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March 17, 2022

**Statement by Mr. Bhalla and Mr. Singh on Zimbabwe
(Preliminary)
Executive Board Meeting
March 21, 2022**

1. We thank the staff for their analytical reports and Mr. Nakunyada, Mr. Ekeocha, and Mr. Garang for their helpful Buff statement.
2. The government's swift response to the pandemic, including containment measures and social and economic support, helped cushion its adverse impact. The economy seems to have suffered a severe contraction during 2019-20, with large currency depreciation and a spike in inflation taking a heavy toll on output and social outcomes. Given that the access to electricity seems to be low (below 40 percent), it would be instructive to know how the pandemic affected the loss of schooling given that many developing countries suffered the sizeable loss of schooling due to lack of access to electricity and broadband. **Reversal of a declining trend in extreme poverty since 2011/12 is a very concerning development, with about a third of the population at risk of food insecurity.** We hope that the National Development Strategy (NDS) intending to build macroeconomic stability, reduce poverty and inequality, and transform institutions to enhance public sector efficiency and service delivery, is oriented to delivery to achieve the upper-middle-income status by 2030.
3. **Government deficits financed predominantly by the central bank have led to a rapid expansion in base money and thus fueled inflation.** RBZ-financed quasi-fiscal operations, which triggered inflationary pressures in the past, seem to have been continued. Although inflation declined significantly from a peak of 837.5 percent in July 2020 to 66.1 percent (YoY) in February 2022, it remains an important challenge. We agree that restraining deficit financing from the central bank becomes a precondition for the stabilization of hyper-inflation and sharp depreciation of the currency. As an interim

arrangement to tackle high inflation, the RBZ operationalized the reserve money targeting framework beginning January 2020; we would like to understand the effectiveness of this framework.

4. The current exchange rate regime exerts important distortions and costs to the economy. **We agree with the urgency of greater exchange rate flexibility by allowing a more transparent and market-driven price in both the official and interbank markets.** We appreciate the authorities' efforts in allowing an adjustment of the auction exchange rate towards market-clearing levels. At the same time, a cautious approach is to be adopted to ensure that the inflationary pressures don't stoke in, which has a disproportionate impact on the already impoverished population. We also agree with the need for promoting a favorable environment for the interbank market to play a larger role in the FX market.

5. We observe that the SOEs and parastatals are facing financial difficulties – with mounting losses and negative equity – which raise fiscal risks. Tax reforms should anchor on simplification of the tax system, broadening the tax base, and improving administration and compliance. Although authorities find the scope to raise more revenues by addressing VAT and corporate tax leakages, reforming the mining sector fiscal regime, they flagged political-economy constraints given that earlier reform attempts were reversed following public protests. **While we agree with the need for structural reforms on various fronts, in fragile and conflict-affected states, the advice on major adjustments should be cognizant of the potential socio-political backlash and may need a flexible approach.** Given that the social assistance spending in Zimbabwe is way below its Sub-Saharan African peers and the LICs, we believe that strong adjustments should be preceded by a well-designed and targeted social safety net.

6. Zimbabwe remains in debt distress in the context of efforts to strengthen debt management and external re-engagement. It is encouraging to know that to revive international re-engagement, the authorities have prepared a debt resolution. **Given Zimbabwe's large external arrears and challenges for traditional debt relief mechanisms, there is a need to build and reach a consensus on affordable solutions to debt overhang.** We agree with the staff that debt data reconciliation with creditors would also be a necessary step in the authorities' plan to reach agreements with creditors on debt resolution.

7. Improvements in AML/CFT are key to strengthening the interbank market and correspondent banking relationships (CBRs). We are encouraged to see the progress made to exit from the Grey List of the FATF. **We concur with the Staff that greater**

efforts are needed to enhance transparency and accountability, and tackle corruption and governance vulnerabilities.

8. We wish the authorities all the success in bringing the economy back to a sustainable growth path and in their endeavor to overcome the humanitarian crisis.