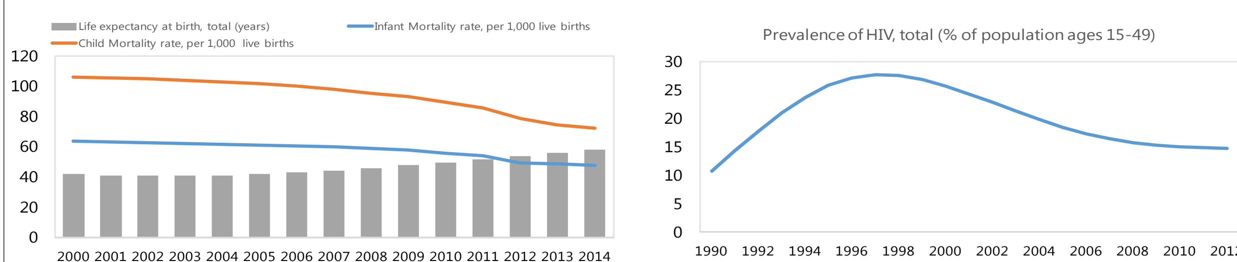


Composition of Banking Sector Deposits
(percent of total, as of November 2015)

Source: Reserve Bank of Zimbabwe Monetary Policy Statement

11. Zimbabwe's social indicators have improved in recent years, but other major development challenges remain (Annex II). The authorities, with support from the World Bank and other development partners, are undertaking a number of initiatives to address these challenges. Preparation of an interim Poverty Reduction Strategy Paper, and a Poverty, Income, Consumption, and Expenditure Survey (PICES) are underway.

Zimbabwe: Selected Social Indicators



Source: World Development Indicators

12. Zimbabwe, like the rest of the region, is grappling with the El Niño-induced conditions. Drought, erratic rains, and increasing temperatures have reduced agriculture output and livestock, and disrupted hydropower production and water supplies. Due to the severe drought and poor harvest, particularly for the staple food maize, an estimated 3 million people (about 30 percent of rural population) are at risk of food insecurity.[7] The authorities are working with development partners and the private sector to help mitigate the impact, and secure sufficient maize imports (Box 1).

[6] Since December 2014, the RBZ introduced 1, 5, 25 and 50 cent bond coins, indexed at par to the U.S. dollar and backed by a US$50 million bond facility. Prior to the introduction, the rand coins were widely used since the adoption of the multi-currency regime system.

[7] World Food Program.

13. The economic outlook remains challenging, as El Niño-induced drought is already severely affecting another agricultural harvest season and the energy sector. Given the outlook for the global economy, projections under the baseline scenario are for growth to average 4 percent over the medium term (Figure 2), well below the level that would be needed to ensure sustainable development and reduce poverty.[8] Inflation is projected to remain in negative territory in 2016, but pick up over the medium term. The current account deficit is expected to narrow, but remain high over the medium term, financed mainly by offshore loans to the private sector. The persistent large current account deficits, exacerbated by a sharp appreciation of the U.S. dollar, have worsened Zimbabwe's external position and competitiveness. Zimbabwe will need to improve its competitiveness by facilitating further relative wage and price adjustments while creating fiscal space. In the medium term reforms aimed at removing structural impediments and strengthening institutions to create a supportive business environment will be needed to restore external stability and increase resilience to external shocks (Annex III).

14. Risks to the already difficult outlook stem mainly from continued adverse weather conditions, fiscal challenges, weak commodity prices, and policy implementation in a difficult political environment. (Annex I, Risk Assessment Matrix). The projections are subject to macroeconomic and policy risks. Should external shocks intensify, macroeconomic conditions would deteriorate further and jeopardize the revenue targets. Timely implementation of the measures to curb the wage bill and continued progress in State-Owned Enterprise (SOE) reforms and wage restraint would be needed to lower employments costs. Failure by the authorities to effectively implement their reform agenda or delays in advancing their arrears clearance strategy could undermine their efforts to attract much-needed foreign investment to transform the economy, and to normalize relations with the international community.

15. The authorities shared the staffs' views on the medium-term outlook and risk assessment. They emphasized that the major economic challenges facing Zimbabwe emanate from exogenous shocks—El Niño-induced drought, low commodity prices, and the appreciating U.S. dollar—exacerbated by inadequate external flows and tight liquidity, erratic power supply, and the economic slowdown. In the near-term, they will have to accommodate additional spending to help mitigate the impact of the devastating drought on the vulnerable population. The staff underscored the urgent need to move forward with comprehensive reforms to transform the economy.
The authorities concurred with the staff's macroeconomic outlook and assessment of risks.
They noted, however, that the absence of external financial support magnifies risks and their impact, and generates resistance to reforms. They believe that a successful re-engagement with the international financial community would be a necessary condition to reduce the impact of domestic and exogenous risks.

[8] Growth in 2017 is higher than trend, mainly reflecting the rebound in agriculture, following two years (2015–2016) of below-average rain and output.

Box 1. Zimbabwe: The Impact of El Niño on Zimbabwe

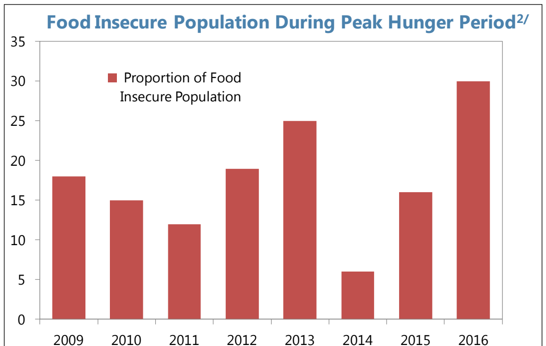
Zimbabwe is experiencing its worst drought since 1991–92. El Niño has led to far below-average rainfall across Southern Africa, and projections are for a continuation of below-average rainfall, and above-average temperatures. The situation in Zimbabwe is exacerbated as the country already experienced a poor 2014/15 agricultural season with dry spells in most regions.

The agricultural and electricity sectors have been hit hard, with broader spillovers on the economy. The 2015/16 season is expected to see agricultural output shrink by 9.9 percent**,** following an already poor 2014/15 season. The contribution to growth is projected to decline to -1.3 percent in 2016, relative to -0.7 percent in 2015. The Kariba dam, which provides about 60 percent of peak electricity demand, is operating at around 50 percent of its capacity and risks a complete shutdown, if water levels decrease further. Faced with declining agricultural output and inadequate maize reserves, Zimbabwe will have to import an estimated 1.4 million tons of grain until the 2016/17 harvest season.

The humanitarian cost of the drought is rising, with an estimated 3 million people facing food insecurity. Rain dependent farmers have been hit hardest. Cattle and other livestock have been decimated, in a context of declining prices (as farmers are destocking). The Zimbabwe Vulnerability Assessment Committee (ZIMVAC) Rapid Assessment Report of February 2016 estimates food insecurity to double relative to 2014/15, with 30 percent of the rural population now at risk. The household food security status is threatened further by other shocks to households' disposable incomes, including diminished opportunities for casual labour, particularly in agriculture, declining remittances due to depreciation of regional currencies, and reduced formal employment. Weaknesses in procurement and distribution chains increase the risk of large food price increases—which have not yet materialized—which would disproportionately affect the poor and contribute to increased vulnerability.

The authorities have declared a state of national disaster, with estimated total needs assessed at US$1.5 billion. This would cover: (a) grain importation of 1.4 million metric tons (mostly by the private sector); (b) food security and social protection to vulnerable people; (c) livestock support to limit livestock destocking; (d) wildlife support; (v) emergency irrigation infrastructure rehabilitation; (e) health-micro nutrient/ under five feeding; and (f) school feeding. These identified financing needs constitute a call for funding. The major portion of the requirement is expected to be met by the private sector, development partners and individual initiatives. Direct government interventions will focus on mitigating the impact on the 3 million vulnerable people. In addition to budget allocations for food imports and social intervention, an additional 0.5 percent of GDP has been budgeted for this.

Food Insecure Population During Peak Hunger Period[2/]



2/ January - March.
Source: ZIMVAC

Enhancing resilience will require reversing the reduced preparedness and response capacity. The ability of the irrigation system to mitigate the impact of droughts has been eroded over time due to underinvestment and limited maintenance. Additionally, financing constraints exacerbated by a lack of collateral continue to hinder agriculture financing. With an increase in rural–urban migration, increasing unemployment and evidence of increasing urban poverty, there is need for policy interventions in urban areas. These could be improved access to affordable cereals and feeding programmes. Concerns have also been raised over the efficiency in procurement and distribution of food. Opening borders for food imports, ensuring that all critical facets of food, water and drugs, are adequately covered to prevent further deterioration of livestock condition and deaths would curb food insecurity.

Going forward, diversification of the economy, while making the agricultural sector more resilient, remains key to reduce the country's vulnerabilities. The agricultural sector has become increasingly vulnerable to water shortages—and this is likely to persist without investment in irrigation and investments that increase agricultural productivity, including by focusing on crops more resilient to water shortages. Additionally, diversifying the economy towards manufacturing not related to agriculture and services will aid to improve resilience to droughts. This requires continued emphasis on tackling some of the factors hindering the emergence of businesses that could drive non-commodity exports.

PROGRAM PERFORMANCE

16. All of the quantitative targets for end-December 2015 were met (Table 8). The floor on the primary cash balance and the net international reserves target were met with comfortable margins. The floor on protected social spending, the target for Poverty Reduction and Growth Trust (PRGT) payments, and the ceiling on nonconcessional debt were also met.

17. The remaining three structural benchmarks for the third review were also met (Table 9).[9] The cabinet approved: (a) the amendments to the Public Financial Management (PFM) Act and the PFM Bill was submitted to the parliament in November; and (b) the amendments to the Procurement Act to tighten the public procurement framework and improve efficiency and transparency. In early-January 2016, the authorities published the new framework, procedures and guidelines for implementing the indigenization policy on the Zimbabwe Investment Authority (ZIA) website. While this helped by continuing the dialogue on the policy, more needs to be done to tie up loose ends and implement the policy in a transparent and non-discretionary manner (Annex IV).

18. In addition, meaningful progress has been made in implementing the broader structural reform agenda. However, the authorities need to follow through with further implementation of key measures, particularly the new indigenization framework, reducing the wage bill, and reducing the cost of doing business.

POLICY DISCUSSIONS

Zimbabwe's deteriorating economic conditions reinforce the urgency to move forward and implement comprehensive ambitious reforms to transform the economy, and to advance the reengagement process. Key priorities jointly identified by the authorities and staff include: (a) fiscal discipline and rebalancing expenditure away from employment costs toward development and social spending to restore fiscal sustainability, supported by strengthened public financial management (PFM) and revenue administration, and acceleration of SOE reforms; (b) further enhancing financial stability and depth to ensure the financial sector plays its role in savings mobilization and investment and contribute to economic development; (c) tackling the external arrears and advancing the reengagement process to allow the country to eventually access external financing; and (d) addressing structural weaknesses to boost Zimbabwe's growth potential.

The policy discussions underscored a broad convergence of views between the staff and the authorities on policies and reform priorities. The attached Letter of Intent outlines the authorities' policy intentions in the short-to-medium term. It includes their short-term policy commitments and a matrix of reform priorities that will form the nucleus of their next phase of reforms. The authorities emphasize that, without external financial support, reform efforts would have limited impact and fizzle in the face of

[9] Two of the four benchmarks for the third review were completed at the time of the second review. See *EBS/15/11*.

mounting domestic resistance. The staff stressed the importance of tackling impediments to growth as soon as possible and redirect the economy toward private sector-led growth, but also agreed that financial support is needed for reform efforts to succeed.

A. Advancing Fiscal Reforms for Fiscal Sustainability

19. The staff emphasized that fiscal policy in the medium term should be guided by the objective to rebalance expenditures from wages to capital and social spending. Zimbabwe's public sector wage bill is among the highest in the region (Annex V), and accounts for a disproportionately large share of the budget. The growth in employment costs reflects large wage increases and expansion of the civil service.[10] Zimbabwe's tax collection as a share of GDP is high by Sub-Saharan Africa (SSA) standard. Thus, efforts should focus on improving the efficiency of tax administration, rather than increasing tax pressure.[11] Non-wage expenditures have suffered from years of compression and could lead to widening gaps in infrastructure and social development, if not addressed. Staff's baseline medium-term projections are predicated on a slight increase of spending in proportion of GDP, accompanied by a marked redistribution of spending from wages to capital and high-priority current outlays (Figure 2).

20. The authorities agreed that reducing the large public sector wage bill should be a key objective for achieving fiscal and debt sustainability over the medium term. In the adjustment scenario, the authorities plan to reduce wage costs from around 66 percent of expenditure in 2016 to 50 percent in 2019 (see section E). To achieve these reductions, the authorities aim to maintain total wage costs unchanged in nominal terms until 2019. In addition, they plan to implement the payroll audits of all service commissions and review allowances with the goal of identifying efficiency gains and cost savings.[12] The authorities concurred that the fiscal space thus created could be used to increase development and social spending.

21. The authorities concurred that increasing transparency and accountability in the diamond sector, as well as its contribution to fiscal resources, is key. The sector was managed poorly and the lack of transparency and accountability led to a situation where it did not generate any dividends for the budget.[13] In a bid to address this issue, the government put forward a proposal for the setting up of the Zimbabwe Consolidated Diamond Company (ZCDC), following the Botswana model, and consolidated all diamond operations in a new entity. The negotiations

[10] Employment costs include, in addition to the wage bill of the central government, pension payments and wage transfers to other levels of government. Wage costs include the wage bill of the central government and wage transfers to other levels of government.

[11] A tax policy mission is expected in the first half of 2016.

[12] In addition to the audit finalized by the Public Service Commission, covering about 50 percent of public employment, Cabinet has requested the other commissions (Judicial; Uniformed Services; and Health Service Board) to perform audits and propose recommendations to rationalize employment.

[13] The seven companies previously operating in the sector are Marange Resources, Mbada Diamonds, Anjin Resources, Diamond Mining Company, Gyne Nyame, Kusena, and Jinan.

between the authorities and the diamond firms were, however, not successful. Therefore the authorities went ahead, not renewing mining licenses, and have since commenced mining operations. Private companies can participate subject to the indigenization policy. The government intends to fully account for production, sales, turnover, exports, and profits, thus ensuring transparency and accountability in the sector and that proceeds from diamond mining are accrued to the budget.[14] To underscore their commitment to transparency, they will regularly publish the audited accounts of ZCDC.

22. The authorities are making progress in strengthening PFM, supported by development partners. Work is underway, with World Bank's assistance, on a PFM enhancement project to, *inter alia*, support: (a) strengthening expenditure controls and internal audit; and (b) pilot rollout of the IFMIS to the local authorities. To help improve expenditure prioritization, the authorities have rolled out pilot program-based budgeting (PBB) on a phased-basis in the ministries of Public Administration, Health, Education, and Social Welfare. PBB is to be rolled out to all ministries over the next two years. The Public Procurement Bill[15] is undergoing extensive consultations with local authorities and accountability organizations with the objective of fast-tracking its submission to parliament.

23. The authorities agree that there is limited scope to raise the tax-to-GDP ratio. However, they see considerable scope to increase efficiency of tax policy and revenue administration. In tax policy, they intend to review the design of their tax system, in particular their VAT. Tax administration efforts will focus on improving the efficiency of crucial operations. ZIMRA's reform priorities focus on strengthening risk management, taxpayer filing and compliance, and monitoring of transit traffic. Staff agreed that these are priority areas to increase efficiencies in administrative processes and mitigate evasion, and have the potential to generate substantial revenue, at little additional cost and minimal administrative disruption.

24. Staff emphasized the importance to accelerate the reform of SOEs to reduce their budgetary impact, improve service delivery and accountability, and enhance their contribution to economic growth. Forensic and performance audits are being conducted on most of the ten largest SOEs targeted for priority action to determine the appropriate restructuring policies, and employments costs have already been reduced in a number of them. For some of the 10 enterprises targeted for priority action, the authorities plan to seek strategic and technical partners, pursue joint ventures, or unbundle them. The concluded forensic and performance audits (Grain Marketing Board and Cold Storage Company), and the four turnaround strategies under consideration by Cabinet (Industrial Development Corporation, Zimbabwe National Water Authority,

[14] Reporting arrangements have been established. The authorities already started to receive daily updates on production figures.

[15] The Bill is designed to increase efficiency and enhance transparency and good governance in public procurement by decentralizing the procurement process, reduce the misuse of public resources, and transform the State Procurement Board into two separate entities for regulation and oversight.

Agriculture and Rural Development Authority, and TelOne) will provide the baseline for appropriate restructuring policies.[16]

25. The authorities reiterated their firm commitment to accelerate SOE reforms. While acknowledging that progress in SOE reforms has not been as fast as they initially hoped, the authorities noted that performing due diligence and designing and implementing reform strategies for each company takes time. They also noted that they succeeded in reducing employment in several SOEs, including at the Grain Marketing Board, TelOne, and National Railways.

26. Strengthening debt management capacity is a priority for the authorities. In line with the Debt Management Act, a unified, up-to-date debt registry will be established in the Debt Management Unit, which would provide complete data about both foreign and local debts from a single record.[17] Such registry will be integrated with other functions in the ministry—e.g., budget preparation and execution. The authorities plan to produce debt management strategy that is fully integrated in the medium term budgeting process. Fund technical assistance is already being provided to the authorities to operationalize their plans.

B. Enhancing Stability and Deepening the Financial Sector

27. The RBZ has made significant progress in restoring confidence and strengthening the financial sector. Banking sector conditions have improved (Figure 1, Table 6): all troubled banks have been removed from the sector and all operational banks maintain capital buffers above the minimum requirements—with two banks having exceeded the 2020 requirements.[18] Asset quality has improved as the level of nonperforming loans (NPLs) continued to decline,[19] reflecting bank closures, acquisition of collateralized NPLs by the Zimbabwe Asset Management Company (ZAMCO), and initiatives by the banks, and banks' profitability is improving.[20] ZAMCO is fully operational and self-sufficient (Box 2). The Afreximbank-supported $200 million interbank facility (AFTRADES) is helping to address liquidity challenges (Box 3). The RBZ has been recapitalized and the cleanup of its balance sheet is well advanced.[21]

[16] Outside the 10 priority SOE, a forensic audit has been completed for ZimPost, and two forensic audits are ongoing for NetOne and Allied Timbers.

[17] The Act provides a comprehensive framework for debt management, comprising the purpose and objectives of borrowing, the mandate to issue debt and guarantees, and clear requirements for developing a debt management strategy and transparent reporting.

[18] In 2014, the RBZ issued directives for Tier 1 banks (undertaking core banking activities plus additional services) to have minimum core capital requirements of US$100 million by 2020. The People's Own Savings Bank does not have a minimum capital requirement.

[19] At end-December 2015, the level of NPLs, excluding the one bank under provisional judicial management, stood at 10 percent.

[20] These include loan restructuring, refining of underwriting standards, and establishment of loan recovery units.

[21] By end-January 2016, the Ministry of Finance and Economic Development had taken over $656 million (4.6 percent of GDP) of RBZ's noncore liabilities.

Box 2. ZAMCO: Helping to Address the High Levels of Nonperforming Loans

As part of its multi-pronged approach to tackle the high level of nonperforming loans (NPLs), in early-2014, the Reserve Bank of Zimbabwe (RBZ), with Fund assistance, established the Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO). The high levels of NPLs mainly reflected past unsound lending practices—including cases of insider and related party loan exposures, weak corporate governance, poor risk management, asset-liabilities mismatch and an underperforming economy. The level of NPLs increased steadily, particularly since early-2012, and peaked at 21 percent in September 2014. ZAMCO was tasked with acquiring, restructuring, and disposing of NPLs.

ZAMCO commenced the first phase of NPLs acquisition in October 2014, focusing on the top 100 NPLs, in terms of absolute size, across the financial sector (out of a total NPL portfolio of $816 million—21 percent at end-September 2014), and on those NPLs where the underlying companies have prospects of viability if the loans are restructured. The restructuring involved extending the loan repayment period, reducing interest rates, capital repayment holiday and in some instances, conversion of the debt into equity. As at end-December 2015, ZAMCO has purchased eligible mortgaged-backed NPLs amounting to $360 million, financed by long-term government debt securities. Debt servicing obligations are met through a stream of income placed in a sinking fund.

ZAMCO is fully functional, guided by an operational framework, (including an asset valuation and transfer pricing strategy), and a governance structure that is in line with international best practices. ZAMCO's operating costs were initially met by the RBZ. However, since October 2015, ZAMCO has been self-sufficient, generating its own funding through arrangement fees, interest from restructured loans, and dividends from preference shares. As at end-December 2015, ZAMCO had sufficient resources to cover its operating expenses for the next two years, at current levels of operation.

The work of ZAMCO has helped to restore financial sector viability by strengthening banks' balance sheets and providing them with much-needed liquidity. The level of NPLs, while still high, has been reduced significantly from the peak of 21 percent in September 2014 to 10 percent (excluding the one bank under provisional judicial management) at end-December 2015. In addition, the restructuring efforts have brought relief to a number of corporates who faced very high financing costs.

28. **The regulatory framework is being strengthened.** The approved amendments to the Reserve Bank and Banking Acts are awaiting presidential assent. The amendments seek to align banking laws with recent developments, including a more comprehensive framework on risk management and corporate governance, introduce greater transparency in shareholdings and operations of banking institutions and controlling companies, and provide for the setup of the credit reference bureau. The new legislation will go a long way to further strengthen the regulatory framework, and safeguard the sector. Pension and insurance legislation is being amended to strengthen the industry's regulatory framework, and bring the legislation in line with international standards.

29. **However, challenges remain and staff emphasized the need for continued strong, proactive supervision.** Liquidity conditions remain tight against the background of inadequate capital flows, low commodity prices, the economic slowdown, and negative inflation. Credit risks will remain high in this challenging economic environment. Moreover, deflation risks can further strain corporate sector's capacity to repay. Further reduction in NPLs and increased access to credit remain important to cement financial stability and reinforce confidence. Early passage of the Banking

Amendment Bill, which will effect the amendments to the Reserve Bank and the Banking Acts, would enhance financial stability.

Box 3. Zimbabwe: The Afreximbank Trade Debt-Backed Security Facility

To help address short-term liquidity challenges, in the context of market segmentation, the Afreximbank-supported interbank liquidity facility was launched in March 2015. The $200 million facility, which is underwritten by Afreximbank under the Afreximbank Trade Debt Backed Securities (AFTRADES), has helped to redistribute funds from some banks with high levels of liquidity (surplus banks) to those facing liquidity shortages (deficit banks). The interbank facility is managed by the RBZ, acting as agent for the Afreximbank.

The facility enables deficit banks to access the funds provided by the surplus banks, through the RBZ, at interest rate of 8 percent, for which they provide acceptable collateral for borrowing, including loans and advances. Surplus banks earn 5 percent interest rates on their funds which are secured by the AFTRADES. At end-January 2016, the pool of AFTRADES secured funds was $176 million, reflecting participation of six surplus banks, and $154 million disbursed to deficit banks.

30. The levels of financial inclusion in Zimbabwe improved markedly from 60 percent in 2011 to 77 percent in 2014, mainly due to increased mobile banking services (Text figure and text table 1).[22] Among the rural adult population, the level of inclusion rose to 62 percent in 2014, from 27 percent in 2011. According to the FinScope Survey, some 81 percent of banked adult Zimbabweans was using financial products and services through both the formal and informal sectors in 2014. This placed Zimbabwe among the highest levels of financial inclusion in SSA. Access to finance is mainly through the banking institutions.[23] Microfinance institutions (MFIs) play an important role in channeling credits to the SMEs and low-income rural population.

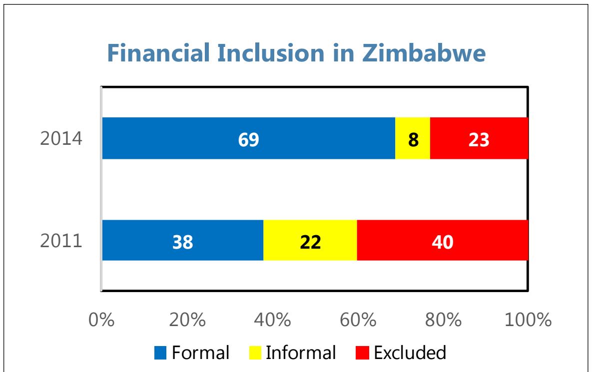
Zimbabwe: Key Financial Inclusion Inidcators 2011 and 2014
(in percent, unless otherwise stated)

Indicator	2011	2014
Formally served	38	69
Banked	24	30
Other formal (nonbank)	26	67
Informal	41	37
Excluded	40	23
Reliance exclusively on bank products	8	1
Reliance exclusively on nonbank products	6	23
Reliance exclusively on informal financial products or services	22	7.8
Number of banked adults (million)	1.5	2.2
Number of cellphone banking adults	40,000	560,000
Number of persons registered for mobile banking (million)	0	3.2

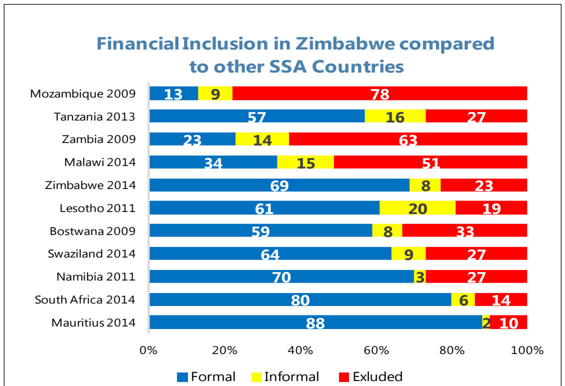
Source: Finscope Survey 2014

[22] Based on the 2011 and 2014 Finscope Consumer Surveys.

[23] As of end-2015, the financial sector consisted of 13 commercial banks (82 percent of financial sector assets), 4 building society, 1 savings bank, 153 credit-only MFIs, 2 deposit-taking MFIs, and 2 development finance institutions.



Source: FinScope 2014



Source: FinScope 2014

31. The RBZ, in collaboration with key stakeholders, has developed a national financial inclusion strategy.[24] The overarching goals for 2020 are to (a) broaden access to financial products and services (from 69 to 90 percent); and (b) increase the proportion of banked adults (from 30 to 60 percent). Despite the increase in the portion of the population accessing formal financial services, there are still gaps particularly in the level of access to, usage, and quality of financial products and services.[25] The gaps are more pronounced among the rural population,[26] women and youths, small- and medium-sized enterprises (SMEs), and the small-scale agricultural sector. The main barriers to financial inclusion have been high levels of poverty, low disposable income, unavailability of affordable and appropriate products and services, cost of services, low levels of financial literacy, [27] information asymmetry, and lack of confidence. Banks have developed three-year strategies anchored on increasing branch network, adopting technology innovations to make greater use of agent and mobile banking, provision of no-fees/low cost and microfinance products. The RBZ, with support from the World Bank and key stakeholders, is developing consumer protection standard and guidelines, and a financial education strategy. In addition, as a complement to the credit reference system, a collateral registry is being established to enhance the range of acceptable and qualifying collateral security by enabling SMEs, low income groups to register their moveable assets to obtain credit. Financial deepening and inclusion is expected to encourage savings mobilization and stimulate investments, thereby contributing to sustainable economic development and poverty reduction.

32. The authorities concurred that supervision should be strengthened and risks carefully monitored. They are cognizant that the international and domestic economic environments pose

[24] The Zimbabwe National Financial Inclusion Strategy, 2016–2020 was launched in early-March 2016.

[25] Based on the 2014 Finscope Consumer Survey, access to financial services increased from 38 percent in 2011 to 69 percent in 2014, while South Africa was at 75 percent, Botswana 59 percent, Zambia 21 percent, and Tanzania 57 percent.

[26] Some 70 percent of the population lives in rural areas.

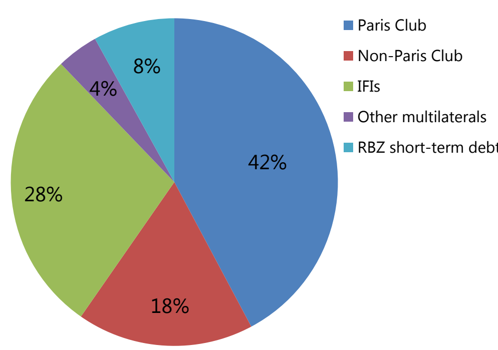
[27] The World Bank Consumer Protection and Financial Literacy Survey Diagnostics Report 2014 revealed low financial literacy in Zimbabwe.

risks for banks. The RBZ has requested technical assistance and training is various aspects of banking supervision and stress testing. The authorities noted that while increased financial inclusion create opportunities for broader economic growth, it also poses supervisory and regulatory challenges which the RBZ is planning to address in its operations and financial regulations. In this regard, the authorities plan to, *inter alia*: a) facilitate capacity building programs in financial institutions; b) develop a comprehensive and harmonized legal and regulatory framework for financial consumer protection; c) issue guidance to banking institutions and payment system providers on acceptable conduct and practices; and d) develop legal and regulatory framework for the savings and credit cooperative societies. In addition, they plan to strengthen the framework for cooperation and collaboration among the various supervisory and regulatory institutions, to enhance risk management.

C. Tackling External Arrears, Steps toward Normalizing Relations

33. Zimbabwe's strategy to normalize relations with the international community is advancing. The authorities are pursuing a gradual, step-by-step approach to the reengagement process. They view their performance under the SMP as key to establish a track record toward normalizing relations with creditors. Based on this approach, clearing arrears to the IFIs is seen as a first step toward eventually seeking debt treatment under the Paris Club. The persistence of external arrears has exacerbated the liquidity constraint on Zimbabwe's economy. Eliminating such arrears would allow increased external inflows to finance the authorities' development plans and private sector-led growth. To this end, the authorities have developed a strategy, which staff welcomes, to clear its external arrears to the IFIs through: a) bridge financing from Afrieximbank to repay arrears to the AfDB, the African Development Fund, and IDA; b) a long-term loan from a bilateral creditor to repay the IBRD; and c) use of SDR holdings to clear the arrears to the Fund.[28] This strategy and the authorities' reform plans going forward received support from creditors and development partners during the Lima meetings and, if implemented, should provide positive signals to investors and creditors, and help unlock external flows. The World Bank's management recently agreed for their private sector arm—the International Finance Corporation (IFC)—to prepare proposals for possible investments in Zimbabwe

Structure of Public and Publicly Guaranteed Debt, 2015



Sources: Zimbabwe authorities and IMF staff estimates.

[28] This information, together with the detailed *Strategy for Clearing External Arrears and Supportive Economic Reform Measures*, as well as the RBZ Governor presentation in Lima, can be found in the home page of the RBZ, at www.rbz.co.zw. At the time of the presentation of the strategy in Lima, the bridge financing amounted to US$819 million, the long-term loan from a bilateral creditor amounted to US$896 million, and the use of SDR holdings amounted to US$110 million.

that could be reviewed by its management over the coming months. The authorities have indicated that they are planning to work toward requesting a debt treatment under the Paris Club (representing 44 percent of their public and publicly-guaranteed debt), following the repayment of arrears to the IFIs. The authorities plan to eventually seek Fund-financial support for an ambitious medium-term program, a necessary step to seek debt treatment under the Paris Club. The timing of these steps will be decided by the authorities on the basis of their capacity to build support for full reengagement.

34. Zimbabwe continues to make efforts to cooperate with the Fund on policies and payments, and to make good use of technical assistance (TA). They continue to make the agreed $150,000 monthly payment to the PRGT, the increased *pari passu* payments to the World Bank and AfDB, and token payments to the European Investment Bank. The authorities have committed to increase payments to the IFIs as their payment capacity increases. Zimbabwe continues to benefit from targeted Fund TA to address policy challenges, strengthen institutional capacity, and support its ongoing reform efforts.

D. Addressing Structural Impediments to Boost Output

35. The Zimbabwean economy is operating well below capacity and there is urgent need for ambitious reforms to transform the economy and unleash the country's growth potential. The country's output is increasingly constrained by infrastructural bottlenecks—electricity, water, transport; unavailability and high cost of long-term capital; high cost of doing business; low productivity; and an uncompetitive manufacturing sector. Staff emphasized that catching-up with its regional peers will require addressing the debt overhang, normalizing relationship with the international community, and much faster implementation of bold policies and reforms to tackle the country's structural impediments and facilitate sustainable long-term growth.

36. The implementation of the framework, procedures and guidelines for implementing the indigenization policy has been controversial. While the proposal to set a levy on no-compliance with indigenization rules has been rejected, significant uncertainty remains on how compliance with the law can be achieved in an economically sensible and transparent manner. Staff urged the authorities to address this issue including by setting clear criteria on how existing business are going to be treated and how a transfer of shares will be financed (Annex IV).

37. The authorities concurred with staff recommendations. They noted that they have already broadly outlined an ambitious reform program to support their reengagement process. Planned reforms include: (a) infrastructure development, particularly in such key areas as energy, water, roads, and schools; (b) enhancing the investment climate and reducing the cost of doing business; (c) further strengthening the financial sector; (d) accelerating public enterprises reforms and improving public financial management, (e) revitalizing agriculture and agro-processing; (f) aligning the laws with the 2013 constitution; and (g) strengthening the rule of law and improving governance.

38. Good progress has been made in improving the business climate, led by the Office of the President and Cabinet, with support from development partners. Zimbabwe is now ranked 155, out of 189 countries, on the World Bank's 2016 Doing Business Rankings. Various legislations are being amended to improve the ease of doing business.[29] In collaboration with development partners, a number of areas have been identified for scaled-up implementation to address remaining bottlenecks to doing business. These include: starting a business, construction permits and registering property, getting credit and resolving insolvency, protecting minority investors and enforcing contracts, and paying taxes and trading across borders. As part of the same effort, the authorities are setting up a one-stop shop for private investment.

39. Critical action has been taken on land issues (Letter of Intent, ¶vi). In collaboration with key stakeholders, in early-March 2016, the authorities have prepared and submitted to the cabinet documents to establish the 99-year land leases. Once finalized, this is expected to pave the way for the leases to be used as collateral, improving security of tenure, which should provide positive signals to investors, and boosting agricultural production. Parliament is currently considering a bill for the establishment of the Land Commission (as provided by the Constitution) aimed at supporting land administration including through regular land audits. The authorities have also announced a framework for land compensation, which includes the following main elements: a) a recently-established Land Compensation Fund; b) an ongoing mapping of land boundaries; and c) an ongoing systematic evaluation of mapped land and improvements therein. The European Union and the United Nations Development Program are assisting the authorities in the mapping and evaluation exercise and mapping devising modalities for compensation.

40. The authorities acknowledged that tackling Zimbabwe's infrastructure deficit will be crucial for boosting productivity and competitiveness. The 2016 budget has allocated $315 million (2.1 percent of GDP) for infrastructure development, including in energy, transport and communication, water and sanitation (dam construction, rehabilitation and upgrading), roads, information technology. Zimbabwe currently produces less than half of its peak hour electricity demand. There are a number of projects, including hydro, coal-fired, diesel and solar power, at various stages of development aimed at addressing the country's energy deficit.

E. Alternative Scenario

41. Achieving strong sustained growth and reducing poverty requires that Zimbabwe undertake significant reforms and investment. To illustrate the benefits of the reforms, staff discussed with the authorities an alternative scenario that envisages an acceleration of an ambitious medium-term reform strategy that would see the economy catching up for the lost decades. Under this scenario, and assuming clearance of the arrears to the IFIs, Zimbabwe could see medium-term growth averaging 8 percent, consistent with experiences of some Sub-Saharan African countries that

[29] These include the Commercial Court Law, Private Business Corporation Act, Shop License Act, Companies Act, Deed Registry Act, Insolvency Act, Land Survey Act, and a new Collateral Registry Act.

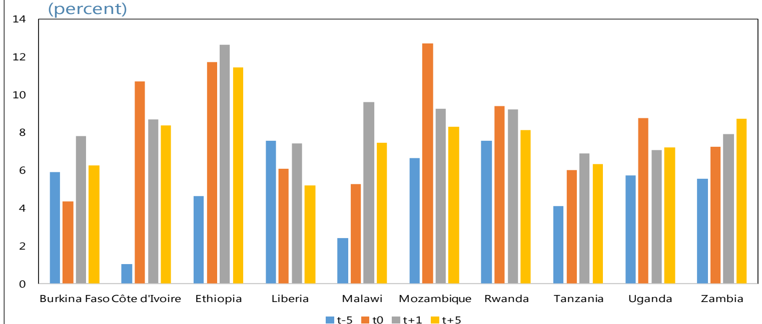
received debt relief. In addition, the combination of restraint in the wage bill and higher growth would generate substantial increase in fiscal space that could lead to capital spending more than doubling with respect to 2016 (Text Table 2). While the current account would remain large, driven by higher investments, the level of international reserves would increase, as government generates surpluses and builds accounts at the RBZ (Figure 3).

Baseline versus Alternative Scenario: Main Economic Indicators

(perent of GDP, unless otherwise specified)

		Baseline					Alternative				
	2016	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Real GDP growth (percent change)	1.4	5.6	3.5	4.1	4.2	4.1	9.5	8.9	7.3	6.5	6.2
Current account balance	-11.3	-10.5	-10.4	-10.2	-9.9	-9.9	-11.3	-11.0	-11.1	-11.3	-11.4
Primary cash balance	-0.2	-0.1	0.0	0.0	0.1	0.3	0.2	0.3	0.4	0.5	0.6
International reserves (months of imports)	0.7	0.8	0.9	0.9	1.0	1.1	1.1	1.6	2.0	2.3	2.7
Memorandum Items:											
Government wage costs	18.3	17.9	17.2	16.4	16.1	16.1	16.3	14.7	13.4	13.5	13.4
Government capital expenditure	2.7	2.7	3.0	3.4	4.1	4.1	3.8	5.2	6.2	6.1	6.1

Sources: Zimbabwean authorities and IMF staff estimates.



Growth rates in Selected HIPC African Countries after Receving Debt Relief under HIPC initative
(percent)

Notes: t0 is the year the countries received debt relief under the HIPC initiative and t-5 is the average growth rates of the last five years before debt relief take place, and t+5 is the average growth rates of the post-debt relief.
Sources: WEO, and IMF staff calculation

42. Agriculture would continue to play a key role in the alternative scenario. In the short term, a rebound in production is expected, provided normal precipitations return—as has been the pattern following El Niño years. More fundamentally, the authorities have laid the basis for improved agricultural production in the medium term. The establishment of bankable leases, together with a solution to the ownership issues, would enhance access to credit and security of investment. The authorities are also targeting investment and maintenance of irrigation systems in their investment plan.

43. The authorities agree with the objectives and policies underpinning the adjustment scenario. In particular, they committed to lower the wage bill of the central government and grant aided-institutions to 50 percent of total expenditures by 2019 and to rebalance spending towards priority social and capital outlays.

STAFF APPRAISAL

44. Achievements: The authorities have implemented the policies agreed under the SMP, despite quite difficult economic and financial conditions. They have built a track record of prudent fiscal policies by improving the primary balance, accumulating less domestic and external arrears, and keeping wage outlays below budgetary projections both in 2014 and 2015. Higher payments to the IFIs and slight improvements in their capacity to repay have helped the authorities to develop a credible strategy for repaying their arrears to the IFIs, a key step toward reengaging with multilateral and bilateral creditors. The implementation of the SMP has also shown that Zimbabwe possesses the technical and institutional capacity to move economic reforms forward. These experience and capacity level would serve them well should they request an eventual financial arrangement with the Fund. The authorities have also made headways in garnering support from creditors, as shown by the creditors' meeting held in Lima in October 2015.

45. Challenges: Economic difficulties have deepened. The El Niño-related droughts, low international prices for commodity exports, and the appreciation of the dollar have hit the economy hard. Real growth has dropped below the level needed to raise per-capita income, formal employment has shrunk, signs are that poverty is in on the rise, and 3 million people are now estimated to be at risk of lack of access to food. Under these conditions, Zimbabwe cannot wait. A profound economic transformation program is needed to reverse this adverse trend and unleash the country's potential. Policies need to address the underlying impediments to growth as soon as possible, and redirect the economy toward private sector-led growth. The lack of external financial support cannot be a reason for inaction. To the contrary, an ambitious, comprehensive, and frontloaded economic reform program is essential for Zimbabwe to regain access to financing from both multilateral and bilateral creditors. Without such financing, reform efforts will not be successful.

46. Fiscal Policy: Zimbabwe cannot use fiscal policy to deal with adverse shocks or its social and development needs, because it lacks the necessary resources and it spends too much for wage outlays. For the time-being, the budget needs to target a broadly balance fiscal position while reprioritizing spending toward social and development outlays. This stance will help restore fiscal sustainability and increase the capacity to repay the country's external debt. The objective is to unlock foreign financing that could allow the government to run small-to-moderate deficits in response to adverse shocks and raise the spending levels for social and infrastructure needs. Staff welcomes the authorities' intention to continue seeking financing through grants and loans that are as concessional as possible, and to limit contracting of non-concessional loans, while prioritizing investment that would eventually raise Zimbabwe's capacity to repay.

47. The Wage Bill: There are no doubts that the top priority is lowering the size of the wage bill. The issue is how to do it in a credible and sustainable way. The measures taken in the context of the 2016 budget are a good start, and the authorities' target for reducing the wage-related central government outlays appears appropriate and sufficiently ambitious. To achieve their medium-term target, the government should focus on both the size and remuneration of the public service, and keep the level of wage-related outlays constant in nominal terms at least until 2019. Staff welcomes the recent audit conducted by the Civil Service Commission and suggests that all the other service commissions proceed with similar audits.

48. Government Revenues: Zimbabwe's tax collections are among the highest in SSA and there is not much scope for a significant rise on tax collections without an adverse impact on economic activity. The authorities' planned review of the design of the tax system should focus on broadening the tax base, particularly of the VAT, with a view to shifting the burden of taxation from income toward indirect taxes. Improvements in tax administration should aim at simplifying procedures and addressing areas where collection efficiency can be improved. Non-tax revenues have remained below potential. Staff is encouraged by steps to increase transparency and accountability in the diamond industry, which should ensure a meaningful and monitorable contribution of the sector to government finances.

49. Financial Sector*:* The RBZ has made progress in restoring banking sector confidence that had been shattered by hyperinflation and the credit boom that followed. The system is now much sounder. Nevertheless, risks need to be monitored carefully and supervision strengthened. ZAMCO appears to be off to a very good start in restructuring mortgage-backed loans, and we welcome that its operations are now self-funded. Looking forward, it will be important for ZAMCO to adhere to international best practices. Financial inclusion is important to deepen the financial system. Moreover, by providing opportunities for saving and investing it can help economic activity and also limit the impact of adverse shocks on the vulnerable portion of the population. It will be however important that, as financial inclusion progresses, supervision adapts to the changing financial landscape.

50. Investment Climate*:* Zimbabwe's economic revival cannot take place without a vibrant private sector. There are still too many obstacles to private entrepreneurship. The imminent establishment of a one-stop shop window for private investors could simplify procedures significantly. The consistent and transparent implementation of the indigenization policy will be critical to attract both foreign and domestic investment by limiting the scope for discretion and reducing uncertainty about the regulatory framework.

51. Land Issues*:* The authorities' decision to put an end to the fast-track land reform program and to work toward devising modalities and a framework for land compensation could help solve long-lasting conflicts that have hurt agricultural productivity. Moreover, the introduction of bankable long-term land leases could greatly benefit investment in the sector by clarifying ownership rights and providing access to much-needed financing. To be successful, these measures will need to be followed by careful and consistent implementation that reassures investors of the stability of the new land ownership environment.

52. The Reengagement Process*:* Staff welcomes the authorities' plan to repay their arrears to the IFIs, but stresses that a sufficiently ambitious reform program and broad support from creditors are also prerequisite for a financial arrangement with the Fund, as this support from creditors is essential to the success of the reengagement strategy. Staff urges the authorities to redouble their efforts to mobilize this support by reaching out to creditors to explain their medium-term reform agenda and keep them abreast of the progress in its implementation. In particular, the transparent and business-friendly implementation of the indigenization policy will be key to secure support from development partners. The matrix of reform items attached to the Letter of Intent is a good foundation on which the authorities can build the next phase of economic reforms. It offers considerably more detail on the authorities' policy intentions on land reform, fiscal policy, public financial management, tax policy, and revenue administration. Progress in these areas is important to promote much-needed private sector-led growth and development partners' support could coalesce around these reforms. Staff notes that prioritization among the list of reform items is critical and looks forward to support the authorities in the technical work needed to operationalize them. Finally, a clear communication strategy that aligns policy actions to commitments, and stresses policy consistency is of paramount importance. The ongoing work toward aligning the laws with the Constitution, and progress toward strengthening the rule of law and governance would also go a long way in securing donor support.

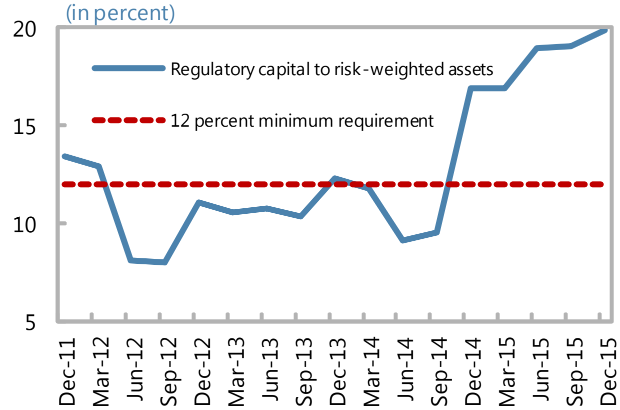
53. **Balance of Risks:** Major risks have already materialized, and unfavorable weather conditions could persist into the second half on 2016 and into 2017. Lack of progress in the reengagement process together with setbacks in the implementation of the authorities' reform agenda could adversely impact private sector activity, while the government's liquidity crunch could exacerbate, further reduce public investment, and lead to larger accumulation of arrears, with major impact on the country's social indicators. On the upside, strong implementation and deepening of economic reforms and progress in reengaging with creditors could reopen access to financial support, reverse the adverse economic trend and improve the economic outlook.

54. Staff recommends that the next Article IV consultation with Zimbabwe be held on the standard 12-month consultation cycle.

Figure 1. Zimbabwe: Banking System Performance and Soundness

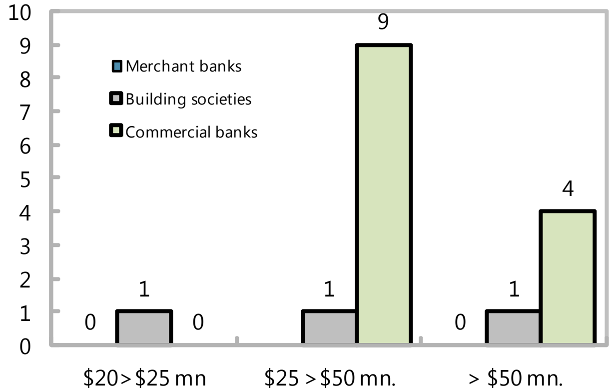
Banking system capital has improved...

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



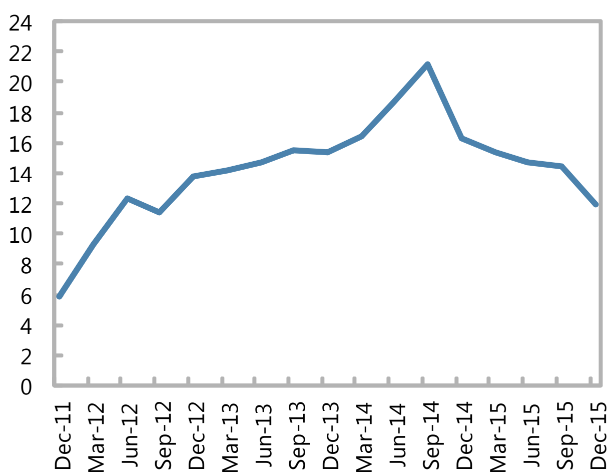
...as all operating banks complied with the minimum capital requirements.

Distribution of Bank Capital [1/ 2/]
(number of banks, as of December 2015)



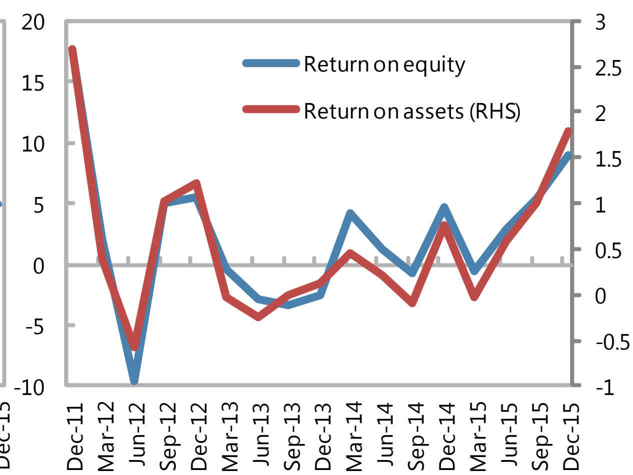
Assets quality has improved, but NPLs remain high.

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



Banks' profitability has improved but has been impacted by the economic slowdown .

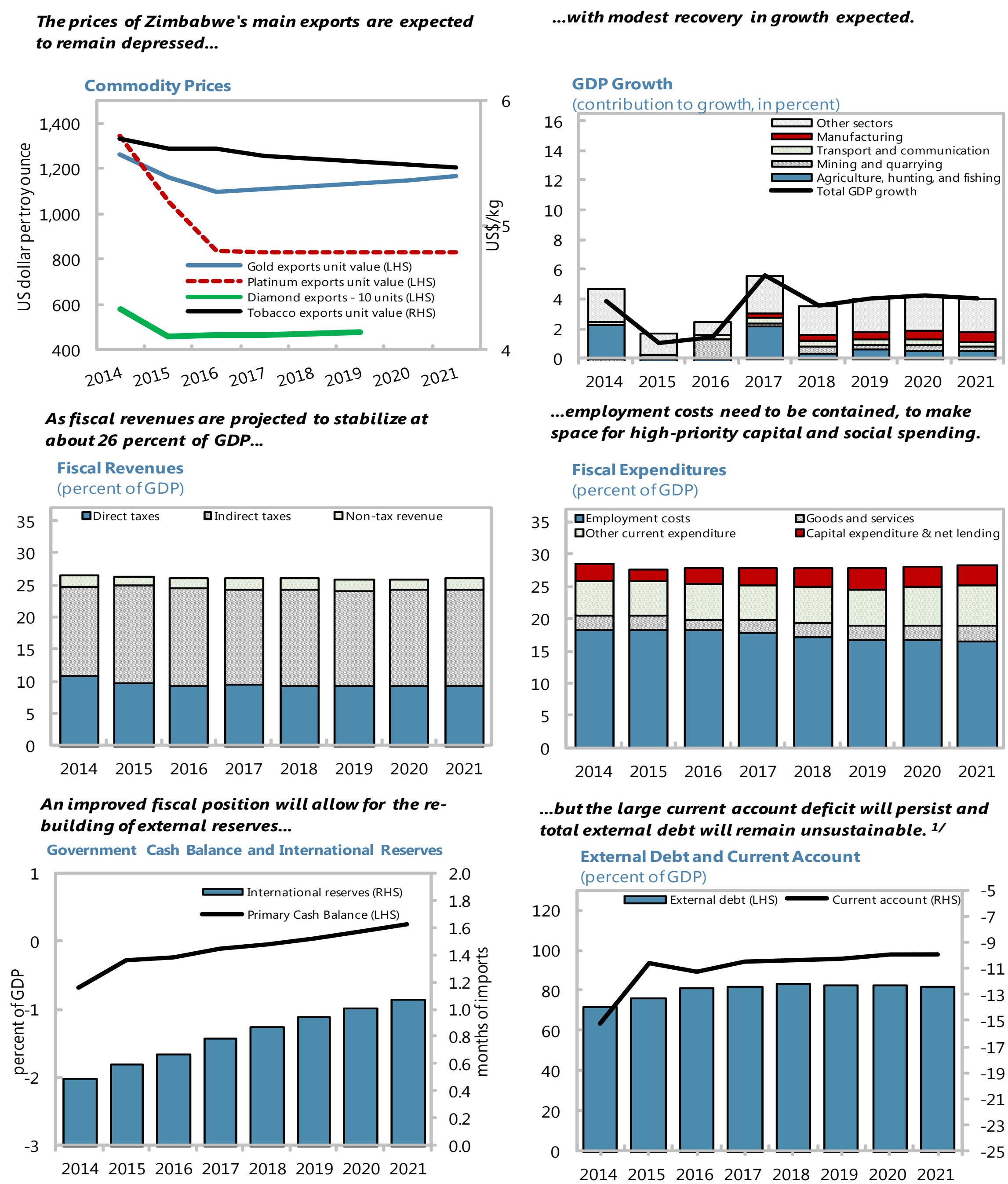
Profitability
(percent)



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 2. Zimbabwe: Medium-Term Baseline Scenario



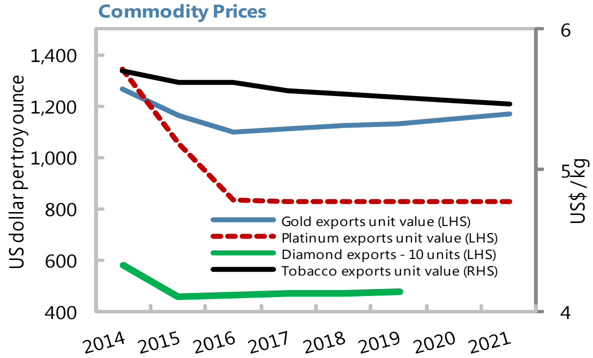
Sources: Zimbabwean authorities and IMF staff estimates.

1/ Total external debt stocks include arrears and are estimates, except for the 2011-2014 public and publicly guaranteed debt stock which is based on preliminary results from the authorities' external debt reconciliation exercise initiated in 2013.

Figure 3. Zimbabwe: Medium–Term Alternative Scenario

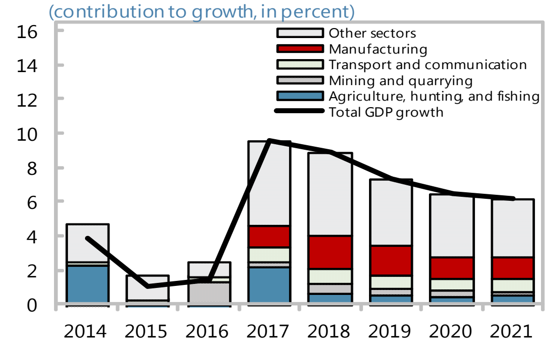
The prices of Zimbabwe's main exports are expected to remain depressed…

Commodity Prices



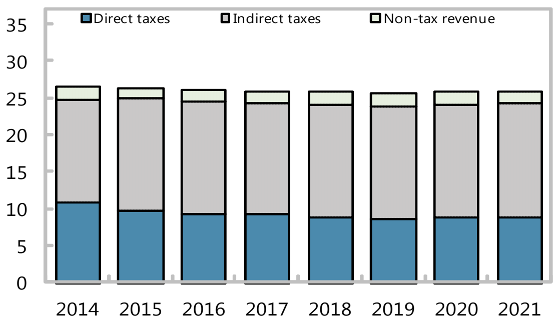
…growth will rebound as liquidity constrains are lifted.

GDP Growth
(contribution to growth, in percent)



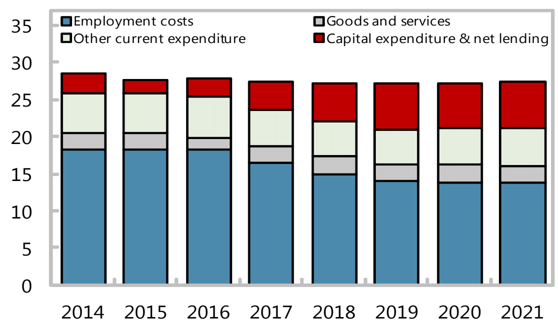
As fiscal revenues are projected to stabilize at about 26 percent of GDP…

Fiscal Revenues
(percent of GDP)



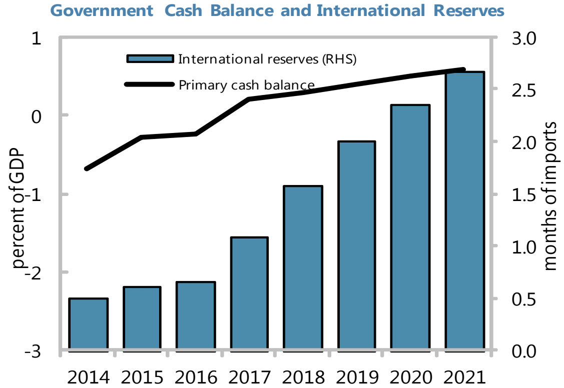
…with employment costs contained, there is room to enhance high-priority capital and social spending.

Fiscal Expenditures
(percent of GDP)



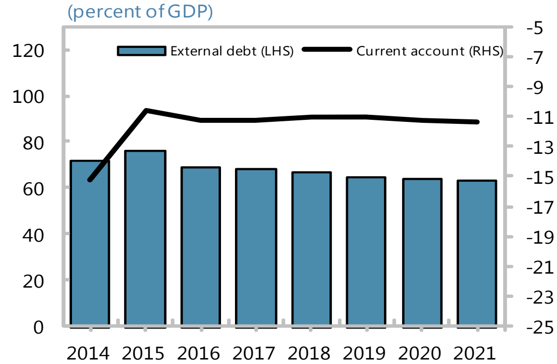
An improved fiscal position will allow for the re-building of external reserves…

Government Cash Balance and International Reserves



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

External Debt and Current Account
(percent of GDP)



Sources: Zimbabwean authorities and IMF staff estimates.

1/ Total external debt stocks include arrears and are estimates, except for the 2011-2014 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, 2012–21

Population (millions):	14.1 (2015)	Per capita GDP:	US$ 1,002 (2015)
Quota (current, SDR millions, % of total):	706.8 (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	Estimates	Projections					
	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
Real GDP growth (annual percentage change) 1/	10.6	4.5	3.8	1.5	1.1	1.4	5.6	3.5	4.1	4.2	4.1
Nominal GDP (US$ millions)	12,472	13,490	14,197	14,271	14,165	14,362	15,372	16,231	17,233	18,316	19,444
GDP deflator (annual percentage change)	3.0	3.5	1.3	-1.0	-1.3	0.0	1.3	2.0	2.0	2.0	2.0
Inflation (annual percentage change)											
Consumer price inflation (annual average)	3.7	1.6	-0.2	-2.2	-2.4	-0.8	1.1	1.6	2.0	2.0	2.0
Consumer price inflation (end-of-period)	2.9	0.3	-0.8	-2.0	-2.5	-0.2	1.0	1.6	2.0	2.0	2.0
Central government (percent of GDP)											
Revenue and grants	28.0	27.7	26.6	25.9	26.4	26.1	26.1	26.1	25.9	26.0	26.1
Expenditure and net lending	29.2	30.1	28.3	27.6	27.5	27.9	27.8	27.8	27.8	28.0	28.1
Of which: employment costs (incl. grants & transfers)	20.1	20.5	21.4	21.9	21.4	21.3	20.9	20.2	19.5	19.3	19.2
Of which: capital expenditure and net lending	2.8	3.6	2.6	2.3	1.7	2.7	2.7	3.0	3.4	4.1	4.1
Overall balance, (excluding grants, including interest arrears)	2.8	2.7	2.5	2.5	2.4	2.4	2.3	2.2	2.2	2.2	2.2
Overall balance (commitment basis)	-1.2	-2.4	-1.8	-1.7	-1.2	-1.7	-1.7	-1.8	-1.9	-2.0	-2.0
Overall balance (cash basis)	-0.6	-2.1	-1.0	-1.0	-0.9	-1.1	-1.2	-1.2	-1.3	-1.4	-1.5
Primary balance (cash basis)	-0.4	-1.9	-0.7	-0.4	-0.3	-0.2	-0.1	0.0	0.0	0.1	0.3
Money and credit (US$ millions)											
Broad money (M3)	3,719	3,888	4,377	4,641	4,736	5,151	5,611	6,147	6,771	7,485	8,325
Net foreign assets	-401	-755	-717	-840	-676	-565	-353	-239	-137	-9	138
Net domestic assets	4,120	4,643	5,094	5,481	5,412	5,716	5,964	6,386	6,909	7,494	8,188
Domestic credit (net)	5,278	5,606	5,843	5,122	6,751	6,951	7,276	7,686	8,198	8,831	9,589
Of which: credit to the private sector	3,447	3,576	3,745	3,943	3,656	3,713	3,822	4,060	4,319	4,619	4,932
Reserve money	273	272	464	602	563	569	601	620	683	756	840
Money and credit (annual percentage change)											
Broad money (M3)	19.9	4.6	12.6	6.0	8.2	8.8	8.9	9.6	10.2	10.5	11.2
Net foreign assets	38.2	88.4	-5.1	17.2	-5.7	-16.4	-37.4	-32.5	-42.4	-93.4	-1,621.2
Net domestic assets	21.5	12.7	9.7	7.6	6.2	5.6	4.3	7.1	8.2	8.5	9.2
Domestic credit (net)	91.6	6.2	4.2	-12.3	15.5	3.0	4.7	5.6	6.7	7.7	8.6
Of which: credit to the private sector	27.1	3.7	4.7	5.3	-2.4	1.6	2.9	6.2	6.4	7.0	6.8
Reserve money	46.6	-0.4	70.9	29.7	21.3	0.9	5.7	3.2	10.2	10.6	11.2
Balance of payments (US$ millions; unless otherwise indicated)											
Merchandise exports	3,990	3,835	3,703	3,291	3,602	3,207	3,431	3,645	3,868	4,101	4,352
Value growth (annual percentage change)	-12.4	-3.9	-3.5	-7.3	-2.7	-11.0	7.0	6.3	6.1	6.0	6.1
Merchandise imports	-6,710	-6,809	-6,306	-6,030	-6,062	-5,994	-5,882	-6,109	-6,344	-6,600	-6,843
Value growth (annual percentage change)	-11.3	1.5	-7.4	-4.4	-3.9	-1.1	-1.9	3.9	3.9	4.0	3.7
Current account balance (excluding official transfers)	-1,818	-2,461	-2,157	-2,488	-1,506	-1,625	-1,615	-1,681	-1,766	-1,820	-1,925
(percent of GDP)	-14.6	-18.2	-15.2	-17.4	-10.6	-11.3	-10.5	-10.4	-10.2	-9.9	-9.9
Overall balance 2/	-33	-265	-94	-180	-9	-31	-34	-39	-37	-30	-30
Gross international reserves (US$ millions)	398	284	303	308	340	379	438	503	567	632	697
(months of imports of goods and services)	0.6	0.4	0.5	0.5	0.6	0.7	0.8	0.9	0.9	1.0	1.1
Net international reserves (US$ millions) 2/	260	149	178	184	223	263	324	391	479	572	673
Debt (end-of-period)											
Public and publicly guaranteed external debt (US$ millions, e.o.p.) 3/4/5/	6,655	7,015	6,984	7,123	7,001	7,288	7,516	7,741	7,741	7,702	7,660
Percent of GDP	53.4	52.0	49.2	49.9	49.4	50.7	48.9	47.7	44.9	42.1	39.4
Of which: Arrears	5,248	5,597	5,646	5,605	5,593	5,707	5,837	5,974	6,082	6,207	6,324
Percent of GDP	42.1	41.5	39.8	39.3	39.5	39.7	38.0	36.8	35.3	33.9	32.5

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

2/ Based on program exchange rate

3/ Includes errors and omissions through 2014.

4/ Includes arrears. Includes valuation adjustment

5/ Debt stocks are estimates, except for the 2011-14 debt stocks which are based on preliminary results of the authorities' external debt reconciliation exercise initiated in 2013. Includes valuation adjustment.

Table 2. Zimbabwe: Balance of Payments, 2012–21

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

	Actual			Program	Estimates	Projections					
	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
Current account (excluding official transfers)	-1,818	-2,461	-2,157	-2,488	-1,506	-1,625	-1,615	-1,681	-1,766	-1,820	-1,925
Trade balance	-2,720	-2,974	-2,604	-2,740	-2,460	-2,787	-2,451	-2,463	-2,476	-2,499	-2,491
Exports, f.o.b.	3,990	3,835	3,703	3,291	3,602	3,207	3,431	3,645	3,868	4,101	4,352
Imports, f.o.b.	-6,710	-6,809	-6,306	-6,030	-6,062	-5,994	-5,882	-6,109	-6,344	-6,600	-6,843
Nonfactor services (net)	-856	-919	-963	-929	-541	-604	-605	-607	-610	-649	-689
Investment income (net)	-339	-544	-581	-581	-642	-527	-559	-577	-599	-569	-608
Interest	143	-50	45	25	51	48	58	71	87	87	88
Receipts	294	179	196	216	216	238	261	286	315	327	340
Payments	-152	-229	-152	-191	-165	-189	-204	-215	-227	-240	-252
Other	-482	-494	-626	-607	-693	-575	-616	-648	-687	-656	-696
Current transfers (net)	2,097	1,975	1,992	1,763	2,137	2,292	1,999	1,966	1,920	1,897	1,863
Remittances	1,164	1,104	1,166	879	1,253	1,238	1,301	1,299	1,303	1,246	1,177
Capital account (including official transfers)	1,721	1,721	2,034	2,307	1,681	1,594	1,582	1,643	1,729	1,789	1,895
Official transfers	738	251	369	449	398	400	449	470	474	483	491
Direct investment	351	373	473	418	399	405	428	443	461	480	500
Portfolio investment	99	114	130	110	123	123	135	142	151	158	164
Long-term capital	32	750	178	953	644	542	226	327	360	264	293
Government[1]	-116	81	53	356	-72	-204	-289	-35	-47	-159	-142
Receipts	20	199	205	583	56	122	91	162	172	183	194
Payments	-136	-118	-151	-228	-128	-326	-380	-197	-219	-342	-336
Public enterprises	-29	-4	-4	26	317	361	120	-45	-11	-11	-11
Private sector	177	673	129	572	399	384	395	406	418	434	446
Short-term capital	502	233	920	377	141	125	344	260	281	401	441
Private sector (loans mediated outside DMBs)	324	-31	857	254	198	149	359	274	291	432	481
Change in NFA of DMBs	178	264	63	124	-57	-24	-16	-14	-10	-31	-40
Change in assets	2	-62	171	91	174	-42	-36	-42	-49	-56	-65
Change in liabilities	176	326	-108	33	-231	18	20	28	39	25	25
Errors and omissions[2]	64	474	28	0	-184	0	0	0	0	0	0
Overall balance	-33	-265	-94	-180	-9	-31	-34	-39	-37	-30	-30
Financing	33	265	94	180	9	31	34	39	37	30	30
Central bank (net) (- denotes increase)	-98	91	-73	10	-125	-106	-101	-107	-107	-107	-106
Change in gross foreign assets	-34	108	-24	-15	-81	-83	-103	-108	-108	-108	-108
Change in gross official reserves	-32	114	-19	-5	-37	-39	-59	-65	-65	-65	-65
Change in gross foreign liabilities	34	-108	18	25	81	41	61	67	88	93	101
Change in short-term official liabilities	8	3	10	2	8	2	2	2	1	2	2
Change in net international reserves	-40	111	-29	-7	-45	-41	-61	-66	-66	-66	-67
Change in arrears (– denotes decrease)	131	174	167	170	135	137	135	141	143	137	136
Memorandum items:											
Current account balance (percent of GDP)	-14.6	-18.2	-15.2	-17.4	-10.6	-11.3	-10.5	-10.4	-10.2	-9.9	-9.9
Gross international reserves (US$ millions, e.o.p.)	398	284	303	308	340	379	438	503	567	632	697
Months of imports of goods and services	0.6	0.4	0.5	0.5	0.6	0.7	0.8	0.9	0.9	1.0	1.1
SDR holdings (US$ millions, e.o.p.)[3]	143	143	134	130	128	128	128	129	129	129	129
PPG external debt (US$ millions, e.o.p.)[4,5]	6,655	7,015	6,984	7,123	7,001	7,288	7,516	7,741	7,741	7,702	7,660
Percent of GDP	53	52	49	50	49	51	49	48	45	42	39
Of which: Arrears	5,248	5,597	5,646	5,605	5,593	5,707	5,837	5,974	6,082	6,207	6,324
Percent of GDP	42	41	40	39	39	40	38	37	35	34	33
Nominal GDP (US$ millions)	12,472	13,490	14,197	14,271	14,165	14,362	15,372	16,231	17,233	18,316	19,444
Percentage change	13.8	8.2	5.2	0.5	-0.2	1.4	7.0	5.6	6.2	6.3	6.2
Exports of goods and services	4,258	4,113	3,986	3,554	3,892	3,464	3,706	3,936	4,177	4,429	4,700
Percentage change	-11.8	-3.4	-3.1	-7.3	-2.4	-11.0	7.0	6.2	6.1	6.0	6.1
Imports of goods and services	-7,834	-8,005	-7,553	-7,223	-6,893	-6,855	-6,762	-7,007	-7,263	-7,577	-7,880
Percentage change	-10.1	2.2	-5.6	-3.1	-8.7	-0.5	-1.4	3.6	3.7	4.3	4.0
Terms of Trade (percentage change)	2.5	-1.6	-2.0	4.6	0.7	3.1	0.5	2.0	3.3	3.9	4.4

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] Excludes amounts in SDR escrow account.

[4] Debt stocks are estimates, except for the 2011-2014 debt stocks which is based on preliminary results of the authorities' external debt reconciliation exercise initiated in 2013. Includes valuation adjustment.

[5] Includes arrears. Includes valuation adjustment.

Table 3a. Zimbabwe: Central Government Operations, 2012–21

(Millions of U.S. dollars)

	Actual			Program	Estimates	Projections					
	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
Total revenue & on-budget grants	**3,496**	**3,741**	**3,770**	**3,692**	**3,737**	**3,754**	**4,010**	**4,228**	**4,461**	**4,756**	**5,071**
Tax revenue	3,279	3,414	3,519	3,547	3,548	3,511	3,748	3,939	4,148	4,438	4,732
Personal income tax	661	744	900	814	770	784	847	880	917	978	1043
Corporate income tax	445	404	365	368	422	358	384	406	431	459	490
Other direct taxes	287	227	284	204	204	194	220	232	247	263	281
Customs	354	361	351	360	345	348	346	361	375	400	427
Excise	394	510	517	700	714	718	780	817	858	915	976
VAT	1,086	1,068	972	975	985	995	1048	1114	1182	1275	1360
Other indirect taxes	52	98	129	126	108	113	123	130	138	147	157
Non-tax revenue	217	327	251	145	189	243	263	289	313	318	339
Total expenditure & net lending	**3,647**	**4,065**	**4,024**	**3,929**	**3,901**	**4,002**	**4,275**	**4,514**	**4,796**	**5,123**	**5,466**
Of which: Cash expenditure	3,568	4,027	3,912	3,832	3,861	3,907	4,188	4,417	4,691	*5,015*	*5,354*
Current expenditure	3,292	3,583	3,655	3,605	3,662	3,621	3,864	4,024	4,203	4,537	4,872
Employment costs	2,134	2,344	2,583	2,678	2,575	2,609	2,729	2,770	2,853	3,036	3,214
Wages & salaries	1,732	1,926	2,106	2,200	2,137	2,167	2,255	2,277	2,308	2,455	2,600
Pensions	402	418	477	478	438	443	474	493	545	580	614
Interest payments	106	116	136	181	177	212	249	279	340	393	445
Foreign	104	110	110	110	102	114	120	127	137	139	137
Of which: Paid	18	17	17	14	10	21	32	31	32	31	25
Domestic	3	6	26	71	75	98	129	151	204	255	308
Of which: Paid	3	6	26	71	75	98	129	151	204	255	308
Goods & services	505	359	322	292	319	223	323	373	396	421	447
Grants & transfers	548	763	613	454	590	576	563	602	613	687	766
Capital expenditure and net lending	355	483	370	324	239	381	411	489	593	586	594
Overall balance (commitment basis)	**-151**	**-324**	**-254**	**-237**	**-164**	**-248**	**-265**	**-285**	**-336**	**-367**	**-395**
Primary balance (commitment basis) 1/	-45	-208	-118	-56	13	-36	-16	-6	5	26	50
Overall balance (cash basis)	**-72**	**-286**	**-142**	**-140**	**-124**	**-153**	**-178**	**-189**	**-231**	-259	-283
Primary balance (cash basis) 1/	-51	-262	-98	-55	-39	-34	-16	-6	5	26	50
Financing	**151**	**312**	**254**	**237**	**163**	**248**	**265**	**285**	**336**	**367**	**395**
Domestic financing (net)	13	270	197	208	192	287	326	268	322	416	439
Bank	49	198	304	118	167	287	326	268	322	416	439
Non-bank	-36	72	-107	89	26	0	0	0	0	0	0
Foreign financing (net)	6	-127	-151	-136	-183	-316	-356	-197	-219	-342	-336
Disbursements	0	72	0	8	8	10	24	0	0	0	0
Amortization due	102	199	151	144	183	326	380	197	219	342	336
Of which: Paid	49	68	55	75	69	143	173	80	91	157	156
Change in arrears	132	169	209	165	153	277	295	214	233	293	292
Domestic	-6	-55	20	0	-53	2	0	0	0	0	0
Arrears accumulation	116	123	102	61	10	27	0	0	0	0	0
Arrears clearance	-122	-178	-83	-61	-63	-25	0	0	0	0	0
Foreign	138	224	189	165	206	275	295	214	233	293	292
Interest	85	93	93	96	93	93	87	96	105	108	112
Principal 2/	53	130	97	68	113	182	207	117	128	185	180

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

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

2/Accumulated arrears on foreign debt do not include valuation adjustment. The stock of arrears could differ from that in the balance of payments table.

Table 3b. Zimbabwe: Central Government Operations, 2012–21
(Percent of GDP)

	Actual			Program	Estimates	Projections					
	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
Total revenue & on-budget grants	**28.0**	**27.7**	**26.6**	**26.1**	**26.4**	**26.1**	**26.1**	**26.1**	**25.9**	**26.0**	**26.1**
Tax revenue	26.3	25.3	24.8	25.0	25.0	24.4	24.4	24.3	24.1	24.2	24.3
Personal income tax	5.3	5.5	6.3	5.7	5.4	5.5	5.5	5.4	5.3	5.3	5.4
Corporate income tax	3.6	3.0	2.6	2.6	3.0	2.5	2.5	2.5	2.5	2.5	2.5
Other direct taxes	2.3	1.7	2.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Customs	2.8	2.7	2.5	2.5	2.4	2.4	2.3	2.2	2.2	2.2	2.2
Excise	3.2	3.8	3.6	4.9	5.0	5.0	5.1	5.0	5.0	5.0	5.0
VAT	8.7	7.9	6.8	6.9	7.0	6.9	6.8	6.9	6.9	7.0	7.0
Other indirect taxes	0.4	0.7	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Non-tax revenue	1.7	2.4	1.8	1.0	1.3	1.7	1.7	1.8	1.8	1.7	1.7
Total expenditure & net lending	**29.2**	**30.1**	**28.3**	**27.7**	**27.5**	**27.9**	**27.8**	**27.8**	**27.8**	**28.0**	**28.1**
Of which: Cash expenditure	28.6	29.8	27.6	27.1	27.3	27.2	27.2	27.2	27.2	27.4	27.5
Current expenditure	26.4	26.6	25.7	25.4	25.8	25.2	25.1	24.8	24.4	24.8	25.1
Employment costs	17.1	17.4	18.2	18.9	18.2	18.2	17.8	17.1	16.6	16.6	16.5
Wages & salaries	13.9	14.3	14.8	15.5	15.1	15.1	14.7	14.0	13.4	13.4	13.4
Pensions	3.2	3.1	3.4	3.4	3.1	3.1	3.1	3.0	3.2	3.2	3.2
Interest payments	0.9	0.9	1.0	1.3	1.3	1.5	1.6	1.7	2.0	2.1	2.3
Foreign	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.7
Of which: Paid	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Domestic	0.0	0.0	0.2	0.5	0.5	0.7	0.8	0.9	1.2	1.4	1.6
Of which: Paid	0.0	0.0	0.2	0.5	0.5	0.7	0.8	0.9	1.2	1.4	1.6
Goods & services	4.0	2.7	2.3	2.1	2.3	1.6	2.1	2.3	2.3	2.3	2.3
Grants & transfers	4.4	5.7	4.3	3.2	4.2	4.0	3.7	3.7	3.6	3.7	3.9
Capital expenditure and net lending	2.8	3.6	2.6	2.3	1.7	2.7	2.7	3.0	3.4	4.1	4.1
Overall balance (commitment basis)	**-1.2**	**-2.4**	**-1.8**	**-1.7**	**-1.2**	**-1.7**	**-1.7**	**-1.8**	**-1.9**	**-2.0**	**-2.0**
Primary balance (commitment basis) 1/	-0.4	-1.5	-0.8	-0.4	0.1	-0.3	-0.1	0.0	0.0	0.1	0.3
Overall balance (cash basis)	-0.6	-2.1	-1.0	-1.0	-0.9	-1.1	-1.2	-1.2	-1.3	-1.4	-1.5
Primary balance (cash basis) 1/	-0.4	-1.9	-0.7	-0.4	-0.3	-0.2	-0.1	0.0	0.0	0.1	0.3
Financing	**1.2**	**2.3**	**1.8**	**1.7**	**1.1**	**1.7**	**1.7**	**1.8**	**1.9**	**2.0**	**2.0**
Domestic financing (net)	0.1	2.0	1.4	1.5	1.4	2.0	2.1	1.7	1.9	2.3	2.3
Bank	0.4	1.5	2.1	0.8	1.2	2.0	2.1	1.7	1.9	2.3	2.3
Non-bank	-0.3	0.5	-0.8	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing (net)	0.1	-0.9	-1.1	-1.0	-1.3	-2.2	-2.3	-1.2	-1.3	-1.9	-1.7
Disbursements	0.0	0.5	0.0	0.1	0.1	0.1	0.2	0.0	0.0	0.0	0.0
Amortization due	0.8	1.5	1.1	1.0	1.3	2.3	2.5	1.2	1.3	1.9	1.7
Of which: Paid	0.4	0.5	0.4	0.5	0.5	1.0	1.1	0.5	0.5	0.9	0.8
Change in arrears	1.1	1.3	1.5	1.2	1.1	1.9	1.9	1.3	1.4	1.6	1.5
Domestic	0.0	-0.4	0.1	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Arrears accumulation	0.9	0.9	0.7	0.4	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Arrears clearance	-1.0	-1.3	-0.6	-0.4	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0
Foreign	1.1	1.7	1.3	1.2	1.5	1.9	1.9	1.3	1.4	1.6	1.5
Interest	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Principal	0.4	1.0	0.7	0.5	0.8	1.3	1.3	0.7	0.7	1.0	0.9

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

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

Table 4. Zimbabwe: Central Government Operations (GFSM 2001 Classification), 2012–21

(Millions of U.S. dollars)

	Actual			Projected						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	**3,496**	**3,741**	**3,770**	**3,900**	**3,754**	**4,010**	**4,228**	**4,461**	**4,757**	**5,073**
Taxes	3,279	3,414	3,519	3,746	3,511	3,748	3,939	4,148	4,439	4,734
Taxes on income, profits, and capital gains	1,105	1,149	1,265	1,234	1,142	1,231	1,286	1,348	1,438	1,535
Payable by individuals	661	744	900	855	784	847	880	917	978	1,043
Payable by corporations and other enterprsies	445	404	365	380	358	384	406	431	459	490
Income tax on interest income & capital gains	…	…	…	…	…	…	…	…	…	…
Taxes on goods and services	1,480	1,579	1,490	1,673	1,713	1,828	1,931	2,040	2,190	2,336
General taxes on goods and services	1,086	1,068	972	1,045	995	1,048	1,114	1,182	1,275	1,360
Excises	394	510	517	628	718	780	817	858	915	976
Taxes on international trade and transactions	354	361	351	391	348	346	361	375	400	427
Other taxes	339	326	413	449	307	343	362	385	410	437
Grants	0	0	0	0	0	0	0	0	0	0
Other revenue	217	327	251	154	243	263	289	313	318	339
Expense	**3,292**	**3,583**	**3,655**	**3,744**	**3,621**	**3,864**	**4,024**	**4,203**	**4,537**	**4,872**
Compensation of employees	1,732	1,926	2,106	2,300	2,167	2,255	2,277	2,308	2,455	2,600
Wages and social security payments	…	…	…	…	…	…	…	…	…	…
Allowances	…	…	…	…	…	…	…	…	…	…
Use of goods and services	505	359	322	305	223	323	373	396	421	447
Interest	106	116	136	166	212	249	279	340	393	445
To residents	3	6	26	59	98	129	151	204	255	308
of which: paid	3	6	26	59	98	129	151	204	255	308
To nonresidents	104	110	110	107	114	120	127	137	139	137
of which: paid	18	17	17	14	21	32	31	32	31	25
Grants	548	763	613	496	576	563	602	613	687	766
Social benefits	402	418	477	478	443	474	493	545	580	614
of which: Pensions	402	418	477	478	443	474	493	545	580	614
Gross Operating Balance	**204**	**159**	**115**	**156**	**133**	**146**	**204**	**258**	**220**	**201**
Net acquisition of nonfinancial assets	**266**	**411**	**333**	**315**	**358**	**386**	**460**	**557**	**548**	**553**
Acquisition of non-financial assets	266	411	333	315	358	386	460	557	548	553
Domestically financed	266	411	333	315	358	386	460	557	548	553
Foreign financed	0	0	0	0	0	0	0	0	0	0
Disposal of non-financial assets	0	0	0	0	0	0	0	0	0	0
Net lending/borrowing (Overall Balance)	**-62**	**-253**	**-218**	**-159**	**-225**	**-240**	**-255**	**-300**	**-328**	**-352**
Transactions in financial assets and liabilities (financing)	**-185**	**-243**	**-182**	**-141**	**-225**	**-241**	**-256**	**-301**	**-326**	**-347**
Net acquisition of financial assets	**72**	**-93**	**155**	**-50**	**44**	**53**	**77**	**90**	**110**	**104**
Domestic	181	-93	155	-50	44	53	77	90	108	100
Currency and deposits	92	-164	119	-90	21	28	47	54	70	60
Loans (net lending)	89	71	36	40	23	25	30	36	38	41
Shares and other equity (privatization proceeds)	…	…	…	…	…	…	…	…	…	…
Debt cancellation	…	…	…	…	…	…	…	…	…	…
Foreign	-109	0	0	0	0	0	0	0	2	4
Currency and deposits (+ increase in assets)	0	0	0	0	0	0	0	0	1	2
Monetary gold and SDRs	-109	0	0	0	0	0	0	0	0	0
Shares and other equity	0	0	0	0	0	0	0	0	1	2
Net incurrence of liabilities	**-258**	**-150**	**-337**	**-91**	**-269**	**-294**	**-333**	**-392**	**-436**	**-452**
Domestic	-99	-51	-335	-89	-310	-355	-316	-376	-486	-499
Currency and deposits	…	…	…	…	…	…	…	…	…	…
Securities other than shares	-93	-132	-46	-370	-196	-355	-316	-376	-486	-499
Loans	-95	1	-269	0	-111	0	0	0	0	0
Clearance of statutory reserves	83	25	0	300	0	0	0	0	0	0
Change in domestic arrears	6	55	-20	-19	-2	0	0	0	0	0
Foreign	-159	-98	-2	-2	41	61	-17	-15	50	47
Special Drawing Rights (SDRs)	-123	-1	36	24	0	-1	-1	-2	0	1
Securities other than shares	0	0	0	0	0	0	0	0	1	2
Loans	102	127	151	208	316	356	197	219	342	336
Disbursements	0	-72	0	-8	-10	-24	0	0	0	0
Amortization due	102	199	151	216	326	380	197	219	342	336
of which: paid	49	68	55	75	143	173	80	91	157	156
Change in foreign arrears	-138	-224	-189	-234	-275	-295	-214	-233	-293	-292
Interest	-85	-93	-93	-93	-93	-87	-96	-105	-108	-112
Principal	-53	-130	-97	-141	-182	-207	-117	-128	-185	-180
Memorandum items:										
Overall balance (cash basis)	-72	-286	-142	-87	-153	-178	-189	-231	-258	-281
Overall balance (commitment basis)	-151	-324	-254	-199	-248	-265	-285	-336	-366	-393
Cash expenditures	3,568	4,027	3,912	3,987	3,907	4,188	4,417	4,691	5,015	5,354
Change in arrears	-132	-169	-209	-253	-277	-295	-214	-233	-293	-292

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

Table 5. Zimbabwe: Monetary Survey, 2012–21[1/]

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

	Actual			Program Estimates		Projections					
	Dec.	Dec.	Dec.	Dec.		Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
Monetary authorities											
Net foreign assets	**-667**	**-757**	**-655**	**-625**	**-671**	**-584**	**-389**	**-288**	**-196**	**-98**	**8**
Claims on non-residents	441	332	350	487	431	472	533	600	688	781	882
Gross official international reserves	398	284	302.8	337.0	339.8	379	438	503	589	681	780
Liabilities to non-residents	-1,107	-1,089	-1,005	-1,112	-1,103	-1,056	-922	-887	-884	-879	-874
Short-term foreign liabilities	-598	-581	-521	-549	-658	-580	-512	-477	-472	-467	-463
Short-term official reserves liabilities	-138	-135	-125.5	-123	-117	-115	-114	-112	-111	-109	-107
Of which: Liabilities to IMF	-127	-126	-116	-112	-110	-110	-108	-106	-105	-103	-101
Other foreign liabilities	-484	-483	-460	-563	-421	-409	-410	-410	-412	-412	-411
Net domestic assets	**1,514**	**1,510**	**1,416**	**1,120**	**1,530**	**1,153**	**990**	**908**	**879**	**854**	**832**
Net domestic claims	1,644	1,575	1,474	-52	1,789	1,674	1,564	1,466	1,397	1,312	1,238
Net claims on central government	1,660	1,660	1,524	-55	1,688	1,586	1,491	1,410	1,356	1,286	1,227
Claims on other sectors	43	-23	8	3	120	107	92	75	60	45	30
Claims on private sector	10	4	5	3	54	48	42	34	28	22	16
Other items (net)	-1,516	-1,370	-1,321	1,171	-1,078	-1,318	-1,371	-1,355	-1,314	-1,255	-1,203
Monetary base	**273**	**272**	**464**	**495**	**563**	**569**	**601**	**620**	**683**	**756**	**840**
Currency in circulation	0	0	1	0	8	10	11	13	15	17	18
Banks' current/RTGS accounts	273	272	463	495	555	559	590	607	668	739	822
Deposit money banks and other banking institutions											
Net foreign assets	**266**	**1**	**-62**	**-124**	**-4**	**20**	**35**	**49**	**59**	**89**	**129**
Foreign assets	642	704	533	564	359	401	437	479	527	583	648
Foreign liabilities	-376	-702	-595	-688	-364	-382	-402	-430	-469	-494	-519
Net domestic assets	**3,453**	**3,886**	**4,438**	**4,799**	**4,733**	**5,123**	**5,565**	**6,086**	**6,699**	**7,381**	**8,177**
Net domestic claims	3,980	4,374	4,789	5,066	5,548	5,782	6,250	6,777	7,423	8,140	8,973
Claims on RBZ	404	406	479	512	605	524	558	577	641	641	641
Deposits	404	406	478	510	604	523	557	576	639	639	639
Net claims on central government	23	315	515	514	1,204	1,476	1,801	2,070	2,395	2,814	3,336
Claims on other sectors	3,552	3,653	3,796	4,040	3,738	3,782	3,891	4,130	4,387	4,685	4,996
Claims on public non-financial corporations	52	61	67	69	61	57	55	53	51	49	47
Claims on private sector	3,437	3,573	3,741	3,971	3,602	3,665	3,780	4,027	4,291	4,598	4,917
Other items (net)	-527	-488	-351	-266	-815	-659	-685	-691	-723	-759	-796
Deposits included in broad money	**3,719**	**3,888**	**4,377**	**4,675**	**4,729**	**5,142**	**5,600**	**6,135**	**6,758**	**7,470**	**8,307**
Monetary Survey											
Net foreign assets	**-401**	**-755**	**-717**	**-749**	**-676**	**-565**	**-353**	**-239**	**-137**	**-9**	**138**
Net domestic assets	**4,120**	**4,643**	**5,094**	**5,424**	**5,412**	**5,716**	**5,964**	**6,386**	**6,909**	**7,494**	**8,188**
Domestic claims	5,278	5,606	5,843	4,502	6,751	6,951	7,276	7,686	8,198	8,831	9,589
Net claims on central government	1,684	1,975	2,039	459	2,892	3,062	3,292	3,480	3,751	4,100	4,563
Claims on other sectors	3,595	3,631	3,804	4,043	3,858	3,890	3,984	4,205	4,447	4,731	5,027
Claims on public non-financial corporations	71	21	57	69	129	116	105	94	83	72	61
Claims on private sector	3,447	3,576	3,745	3,974	3,656	3,713	3,822	4,060	4,319	4,619	4,932
Other items (net)	-1,159	-962	-749	-922	-1,339	-1,236	-1,312	-1,300	-1,289	-1,336	-1,402
Broad money liabilities (M3)	**3,719**	**3,888**	**4,377**	**4,676**	**4,736**	**5,151**	**5,611**	**6,147**	**6,771**	**7,485**	**8,325**
Currency	0	0	0	0	7	9	10	12	14	15	18
Deposits	3,719	3,888	4,377	4,676	4,729	5,142	5,600	6,135	6,758	7,470	8,307
				(annual percentage change)							
Monetary Base	47	0	71	7	21	1	6	3	10	11	11
Broad Money (M3)	20	5	13	7	8	9	9	10	10	11	11
Private Sector Credit	27	4	5	6	-2	2	3	6	6	7	7
Memorandum Items:											
Loan-to-deposit ratio (in percent)	92	92	85	85	76	71	67	66	64	62	59
Reserves-to-deposit ratio (in percent)	7	7	11	11	12	11	11	10	10	10	10

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

[1/] Since late-2015, the authorities resumed reporting monetary financial statistics to the Fund, consistent with the Standardized Reporting Forms

Table 6. Zimbabwe: Financial Soundness Indicators, December 2012- December 2015

(Percent, unless otherwise indicated) 1/

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Capital adequacy													
Regulatory capital to risk-weighted assets	11.1	10.5	10.8	10.3	12.3	11.7	9.1	9.5	16.9	16.9	18.9	19.1	19.9
Capital to assets	6.6	7.2	7.2	6.8	7.3	6.7	4.9	5.2	10.4	10.3	10.9	10.9	100.0
Asset quality													
Past-due loans to gross loans 2/	30.0	32.2	32.3	33.3	31.6	35.4	43.4	48.6	45.8	48.0	44.6	43.7	43.2
Nonperforming loans 3/	13.8	14.2	14.8	15.5	15.4	16.5	18.7	21.2	16.3	15.4	14.7	14.4	12.0
Watch-listed loans 4/	16.3	18.1	17.5	17.7	16.3	18.9	24.7	27.4	29.4	32.6	29.9	29.3	31.2
Provisions as percent of past-due loans	26.1	25.4	28.1	26.0	26.5	24.1	21.7	20.5	15.5	13.8	15.7	15.2	13.2
Earnings and profitability													
Net profit (before tax and extraordinary items) to net income	221.0	-41.6	75.2	0.4	-47.1	104.0	182.7	127.6	129.9	42.6	164.1	148.8	150.0
Return on assets	1.2	0.0	-0.2	0.0	0.1	0.5	0.2	-0.1	0.8	0.0	0.6	1.0	1.8
Return on equity	5.4	-0.4	-2.9	-3.3	-2.5	4.1	1.2	-0.8	4.6	-0.5	2.8	5.3	9.0
Expenses to income	89.7	99.3	104.2	100.0	98.8	82.0	95.8	101.2	93.0	101.2	87.7	86.2	81.8
Liquidity													
Liquid assets to total assets	24.9	24.4	26.9	29.1	27.8	28.9	30.3	28.9	27.3	23.0	29.6	29.8	36.1
Liquid assets to short-term liabilities	29.9	30.2	32.9	34.9	34.8	35.6	37.8	35.9	35.6	29.7	37.6	38.6	46.8
Loans to deposits	92.9	105.6	103.9	103.3	104.4	97.6	93.9	98.3	76.5	76.5	76.5	83.3	84.7
Liquid assets to total deposits	39.6	43.3	47.4	51.9	51.2	51.4	53.1	51.1	48.6	40.3	53.5	56.2	64.3
Excess reserves to broad money	7.0	7.0	7.0	7.0	10.0	13.2	10.7	7.0	9.5	11.0	11.0	12.6	11.8
Sensitivity to market risk													
Net foreign exchange assets (liabilities) to shareholders' funds	46.9	37.5	45.0	49.5	53.8	53.5	62.3	60.6	21.5	57.0	104.5	92.9	112.6
Interest rates													
Lending rate minus demand deposit rate	8.9	2.1	4.2	6.2	8.6	1.9	4.0	6.3	8.9	1.8	3.8	5.7	7.5
Commercial banks fixed deposits (12 months average)	11.2	11.4	14.3	12.4	20.1	14.0	14.3	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks lending rate (weighted average)	10.0	9.8	10.3	11.8	9.4	11.9	14.3	0.0	0.0	0.0	0.0	0.0	0.0
Savings deposit rate	3.2	3.2	3.1	3.1	3.2	3.4	14.4	14.5	14.2	13.2	11.9	11.8	12.0

Source: Reserve Bank of Zimbabwe.

1/ Based on commercial banks only.

2/ Past-due loans are defined as the aggregate of special mention, substandard, doubtful, and loss loans, and include RBZ frozen claims.

3/ Non-perfoming assets are defined as the aggregate of substandard, doubtful, and loss loans.

4/ Watch-listed loans are the same as special mention loans.

Table 7. Zimbabwe: Selected Economic Indicators, 2012–21, Alternative Scenario

Population (millions):	14.1 (2015)	Per capita GDP:	US$ 1,002 (2015)
Quota (current, SDR millions, % of total):	706.8 (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	Estimates	Projections					
	2012	2013	2014	2015		2016	2017	2018	2019	2020	2021
Real GDP growth (annual percentage change) [1/]	10.6	4.5	3.8	1.5	1.1	1.4	9.5	8.9	7.3	6.5	6.2
Nominal GDP (US$ millions)	12,472	13,490	14,197	14,271	14,165	14,362	15,961	17,715	19,403	21,083	22,846
GDP deflator (annual percentage change)	3.0	3.5	1.3	-1.0	-1.3	0.0	1.4	1.9	2.0	2.1	2.0
Inflation (annual percentage change)											
Consumer price inflation (annual average)	3.7	1.6	-0.2	-2.2	-2.4	-0.8	1.1	1.6	2.0	2.0	2.0
Consumer price inflation (end-of-period)	2.9	0.3	-0.8	-2.0	-2.5	-0.2	1.0	1.6	2.0	2.0	2.0
Central government (percent of GDP)											
Revenue and grants	28.0	27.7	26.6	25.9	26.4	26.1	25.9	25.8	25.7	25.8	25.9
Expenditure and net lending	29.2	30.1	28.3	27.6	27.5	27.9	27.3	27.1	27.1	27.2	27.3
Of which: total employment costs [2/]	20.1	20.5	21.4	21.9	21.4	21.3	19.3	17.5	16.2	16.2	16.0
Of which: capital expenditure and net lending	2.8	3.6	2.6	2.3	1.7	2.7	3.8	5.2	6.2	9.0	9.7
Overall balance, (excluding grants, including interest arrears)	2.8	2.7	2.5	2.5	2.4	2.4	2.3	2.3	2.4	2.4	2.4
Overall balance (commitment basis)	-1.2	-2.4	-1.8	-1.7	-1.2	-1.7	-1.4	-1.3	-1.4	-1.4	-1.4
Overall balance (cash basis)	-0.6	-2.1	-1.0	-1.0	-0.9	-1.1	-0.8	-0.7	-0.8	-0.8	-0.9
Primary balance (cash basis)	-0.4	-1.9	-0.7	-0.4	-0.3	-0.2	0.2	0.3	0.4	0.5	0.6
Balance of payments (US$ millions; unless otherwise indicated)											
Merchandise exports	3,990	3,835	3,703	3,291	3,602	3,207	3,489	3,930	4,349	4,704	5,092
Value growth (annual percentage change)	-12.4	-3.9	-3.5	-7.3	-2.7	-11.0	8.8	12.7	10.7	8.2	8.3
Merchandise imports	-6,710	-6,809	-6,306	-6,030	-6,062	-5,994	-6,130	-6,670	-7,205	-7,742	-8,221
Value growth (annual percentage change)	-11.3	1.5	-7.4	-4.4	-3.9	-1.1	2.3	8.8	8.0	7.5	6.2
Current account balance (excluding official transfers)	-1,818	-2,461	-2,157	-2,488	-1,506	-1,625	-1,804	-1,948	-2,145	-2,376	-2,600
(percent of GDP)	-14.6	-18.2	-15.2	-17.4	-10.6	-11.3	-11.3	-11.0	-11.1	-11.3	-11.4
Overall balance [3/]	-33	-265	-94	-180	-9	1,642	74	195	239	220	253
Gross international reserves (US$ millions)	398	284	303	308	340	372	630	989	1,348	1,706	2,065
(months of imports of goods and services)	0.6	0.4	0.5	0.5	0.6	0.7	1.1	1.6	2.0	2.3	2.7
Net international reserves (US$ millions)[3/]	260	149	178	184	223	365	622	981	1,394	1,903	2,682
Debt (end-of-period)											
Public and publicly guaranteed external debt (US$ millions, e.o.p.) [4/5/6/]	6,655	7,015	6,984	7,123	7,005	5,520	5,798	5,909	5,945	5,933	5,912
Percent of GDP	53.4	52.0	49.2	49.9	49.5	38.4	36.3	33.4	30.6	28.1	25.9
Of which: Arrears	5,248	5,597	5,646	5,605	5,593	4,018	4,167	4,318	4,440	4,580	4,711
Percent of GDP	42.1	41.5	39.8	39.3	39.5	28.0	26.1	24.4	22.9	21.7	20.6

Sources: Zimbabwean authorities; IMF staff estimates and projections.

1/ At constant 2009 prices.

3/ Includes wages of central government, pensions, and grants and transfers for wage costs of POEs and local governments.

3/ Based on program exchange rate

4/ Includes errors and omissions through 2014.

5/ Includes arrears. Includes valuation adjustment

6/ Debt stocks are estimates, except for the 2011-14 debt stocks which are based on preliminary results of the authorities' external debt reconciliation exercise initiated in 2013. Includes valuation adjustment.

Table 8. Zimbabwe: Quantitative Targets

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

	2014[1]	2015[1]							
	Dec.[2]	March	June[2]		Sept.		Dec.[2]		
	Act.	Act.	Prog.	Act.	Prog.	Actual	Prog.	Actual	Status
1. Floor on primary budget balance of the central government [3,4]		-36	-142		-91	-204	-55	-39	Met
Adjusted floor	-98		*-148*	*-147*	*-141*		*-149*		
2. Floor on protected social spending	95	15	35	35	57	61	72	76	Met
3. Floor on stock of net international reserves	178	183	189	223	140	127	184	200	Met
4. Floor on payments to the PRGT	1.95	0.45	0.90	0.90	1.35	1.35	1.80	1.80	Met
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	369	13	400	13	400	13	400	239	Met
Memorandum Items:									
1. Ceiling on total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates	178	209	341	225	231	157	178	125	Met

Source: Zimbabwean authorities and IMF staff calculations.

[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 9. Zimbabwe: Structural Benchmarks for the Third and Final Review

Benchmarks[1]	Macroeconomic Rationale	Review	Status
Public Financial Management			
1. 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	**Met**.
2. 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	**Met**.
Financial Sector			
3. Develop draft principles of the ZAMCO Bill for submission to Cabinet.	Strengthen the mandate of ZAMCO	3rd	**Met.**
Investment Climate			
4. Produce a guide on the Indigenisation and Economic Empowerment Law for publication on the ZIA website.	Increase transparency and boost investor confidence	3rd	**Met.**
5. 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	**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.

Annex I. Zimbabwe: Risk Assessment Matrix[1/]

Sources of Risks	Relative Likelihood	Impact if Realized	Policy Response
Structurally weak growth in key advanced and emerging markets (EMs), including China, South Africa	Medium/High	**Medium to High.** Slower growth in Zimbabwe's major trading partner—South Africa, and in China a major creditor and rising trading partner—could lead to weak demand and lower commodity prices, negatively impacting the current account deficit and fiscal revenues. Reduced remittances from South Africa and lower access to financing from China would exacerbate the tight liquidity situation. Thus these shocks would undermine the external and fiscal positions, and lower growth prospects.	Advance fiscal consolidation to build fiscal and external buffers to cushion shocks. Fast-track structural reforms to address infrastructure deficit and improve the business climate, to enhance productivity and competitiveness, and boost growth. Normalize relations with the international community to help unlock much-needed external flows.
Persistent surge in U.S. dollar	High	**Medium**. Continued appreciation of the U.S. dollar will put pressure on the current account and fiscal revenue.	Undertake structural reforms to improve productivity, competitiveness, and the investment climate; facilitate wage and price adjustment.
Adverse weather conditions	High	**High.** El-Nino-induced conditions—erratic rainfall, drought and increasing temperatures—have been impacting agriculture and livestock production, and disrupting hydro-power and water supplies, with negative implications for growth and food security.	Work with development partners to curb the food shortages, and implement measures—planting drought resistant seeds, building and rehabilitating irrigation schemes —to mitigate the impact. Finalize the land tenure issue to allow for new investments and financing of the agriculture sector.
Fiscal underperformance	High	**High.** Further weakening of revenue, from lower tax collections and/or delays in implementing announced revenue measures; or failure to contain 2016 employments costs within budgeted amounts could increase fiscal pressures, crowd out social spending and capital investment.	Implement planned tax and custom administration measures; finalize and implement the fiscal regime for the mining sector; implement measures to reduce employment costs, and maintain the hiring freeze. Further fiscal adjustment in the event of revenue short-fall, while protecting priority social spending and capital investment.
Delays in implementing the arrears clearance strategy and structural reforms	Low	**High.** Failure to effectively implement their reform agenda or delays in advancing their arrears clearance strategy could undermine Zimbabwe's efforts to attract much-needed financing, and to normalize relations with the international community.	Continued strong commitment to, and importance of, an ambitious reform agenda. Continue efforts to mobilize creditors' support for normalizing relations and restoring access to external flows. Advance critical reforms to address concerns that could delay the reengagement process.

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Social Developments in Zimbabwe

Overall poverty remains high, but extreme poverty significantly declined over the 2001-2011 period. Income inequality also declined. Unemployment is rising. Further poverty, income inequality, and unemployment reduction will primarily require sustained and strong inclusive economic growth. Implementing employment and social safety net programs, improving the business environment, foster private sector development, broadening access to finance, and building human capital would also be essential elements to reduce poverty and inequality.

Poverty Remains Pervasive

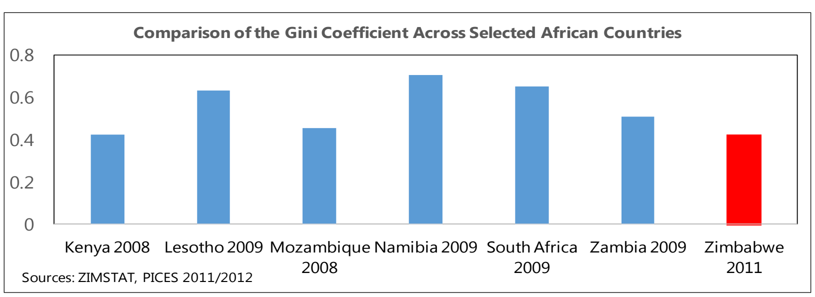
- The 2011/2012 Poverty, Income, Consumption, and Expenditure Survey (PICES) indicated that 72.3 percent of people in Zimbabwe are poor—their per-capita expenditure being below the Total Consumption Poverty Line (TCPL)—up by 2 percentage points from 2001, mainly as a result of the economic meltdown which accompanied the hyperinflation years. In fact, robust economic growth helped reduce poverty by 4.7 percentage points during the 1996-2001 period. Poverty is particularly pronounced in rural areas (84.3 percent) and is lower in urban ones (46.5 percent). Extreme poverty—for people living at or below the Food Poverty Line (FPL)—however, halved to 16.2 percent of the population between 2001 and 2011/2012.

Poverty in Zimbabwe
(In percent of total population)

	1995	2001	2011/2012
Overall Poverty 1/	**75.6**	**70.9**	**72.3**
Rural	86.4	82.4	84.3
Urban	53.4	42.3	46.5
Extreme Poverty 2/	**35.7**	**32.2**	**16.2**
Rural	50.4	42.3	22.9
Urban	10.2	10.5	4.00

Source: ZIMSTAT, PICES 2011/2012
1/ Total Consumption Poverty Line: defined as non-food plus food consumption expenditure of households whose food consumption expenditure is equal to the Food Poverty Line (+/- 10 percent)
2/ Food Poverty Line: defined as the cost of purchasing 2100 calories/day

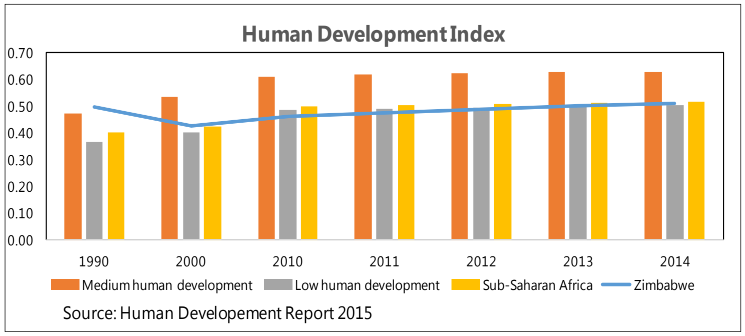
- Income distribution, as measured by the Gini coefficient, became more equal over the decade since 2001. Zimbabwe's Gini coefficient declined to 0.423 percent in 2011, from 0.489 percent in 2001. The country's income inequality compares favorably with other SSA countries.



- Food and nutrition security remain fragile and subject to natural and economic shocks. According to the U.N World Food Program (WFP), nearly 1.5 million people were food insecure in

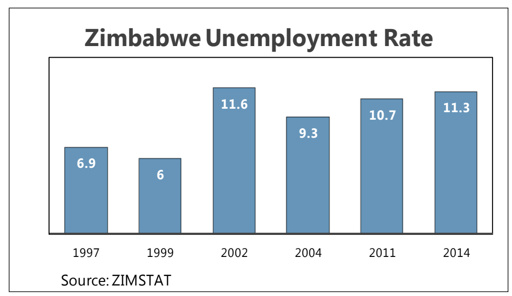
2014. Moreover, due to this year's adverse weather condition, the percentage of food-insecure people is projected to rise sharply, up to 30 percent, reflecting Zimbabwe's reliance on rain-fed agriculture.

- Human development improved slightly between 1990 and 2014. The 2015 Human Development Report ranks Zimbabwe 155 out of 188 countries and territories on its Human Development index (HDI).[1] Between 1990 and 2014, Zimbabwe's HDI value increased from 0.499 to 0.509, which still puts the country in the low human development category. Zimbabwe's HDI is slightly above the average of 0.505 for countries in the low human development group and below the average of 0.518 for countries in the SSA.



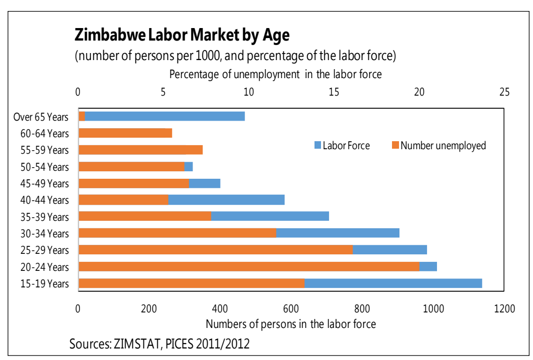
Unemployment is High and Concentrated Among Youth and Women

- In 2014, the official unemployment rate—as measured by the Labor Force and Child Labor Survey (LFCLS)—rose to 11.3 percent, from 10.7 percent in 2011. The survey showed that about 7.1 million persons aged 15 years and above were considered economically active (91 percent of the total population in the group).



- The Survey also showed that of the 6.3 million employed, in the same age group of 15 and above, 5.9 million persons (94.5 percent) were in informal employment, compared with only 4.3 million (84 percent) in 2011.

- The unemployed people below 30 years of age constitute about 65 percent of the unemployed population. There is also a gendered dimension to youth unemployment as female youths have higher unemployment levels. This is a key social concern but also implies significant economic challenges in term of lost potential output and additional fiscal costs.



[1] The HDI is a synthetic index combining life expectancy at birth, expected years of schooling, mean years of schooling, and GNI per capita.

Annex III. Improving External Competitiveness

Large current account imbalances and low international reserves keep Zimbabwe in debt distress. The country's external position remains precarious with large and increasing external arrears—although at lower rates than before the SMP. The current account deficit is projected to remain above 10 percent of GDP (see figure 2) and is largely financed by capital inflows in the form of short- and long-term loans. The economy is exposed to declines in commodity prices and strengthening of the U.S. dollar, which has worsened the country's competitiveness relative to its main trading partners (particularly South Africa) and regional neighbors.[1]

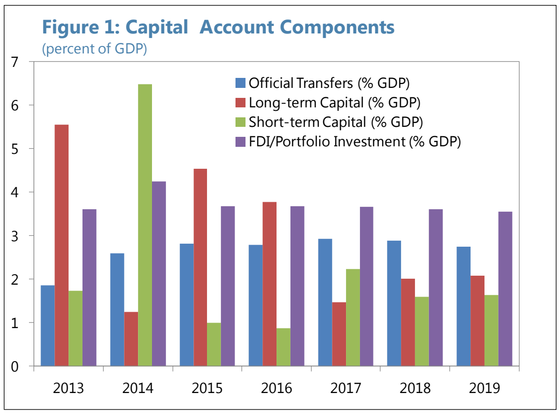


Figure 1: Capital Account Components
(percent of GDP)

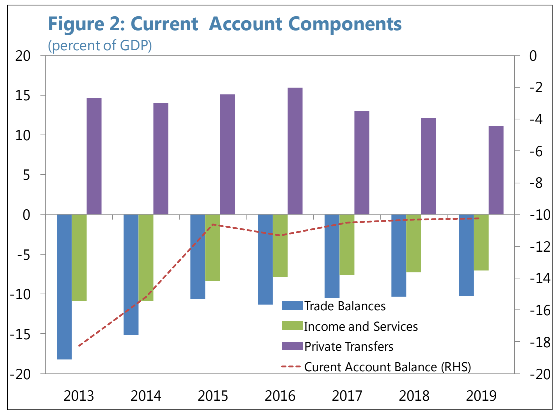
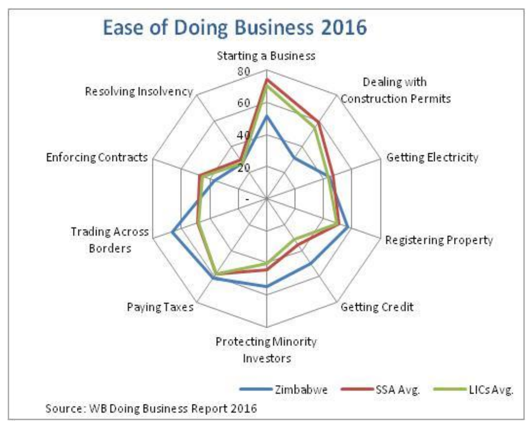


Figure 2: Current Account Components
(percent of GDP)

Sources: Zimbabwean authorities and IMF staff projections.



Weak institutions and an unfavorable business environment undermine Zimbabwe's competitiveness. Zimbabwe's international survey-based competitiveness ranking remains low. The business climate, as measured by the 2015 World Bank Doing Business survey, is ranked 155 among 189 countries—in the lowest quartile of all surveyed countries—as in previous years. Domestic inflation has been in negative territory, partly as a result of weak demand and tight fiscal policy mitigating the impact of the U.S. dollar appreciation. However, Zimbabwe will still need to improve its competitiveness by facilitating further relative wage and price adjustments while creating fiscal space.

A 2014 study found that between 2009 and 2013, minimum wage levels increased on average by 28.6 percent in Zimbabwe (an indication of direction of change in labor costs).[2] Its main trading partners in the region over the same time period registered lower increases: 19 percent in Zambia, 6.3 percent in South Africa, 5.9 percent in Mozambique and two percent in Botswana. As a result,

[1] Assessing Zimbabwe's external stability and competitiveness is complicated by weak macroeconomic data, unrecorded exports and remittances given the high share of the informal sector.

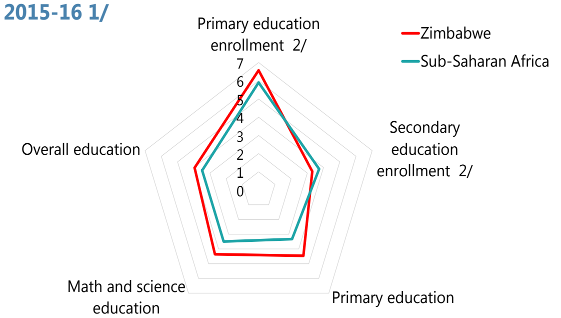
[2] Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU), (2014) *Cost Driver Analysis of the Zimbabwe Economy*.

monthly minimum wage in 2013 stood at almost twice as high as the levels prevailing in Zambia, Mozambique and Botswana. The study also found that these increases could not be justified by increases in productivity. With the continued strengthening of the U.S. dollar and large depreciation of the trading partners' currencies, Zimbabwe's wage competitiveness has eroded further.

The key to restoring competitiveness is enhancing productivity. To restore external stability and increase resilience to external shocks, Zimbabwe needs to: (i) continue fiscal consolidation; and (ii) develop the country's infrastructure; this requires stepped-up efforts by the authorities to secure debt relief to reduce the unsustainably high external debt burden and unlock concessional foreign financing; and (iii) continue the structural reforms aimed at removing impediments to create a supportive business environment.

Zimbabwe's level of human capital is high, compared to SSA. According to the Global Competitiveness Report, the quality of its educational system (a proxy for human capital) is higher than in the average SSA country. The high quality of Zimbabwe's human capital is confirmed by enterprise surveys. Very few Zimbabwean firms (5 percent, compared to 23 percent in SSA) find that an inadequately educated work force is a major constraint to doing business.[3]
The relatively high level of human capital should make it easier for Zimbabwe to address some of the structural challenges on its development and transformation agenda.

Zimbabwe: Quality of Education and Enrollment Rates, 2015-16 1/



Source: The Global Competitiveness Report, 2015-16, World Economic Forum.
1/ Ranked between 0-7 (highest); 2/ Normalized with 7 equalling 100.

[3] World Bank Enterprise Survey, 2011. Zimbabwean enterprises report as most important major constraints to business: i) competition from informal firms (72 percent); ii) access to finance (64 percent); iii) practices by operators in the informal sector (47 percent); iv) electricity (47 percent); and tax rates (41 percent). These percentages are all higher than the average in SSA.

Annex IV. Zimbabwe's Indigenization and Economic Empowerment Framework

In 2008, the authorities enacted the Indigenization and Economic Empowerment Act which requires that 51 percent of all companies or new investment must be owned by locals. The law also sets up a national indigenization fund to be financed through a levy to be imposed on companies that do not comply with the law.

Zimbabwe decided a long time ago to promote local empowerment. The legal basis in Zimbabwe is the Constitution, international conventions, and the African Charter on Human and People's Rights.[1] The Zimbabwean authorities refer to countries in the region as having similar policies. South Africa's Broad-Based Black Economic Empowerment is part of a growth strategy targeting inequality. Botswana's Citizen Economic Empowerment Policy acknowledges that economic growth and diversification without empowerment could ultimately lead to a more fragile and vulnerable economy, subject to the volatility of international markets.

In the case of Zimbabwe, the key challenge centers around balancing the desire for economic empowerment with the desire to foster economic growth through domestic and foreign investment. In January 2016, the authorities sought to clarify the Indigenization and Economic Empowerment (IEE) Law and gazetted the Frameworks, Procedures and Guidelines for Implementing the IEE Act. The latter did not change the policy but restated the commitment of preserving the 51 percent ownership threshold in the resources sector and offer ownership flexibility in other, non-resource, non-reserved sectors. While the desire to clarify the indigenization framework is a welcome step, there are still important issues that need to be addressed. The framework proposed a levy to be charged on noncompliant firms (the levy is foreseen in Article 17 of the IEEA). However, the levy triggered extensive debate, with businesses expressing strong reservations and Cabinet, in March 2016, decided that there would be no levy. A levy would have required Parliamentary approval. What is left is: clarifying the rebate system with a view to avoid discretion; clearly stating how existing companies, particularly in the resources and reserved sectors will be treated; and how financing of the indigenous shares could be secured in the face of scarce indigenous capital. Without these clarifications, it would be difficult to implement the framework in a transparent manner.

The major question is how the authorities can foster indigenization without inhibiting investment. With the abandoning of the levy, the authorities announced in March that businesses should fully comply with the law, failure of which would lead to revoking the business license. This also comes on the backdrop of major challenges in the past with perception, selective application, and inconsistence in the implementation of the law. The feasibility of local share ownership has to be addressed. Concerns continue to be raised on the issue of resourcing indigenization given the demographics of the country, leading to a perception that "elitization" or

[1] Article 2 of the International Covenant on Economic, Social and Cultural Rights states that all citizens within a country must benefit from the state using its natural resources to guarantee socio-economic rights. Article 21(1) and Article 22(1) of The African Charter on Human and People's Rights reads that "freely all peoples shall dispose of their wealth and natural resources."

"individualization" could be the final outcome instead of indigenization. To this end, the authorities should consider the adverse impact of the implementation of this policy on the economy. Furthermore, separation of stakeholder interests and clear prioritization thereof and consistent government pronouncements are keys in limiting negative perceptions and confusion about policies.

The indigenization policy and investment are intrinsically linked and it would be desirable that authorities come up with one single harmonized law on investment. Recent work on creating an omnibus investment act should explore the harmonization of the two laws. Given that the indigenization law provides for different line ministries to oversee compliance in their own sectors, inconsistencies and contradictions have emerged. There are some sectors of the economy which appear to have been untouched while other sectors appear to be in substantial compliance. One way of mitigating this unsatisfactory position is to have a regulatory framework within the law. That framework or the regulator should also oversee the consistent implementation of the rebates and incentives. In this context, making the Zimbabwe Investment Authority (ZIA) the sole entity in charge of implementing the policy would de-politicize the process and likely lead to better results.

Improving the business environment more broadly remains critical. With respect to its regional peers, investment in Zimbabwe falls short of potential. An enhanced and inclusive dialogue between the private sector and government could go a long way in instilling a more conducive investment climate. In addition, swift action to operationalize the one-stop-shop (OSS) for investment and ensuring that officials at the OSS are empowered to make final decisions will be instrumental. Furthermore, the recently launched annual National Competitiveness Report has the potential to tackle the major obstacles to competitiveness and doing business. The recently gazetted Joint Venture Bill will also assist the authorities to implement infrastructure investments. The recently established National Competitiveness Commission should feed into this process.

Annex V. Wage Policy Strategy for Zimbabwe[1]

Background

At 77 percent of government spending (2016), employment costs in Zimbabwe undermine fiscal sustainability, place a significant financing burden on the economy, and crowd out other productive expenditures. The growth in employment costs from 51 percent of spending in 2010 has been the result of both higher wages and employment growth. Wage growth has mainly been driven by the need to increase public service real wages that were eroded by hyperinflation during the 2000's. At the same time, the increase in employment numbers was the result of an expansion in service delivery (for example introduction of an early childhood development program), and a generalized expansion of the role of the state in the economy. Between 2010 and 2013, the expansion in employment costs was underpinned by expectations of continued economic growth, and the unanticipated slowdown in growth and inflation has served to exacerbate the problem.

Within challenging financial and economic circumstances, the Zimbabwean government was able to reverse a pattern of overspending on employment costs in 2015. Estimated wage spending were below the budgeted amount by USD277 million, mainly due to the deferment of the 2015 13th check and a large part of the December salary bill to 2016.

Current Policy Commitment

The Zimbabwe government has long recognized the challenge that its employment costs pose to fiscal sustainability, service delivery and economic growth. Successive budget statements have provided a transparent assessment of the problem and have outlined a number of commitments to address the challenge. The three most significant interventions are:

- *The freeze on personnel numbers introduced in 2011*. The numbers freeze has not been successful in containing growth in the civil service. By the Minister of Finances own admission (*Budget Statement 2015*), numbers of employees have continued to grow as service delivery priorities have often overridden the wage freeze commitment.
- *No wage increase since 2014*. While not an explicit and stated policy of government, salaries have not been adjusted since 2014. Further, performance related salary increments have not been implemented, leading to no nominal salary progression for civil servants. This has been facilitated by negative CPI inflation in 2014 and 2015
- *Direct salary interventions based on salary audits*. The *Civil Service Human Resource and Payroll Systems Audit* undertaken by the Public Service Commission[2]has resulted in potential wage bill savings of USD170 million a year. These interventions were announced in the *2016 Budget Statement* and are in the process of being implemented. The service commissions/boards for the

[1] This Annex was prepared by Matthew Simmonds (Technical Assistance Advisor, FAD) and Michael Stevens (Short-term expert, FAD), and reflects discussions and conclusions during a well-attended workshop on wage and employment policy held during the mission. It builds on an earlier report prepared by the World Bank and benefits from discussion with development partners.

[2] The Public Service Commission covers all civil servants except for health workers. The Judiciary and uniformed services have their own commissions. The health sector has a Health Services Board.

Judiciary, health sector and uniformed services are undertaking similar audits and will be announcing specific savings interventions later this year.

A Medium-term Strategy for Addressing the Wage Bill

Managing the wage bill challenge requires the government to develop a medium-term wage bill policy strategy that goes beyond the direct measures already announced and being planned.

Short-term Measures

Establish a clear wage bill target. Wage policy must be directly anchored in the fiscal objectives of the government. For this purpose, the government should target the consolidated wage bill of central government (wages and salaries for central government plus wage related transfers to grant aided). Setting a target for the consolidated wage bill depends on economic growth expectations, fiscal objectives, and employment and remuneration policy.

For example, based on the staff's alternative economic and fiscal scenario (including zero growth in the nominal wage bill), a reduction in the consolidated wage bill from 66 percent of spending in 2016 to 50 percent by 2019 is consistent with an affordable fiscal framework and a rebalancing of expenditure towards social and economic priorities. This scenario illustrates how pursuing wage restraint and economic growth leads to significant resources for investment in service delivery priorities, which in turn support further economic growth and development. If the authorities growth outlook is lower than that contained in the staff's alternative scenario, a higher target or more restrictive employment and remuneration assumptions would be necessary.

Once the target is set, recruitment and remuneration policies must be managed in a manner that is consistent with its achievement. This commitment should be primary to the other needs of government. If service delivery norms or expanded service delivery require new hiring, this should be done within the existing and funded establishment of government. Should the economic and spending trajectory worsen, government will have to manage their recruitment and salary objectives to ensure that the wage bill and fiscal targets are met.

Implement the findings of the payroll audits conducted by all service commissions and boards. The Public Service Commission has completed a payroll audit that informed the wage savings interventions announced in the 2016 Budget Statement. Cabinet has requested similar proposals from the Judicial and uniformed service commissions and the Health Services Board. The implementation of the findings of all the commissions/boards should be a short-term priority as they will directly reduce the level of the consolidated wage bill, thereby bringing the government closer to its target.

Allowances should be reviewed with the goal of identifying efficiency gains and savings. In 2015, allowance payments made up 43 percent of the civil service wage bill. While these allowances should be reviewed as part of a longer-term pay reform strategy, a short term review should look to identify immediate and implementable reforms that would cut wastage and save government money. For example, the government should reconsider the inclusion of an accommodation and transport allowance in the 13th check. The government could also consider moving to a 13th check paid only if economic growth exceeds a particular level.

Develop a strategy and framework for the equitable retrenchment of staff that cannot be redeployed. It may not be possible to train and place all staff identified for redeployment in the payroll audits. For staff that cannot be redeployed, an equitable separation scheme should be designed. It is not intended for separations to be numerous as the aim is to address the inevitable friction in a redeployment process through an equitable but affordable separation package.

Developing capacity of MoFED staff to analyze, advise and play a regulatory role in wage bill budgeting. To support the Minister of Finance in his/her responsibilities, a dedicated Public Sector Personnel Analysis unit should be introduced to the budget department. This unit should analyze wage related data to understand and report on trends in pay policy, interface with the service commissions/boards, and advise the Minister of Finance on pay policy options and scenarios.

Medium-term Measures

Budget preparation reform. The budget call circular is currently issued late in the financial year which severely limits the ability of ministries to prioritize scarce resources to where they will have the greatest impact. This is exacerbated by separate ceilings for wages, other running costs, and capital expenditure in the call circular. This results in budgeting in silos, hoarding of positions, and discourages ministries from shifting allocations in support of more effective service delivery. To give ministries a greater incentive to re-prioritize, the MoFED should adjust the formulation of ceilings, and provide appropriate guidance to ministries for the preparation of the FY17 budget. At the same time, the budget call circular should be issued much earlier to allow more time for rebalancing discussions within ministries.

Review and strengthen Medium Term Expenditure Framework. A well-functioning MTEF, based on a credible Medium Term Fiscal Framework, is an important reform in shifting the budget culture from needs based petitioning to one based on allocating existing resources in most effective manner. Current approaches to expenditure forecasting should be reviewed and strengthened.

Continue development of Program Based Budgeting. The adoption of a program approach to budget would contribute to better management of the budget by encouraging MDAs to explore a better balance inputs (staff, running costs and capital) needed to achieve program outputs.

Review and strengthen government wide planning processes. Planning is highly desirable, but needs to be based on realistic resourcing prospects to be worthwhile. The current planning process appears to be driven by needs rather than availabilities. As a result, trade-offs between the alternative use of resources is not confronted and priorities in service delivery are avoided. Needs based planning undermines effective wage bill management by encouraging additional staffing requests rather than better allocation of existing staff. This suggests that existing approaches to planning should be reviewed, ensuring that plans are costed and related to availabilities based fiscal framework.

Long-term Measures

Updated pay policy. There are a number of features of the Zimbabwe pay policy that need to be revisited, updated, and modernized. Comprehensive pay policy reform is a complex and sometimes costly undertaking, but if done properly can significantly improve the effectiveness of the public service. The government should therefore begin to review existing pay policy, aiming to have a comprehensive set of reforms to implement when fiscal conditions allow. The reforms should achieve a pay policy regime that relate pay to jobs that are being performed (building on job descriptions, job evaluation and well-designed pay and grading systems), are non-discriminatory (with regard to age, gender, marital status, religion, diversity etc), and attract, retain and motivate skills needed for efficient and effective service delivery. This process should also look to reform the existing allowance regime, restricting allowances to targeted interventions to compensate for a specific problem that undermines service delivery.

Decentralization of HR Management without loss of control. The government currently operates a highly centralized system of HRM, with all decisions and processes of personnel administration carried out by the Public Service Commission and other Commissions/Boards. There are historical reasons for these arrangements, and in the short run there is a justification for retaining central control over the wage bill. In the longer run the highly centralized nature of HR management is likely to inhibit efficient service delivery by undermining incentives for senior managers to manage their labor resources to achieve better outcomes. At the same time, decentralization of HRM should be matched by improvements in reporting and "line of sight" into wage budgets to allow the MoFED and commissions/boards to play an effective regulatory role.

Launch a process of Functional Reviews in critical ministries. Functional reviews entail looking afresh at Ministry mandates and the organizational structures and staffing put in place to discharge those mandates. A cycle of functional reviews takes time to develop and execute, and are best thought of as longer term measures.

Undertake Pension System Reform. Pensions remain a significant component of total employment costs. While they are largely driven by past public service hiring decisions, there is scope for broader system reform. The suitability of moving towards a fully funded defined benefit scheme (the present policy commitment) should be evaluated very carefully. The starting point for pension reform could be a review of the effectiveness of current pension roll controls.

Wage policy objectives beyond 2019. Assuming the successful achievement of the government's wage bill target, future objectives and ambitions for the wage bill should be developed. These should include a headline target and time period, accompanied with a program of reform that supports service delivery and economic growth within the fiscal constraint.

Appendix I. Letter of Intent

April 14, 2016

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

Dear Ms. Lagarde:

We thank the International Monetary Fund (IMF) for its continued support of our economic reform programme and valuable technical assistance. This support has played a pivotal role in our efforts to transform our economy, normalize relations with the international community, and eventually access Fund financial resources.

Our continued engagement under the Staff-Monitored Programme (SMP) was critical in stabilising the macroeconomic environment. We are committed to our economic transformation program in preparation for clearing arrears with international financial institutions (IFIs) and full re-engagement. Economic difficulties have deepened, so time is of the essence. The El Niño-induced drought has hit our economy and the situation is expected to worsen with adverse impact on agricultural output, food security, and power generation. Moreover, lower commodity prices, the appreciation of the U.S. dollar, and insufficient external inflows still weigh on the economy.

Our commitment, with support from the private sector, civil society, and the general public ensured that the SMP remained on track. Despite substantial economic and financial difficulties, we have met all end-December 2015 quantitative targets. The floor on the primary cash balance was met with a wide margin. The floor on protected social spending, the targets for Poverty Reduction Growth Trust (PRGT) payments, net international reserves, and the ceiling on non-concessional borrowing were all met.

We have also met the remaining structural benchmarks:

a. We submitted to Cabinet amendments to the Public Finance Management Act. The bill has since been gazetted and submitted to Parliament. The amendments are geared towards strengthening Treasury's financial oversight of state owned enterprises (SOEs) and local authorities.

b. We submitted to Cabinet amendments to the Procurement Act to tighten the public procurement framework and make it more efficient and transparent.

c. In January 2016, we published the frameworks, procedures and guidelines of the Indigenization and Economic Empowerment Act. We have addressed challenges related to the policy to provide certainty and clarity.

In addition, we have pushed forward our reform agenda, particularly in the following areas:

i. We have started to implement measures to rationalize public expenditure and reduce public sector employment costs. We envisage the measures under implementation to generate savings of about 1 percent of GDP. These measures, as detailed in the 2016 Budget Statement, include reviewing the vacation leave policy in the education sector, withdrawing from non-core responsibilities and the rationalisation of employment structures across ministries. We have already reduced employment cost obligations for grant-aided institutions. Further, to the audit by the Civil Service Commission, the Police and the Judicial Service Commissions and the Health Services Board will complete salary and employment audits for their own sectors in 2016. These audits will inform our decision on the reduction of employment costs across government and related institutions

ii. We have finalised 2 forensic audits out of the 10 largest and most critical SOEs. Furthermore, forensic audits were conducted for ZBC and Allied Timbers. We also reduced employment costs in a number of SOEs (for Tel -One by 15 percent, and National Social Security Authority by 25 percent.). In addition, the Radiation Protection Authority of Zimbabwe reduced its overall costs by 30 percent.

iii. With the aim of improving transparency and accountability for natural resources, we have moved ahead with the consolidation of the diamond sector. We are accounting for diamond mining from extraction to sales and transfers of proceeds. We will timely publish audited financial statements of state owned mining entities.

iv. On the ease of doing business, we constituted various committees in 2015 to address the remaining bottlenecks. We started a pilot project on harmonising the City of Harare processes for business set up, including building permits through the assistance of the United States of America International Development (USAID) and the World Bank. We are in the final stages of operationalising the One-Stop-Shop for investment.

v. We have made substantial progress to place the financial sector on a stable and sound footing. The sector is rid of troubled banks, the banks are adequately capitalised, and non-performing loans are now down to 10 percent. As of end February 2016, mortgage-backed loans amounting to $357 million had been acquired by the Zimbabwe Asset Management Company (ZAMCO) of which US$210 million loans were restructured into long term loans, US$40 million into preference shares and US$35 million into ordinary shares. This has assisted in restructuring firms in strategic sectors of the economy such as agriculture and mining. ZAMCO is now self-sufficient in terms of funding its operating expenditures. We have launched a National Financial Inclusion Strategy aimed at broadening access to and use of financial resources with a view to improve social and economic development.

vi. We conducted a midterm review of our economic blueprint, ZIM ASSET. The outcome of the review suggests that we need to mobilize more financing and prioritize projects. To finance some of our projects, we have resorted to nonconcessional loans, especially in the area of infrastructure investment, development partner support as well as statutory funds. In 2015, a total of $431.9 million, 3 percent of GDP, was channelled toward priority infrastructure in the water, energy, transport, ICT, irrigation, housing, social services, and the agriculture sector, which falls short of our substantial needs.

vii. We are moving ahead with land audits to expose any irregularities with the implementation of past land reform. We have submitted to Parliament a bill to establish the Land Commission in line with the Constitution. In collaboration with the European Union and the United Nations Development Programme, we started mapping and evaluating farms and devising modalities for compensation. The draft bankable 99-year lease is being finalised and is awaiting submission to Cabinet. This will go a long way in providing security of tenure to the beneficiaries of the land reform programme and consequently boost agriculture by facilitating access to financing and investment.

On the basis of our strong performance against programme targets and our continued commitment to sound macroeconomic policy management, we request that the third and final review under our 15-month SMP be completed.

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 the LOI of April 17, 2015 and that of September 30, 2015 were adequate to meet the objectives of the SMP. The measures outlined in this updated LOI are geared towards maintaining the momentum of economic transformation that began with the SMP and set the stage for an eventual full re-engagement, including arrears clearance to the IFIs, a Fund-financial arrangement, and debt treatment under the Paris Club.

Continuing with our commitment to transparency in government operations, which we believe is essential for good governance and keeping our citizens abreast of our policy intentions, we consent to the publication on the IMF website of: the IMF staff report, all SMP-related documents, and the debt sustainability analysis performed by IMF and World Bank staff. In addition, we have published our arrears clearance strategy presented in Lima last year and we will publish our forthcoming economic transformation programme on both our websites.

POLICIES FOR THE REMAINDER OF THE YEAR AND BEYOND

The end of the SMP in December 2015 concludes the monitored part of our economic and social transformation programme. We remain committed to the spirit of the agenda we began with the two successive SMPs and the objectives contained therein. Most importantly, we are implementing the broader reforms outlined in our arrears clearance strategy presented at the Lima meetings. In this context, resolving Zimbabwe’s external arrears remains our highest priority. Our debt overhang and overdue obligations impede Zimbabwe's access to external financing, and hamper our economic and social transformation agenda. We expect the successful resolution of Zimbabwe’s external payment arrears to send strong signals to the international community, reduce the perceived country risk premium, and unlock affordable financing for government and the private sector. Our objectives are to achieve sustained economic development through economic transformation, to improve living conditions for the people of Zimbabwe, and reduce poverty.

These objectives cannot be achieved without the bold measures outlined in Table 1. We believe that these measures, together with arrears clearance, will pave the way for full re-engagement with the international community and set the stage for strong private sector-led growth. Our economic transformation agenda is based on our ZIMASSET, the 10 point plan announced by the President on August 25, 2015 and the Sustainable Development Goals.

We will continue with the productive and fruitful dialogue we have had with the IMF. Should any need for substantial non-concessional external borrowing arise, we will hold timely consultations with IMF staff on the possible terms to ensure that such borrowing strengthens confidence in macroeconomic management and does not jeopardize our arrears clearance strategy and debt sustainability.

Fiscal discipline remains a priority. In the short term, even in the presence of additional spending needs to mitigate the impact of the drought, we will strive to achieve a primary cash balance of close to zero, because of lack of financing. This heightens the urgency of re-engagement that, by eventually unlocking financing, will allow us to deal with adverse shocks and plan for much needed social and capital outlays. We will finalise the Public Finance Management (PFM) Reform Plan and promulgate PFM regulations. Meanwhile, we will accelerate the on-going SOE reform.

A crucial element of our fiscal policy is a strategy that lowers the combined wage bill of the central government and grant-aided institutions to 50 percent of total expenditure by 2019. To achieve this reduction, we will work on the size and remuneration of the public service. Based on current economic growth and expenditure forecasts, this will mean that the employment and salary freeze will have to remain in place for at least the next three years.

The service commissions of government will implement the recommendations of their employment audits. We will conduct a review of allowances to identify savings and efficiency gains. We will enhance service delivery by redeploying underutilized employees and we intend to retrench staff that cannot be redeployed.

We will continue to improve the business environment, including in areas where resources are needed to strengthen governance and to address administrative bottlenecks. The Office of the President and Cabinet is now driving the process under the Rapid Results Approach and we envisage a significant improvement in our doing business rankings.

We are ready to clear the outstanding arrears with IFIs, as outlined in the Lima meetings. With the reform agenda outlined in Table 1, we believe that after clearing these arrears, we will be in a position to present a comprehensive and ambitious reform programme that could be supported by a Fund financial arrangement in close collaboration with other IFIs. As part of this process, we will seek a debt treatment by the Paris Club. We aim at maintaining a sustainable debt burden after arrears clearance which will be instrumental in maintaining macroeconomic stability.

We will continue to monitor progress in implementing our strategy at both the technical and political levels. At the political level, the monitoring is coordinated by the Office of the President and Cabinet. The technical monitoring committee comprising officials from the Ministry of Finance and Economic Development, Ministry of Economic Planning and Investment Promotion, the Reserve Bank of

Zimbabwe, the Zimbabwe National Statistics Agency, and the Zimbabwe Revenue Authority will continue to meet regularly. The quadripartite committee (comprising the African Development Bank, IMF and the World Bank, the Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe), will also continue to provide input into the process.

As we set out for normal cooperation with our partners, it remains crucial that institutional deficiencies are attended to. During this phase, we will continue to request technical assistance from the Fund particularly in tax policy and administration, PFM, financial sector issues, and statistics.

Yours sincerely,

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

Table 1: Zimbabwe—Economic Transformation Matrix
Area
1. Alignment of all Acts to the Constitution
2. Land Reform a) Remapping of farm boundaries b) Valuation of improvements on the farms c) In the case of BIPPA farms that were gazetted, valuation of land and improvements d) Modalities for compensation of farmers e) Granting of property rights to beneficiaries of the land reform
3. Develop a medium term debt management strategy
4. Reduce the primary fiscal deficit (on a cash basis) to achieve balance
5. Rationalize public sector employment
6. Formulate policies to lower the civil service wage bill to GDP ratio from current levels to about 50 percent of total expenditure by 2019
7. Increase the proportion of social and capital spending in total outlays
8. Step up revenue mobilization efforts by ZIMRA through strengthening tax policy and administrative measures to increase revenue, which include among others: a) measures to strengthen VAT administration; b) the design of the tax system to support economic growth; and c) Improve infrastructure and customs management at all border posts.
9. Reduce domestic debt and improve service delivery
10. Develop a comprehensive Public Finance Management (PFM) reform strategy and finalize an action plan to strengthen forecasting capacity
11. Develop a fiscal risk management system, which will focus on revenue collection risks and financial liabilities arising from the operations of parastatals
12. Ensure debt and fiscal sustainability
13. Continue to make payments to multi-lateral institutions in line with the *pari passu* requirement

INTERNATIONAL MONETARY FUND

ZIMBABWE

April 16, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THE THIRD REVIEW OF THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By

The African Department
(in Collaboration with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

A. Financial Relations

(As of February 29, 2016)

Membership Status

Joined: September 29, 1980; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	706.80	100.00
Fund holdings of currency	706.47	99.95
Reserve position	0.33	0.05
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation[1]	272.18	100.00
Holdings[1]	92.61	34.03

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

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF arrangements	62.38	8.83

Latest Financial Arrangements:

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

[1] Formerly PRGF

Projected Payments to Fund[1,2]

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

	Overdue	Forthcoming				
	February 29, 2016	2016	2017	2018	2019	2020
Principal	62.38					
Charges/interest	16.59	0.12	0.15	0.15	0.15	0.15
Total	78.97	0.12	0.15	0.15	0.15	0.15

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.
[2] Projected amounts do not include additional interest levied on overdue PRGT interest.

Implementation of HIPC Initiative:

Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI):

Not Applicable

Application of Remedial Measures under the Arrears Strategy:

Zimbabwe has been in continuous arrears to the Fund since February 2001. On September 24, 2001, the Executive Board declared Zimbabwe ineligible to use the general resources of the Fund and removed it from the list of PRGT-eligible countries. On June 13, 2002, the Board issued a declaration of non-cooperation with respect to Zimbabwe and suspended all technical assistance (TA) to the country. On June 6, 2003, the Board suspended Zimbabwe's voting and related rights at the Fund. The Managing Director issued a complaint regarding compulsory withdrawal on February 6, 2004. The Executive Board considered the complaint on July 7, 2004, on February 15, 2005, and again on September 9, 2005, and decided to postpone the recommendation on Zimbabwe's compulsory withdrawal from the Fund to the Board of Governors so as to give more time for Zimbabwe to improve cooperation with the Fund. On February 15, 2006, Zimbabwe fully settled its arrears to the General Resources Account. As a consequence, the complaint for compulsory withdrawal was withdrawn. However, the Executive Board decided not to restore Zimbabwe's voting and related rights, nor did it terminate Zimbabwe's ineligibility to use the general resources of the Fund. The Executive Board also kept in place the decisions taken to address Zimbabwe's arrears to the PRGT Trust—the declaration of noncooperation, the suspension of TA, and the removal of Zimbabwe from the list of PRGT-eligible countries.

On May 4, 2009, the Executive Board lifted the suspension of TA to Zimbabwe in the following areas: (i) tax policy and administration; (ii) payments system; (iii) lender-of-last-resort and banking supervision; and (iv) central banking governance and accounting (EBS/09/55). On February 19, 2010, the Executive Board restored Zimbabwe's voting rights and its eligibility for general resources. On May 17, 2010, the Executive Board added macroeconomic statistics to the targeted areas for Fund TA. On January 4, 2011, it added public financial management and anti-money laundering and combating the financing of terrorism. On October 23, 2012, the Executive Board further relaxed the restrictions on Fund TA to Zimbabwe to include any other area that would support the formulation and implementation of a comprehensive adjustment and structural reform program that can be monitored by the staff. Zimbabwe's arrears to the PRGT Trust amounted to SDR 78.97 million (US$109.1 million) as of end-February 2016.

B. Nonfinancial Relations

Exchange Arrangement

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

Since 2009, Zimbabwe has adopted a multi-currency regime, including the U.S. dollar, the South African rand, the British pound, the euro and the Botswana pula—with the U.S. dollar as principal currency. The Australian dollar, the Chinese yuan, the Indian rupee and the Japanese yen were added to the list in February 2014. The use of the Zimbabwean dollar as domestic currency has been discontinued. The *de facto* exchange regime is classified as *exchange arrangement with no separate legal tender*.

Article IV Consultations

Zimbabwe is on the standard 12–month consultation cycle. The Executive Board discussed the staff report for the 2014 Article IV consultation on June 18, 2014.

WORLD BANK—IMF COLLABORATION

1. **The Fund Zimbabwe team led by Mr. Domenico G. Fanizza (mission chief)** met with the World Bank Zimbabwe team, led by Ms. Camille Nuamah (country manager) on March 2, 2016.

2. **The teams were encouraged by the policy dialogue with the Government, and agreed that country-specific policies and reforms are needed to unlock Zimbabwe's growth potential and place the country on a sustainable, inclusive growth path.** Over the immediate to medium term, reforms need to be focused on strengthening public financial management, improving payroll and human resource management, raising the effectiveness, efficiency and equity of government expenditure, reducing financial sector vulnerabilities, tackling infrastructure bottlenecks, and improving the business environment. In addition, addressing Zimbabwe's debt overhang and enhancing governance will be essential if the country is to attract much-needed investment and access affordable long-term capital.

3. **Based on this assessment, the teams agreed to support the authorities' efforts with the following division of labor:**

- **PFM reform:** The Fund will continue its engagement with the Zimbabwean authorities in their effort to advance the fiscal reform agenda and restore fiscal sustainability. The Fund will offer TA in: (i) macro-fiscal forecasting and budgeting to develop and implement a strategy for an improved medium-term expenditure framework; (ii) cash management, accounting, and fiscal reporting; (iii) improving fiscal oversight at the central government,; and (iv) budget formulation and execution. The Bank will continue supporting financial management and reporting, enhancing internal controls and internal auditing, the external audit oversight and oversight of Parliament to ensure increased transparency and accountability, the gradual expansion of the IFMIS system to public authorities (especially local governments) currently not covered and is working towards stronger enforcement of government rules in SOEs. As part of a joint World

Bank – Ministry of Finance and Economic Development effort to review public expenditures, oversight and transparency of extra-budgetary funds is gradually being expanded.

- **Tax reform:** The authorities have made some progress on tax reform. The Fund will continue to offer TA in tax policy (VAT) and tax administration reform, including in the areas of risk management, taxpayer filing, management of transit traffic, and post control audit. A joint IMF-World Bank-OECD project is advising on transfer pricing issues in mining taxation.

- **Diamond sector reform:** Activities in the Marange area have slowed significantly over the last two years due in part to (i) depletion of the easier to access alluvial resource leaving only the harder, deeper and less profitable conglomerate resource for mining, but also due to (ii) the ongoing restructuring and consolidation of mining licenses in the Marange area. From discussions with government, Zimbabwe is nearing completion of the restructuring process which will consolidate all Marange mining licenses under the fully state owned and controlled Zimbabwe Consolidated Diamond Company (Pty). The Bank believes that following the restructuring an opportunity for further technical assistance will emerge as the government will need to attract capital and technical expertise to optimally explore and deplete the remaining Marange resource.

- **Mining fiscal policy, modeling and tax administration support.** The Bank is providing technical support for improved management of the mineral sector. In March 2014 the Bank launched a project on fiscal modeling and capacity building for mining with the Ministry of Mines and Mining Development (MMMD) and the Ministry of Finance and Economic Development (MoFED). A fiscal model was completed and MOFED have been working to populate the model with data from mining companies. In order to advance the thinking on mining fiscal policy, the World Bank also provided a options note on mining fiscal policy to the MoFED and MMMD. The Bank will continue to provide TA aimed at improving the fiscal regime in Zimbabwe and improving capacity for revenue forecasting – in diamonds and other mineral commodities. As previously mentioned the OECD and World Bank are also providing capacity building support to ZIMRA on issues of international tax administration.

- **Delivery of basic services and social safety nets:** The Bank has delivered TA to prepare the 2016 budget of the Ministries of Health and Child Care, Primary and Secondary Education and Public Service, Labor and Social Welfare in program-based format. The presentation of the budget in this format is gradually expanded to other ministries and scheduled to cover the full budget in 2018. In parallel projects are delivered TA to improve service delivery in the heath and child care as well as primary and secondary education.

- **Business environment reform:** The Bank delivered TA on Doing Business Reforms under the auspice of the Office of the President and Cabinet. The TA has seen various legislative drafts drawn out that would result in improving the ease of doing business. At least eight Acts have been amended and seven regulatory reforms. Specific legislation includes Commercial Court Law, High Court Act, Private Business Corporation Act, Shop License Act, Companies Act, Deeds

Registry Act, Insolvency Act, Land Survey Act, Legal Practitioners Act and a new Collateral Registry Act.

- **Financial sector reform:** The WBG provides TA to the RBZ covering Banking Supervision and Crisis Resolution, Credit Infrastructure, Financial Inclusion to Collateral Registry and Anti-Money Laundering and Combating of Financing of Terrorism. The IMF will provide assistance on developing a macro-prudential policy; stress testing; and banking supervision, including consolidated supervision of banking groups.

- **Central bank reform:** The IMF takes the lead on Central Bank Reform issues, including the establishment of the Zimbabwe Asset Management Company (ZAMCO) to purchase toxic assets from banks to enable them to lend again.

- **Reform of the statistical system:** The World Bank has provided TA to ZIMSTAT to help them produce a poverty atlas that presents poverty levels at the provincial, district and ward level. The Bank is also assisting ZIMSTAT with questionnaire design and a sampling strategy for their upcoming Poverty Income and Consumption Expenditure Survey (PICES) 2016/17. The Fund will continue to offer TA in national accounts, monetary statistics, and government finance statistics.

- **Debt and arrears strategy:** In the context of the 2016 Article IV Consultation, Bank and Fund staffs produced a joint DSA.

- **Poverty Analysis and Poverty Reduction Strategy:** The Bank is providing TA to support the preparation of a poverty reduction strategy as part of the implementation of Zimbabwe's development agenda (ZIM ASSET).

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

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

- The Bank team requests to be kept informed of progress in the above cited areas where the Fund takes the lead. The Bank team also requests from the Fund team to share outputs, as requested.

The appendix lists the teams' work programs over the period April 2016–April 2017. The Bank's engagement in 2014/15 will strongly be influenced by programs under the new Zimbabwe Economic Reconstruction Fund Trust Fund ("ZIMREF), and the program listed here represents the teams' best judgment at this stage.

Joint Bank-Fund Work Program May 2016–June 2017			
Title	**Products**	**Provisional Timing of Missions**	**Expected Delivery Dates**
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	**Investment Projects** • PFM investment project; • Water investment project **Technical Assistance** • TA: SOE Reform, including energy and agriculture companies; • TA: Doing Business; • TA: Financial Sector • TA: Mineral Sector Development; • TA: Program-based budgeting • TA: Health sector • TA: Education sector • TA: Household survey and monitoring and evaluation **Studies and Lending** • Public Expenditure Review • Re-engagement Policy Operation	Ongoing, all	All beyond mid 2017 except indicated products; October 2016 At time of reengagement
IMF work program in next 12 months	**Macroeconomic Policy Analysis and Policy Advice** • Support the formulation and implementation of a comprehensive adjustment and reform program • Article IV 2016 **Technical Assistance** • Macro-fiscal forecasting and budget preparation and execution • Customs and tax administrations • Comprehensive, timely, and accurate accounting and financial reporting • Tax compliance and risk management	 Ongoing Q2 2017 Q3-Q4:2016, Q2:2017 Q3:2016, Q2:2017 Q3:2016, Q2:2017 Q3:2016, Q2:2017	

	• Strengthening data compilation and dissemination	Q3:2016, Q2:2017	
B. Requests for Work program Inputs			
Fund requests to Bank	• Updates on policy reform work: increasing diamond sector transparency, strengthening human resource and payroll management, PFM reform, improving the business climate, I-PRSP • Macro framework • Timing and scope of Bank's missions	Ongoing Ongoing Ongoing	
Bank requests to Fund	• Updates on program discussions • Updates on policy reform work: PFM, tax and financial sector reforms • Timing and scope of missions	Ongoing Ongoing Ongoing	
C. Agreements on Joint Products and Missions			
Joint products and missions in next 12 months	• Debt Sustainability Analysis	Q2:2016	

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

(As of April 1, 2016)

A. Overall Engagement and Strategy

The African Development Bank (AfDB) Group's engagement in Zimbabwe, as entailed in the Country Brief Update (2014–2016), seeks to assist the country to arrest fragility, build resilience, and accelerate re-engagement with the international community for the socio-economic transformation of the country. The Bank's engagement is anchored on the government's main economic policy blueprint—the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset, 2013–2018). The Bank supports the country through basic infrastructure rehabilitation in the water and energy sectors for inclusive service delivery; capacity building and technical assistance for strengthening institutional governance; and private sector participation for job creation. The engagement in these areas is strengthened through emphasis on gender and youth empowerment, climate resilience, green growth, and provision of knowledge solutions and advisory services to hasten the recovery process.

Despite the debt arrears situation, the Bank Group has remained engaged in Zimbabwe. As of March 1, 2016, the Bank portfolio in Zimbabwe had 14 active operations (covering 4 investment operations and 9 technical assistance/capacity building interventions) amounting to 124.3 million Units of Account (UA). Of these, UA 75.9 million (61.1%) is funded by ADF grant resources, UA 40.3 million (32.4%) by the Zimbabwe Multi Donor Trust Fund, UA5.7 million (4.7%) by an ADB loan, UA 1.3 million (1.3%) by the African Water Facility, and Fund for African Private Sector Assistance (FAPA) grants UA 0.7 (0.6%). In terms of sectoral distribution of the portfolio, water supply and sanitation sector constitute 41.5%, followed by power 30.3%, multi-sector (institutional support) 19.6%, agriculture 5.8%, social sector 2.2%, and transport sector at 0.7%.

B. Key Interventions by the AFDB Group in Zimbabwe

Infrastructure rehabilitation and development – In 2010, the AfDB was requested by a group of donors to establish and administer a Multi-Donor Trust Fund for Zimbabwe (MTDF or ZimFund). The purpose of ZimFund is to contribute to early recovery and development efforts in Zimbabwe by mobilizing donor resources, promoting donor coordination, and channel financial assistance to such efforts. Since its inception, ZimFund has played a key role in rehabilitating targeted social infrastructure in water and sanitation and energy sectors to ensure the country delivers basic services, builds the necessary resilience against shocks, and overcomes fragility in the face of serious socio-economic challenges.

Donors' current commitments to the ZimFund amount to about US$145 million, of which USD140.80 million has already been paid up by the contributing donors. Under the ZimFund Phase 1 water project (US$43.61 million), physical works as well as consultancy works were completed in all the beneficiary municipalities of Harare, Chitungwiza, Chegutu, Mutare, Masvingo, and Kwekwe. Under the Phase 1 power project (US$39.61 million), there have been three work contracts focusing on distribution and and sub-transmission system reinforcements and the Hwange Power Station Ash Plant Rehabilitation. ZimFund is now focusing on implementation of Phase 2 water supply and sanitation project (US$35.99 million) targeted at Harare, Chitungwiza, Redcliff and Ruwa as well as the energy project (partly funded to the tune of US$15.42 million).

Over and above ZimFund-financed projects in emergency infrastructure rehabilitation, the Bank Group has been able to leverage resources, including through partnerships, to support the rehabilitation of Kariba Dam, Bulawayo water and sanitation, and Alaska-Karoi energy security interventions. In addition, the Bank Group, through the Africa Water Facility (AWF) Trust Fund, is implementing a project to support the preparation of planning and technical studies for an Integrated Urban Water Management to rehabilitate the water supply and sanitation system in Marondera Municipality. The Bank also continues to assist the country in operationalization the infrastructure study it prepared in 2011, supporting the preparation of the Energy and Transport Sector Master Plans and helping develop a pool of investment specialists to prepare feasibility studies for the bankable projects. The Bank Group's intervention in basic infrastructure rehabilitation is aimed at arresting fragility and building resilience through sustainable provision of service delivery.

Support to economic and financial governance. The AfDB Group supports Zimbabwe's economic governance and private sector development initiatives aimed at promoting inclusive growth. Its support consists of technical assistance, capacity building, and other types of assistance not affected by the arrears situation. Support has been targeted at improving economic governance and enhancing the effectiveness of public service delivery in public financial management, statistics, and external debt management, revenue management, procurement reforms, mining sector governance, and enhancing the Reserve Bank's supervisory role, among others. The Bank Group's engagement in private sector development in Zimbabwe has been both direct and indirect. Beyond its direct investment in Lake Harvest (Aquaculture expansion project on Lake Kariba), the AfDB Group has supported Zimbabwe's private sector through regional financial institutions that operate and invest in Zimbabwe. Also, the presence of the AfDB Group in Zimbabwe, together with the Southern Africa Resource Center, has facilitated the close follow-up of project implementation and support to enhance the overall development impact of the Bank Group's support.

Support to the re-engagement process – The Bank Group is also playing a key role in garnering support for the country's debt arrears clearance and reengagement process, collaborating with other development partners. Following the first high-level debt forum on Zimbabwe in Tunis in 2012 hosted by the Bank Group, there has been consensus on deepened engagement by all partners through an IMF Staff Monitored Program. As part of the re-engagement process, the Bank Group further co-hosted a series of forums with the IMF and World Bank aimed at re-engagement, in Lima, Washington and Tokyo. There has been strong support from the development partners for Zimbabwe's arrears clearance and debt relief process.

STATISTICAL ISSUES

Zimbabwe—STATISTICAL ISSUES APPENDIX As of April 4, 2016
I. Assessment of Data Adequacy for Surveillance
General: Data provision has shortcomings but data are broadly adequate for surveillance. Despite recent improvements in timeliness and coverage, there are shortcomings stemming from weak data sources, insufficient coverage, and capacity constraints, especially in national accounts and external sector statistics. The Zimbabwe National Statistical Agency (ZIMSTAT) has a culture of complying with international standards, but suffers from a shortage of funding and human resources across the board following funding cuts and a staff freeze across government departments.
National Accounts: Zimbabwe's national accounts (NA) broadly follow the concepts and definitions of *the 1993 System of National Accounts (SNA)* and some recommendations of the *2008 SNA*. The scope of NA statistics is being expanded, including the compilation of quarterly national accounts. However, staff resources are inadequate to achieve these objectives. A February 2016 STA TA mission assisted in developing a detailed strategy for the compilation of quarterly national accounts (QNA), focusing on deriving timely QNA from annual accounts using administrative and preliminary and partial data. With a view of expanding the coverage and improving the accuracy of quarterly GDP, in March 2016, a mission from STA provided technical assistance to enhance data sharing among the authorities of Zimbabwe, and in particular, between the Zimbabwe Revenue Authority (ZIMRA) and ZIMSTAT. The mission recommended updating the memorandum of understanding between ZIMSTAT and ZIMRA to facilitate the data exchange. The authorities are currently working on the Poverty, Income, Consumption and Expenditure Survey (PICES) 2016/17. The survey, one of the largest carried out by ZIMSTAT, will provide data on income distribution, consumption level, private consumption, and living conditions of the population, Consumer Price Index (CPI) weights, production account of agriculture and poverty mapping.
Price Statistics: ZIMSTAT compiles and disseminates a monthly consumer price index (CPI), with weights based on data from the 2011/12 Household Budget Survey (HBS) with a December 2012 base. In the new CPI, compiled since January 2013, ZIMSTAT has also expanded the geographical coverage to include price developments in both urban and rural areas, and increased the number of items in the basket. ZIMSTAT also compiles and disseminates a quarterly producer price index (PPI), based on December 2009 with December 2008 weights. A 2013 STA TA mission recommended further improvements to the CPI basket by replacing outdated products, increasing the frequency of data collection for perishable items from monthly to weekly, and expanding PPI coverage to include exports.
Government Finance Statistics: Reporting of GFS for the central government has improved since 2009. The Ministry of Finance and Economic Development (MoFED) collects data on revenue and expenditure, which are published on its website on a monthly basis, along with the annual budget statements. Data on government financing are limited but improving. The MoFED does not yet compile GFS in line with the Government Finance Statistics Manual (GFSM) 2001, but is in the process of moving to GFSM 2001, with IMF TA. Budget data are

compiled only for the budgetary central government.
Monetary Statistics: The Reserve Bank of Zimbabwe (RBZ) resumed reporting MFS to the Fund in late–2015. The MFS data are timely and based on the new Standardized Reporting Forms (SRFs). STA has provided feedback to the RBZ, requesting some further clarifications.
External Sector Statistics: The RBZ compiles ESS data, following *BPM4* methodology. Balance of payments and external debt statistics are subject to a number of data issues. The RBZ does not yet report any ESS data to STA—reporting is expected to start by December this year. There is a structural break in trade data in 2010. For years prior to 2010, the source is the Exchange Control Department of the RBZ, and for 2010 and onwards, the source is customs data. Subsequent to IMF technical assistance in external sector assessment, the historical current account deficit has been revised significantly downwards to reflect amongst others estimates of cash and in-kind transfers from Zimbabweans working abroad, export of gold to neighboring countries by small scale artisanal miners, estimated to account for 50 percent of gold exports, and adjustment to the long- and short-term private sector external payments. Interests payments for 2014 and 2015 are reconciled with creditors' records are reflected as accrued interest on overdue financial obligations. The 2013 STA TA mission identified a number of data gaps, including in international trade in services, direct investment and portfolio investment income, idirect investment, portfolio investment, trade credit and advances. Gaps in services arose because the *BPM4* methodology does not cover all *BPM6* items. A follow-up mission in 2014 provided further training in *BPM6* methodology and assisted in mapping tables from *BPM4* to *BPM6*. Zimbabwe is part of the IMF-UK Department for International Development (DFID) funded Enhanced Data Dissemination Initiative II (EDDI-II) Project for Balance of Payments Module 1. With the help of DFID-EDDI2, the compilation of quarterly balance of payments statistics on *BPM6* basis is envisaged by December 2016.
International Investment Position (IIP): The compilation of the IIP is currently not possible due to the lack of reliable information on private sector stocks of foreign assets and liabilities and due to the lack of appropriate categorization of the available stock data into the required instruments. However, the RBZ has already started building the basis for the IIP compilation by adjusting the survey forms to allow for collecting the integrated data for the financial account components. Also, with the planned launch of the Foreign Private Capital (FPC) survey valuable position data needed for the IIP compilation will be collected,
II. Data Standards and Quality
Participant in the Enhanced General Data Dissemination System (e-GDDS) since November 1, 2002.The e-GDDS metadata on the IMF DSBB site were last updated in April 2013. No data ROSC is available.
III. Reporting to STA
Zimbabwe does not report NA, price, or external sector statistics to STA for dissemination in the International Financial Statistics and the BOP Statistics Yearbook. Reporting of GFS to STA needs to be improved – the latest annual data available for budgetary central government (tables 1-3) are for 2012, and no sub-annual data are reported.

Table 1. Zimbabwe: Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates[2]	NA	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities[3]	Feb. 2016	Mar. 2016	W	W	M
Reserve/base money	Feb. 2016	Mar. 2016	W	W	M
Broad money	Feb. 2016	Mar. 2016	M	M	M
Central bank balance sheet	Feb. 2016	Mar. 2016	W	M	M
Consolidated balance sheet of the banking system	Dec. 2015	Mar. 2016	Q	Q	NA
Interest rates[4]	Feb. 2016	Mar. 2016	M	M	M
Consumer price index	Jan. 2016	Feb. 2016	M	M	M
Revenue, expenditure, balance and composition of financing[5]— General government[6]	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing[5]—Central government	Jan. 2016	Mar. 2016	M	M	M
Stocks of central government and central government-guaranteed debt[7]	2015	Feb. 2016	Q	I	A
External current account balance	2014	May 2015	A	I	I
External capital and financial account	2015	May 2015	Q	I	I
Exports and imports of goods	Dec. 2015	Mar. 2016	M	I	I
GDP/GNP	2014	Feb. 2016	A	A	A
Gross external debt	2015	Mar. 2016	A	I	I
International investment position[8]	NA	NA	NA	NA	NA

[1] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[2] The Zimbabwe dollar is no longer traded against foreign currencies on the exchange market.
[3] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[4] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.
[5] Foreign, domestic bank, and domestic nonbank financing.
[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[7] Including currency and maturity composition.
[8] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

ZIMBABWE

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THE THIRD REVIEW OF THE STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITYANALYSIS

April 15, 2016

Approved By
Anne-Marie Gulde-Wolf and Catherine Pattillo (IMF) and John Panzer (IDA)

Prepared by the staffs of the International Monetary Fund (IMF)and the International Development Association (IDA)

This debt sustainability analysis (DSA) confirms that Zimbabwe continues to be in debt distress, consistent with the results of past DSAs.[1] *Both public and external debt ratios remained high, and most of the external debt is in arrears. All external debt indicators breach their indicative thresholds under the baseline scenario, and many of them stay above the thresholds until end of the the time horizon of the analysis. Even with clearing of arrears to the IFIs, which is expected to unlock concessional financing, Zimbabwe's debt burden would only marginally improve, underscoring the need for the country to follow sound economic policies, including a prudent borrowing strategy, and to continue garnering support for debt treatment under the Paris club.*

[1] This DSA was prepared jointly by IMF and World Bank staff under the joint Fund-Bank Low-Income Country (LIC) Debt Sustainability Framework (DSF). Zimbabwe's Country Policy and Institutional Assessment (CPIA) Rating averaged 2.38 for 2012-14 and falls under the weak performer category. Zimbabwe's fiscal year runs from January 1 to December 31.

BACKGROUND AND RECENT DEVELOPMENTS

1. A heavy debt burden, international sanctions, and uncertain domestic political environments continue to weigh on economic performance. Although economic stabilization efforts helped improve the situation, macroeconomic imbalances persist because of lack of financing, insufficient fiscal consolidation exacerbated by looming drought and appreciating U.S. dollar.[2]

2. Zimbabwe's external public debt burden indicators remain elevated and external debt overhang is large. External debt is estimated at 76 percent of GDP. Both public and external debt ratios remain at high levels with most of the external debt is in arrears. Following a debt reconciliation exercise by the authorities for end-2014 and 2015, Zimbabwe's total public and publicly guaranteed (PPG) external debt has been estimated at about 49 percent of GDP (US$6.96 billion), 79 percent of which is in arrears (Table 1). Moreover, the country continues to accumulate arrears. The recent fall in mineral prices has exacerbated Zimbabwe's external position. In 2015, in line with the SMP, the authorities borrowed abroad for development projects on non-concessional terms with an average grant element of 26 percent and external (public and publicly guaranteed) debt increased by US$239 million.

Table 1. Zimbabwe: 2015 External Debt Stock by Servicing Status (in million U.S. dollars) 1/

	Remaining Principal Due	Total Arrears	Principal Arrears	Total Debt	Percent of GDP
Total	**4593**	**5466**	**3181**	**10770**	**76.0**
Public and Publicly Guaranteed Debt	1463	5510	3074	**6974**	**49.2**
Bilateral Creditors	1104	2932	1327	**4036**	**28.5**
Paris Club	220	2854	1266	**3074**	**21.7**
Non-Paris Club	883	78	61	**961**	**6.8**
Multilateral institutions	359	1991	1161	**2351**	**16.6**
IMF	0	109	87	**109**	**0.8**
AfDB	36	550	291	**586**	**4.1**
WB	293	1062	603	**1355**	**9.6**
EIB	26	198	132	**224**	**1.6**
Others	5	72	47	**77**	**0.5**
Short-term debt RBZ	0	587	587	**587**	**4.1**
Private Creditors	3797	0	0	**3797**	**26.8**

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

[2] See recent developments section in staff report for the 2016 Article IV consultation.

3. **The Zimbabwean authorities have taken steps to exit debt distress** by pressing ahead with their reengagement efforts with the international community, with the immediate objective of resolving arrears with the IMF, the WBG, and the AfDB. The plan involves clearing the country's external arrears to the three IFIs through a combination of the country's own resources, bridge financing from a regional financial institution, and a long-term loan from a bilateral creditor. The strategy received support from creditors and development partners during a meeting in Lima, Peru in October 2015. As part of their arrear clearance strategy, the authorities have started formulating an ambitious medium-term economic transformation program to turn around the economy.

4. **The stock of public domestic debt is not high, at an estimated 13.8 percent of GDP at end-2015.** However, it is evolving. While the domestic debt of the Reserve Bank of Zimbabwe has been gradually shrinking, the stock of the outstanding government securities has expanded, following the end of hyperinflation. While short-term domestic public debt has declined, the government has managed to place securities with maturities of one year or more in the market. Arrears on domestic debt are declining but remain substantial, representing an additional concern for overall risk of public debt distress.

Table 2. Zimbabwe: Total Domestic Debt

(in millions of U.S. dollars)

	2012	2013	2014	2015
Total Public Domestic	1,110	1,124	1,660	1,960
Medium and Long	888	846	1,326	1,578
Of which: RBZ Domestic	709	645	433	384
Short Term	223	278	334	382
Of which: Arrears	213	158	178	125
Total Public Domestic Debt (in percent of GDP)	8.9	8.3	11.7	13.8

Sources: Zimbabwean authorities and IMF staff estimates

DEBT SUSTAINABILITY ANALYSIS

A. Underlying Assumptions

5. **The macroeconomic framework underpinning the medium-term to long-term debt sustainability takes into account recent economic developments and progress in structural reforms identified in the Staff Monitored Program.** The framework takes into account impact of recent slowdown in South Africa, main trading partner, and appreciation of the U.S. dollar. The baseline assumes no debt relief and limited external borrowing from non-traditional creditors, particularly China (See Box 1). Any financing gap in the balance of payment is assumed to be closed through short-term private sector external borrowing.

Box 1. Zimbabwe: Key Macroeconomic Assumptions 2016–36 (Baseline)[1]

The baseline scenario assumptions are informed by discussion with the authorities' reform plans.

Real Sector: The real GDP growth rate is expected to gradually increase to 4 percent until 2021 lower growth at the beginning of the period (1.4 percent in 2016) and then to average 4 percent over 2022–36. Medium term real GDP growth mainly reflects strengthening of the agriculture, financial services and mining sectors. Inflation, as measured by GDP deflator, is projected to be close to zero in the near term, but will rise moderately over the medium term; it averages 2 percent in 2018–35.

Fiscal sector: The fiscal deficit is projected to improve over the medium term, reflecting a combination of improvements in tax revenue collection, and containment of current spending, including a gradual reduction in wage bill. Over the long run, the fiscal accounts are expected to be broadly balanced. Beyond 2025, increases in capital spending will generate a return to small primary deficits.

External sector: The current account deficit is expected to improve slightly over the medium term, reaching 9.7 percent of GDP by end of projection period, reflecting moderate growth in mineral and exports and improvement in commodity prices. The current account deficit will be financed by external loans to the private sector, foreign direct investment, limited non-concessional borrowing from non-traditional creditors, and continued accumulation of external debt arrears, in line with recent trend. External grants are assumed to remain confined to humanitarian assistance, estimated around 1 percent of GDP per year.

External debt: Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans from non-traditional creditors are expected to be limited, at about 1 percent of GDP during 2017–36, in exchange they will continue making regular payments to the same creditors. It is also assumed that they will continue to make token payments to the WBG, IMF, AfDB and EIB. Under the baseline scenario there is no debt relief. External arrears are assumed to continue to be rolled over and that Zimbabwe will continue not to service obligations arising from the stock of arrears.

[1] Tables 1–4.

B. Debt Burden Thresholds under the Debt Sustainability Framework

6. **Zimbabwe's external debt stock remains unsustainable under the baseline scenario (Figure 1 and Table 1).** The public external debt outlook is expected to improve slightly but remains very high**.** All PPG external debt level ratios continue to breach their respective indicative thresholds and many of those

remain above the thresholds for most of the 20-year projection period.[3] The present value (PV) of PPG external debt is at 59 percent of GDP at end-2015—twice the 30 percent threshold for weak policy performers—and is projected to stay above 30 percent of GDP for the large part of the projection period. Similarly, both the PV of debt-to-exports and the PV of debt-to-revenue ratios are above 200 and 300 percent respectively in 2015, well above their respective thresholds. Although these ratios are projected to improve based on the assumptions of robust growth and limited external borrowing over the medium to long run, such improvements are insufficient to bring debt to sustainable levels in the medium-term. The authorities report that the private sector is by and large current on its external obligations.

7. In addition, Zimbabwe's debt outlook can get worse in the face of a range of shocks (Figure 1 and Table 2). Stress tests highlight the possibility of an even worse debt outlook. The results indicate that all debt burden indicators worsen across all simulations, with debt path increasing steeply, leading to an even larger debt and debt-service burden.

8. The consideration of domestic debt does not alter fundamentally the assessment of Zimbabwe's debt sustainability. Public DSA results mirrors those of the external DSA (Figure 2 and Table 3). Given the moderate size of Zimbabwe's domestic debt, the public debt indicators are driven mainly by the external debt component. As a result PV of public debt-to-GDP ratio is projected to stay well above the indicative benchmark until 2035.

C. Alternative Scenario (Clearance of arrears with the IFIs)

9. The alternative scenario presents the current authorities plan to clear the country's external arrears as a first step towards normalizing relations with creditors. The strategy entails simultaneously clearing arrears to the IMF, WNG and AfDB through a combination of the country's own resources, bridge financing from a regional financial institution, and a long-term loan from a bilateral creditor. The strategy also envisages accelerating an ambitious structural reform that would see the economy catching up for the lost decades. The macroeconomic framework underpinning the medium-term to long-term debt sustainability in the alternative scenario is presented in Box 2.

10. The results from the alternative scenario do not alter fundamentally the assessment of Zimbabwe's debt sustainability. Even with clearing of arrears to the IFIs, which is expected to unlock concessional financing, Zimbabwe's debt burden would only marginally improve (Figures 3 and 4). This underscores the need for Zimbabwe to follow sound economic policies, continue garnering support for treatment under the Paris Club, avoid selective debt servicing, and minimize non-concessional borrowing.

[3] For the purpose of defining debt burden thresholds under the Debt Sustainability Framework (DSF), Zimbabwe is classified a weak policy performer. Zimbabwe's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) is 2.38.

Box 2. Zimbabwe: Key Macroeconomic Assumptions 2016–36 (Alternative) [1]

The Alternative scenario assumes clearing of arrears to the three IFI's at end-2016 as envisaged in the authorities' stated reengagement strategy.

Real Sector: The real GDP growth rate is expected to initially increase to 9.5 in 2017 and 8.9 in 2018 and converges to 6 percent over 2022–36. Medium-term real GDP growth mainly reflects strengthening of the construction, financial and mining sectors as a result of capital inflows from foreign and domestic investments and further boosting of activities in manufacturing. These would expect to raise potential growth from 4 percent in the baseline to 6 percent. Inflation, as measured by GDP deflator, is projected to be the same as in the baseline.

Fiscal sector: It is assumed that the wage bill in the medium term is assumed to be kept at the 2016 level and rationalization of public employment cost would significantly increase fiscal space for a larger capital expenditure. Higher economic growth and revenue mobilization efforts are projected to more than compensate for the decline in income tax, improving revenue collection over the long run.

External sector: The current account deficit is expected to widen over the medium term financed by increased foreign direct investment as well as domestic investment. The deficit is projected to average 9.2 percent of GDP over the 2022–36 projection periods. In 2016, it is assumed disbursement of $219 million and 536 million from IDA and AfDB respectively in 2016 as part of clearing arrears operation and further disbursement of one percent of GDP concessional financing from IFIs' would replace the non-concessional borrowing assumed in the baseline. New non-concessional borrowing from a bilateral creditor in 2016 for clearing part of the arrears to the WB in the amount of US$ 831 million with 5 percent interest rate and 10 years to maturity, all amounts to be paid at the end of the period. Use of SDR allocation to clear arrears to the IMF is also assumed. External grants are assumed to remain at around 1 percent of GDP per year. This scenario assumes there is no debt relief, hence External arrears to bilateral creditors are assumed to continue to be rolled over.

[1] Tables 5–8.

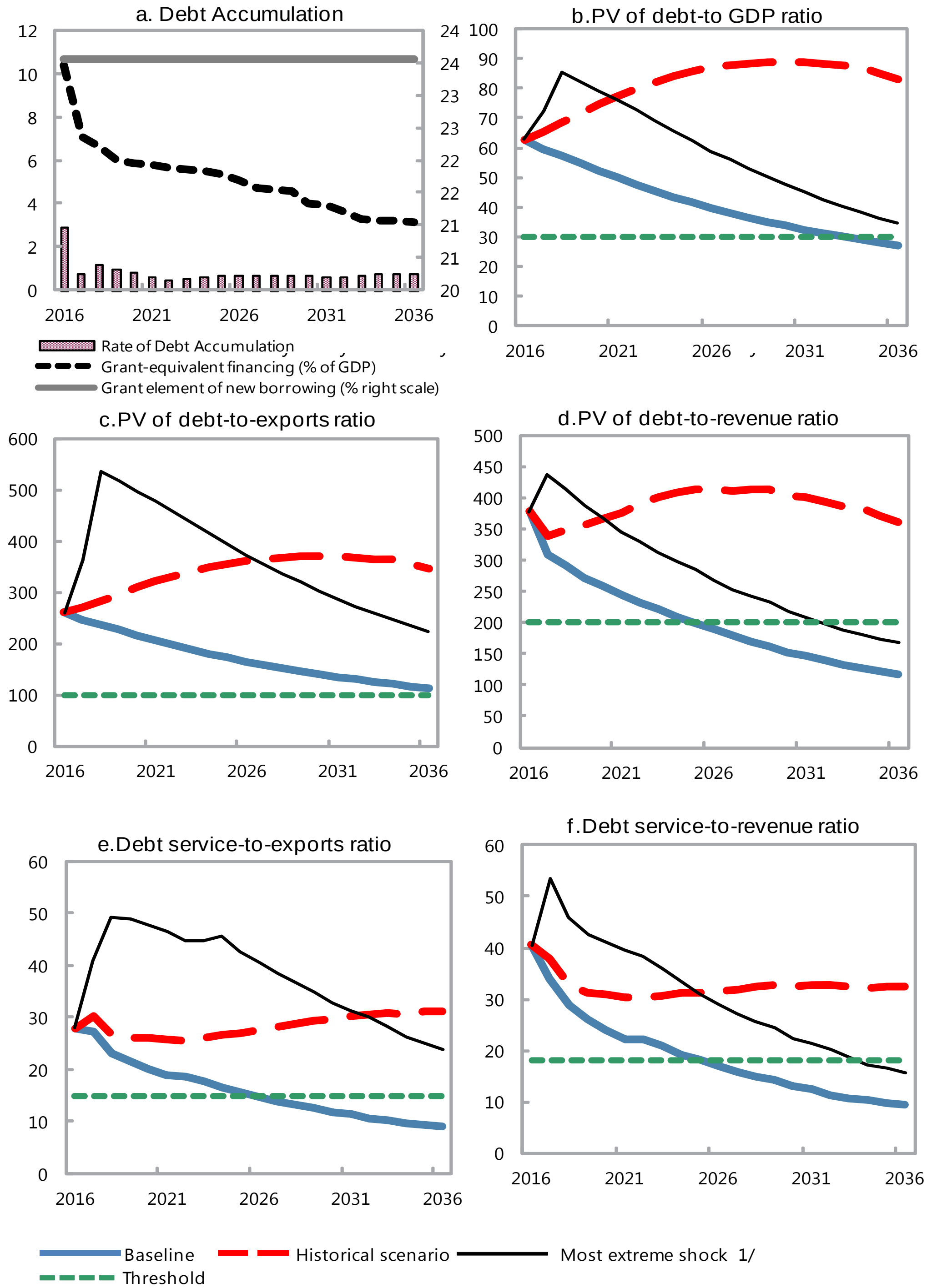
CONCLUSIONS

11. Zimbabwe continues to be in debt distress and continues to accumulate external arrears. The results of this DSA are broadly unchanged from those in previous DSAs with both public and external debt ratios remaining high, and most of the external debt is in arrears. Public debt is also distressed, driven mostly by external debt.

12. Under the alternative scenario with clearing of arrears to the IFIs, which is expected to eventually unlock concessional financing, Zimbabwe's debt burden would only marginally improve. With the exception of PV of debt-to-revenue ratios, all public and public-guaranteed external debt burden ratios remain well above their respective indicative thresholds in the medium term. This underscores the need for the Zimbabwe to follow sound economic policies, including a prudent borrowing strategy, and to continue garnering support for debt treatment under the Paris club.

13. The authorities generally concur with the results and assessments of the DSA. They agree that external debt is at unsustainable levels, debt service burdens are beyond Zimbabwe's debt servicing capacity, and as a result Zimbabwe continues to accumulate external debt arrears. They agree that they would need to put all efforts to secure debt treatment under the Paris Club in order to sustain the momentum for economic development, and remain hopeful that resolving all arrears, including to the bilateral creditors in the near future. In this regard, the authorities intend to continue their efforts to reach out to creditors.

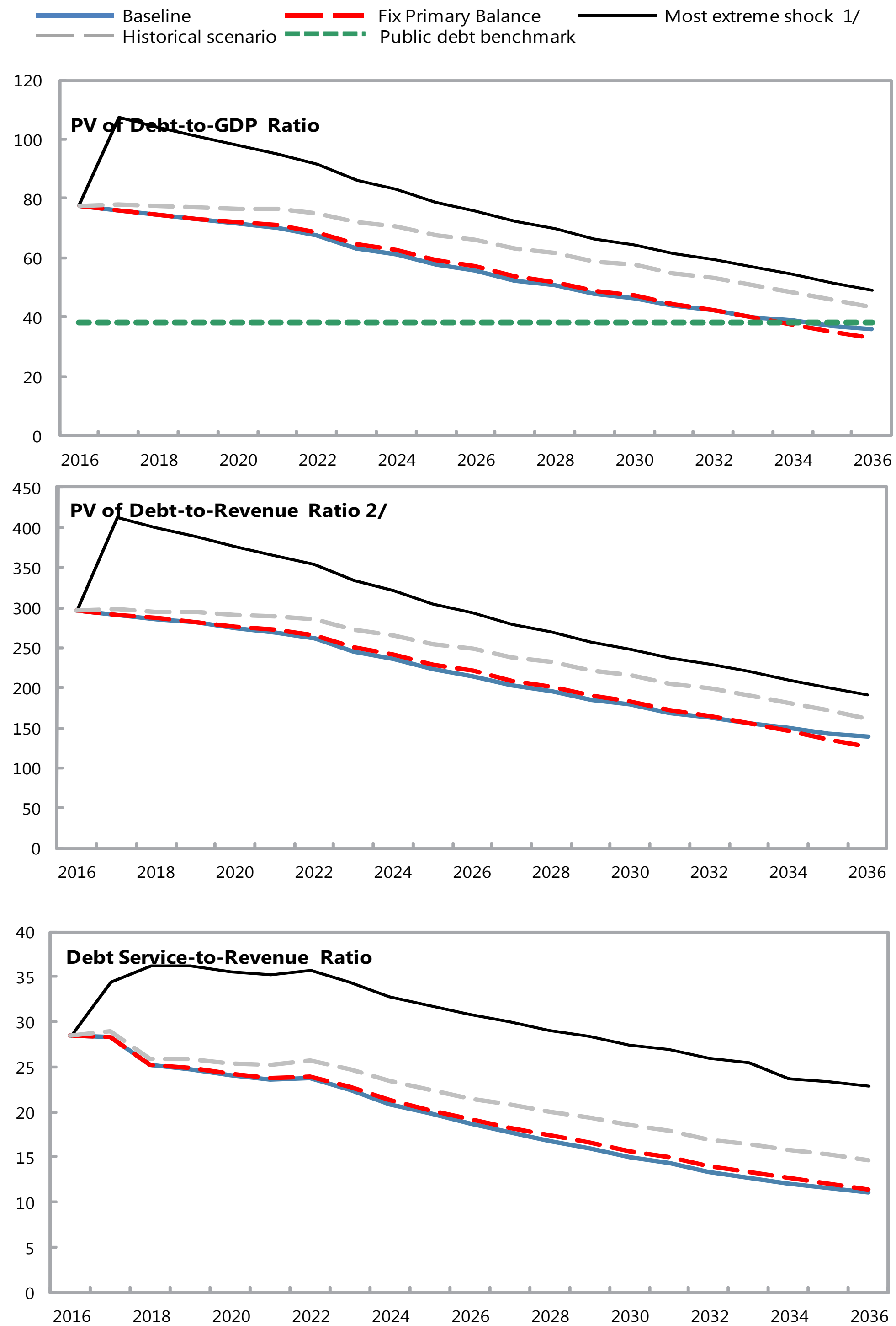
Figure 1. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2016–2036 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Figure 2. Zimbabwe: Indicators of Public Debt Under Alternative Scenarios, 2016–2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1 .Zimbabwe: External Debt Sustainability Framework, Baseline Scenario, 2013–2036 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 7/	Standard 7/	Projections									
				Average	Deviation							2016-2021			2022-2036
	2013	2014	2015			2016	2017	2018	2019	2020	2021	Average	2026	2036	Average
External debt (nominal) 1/	**74.0**	**77.0**	**83.7**			**89.6**	**89.2**	**89.7**	**89.5**	**90.0**	**90.6**		**93.1**	**97.3**	
of which: public and publicly guaranteed (PPG) 2/	57.6	54.4	56.9			59.5	56.1	54.2	52.0	50.0	48.1		39.6	28.6	
Change in external debt	2.0	3.0	6.7			5.9	-0.4	0.5	-0.2	0.5	0.6		0.5	0.3	
Identified net debt-creating flows	7.3	4.7	4.3			3.7	-0.8	0.9	0.5	0.3	0.5		1.1	3.8	
Non-interest current account deficit	**18.1**	**15.1**	**10.6**	**16.5**	**10.7**	**11.2**	**10.3**	**10.2**	**10.1**	**9.8**	**9.8**		**9.8**	**9.8**	9.8
Deficit in balance of goods and services	-89.8	-81.3	-76.1			-71.9	-68.1	-67.4	-66.4	-65.5	-64.7		-62.0	-57.8	
Exports	30.5	28.1	27.5			24.1	24.1	24.2	24.2	24.2	24.2		24.1	24.1	
Imports	-59.3	-53.2	-48.7			-47.7	-44.0	-43.2	-42.1	-41.4	-40.5		-37.8	-33.7	
Net current transfers (negative = inflow)	-14.6	-14.0	-15.1	-13.3	4.2	-16.0	-13.0	-12.1	-11.1	-10.4	-9.6		-7.2	-3.8	-6.1
of which: official	-1.9	-2.6	-2.8			-2.8	-2.9	-2.9	-2.8	-2.6	-2.5		-2.1	0.0	
Other current account flows (negative = net inflow)	122.6	110.4	101.8			99.0	91.4	89.7	87.6	85.7	84.0		78.9	71.3	
Net FDI (negative = inflow)	**-5.5**	**-6.9**	**-6.5**	**-5.0**	**2.9**	**-6.5**	**-6.6**	**-6.5**	**-6.3**	**-6.1**	**-6.0**		**-5.3**	**-2.3**	-4.7
Endogenous debt dynamics 3/	**-5.3**	**-3.6**	**0.2**			**-1.0**	**-4.5**	**-2.8**	**-3.2**	**-3.4**	**-3.3**		**-3.5**	**-3.7**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.1		0.0	0.0	
Contribution from real GDP growth	-3.0	-2.7	-0.8			-1.2	-4.7	-3.0	-3.4	-3.5	-3.4		-3.5	-3.7	
Contribution from price and exchange rate changes	-2.4	-1.0	1.0			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**-5.3**	**-1.6**	**2.4**			**2.2**	**0.4**	**-0.4**	**-0.7**	**0.3**	**0.1**		**-0.6**	**-3.5**	
of which: exceptional financing	-1.3	-1.2	-1.0			-1.0	-0.9	-0.9	-0.8	-0.7	-0.7		-0.5	-0.4	
PV of external debt 5/	...	...	87.5			92.9	92.4	92.8	92.4	92.4	92.4		93.2	95.9	
In percent of exports	...	...	318.5			385.0	383.1	382.6	381.2	382.2	382.2		386.3	398.6	
PV of PPG external debt	**...**	**...**	**60.7**			**62.7**	**59.3**	**57.3**	**54.8**	**52.4**	**49.9**		**39.7**	**27.2**	
In percent of exports	**...**	**...**	**220.9**			**260.1**	**245.9**	**236.2**	**226.2**	**216.5**	**206.3**		**164.7**	**112.9**	
In percent of government revenues	**...**	**...**	**317.1**			**376.9**	**307.8**	**291.4**	**272.3**	**257.5**	**242.6**		**189.0**	**118.1**	
Debt service-to-exports ratio (in percent)	**4.0**	**3.6**	**3.5**			**33.3**	**32.7**	**26.2**	**24.6**	**24.3**	**22.7**		**16.5**	**9.4**	
PPG debt service-to-exports ratio (in percent)	**0.4**	**0.4**	**0.3**			**28.0**	**27.1**	**23.2**	**21.6**	**20.1**	**18.9**		**14.7**	**8.9**	
PPG debt service-to-revenue ratio (in percent)	**0.6**	**0.6**	**0.4**			**40.6**	**34.0**	**28.6**	**26.0**	**23.9**	**22.2**		**16.9**	**9.4**	
Total gross financing need (Billions of U.S. dollars)	3.4	2.8	3.1			4.4	4.5	4.7	5.0	5.4	5.9		9.2	22.9	
Non-interest current account deficit that stabilizes debt ratio	16.1	12.1	3.8			5.3	10.7	9.7	10.2	9.3	9.2		9.3	9.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.5	3.8	1.1	2.7	8.8	1.4	5.6	3.5	4.1	4.2	4.1	3.8	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	3.5	1.3	-1.3	4.1	8.6	0.0	1.3	2.0	2.0	2.0	2.0	1.6	1.9	1.9	1.9
Effective interest rate (percent) 6/	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0
Growth of exports of G&S (US dollar terms, in percent)	-3.4	-3.1	-2.4	10.4	31.8	-11.0	7.0	6.2	6.1	6.0	6.1	3.4	6.0	6.0	6.0
Growth of imports of G&S (US dollar terms, in percent)	2.2	-5.6	-8.7	14.9	36.5	-0.5	-1.4	3.6	3.7	4.3	4.0	2.3	4.9	4.8	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6
Government revenues (excluding grants, in percent of GDP)	20.1	18.8	19.1			16.6	19.3	19.7	20.1	20.3	20.6		21.0	23.0	21.8
Aid flows (in Billions of US dollars) 8/	1.0	1.1	1.2			1.4	1.0	1.0	1.0	1.0	1.1		1.3	1.3	
of which: Grants	1.0	1.1	1.2			1.4	1.0	1.0	1.0	1.0	1.1		1.3	1.3	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 9/	...	...	...			10.4	7.1	6.6	6.0	5.9	5.8		5.1	3.1	4.4
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			77.7	88.8	89.7	88.7	88.5	88.3		87.0	80.3	84.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	13.5	14.2	14.2			14.4	15.4	16.2	17.2	18.3	19.4		26.0	46.7	
Nominal dollar GDP growth	8.2	5.2	-0.2			1.4	7.0	5.6	6.2	6.3	6.2	5.4	6.0	6.0	6.0
PV of PPG external debt (in Billions of US dollars)			8.6			9.0	9.1	9.3	9.4	9.6	9.7		10.3	12.7	
(PVt-PVt-1)/GDPt-1 (in percent)						2.9	0.7	1.2	0.9	0.8	0.6	1.2	0.7	0.7	0.6
Gross workers' remittances (Billions of US dollars)	1.1	1.2	1.3			1.2	1.3	1.3	1.3	1.2	1.2		1.0	0.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	55.8			57.8	54.7	53.0	51.0	49.0	47.0		38.2	26.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	167.1			191.6	182.0	177.6	172.4	169.0	165.0		141.5	104.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.2			20.6	20.1	17.5	16.5	15.7	15.1		12.7	8.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Includes provisions for implicit contingent liabilities which are not included in the PPG debt stock reported in Tables 1 and 2 of the Staff Report.

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

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

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

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

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

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

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

Table 2. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–2036

(In percent of GDP, unless otherwise indicated)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	63	59	57	55	52	50	**40**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	63	65	69	72	75	77	**87**	83
A2. New public sector loans on less favorable terms in 2016-2036 2	63	60	58	55	53	51	**42**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	63	67	71	68	65	62	**49**	34
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	63	64	71	68	65	63	**49**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	63	63	65	62	59	57	**45**	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	63	66	69	67	64	61	**48**	29
B5. Combination of B1-B4 using one-half standard deviation shocks	63	72	85	82	79	76	**59**	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	63	84	81	78	74	71	**56**	39
PV of debt-to-exports ratio								
Baseline	260	246	236	226	216	206	**165**	113
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	260	271	283	295	308	320	**360**	344
A2. New public sector loans on less favorable terms in 2016-2036 2	260	247	238	229	220	210	**173**	128
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	260	246	236	226	216	206	**165**	113
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	260	363	536	516	496	476	**372**	223
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	260	246	236	226	216	206	**165**	113
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	260	273	286	275	264	253	**198**	120
B5. Combination of B1-B4 using one-half standard deviation shocks	260	310	381	367	353	339	**264**	155
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	260	246	236	226	216	206	**165**	113
PV of debt-to-revenue ratio								
Baseline	377	308	291	272	257	243	**189**	118
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	377	339	349	355	367	376	**414**	360
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	377	346	361	338	319	301	**234**	146
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	377	333	360	338	321	304	**232**	127
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	377	327	331	309	292	275	**215**	134
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	377	341	353	331	314	298	**227**	125
B5. Combination of B1-B4 using one-half standard deviation shocks	377	375	434	408	388	368	**280**	150
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	377	437	414	387	366	345	**269**	168

Table 2. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–2036 (concluded)

(In percent of GDP, unless otherwise indicated)

Baseline	28	27	23	22	20	19	**15**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	28	30	27	26	26	26	**28**	31
A2. New public sector loans on less favorable terms in 2016-2036 2	28	30	26	25	24	24	**18**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	28	30	26	25	24	24	**18**	11
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	28	41	49	49	48	46	**41**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	28	30	26	25	24	24	**18**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	28	30	27	26	26	25	**22**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	28	34	34	34	33	32	**29**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	28	30	26	25	24	24	**18**	11
Debt service-to-revenue ratio								
Baseline	41	34	29	26	24	22	**17**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	41	38	33	31	31	30	**32**	33
A2. New public sector loans on less favorable terms in 2016-2036 2	41	38	32	30	29	28	**20**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	41	42	40	37	36	35	**25**	14
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	41	38	33	32	31	30	**25**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	41	40	37	34	33	32	**23**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	41	38	33	32	31	30	**25**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	41	41	39	38	37	35	**31**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	41	54	46	43	41	40	**29**	16
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	23	23	23	23	23	23	**23**	23

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Zimbabwe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–2036

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	65.9	66.1	70.8			74.4	72.8	71.4	70.0	69.1	68.4		55.5	37.4	
of which: foreign-currency denominated	65.9	66.1	70.8			74.4	72.8	71.4	70.0	69.1	68.4		55.5	37.4	
Change in public sector debt	-2.4	0.2	4.6			3.6	-1.5	-1.4	-1.3	-1.0	-0.7		-1.7	-1.0	
Identified debt-creating flows	-10.4	-9.3	-7.1			-6.8	-10.2	-8.8	-8.5	-8.1	-7.6		-5.6	-8.3	
Primary deficit	1.9	0.7	0.3	0.4	0.8	0.2	0.1	0.0	0.0	-0.1	-0.3	0.0	0.1	0.8	0.3
Revenue and grants	27.7	26.6	27.5			26.1	26.1	26.1	25.9	26.0	26.1		25.9	25.9	
of which: grants	7.7	7.8	8.4			9.5	6.8	6.4	5.8	5.6	5.5		4.9	2.9	
Primary (noninterest) expenditure	29.7	27.2	26.7			26.4	26.2	26.1	25.9	25.8	25.8		26.0	26.7	
Automatic debt dynamics	-5.0	-2.9	0.8			-0.1	-3.8	-2.7	-2.7	-2.5	-2.2		-1.9	-0.6	
Contribution from interest rate/growth differential	-3.8	-3.1	-0.7			-1.0	-4.1	-2.7	-2.8	-2.6	-2.3		-2.0	-0.6	
of which: contribution from average real interest rate	-0.9	-0.7	0.0			0.0	-0.2	-0.2	0.0	0.2	0.4		0.2	0.9	
of which: contribution from real GDP growth	-2.9	-2.4	-0.7			-1.0	-4.0	-2.5	-2.8	-2.8	-2.7		-2.2	-1.5	
Contribution from real exchange rate depreciation	-1.2	0.2	1.5			1.0	0.4	0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	-7.4	-7.0	-7.1			-7.0	-6.5	-6.2	-5.8	-5.5	-5.1		-3.8	-8.6	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-6.4	
Recognition of implicit or contingent liabilities	-7.4	-7.0	-7.1			-7.0	-6.5	-6.2	-5.8	-5.5	-5.1		-3.8	-2.1	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	8.0	9.5	11.8			10.4	8.6	7.4	7.2	7.1	6.9		3.9	7.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	74.5			77.6	76.0	74.5	72.9	71.5	70.2		55.6	36.0	
of which: foreign-currency denominated	...	...	74.5			77.6	76.0	74.5	72.9	71.5	70.2		55.6	36.0	
of which: external	...	...	60.7			62.7	59.3	57.3	54.8	52.4	49.9		39.7	27.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	9.3	8.2	7.4			15.6	15.1	14.3	13.9	13.5	13.3		10.8	7.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	270.7			297.0	291.3	286.0	281.7	275.2	269.1		214.8	139.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	389.4			466.5	394.4	379.0	362.1	351.4	341.4		264.4	156.5	
of which: external 3/	...	...	317.1			376.9	307.8	291.4	272.3	257.5	242.6		189.0	118.1	
Debt service-to-revenue and grants ratio (in percent) 4/	0.6	1.2	2.2			28.5	28.3	25.2	24.8	24.1	23.6		18.7	11.1	
Debt service-to-revenue ratio (in percent) 4/	0.9	1.6	3.1			44.7	38.3	33.4	31.9	30.8	29.9		23.0	12.5	
Primary deficit that stabilizes the debt-to-GDP ratio	4.3	0.4	-4.3			-3.4	1.7	1.5	1.3	0.8	0.4		1.8	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.5	3.8	1.1	2.7	8.8	1.4	5.6	3.5	4.1	4.2	4.1	3.8	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	0.3	0.5	1.0	0.3	0.3	1.3	1.6	1.7	2.2	2.5	2.8	2.0	2.6	0.0	2.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.8	0.3	2.3	-1.6	7.4	1.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.5	1.3	-1.3	4.1	8.6	0.0	1.3	2.0	2.0	2.0	2.0	1.6	1.9	1.9	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	9.0	-4.7	-1.1	0.8	3.7	0.3	4.9	3.1	3.1	4.1	4.1	3.3	4.4	4.2	4.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	23.6	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 4. Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt 2016–2036

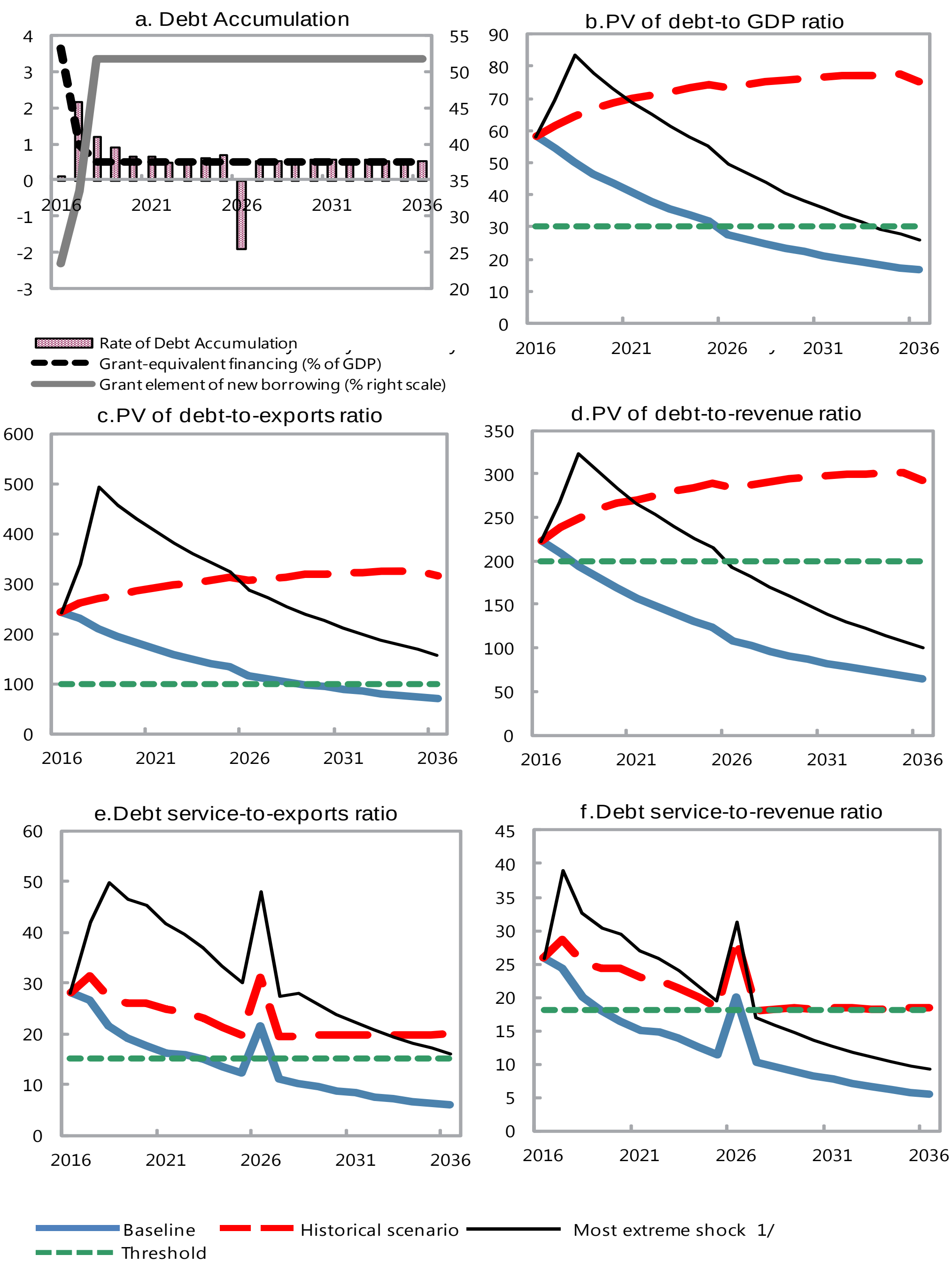
		Projections						
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	78	76	74	73	71	70	56	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	78	78	77	77	77	77	66	43
A2. Primary balance is unchanged from 2016	78	76	75	73	72	71	57	33
A3. Permanently lower GDP growth 1/	78	78	78	79	80	81	84	123
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	78	87	98	100	101	103	102	105
B2. Primary balance is at historical average minus one standard deviations in 2017-201	78	77	76	74	73	71	56	35
B3. Combination of B1-B2 using one half standard deviation shocks	78	82	85	85	86	86	79	71
B4. One-time 30 percent real depreciation in 2017	78	107	104	101	98	95	76	49
B5. 10 percent of GDP increase in other debt-creating flows in 2017	78	84	82	80	78	77	61	38
PV of Debt-to-Revenue Ratio 2/								
Baseline	297	291	286	282	275	269	215	139
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	297	298	295	294	292	289	248	162
A2. Primary balance is unchanged from 2016	297	291	286	283	277	272	221	127
A3. Permanently lower GDP growth 1/	297	296	297	300	302	305	311	453
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	297	324	355	365	370	376	376	394
B2. Primary balance is at historical average minus one standard deviations in 2017-201	297	294	292	288	280	274	218	133
B3. Combination of B1-B2 using one half standard deviation shocks	297	309	317	320	321	321	297	271
B4. One-time 30 percent real depreciation in 2017	297	412	400	390	377	365	294	190
B5. 10 percent of GDP increase in other debt-creating flows in 2017	297	321	315	310	302	295	236	147
Debt Service-to-Revenue Ratio 2/								
Baseline	28	28	25	25	24	24	19	11
ble 2. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 (continued)								
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	29	26	26	25	25	22	15
A2. Primary balance is unchanged from 2016	28	28	25	25	24	24	19	11
A3. Permanently lower GDP growth 1/	28	29	26	26	26	26	25	33
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	28	31	30	30	30	30	29	32
B2. Primary balance is at historical average minus one standard deviations in 2017-201	28	28	25	25	25	24	19	12
B3. Combination of B1-B2 using one half standard deviation shocks	28	30	28	27	27	27	24	22
B4. One-time 30 percent real depreciation in 2017	28	34	36	36	36	35	31	23
B5. 10 percent of GDP increase in other debt-creating flows in 2017	28	28	26	27	25	25	21	13

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

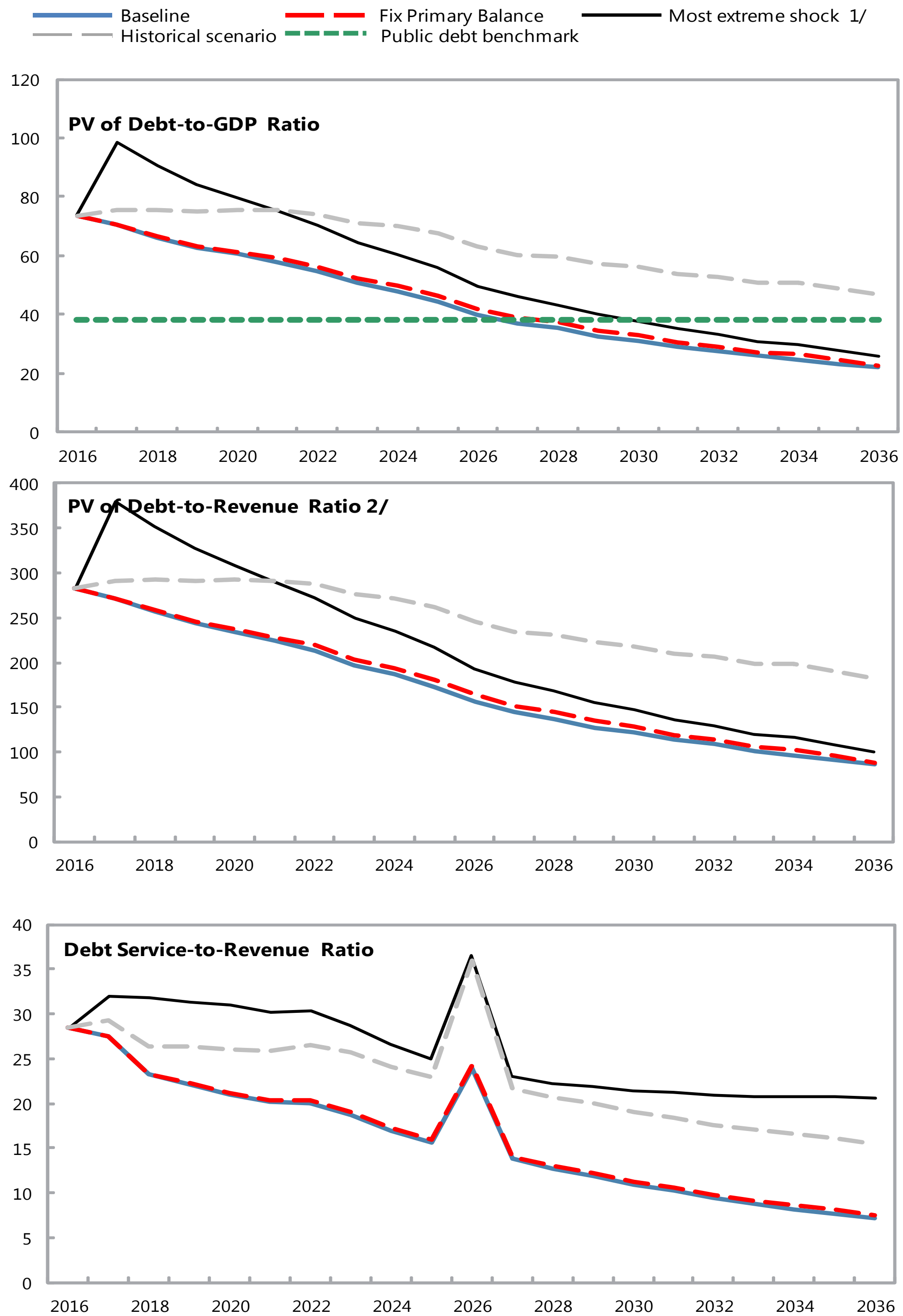
Figure 3. Zimbabwe: Indicators of Public and Publicly Guaranteed External Debt After IFIs' Arrears Clearance under Alternatives Scenarios, 2016–2036 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Figure 4. Zimbabwe: Indicators of Public Debt After IFIs' Arrears Clearance Under Alternative Scenarios, 2016–2036 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 5. Zimbabwe: External Debt Sustainability Framework After IFIs' Arrear Clearance, Alternative Scenario, 2013–2036 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 7/ Average	Standard 7/ Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**74.0**	**77.0**	**83.7**			**89.5**	**87.8**	**84.3**	**81.9**	**80.9**	**80.2**		**75.8**	**75.3**	
of which: public and publicly guaranteed (PPG) 2/	57.6	54.4	56.9			59.3	55.7	51.3	47.9	45.2	42.8		30.6	20.5	
Change in external debt	2.0	3.0	6.7			5.8	-1.7	-3.5	-2.4	-0.9	-0.7		-2.7	0.0	
Identified net debt-creating flows	5.6	5.0	4.3			1.9	-5.9	-5.7	-4.1	-3.2	-1.8		-1.1	2.6	
Non-interest current account deficit	**18.1**	**15.1**	**10.6**	**16.5**	**10.7**	**11.2**	**11.1**	**10.8**	**10.9**	**11.1**	**11.3**		**10.1**	**6.8**	9.2
Deficit in balance of goods and services	-89.8	-81.3	-76.1			-71.9	-67.5	-66.7	-66.0	-65.5	-64.8		-60.7	-53.2	
Exports	30.5	28.1	27.5			24.1	23.6	23.9	24.2	24.1	24.0		23.9	23.8	
Imports	-59.3	-53.2	-48.7			-47.7	-43.9	-42.7	-41.9	-41.5	-40.7		-36.8	-29.4	
Net current transfers (negative = inflow)	-14.6	-14.0	-15.1	-13.3	4.2	-16.0	-12.7	-11.4	-10.2	-9.4	-8.6		-6.2	-3.0	-5.1
of which: official	-1.9	-2.6	-2.8			-2.8	-2.8	-2.7	-2.4	-2.3	-2.2		-1.6	0.0	
Other current account flows (negative = net inflow)	122.6	110.4	101.8			99.0	91.3	88.9	87.2	86.0	84.6		77.0	62.9	
Net FDI (negative = inflow)	**-7.2**	**-6.5**	**-6.5**	**-4.8**	**3.6**	**-8.2**	**-9.5**	**-9.6**	**-9.5**	**-9.6**	**-8.5**		**-7.0**	**0.0**	-5.9
Endogenous debt dynamics 3/	**-5.3**	**-3.6**	**0.2**			**-1.0**	**-7.5**	**-6.9**	**-5.5**	**-4.7**	**-4.5**		**-4.3**	**-4.2**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.2	0.2	0.2	0.1	0.1		0.0	0.0	
Contribution from real GDP growth	-3.0	-2.7	-0.8			-1.2	-7.7	-7.1	-5.6	-4.9	-4.6		-4.4	-4.2	
Contribution from price and exchange rate changes	-2.4	-1.0	1.0			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**-3.6**	**-2.0**	**2.5**			**3.8**	**4.2**	**2.2**	**1.7**	**2.2**	**1.1**		**-1.5**	**-2.6**	
of which: exceptional financing	-1.3	-1.2	-1.0			10.5	-0.8	-0.8	-0.7	-0.6	-0.6		-0.4	-0.2	
PV of external debt 5/	...	...	85.7			88.4	86.4	83.0	80.5	79.2	78.2		73.0	71.4	
In percent of exports	...	...	312.0			366.3	365.8	346.8	333.3	329.1	325.1		304.8	299.7	
PV of PPG external debt	**...**	**...**	**58.9**			**58.2**	**54.3**	**50.1**	**46.5**	**43.5**	**40.7**		**27.8**	**16.6**	
In percent of exports	**...**	**...**	**214.4**			**241.3**	**230.1**	**209.1**	**192.6**	**180.6**	**169.3**		**116.0**	**69.6**	
In percent of government revenues	**...**	**...**	**223.3**			**222.7**	**209.6**	**193.8**	**180.8**	**168.2**	**157.0**		**107.9**	**64.5**	
Debt service-to-exports ratio (in percent)	**4.0**	**3.6**	**3.5**			**33.2**	**32.2**	**24.3**	**21.9**	**21.2**	**19.4**		**23.0**	**6.1**	
PPG debt service-to-exports ratio (in percent)	**0.4**	**0.4**	**0.3**			**28.0**	**26.7**	**21.6**	**19.2**	**17.6**	**16.2**		**21.6**	**5.9**	
PPG debt service-to-revenue ratio (in percent)	**0.5**	**0.5**	**0.3**			**25.8**	**24.3**	**20.0**	**18.0**	**16.4**	**15.0**		**20.1**	**5.4**	
Total gross financing need (Billions of U.S. dollars)	3.2	2.9	3.1			4.2	4.2	4.3	4.7	5.1	5.9		10.8	30.6	
Non-interest current account deficit that stabilizes debt ratio	16.1	12.1	3.8			5.4	12.8	14.3	13.3	12.1	12.0		12.8	6.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.5	3.8	1.1	2.7	8.8	1.4	9.5	8.9	7.3	6.5	6.2	6.6	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	3.5	1.3	-1.3	4.1	8.6	0.0	1.4	1.9	2.0	2.1	2.0	1.6	1.9	1.9	1.9
Effective interest rate (percent) 6/	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.2	0.0	0.0	0.0
Growth of exports of G&S (US dollar terms, in percent)	-3.4	-3.1	-2.4	10.4	31.8	-11.0	8.8	12.5	10.6	8.2	8.3	6.2	7.9	8.0	8.0
Growth of imports of G&S (US dollar terms, in percent)	2.2	-5.6	-8.7	14.9	36.5	-0.5	2.2	8.0	7.3	7.6	6.4	5.2	5.8	5.6	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.5	33.6	51.7	51.7	51.7	51.7	44.0	51.7	51.7	51.7
Government revenues (excluding grants, in percent of GDP)	27.7	26.6	26.4			26.1	25.9	25.8	25.7	25.8	25.9		25.7	25.7	25.7
Aid flows (in Billions of US dollars) 8/	0.0	0.0	0.0			0.8	0.2	0.2	0.2	0.2	0.2		0.3	0.7	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.8	0.2	0.2	0.2	0.2	0.2		0.3	0.7	
Grant-equivalent financing (in percent of GDP) 9/	...	...	...			3.7	0.9	0.5	0.5	0.5	0.5		0.5	0.5	0.5
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			23.5	33.6	51.7	51.7	51.7	51.7		51.7	51.7	51.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	13.5	14.2	14.2			14.4	16.0	17.7	19.4	21.1	22.8		33.6	72.7	
Nominal dollar GDP growth	8.2	5.2	-0.2			1.4	11.1	11.0	9.5	8.7	8.4	8.3	8.0	8.0	8.0
PV of PPG external debt (in Billions of US dollars)			8.3			8.4	8.7	8.9	9.0	9.2	9.3		9.3	12.0	
(PVt-PVt-1)/GDPt-1 (in percent)						0.1	2.2	1.2	0.9	0.7	0.7	1.0	-1.9	0.5	0.4
Gross workers' remittances (Billions of US dollars)	1.1	1.2	1.3			1.2	1.3	1.3	1.3	1.2	1.2		1.0	0.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	54.1			53.6	50.2	46.6	43.6	41.0	38.7		26.9	16.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	162.2			177.8	171.1	160.0	150.7	145.0	139.4		102.8	66.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.2			20.6	19.8	16.5	15.0	14.1	13.3		19.1	5.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Includes provisions for implicit contingent liabilities which are not included in the PPG debt stock reported in Tables 1 and 2 of the Staff Report.

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

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

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

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

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

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

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

Table 6. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt After IFIs' Arrear Clearance, 2016–2036

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	58	54	50	47	43	41	**28**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	58	62	64	67	69	70	**73**	75
A2. New public sector loans on less favorable terms in 2016-2036 2	58	55	51	48	45	43	**32**	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	58	63	68	63	59	55	**38**	22
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	58	58	59	56	52	49	**35**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	58	58	57	53	49	46	**32**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	58	61	62	57	54	51	**36**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	58	69	83	78	73	69	**50**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	58	77	71	66	62	58	**39**	24
PV of debt-to-exports ratio								
Baseline	241	230	209	193	181	169	**116**	70
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	241	261	269	276	285	291	**305**	316
A2. New public sector loans on less favorable terms in 2016-2036 2	241	233	213	198	187	177	**132**	93
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	241	230	209	193	181	169	**116**	70
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	241	339	492	455	428	403	**287**	157
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	241	230	209	193	181	169	**116**	70
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	241	257	257	238	224	211	**151**	81
B5. Combination of B1-B4 using one-half standard deviation shocks	241	297	372	344	325	306	**221**	117
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	241	230	209	193	181	169	**116**	70
PV of debt-to-revenue ratio								
Baseline	223	210	194	181	168	157	**108**	64
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	223	238	249	259	266	270	**284**	293
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	223	244	262	245	228	212	**146**	87
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	223	223	230	216	201	189	**135**	74
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	223	223	220	205	191	178	**123**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	223	234	238	223	209	196	**141**	75
B5. Combination of B1-B4 using one-half standard deviation shocks	223	267	322	302	283	266	**193**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	223	298	275	257	239	223	**153**	92

Table 6. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt After IFIs' Arrear Clearance, 2016–2036 (concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	28	27	22	19	18	16	**22**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	28	31	27	26	26	25	**31**	20
A2. New public sector loans on less favorable terms in 2016-2036 2	28	30	24	22	21	19	**13**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	28	30	25	23	22	20	**24**	7
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	28	42	50	47	45	42	**48**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	28	30	25	23	22	20	**24**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	28	30	25	24	23	21	**24**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	28	35	35	33	32	29	**33**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	28	30	25	23	22	20	**24**	7
Debt service-to-revenue ratio								
Baseline	26	24	20	18	16	15	**20**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	26	29	25	24	24	23	**29**	18
A2. New public sector loans on less favorable terms in 2016-2036 2	26	28	22	20	20	18	**12**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	26	32	31	29	28	26	**30**	9
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	26	28	23	22	21	19	**22**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	26	29	26	24	23	21	**25**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	26	28	23	22	21	20	**23**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	26	31	30	29	28	25	**29**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	26	39	33	30	29	27	**31**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	**48**	48

Sources: Country authorities; and staff estimates and projections.

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

Table 7. Zimbabwe: Public Sector Debt Sustainability Framework Debt After IFIs' Arrear Clearance, Baseline Scenario, 2013–2036

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	65.9	66.1	70.8			74.9	71.8	67.6	63.9	62.2	60.0		42.9	26.2	
of which: foreign-currency denominated	65.9	66.1	70.8			74.9	71.8	67.6	63.9	62.2	60.0		42.9	26.2	
Change in public sector debt	-2.4	0.2	4.6			4.1	-3.1	-4.2	-3.7	-1.7	-2.2		-4.4	-0.9	
Identified debt-creating flows	-10.4	-9.3	-6.0			-6.8	-12.9	-12.0	-10.1	-8.9	-8.2		-5.5	-5.9	
Primary deficit	1.9	0.7	0.3	0.4	0.8	0.2	-0.2	-0.3	-0.4	-0.5	-0.6	-0.3	-0.1	0.6	0.1
Revenue and grants	27.7	26.6	26.4			26.1	25.9	25.8	25.7	25.8	25.9		25.7	25.7	
of which: grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	29.7	27.2	26.7			26.4	25.7	25.5	25.3	25.3	25.3		25.7	26.4	
Automatic debt dynamics	-5.0	-2.9	0.8			-0.1	-6.4	-6.0	-4.6	-3.7	-3.3		-2.4	-1.0	
Contribution from interest rate/growth differential	-3.8	-3.1	-0.7			-1.0	-6.7	-6.1	-4.7	-3.7	-3.3		-2.5	-1.1	
of which: contribution from average real interest rate	-0.9	-0.7	0.0			0.0	-0.2	-0.3	0.0	0.2	0.3		0.1	0.5	
of which: contribution from real GDP growth	-2.9	-2.4	-0.7			-1.0	-6.5	-5.9	-4.6	-3.9	-3.6		-2.7	-1.5	
Contribution from real exchange rate depreciation	-1.2	0.2	1.5			1.0	0.3	0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	-7.4	-7.0	-7.1			-7.0	-6.3	-5.6	-5.2	-4.7	-4.4		-3.0	-5.5	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-4.1	
Recognition of implicit or contingent liabilities	-7.4	-7.0	-7.1			-7.0	-6.3	-5.6	-5.2	-4.7	-4.4		-3.0	-1.4	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	8.0	9.5	10.6			10.9	9.8	7.8	6.5	7.2	6.1		1.0	5.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	72.7			73.8	70.4	66.3	62.6	60.5	58.0		40.1	22.3	
of which: foreign-currency denominated	...	...	72.7			73.8	70.4	66.3	62.6	60.5	58.0		40.1	22.3	
of which: external	...	...	58.9			58.2	54.3	50.1	46.5	43.5	40.7		27.8	16.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	9.3	8.2	8.5			15.6	14.3	12.8	12.1	11.4	11.0		10.6	4.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	275.7			282.2	271.6	256.9	243.2	234.1	223.6		155.7	86.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	275.7			282.2	271.6	256.9	243.2	234.1	223.6		155.7	86.6	
of which: external 3/	...	...	223.3			222.7	209.6	193.8	180.8	168.2	157.0		107.9	64.5	
Debt service-to-revenue and grants ratio (in percent) 4/	0.6	1.2	2.3			28.5	27.4	23.3	22.1	21.0	20.2		23.9	7.2	
Debt service-to-revenue ratio (in percent) 4/	0.6	1.2	2.3			28.5	27.4	23.3	22.1	21.0	20.2		23.9	7.2	
Primary deficit that stabilizes the debt-to-GDP ratio	4.3	0.4	-4.3			-3.9	2.9	3.9	3.3	1.2	1.6		4.4	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.5	3.8	1.1	2.7	8.8	1.4	9.5	8.9	7.3	6.5	6.2	6.6	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	0.3	0.5	1.0	0.3	0.3	1.3	1.6	1.7	2.1	2.5	2.7	2.0	2.5	0.0	1.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.8	0.3	2.3	-1.6	7.4	1.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.5	1.3	-1.3	4.1	8.6	0.0	1.4	1.9	2.0	2.1	2.0	1.6	1.9	1.9	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	9.0	-4.7	-1.1	0.8	3.7	0.3	6.9	8.1	6.5	6.4	6.3	5.7	6.4	6.2	6.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	23.5	33.6	51.7	51.7	51.7	51.7	44.0	51.7	51.7	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 8. Zimbabwe: Sensitivity Analysis for Key Indicators of Public Debt Debt After IFIs' Arrear Clearance 2016–2036

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	74	70	66	63	60	58	40	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	74	75	76	75	75	75	63	47
A2. Primary balance is unchanged from 2016	74	71	67	63	61	59	42	23
A3. Permanently lower GDP growth 1/	74	72	69	67	67	67	61	82
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	74	84	97	96	97	98	92	93
B2. Primary balance is at historical average minus one standard deviations in 2017-201	74	71	68	64	62	59	41	22
B3. Combination of B1-B2 using one half standard deviation shocks	74	79	83	81	82	81	72	68
B4. One-time 30 percent real depreciation in 2017	74	98	91	84	80	75	50	26
B5. 10 percent of GDP increase in other debt-creating flows in 2017	74	76	71	67	65	62	43	24
PV of Debt-to-Revenue Ratio 2/								
Baseline	282	272	257	243	234	224	156	87
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	282	291	293	291	292	290	245	182
A2. Primary balance is unchanged from 2016	282	272	258	246	237	228	163	89
A3. Permanently lower GDP growth 1/	282	277	268	261	260	257	236	320
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	282	325	375	374	377	378	357	362
B2. Primary balance is at historical average minus one standard deviations in 2017-201	282	274	262	248	238	227	158	87
B3. Combination of B1-B2 using one half standard deviation shocks	282	304	321	316	316	314	278	263
B4. One-time 30 percent real depreciation in 2017	282	380	352	327	308	290	193	100
B5. 10 percent of GDP increase in other debt-creating flows in 2017	282	292	276	260	250	238	167	92
Debt Service-to-Revenue Ratio 2/								
Baseline	28	27	23	22	21	20	24	7
ble 2. Zimbabwe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-2036 (continued)								
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	29	26	26	26	26	36	16
A2. Primary balance is unchanged from 2016	28	27	23	22	21	20	24	8
A3. Permanently lower GDP growth 1/	28	28	24	23	23	23	30	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	28	32	32	31	31	30	37	21
B2. Primary balance is at historical average minus one standard deviations in 2017-201	28	27	23	22	21	20	24	7
B3. Combination of B1-B2 using one half standard deviation shocks	28	31	29	28	27	27	32	16
B4. One-time 30 percent real depreciation in 2017	28	33	33	32	31	30	35	12
B5. 10 percent of GDP increase in other debt-creating flows in 2017	28	27	24	24	21	21	24	8

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

Statement by Ms. Kapwepwe, Executive Director and
Mr. Sitima-wina, Senior Advisor on Zimbabwe
May 2, 2016

Introduction and Context

Our Zimbabwean authorities appreciate the continued engagement with the Fund and thank staff for the constructive discussions during the recent Article IV mission in Harare, and the reviews of the Staff Monitored Program (SMP). The authorities agree with the assessment of the staff report and also broadly concur with the analysis of the challenges facing the Zimbabwean economy, especially on the need to continue with the transformation agenda and on the importance of external financing.

Fund support has played a critical role in efforts to transform the economy and normalize relations with the international community. Against this background, Zimbabwe has made considerable progress through a strong performance under the SMP, formulated a re-engagement strategy which has received broad support from creditors and development partners. In addition, the authorities are pursuing key policies and structural reforms to stabilize the macroeconomic environment and spur sustainable and inclusive growth.

The country's output is increasingly constrained by infrastructure bottlenecks in electricity, water, transport and the high cost of capital. This situation has been further exacerbated by the impact of the El-Niño-induced drought. Nevertheless, our authorities remain committed to their medium-term economic transformation agenda which, among others, addresses these bottlenecks. However, the success of the economic transformation program remains at risk if access to external financing continues to be limited. In this context, our authorities' top priority is to achieve full re-engagement with the international community as soon as practical and unlock external financial flows.

Recent Economic Developments and Outlook

In light of inadequate external inflows, lower commodity prices, the dollar appreciation, and the El-Niño-induced drought, the economic situation has continued to be challenging. The drought could worsen the poverty levels which were at 72 percent in 2012. Overall, economic growth for 2015 has been revised significantly from an earlier projection of 3.2 percent down to 1.5 percent in September 2015 and most recently to 1.1 percent following further declines in agricultural production, mining and manufacturing sectors. The decline in water levels has adversely affected hydropower generation and crop production, and resulted in a decimation of livestock herds. In some parts of the country, higher rainfall totals were registered so the loss of cattle was limited. In the Southern parts of the country, however, the impact of the drought was more severe and cattle farmers incurred devastating losses. In 2016, growth is estimated at 1.4 percent, while inflation is projected to remain in negative territory, only picking up over the medium term.

While this projected growth is still too low to ensure sustainable development and poverty reduction, the authorities are taking bold policy reforms to bring growth to a higher trajectory. For instance, recognizing that the contribution of the mining sector is crucial to Zimbabwe's long term growth prospects, the authorities have taken steps to increase transparency and accountability in the diamond sector. In this respect, they have established Zimbabwe Consolidated Diamond Corporation (ZCDC) to, among other functions, trace diamond mining from extraction to sales and to transfer of proceeds.

In spite of growing spending pressures, the authorities remain committed to fiscal discipline. The primary fiscal deficit (on a cash basis) at end December 2015 was lower than programmed despite the high employment costs for the public sector. Employment costs continue to be the main source of fiscal pressure consuming about 82 percent of all revenues. In 2016, this will be compounded by the need to import maize to meet food security for 3 million vulnerable people following the El-Niño-induced drought. It is expected that the pressure from employment costs will dissipate with the continued implementation of public service reforms in the broader context of public expenditure rationalization.

The current account balance improved in 2015 on account of lower oil prices, weak economic activity and fiscal consolidation efforts. It is expected to narrow in 2016, but remain high over the medium term.

The Zimbabwean authorities have also made remarkable progress in strengthening the financial sector and restoring confidence following the various measures taken by the Reserve Bank of Zimbabwe (RBZ). Banking sector conditions have improved and all banks now maintain capital buffers above the minimum requirements. NPLs have declined to 10 percent at end December 2015 from 21 percent at end September 2014. The authorities remain committed to the multi-currency regime in the short-to-medium term.

Performance under the SMP

With support from the private sector, civil society and the general public, the authorities' commitment has been instrumental in ensuring that the SMP remained on track despite the substantial economic and financial challenges. Amid rising challenges, the Zimbabwean authorities have continued to meet all their commitments under the Staff–Monitored Program (SMP), through each successive review.

This third and last review is no exception. All the quantitative targets for end-December 2015 regarding the floor on the primary cash balance and the net international reserves target were met with comfortable margins. The floor on protected social spending, the target for Poverty Reduction and Growth Trust (PRGT) payments, and the ceiling on non-concessional debt were also met. All three structural benchmarks for the third review relating to the financial sector; amendments to the Public Financial Management (PFM) and Procurement Acts; and the investment climate were also met. The benchmark on investment climate entailed publication of guidelines on implementation of the indigenization policy.

During the 15 months SMP period, the authorities have also made remarkable progress in a number of other areas including:

- Recapitalization of the Reserve Bank of Zimbabwe (RBZ) through the debt assumption bill;
- Amendment of the Reserve Bank and Banking Acts;
- Establishment of the Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO) to tackle the high level of nonperforming loans (NPLs);
- Amendment of the Labor Act;
- Development of a strategy for reducing the public service wage bill; and
- Instituted reforms to the fiscal regime for the mining sector.

Current and Medium Term Reforms and Policies

As the staff report notes, Zimbabwe's deteriorating economic conditions reinforce the urgency to move forward and implement comprehensive ambitious reforms to transform the economy, and to advance the re-engagement process. Clearly, without external financial support, the reform efforts cannot be sustained. Instead, they might impose an unbearable burden on a population that is already facing increasingly severe economic and social challenges. Against this background, the authorities have pro-actively designed policies geared at transforming the economy whose key priorities include:

(i) *Fiscal discipline and expenditure rationalization away from employment costs toward development and social spending to restore fiscal sustainability supported by strengthened public financial management (PFM), enhanced revenue administration, and acceleration of SOE reforms.* In this area, the Public Service Commission already finalized audits covering about 50 percent of public service employees and authorities have started to implement measures to, among others, eliminate duplications and redundancies, rationalize posts, revise leave policy and reduce employment costs which would result in a lower wage bill for 2016. In the period ahead, the authorities aim to maintain total wage costs unchanged in nominal terms until 2019. Other commissions will also perform audits and propose recommendations to rationalize employment. Forensic and performance audits are being conducted on most of the ten largest SOEs targeted for priority action and employments costs have already been reduced in a number of them.

(ii) *Further enhancing financial stability and depth to ensure that the financial sector plays its role in savings mobilization and investment and contribute to economic development.* The levels of financial inclusion in Zimbabwe improved markedly from 60 percent in 2011 to 77 percent in 2014 placing Zimbabwe among the highest levels of financial inclusion in SSA. Thus to further facilitate inclusive growth, the authorities launched the national financial inclusion strategy in early March 2016;

(iii) *Tackling the external arrears and advancing the re-engagement process to allow the country to eventually access external financing.* Accordingly, to clear the external arrears to the IFIs, the authorities' strategy presented in Lima seeks to: a) obtain bridge financing from Afriexim bank to repay arrears to the AfDB, the African Development Fund, and IDA; b) get a long-term loan from a bilateral creditor to repay the IBRD; and c) use of SDR holdings to clear the arrears to the Fund; d) request debt treatment from the Paris Club; d) request a Fund Financial supported program;

(iv) *Enhancing agricultural productivity*. In this area policy measures are focusing on land reforms and addressing bottlenecks in the agricultural sector particularly on security of tenure, compensation of former famers, irrigation and infrastructure rehabilitation and development. Presently, the authorities are working on measures to improve the security of tenure for resettled farmers which will lead to issuance of permits and tradable lease agreements. In addition, they are working on a program to compensate former farmers and will spearhead a comprehensive irrigation program aimed at supporting national food self-sufficiency.

(v) *Addressing structural weaknesses to boost Zimbabwe's growth potential.* Given that the Zimbabwe economy is operating below capacity, the authorities are taking steps to address constraints to growth especially in infrastructure—electricity, water, transport; unavailability and high cost of long-term capital; and high cost of doing business. On doing business, the reported recent political situation has reasonably stabilized and the authorities plan to, among other measures, establish a one-stop investment centre. They already published the new framework, procedures and guidelines for implementing the indigenization policy on the Zimbabwe Investment Authority (ZIA) in January 2016, as part of the structural benchmarks under the SMP.

Update on the Indigenization and Economic Empowerment

In addition, in order to address conflicting positions in interpretation, President Mugabe, in a recent gazetted statement further clarified that the Indigenization and Economic Empowerment Policy is sector specific and will, thus be implemented differently across four economic sectors namely: Natural Resources Sector; Non-Resources Sector; Financial Sector; and Reserved Sector.

In order to ensure that the **Natural Resources** are exploited in a manner that safeguards the best interest of the country's current and future generations**,** in terms of the Policy, Government and/or its designated entities will hold a 51% stake in businesses in the Natural Resources Sector, with the remaining 49%, belonging to the partnering foreign investor(s). The policy also provides for exceptions in compliance where government does not have 51% ownership.

On **Non-Resource Sectors,** it is expected that businesses in this sector should exhibit socially and economically desirable strategic objectives that contribute towards the turn-around and sustainable socio-economic transformation of the economy of Zimbabwe. Thus the businesses should, among other things, aim to ensure beneficiation of raw materials for the purposes of value addition and exporting; and transfer of appropriate technology to Zimbabwe for the purpose of enhancing productivity; and creation of employment.

With regard to the **Financial Services Sector**, the banking sector shall continue to fall under the ambit of the Banking Act, which is regulated by the Reserve Bank of Zimbabwe, and the insurance sector under the auspices of the Provident and Insurance Act. This policy position is essential for the promotion of financial sector stability, confidence and financial inclusion. These institutions will, nonetheless, be expected to make their contributions by way of financing facilities for key economic sectors and projects, employee share ownership schemes, linkage programs and such other financial empowerment facilities as may be introduced by the Reserve Bank of Zimbabwe, from time to time.

Businesses under the **Reserved Sector** category are reserved for Zimbabwean entrepreneurs with the exception of existing businesses. The Reserved Sector category includes businesses such as specific categories in Transportation; Retail and Wholesale Trade; Grain Milling; and Tobacco Processing.

Cooperation and Financial Obligations to IFIs

To date, Zimbabwe continues to make efforts to cooperate with the Fund on policies and payments, and to make good use of technical assistance (TA). The authorities continue to make the agreed $150,000 monthly payment to the PRGT, the increased *pari passu* payments to the World Bank and AfDB, and token payments to the European Investment Bank. The authorities have committed to increase payments to the IFIs as their payment capacity increases. In addition, Zimbabwe continues to benefit from targeted Fund TA to address policy challenges, strengthen institutional capacity, and support its ongoing reform efforts.

Thus, the authorities' intend to proceed with the re-engagement process based on the strategy that was presented in Lima and received support from creditors and development partners. Currently, the International Finance Corporation (IFC) in the World Bank is preparing proposals for possible investments in Zimbabwe that could be reviewed by its management over the coming months.

In addition, on April 20, 2016, the Board of Directors of the African Development Bank (AfDB) approved a US $25-million Trade Finance Line of Credit facility to Central Africa Building Society (CABS) of Zimbabwe. This medium-term facility will help to support the expansion of CABS' operations as a provider of trade finance to local firms as well as Small and Medium-sized enterprises within Zimbabwe's tradable sector.

Conclusion and Next Steps

On the basis of the strong performance under the SMP, the authorities' demonstrated commitment to sound macroeconomic policy management, the policy intentions described in the Letter of Intent, and the far-reaching economic transformation agenda, we believe that our authorities' have built a solid foundation for a path to full re- engagement, including clearance of arrears to the IFIs, a Fund-financial arrangement, and debt treatment under the Paris Club.

Our authorities are committed to repay the arrears to the IFIs as they take steps to normalize relations with all creditors and anticipate that this will eventually culminate into a financial arrangement with the Fund. They further expect that as soon as the arrears are settled, the process to consider removal of the remaining remedial measures which would include restoration of Zimbabwe’s eligibility to the PRGT will be effected.

Our authorities count on the Executive Board’s support in this process. The support of this institution, and its ability to catalyze other creditors, will be even more crucial in the period ahead as the country consolidates the commendable progress made this far in pursuance of its objectives to achieve sustained economic development, reduce poverty, and improve living conditions for the people of Zimbabwe.