FOR AGENDA

SM/84/198

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August 15, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Zimbabwe - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Zimbabwe. A draft decision appears on page 23.

It is proposed to bring this subject to the agenda for discussion on Wednesday, September 12, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Edo (ext. (5)8750) or Mr. Kakoza (73149).

Att: (1)

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INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Consultation with Zimbabwe

Approved by J.B. Zulu and Eduard H. Brau

August 14, 1984

I. Introduction

A Fund mission 1/ visited Harare during the period May 17-June 7, 1984 to conduct the Article IV consultation discussions and to begin negotiation of a new stand-by arrangement to replace the 18-month stand-by arrangement which expires in September 1984. The Zimbabwean representatives included the Minister of Finance, Dr. Chidzero; the Governor of the Reserve Bank, Dr. Moyana; the Secretary of the Ministry of Finance, Economic Planning and Development, Mr. Mushayakarara; and other senior officials of government ministries and agencies.

The current stand-by arrangement with Zimbabwe, in an amount of SDR 300 million, was approved by the Executive Board on March 23, 1983. Zimbabwe has purchased SDR 175 million under the arrangement. The first review of the program was completed by the Executive Board in January 1984. The second program review, which was started in February 1984, was not completed because of substantial deviations from the program's fiscal targets and because, in March 1984, the Zimbabwe authorities introduced new wide-ranging exchange restrictions on current payments. No further purchases are envisaged under the current arrangement.

Zimbabwe joined the Fund on September 29, 1980 and avails itself of the transitional arrangements of Article XIV. Summaries of Zimbabwe's relations with the Fund and with the World Bank Group are attached.

1/ The staff mission comprised Messrs. M. Edo (head-AFR), J. Kakoza (AFR), R. Hurnard (FAD), T. Oyama (AFR), N. Weerasinghe (ETR) and Mrs. I. Uston (secretary-AFR); Mr. Hassan, Advisor to the Executive Director, participated in some of the discussions.

II. Background

After a period of rapid economic growth in 1980 and 1981, Zimbabwe's economic performance deteriorated in 1982 and 1983. While the real rate of growth of output was 11 percent in 1980 and 15 percent in 1981, it was negative in 1982 and in 1983, with the volume of output declining by about 3-4 percent in each year. At the same time, the rate of inflation increased. The rate of increase of the GDP deflator rose from 8.1 percent in 1981 to 12.8 percent in 1982 and to 16.4 percent in 1983. The rate of increase of the consumer price index (average of high-income and low-income indices) rose from 13.9 per cent in 1981 to 14.6 percent in 1982 and to 19.4 percent in 1983.

The disappointing growth performance has been due in part to the severe drought that has affected Zimbabwe for three successive crop seasons (1981/82, 1982/83, and 1983/84). The marketed output of maize (the major food staple), which reached a record level of 2.0 million tons in 1981, declined to 1.4 million tons in 1982, 0.6 million tons in 1983, and 0.8 million tons in 1984. The real rate of growth of agriculture and forestry (a sector that contributes about one seventh of total GDP) declined in 1982 and 1983. Activity in the manufacturing sector (which contributes about one fifth of GDP) also declined in 1982 and 1983, owing to shortages of agricultural raw materials and the lack of foreign exchange to buy essential imported inputs. Mining production (5 percent of GDP, but a much larger proportion, one third, of exports) remained depressed owing to the weakness in world demand for minerals. Activity in the service sector has been stagnant.

Investment has been on a declining trend. As a proportion of GDP, gross domestic investment fell from 28 percent in 1981 to 22 percent in 1983, reflecting reduced domestic savings and the low level of foreign investment capital inflows. The investment which has taken place has been in large part in infrastructure; investment in directly productive capacity has been modest, and much of Zimbabwe's capital equipment is obsolescent or in poor repair. Recorded employment in the wage sector is about 1 million and has shown relatively little change over the period 1980-83; declines in employment in agriculture and mining have been offset by increases in employment in government service and manufacturing.

While real output has declined, the government budget has expanded. Between 1980/81 (July-June) and 1983/84, government revenues increased from 27 percent of GDP to 36 percent of GDP while total expenditures and net lending increased from 36 percent of GDP to 50 percent of GDP, with current expenditures accounting for ten percentage points of this increase (Table 1). The overall budget deficit was 8 percent of GDP in 1980/81 and also in 1981/82, increased to 9.7 percent of GDP in 1982/83, and is provisionally estimated to have increased to 11.9 percent of GDP in 1983/84. The Government was able to raise revenue rapidly in 1981/82

Table 1. Zimbabwe: Summary of the Overall Fiscal Operations of the Central Government, 1980/81-1983/84

	Actual 1980/81	Actual 1981/82	Preliminary actual 1982/83	Program 1/ 1983/84	Estimated outturn 1983/84	Difference from Program
	(In millions of Zimbabwe dollars)					
Total revenue and grants	1,012.3	1,367.9	1,815.8	2,133.0	1,991.7	-141.3
Total revenue	950.6	1,333.7	1,763.1	2,069.0	1,914.0	-155.0
Tax revenue	(777.7)	(1,207.6)	(1,579.5)	(1,841.0)	(1,713.0)	(-128.0)
Nontax revenue	(172.9)	(126.2)	(183.6)	(228.0)	(201.0)	(-27.0)
Grants	61.7	34.2	52.7	64.0	77.7	+13.7
Total expenditure and net lending	1,298.1	1,707.6	2,262.5	2,583.0	2,616.4	+33.4
Current	1,142.4	1,435.5	1,808.9	2.129.1	2,210.2	+81.1
Capital	107.3	158.2	218.3	221.3	221.7	+0.4
Net lending	48.5	113.8	235.3	232.6	184.5	-48.1
Overall deficit (-)	-285.8	-339.7	-446.7	-450.0	-624.7	-174.7
Financing	285.8	339.7	446.7	450.0	624.7	+174.7
External (net)	31.7	220.4	49.9	180.0	71.7	-108.3
Domestic (net)	254.1	119.3	396.8	270.0	553.0	+283.0
Nonbank	(117.3)	(132.4)	(290.5)	(170.0)	(320.0)	(+150.0)
Banking system	(136.8) 2/	(-13.1)	(106.3)	(100.0)	(233.0)	(+133.0)
	(As percent of GDP)					
Memorandum items:						
Total revenue	26.6	32.1	38.4	39.3	36.4	-2.9
Tax revenue	21.7	29.1	34.4	35.0	32.5	-2.5
Total expenditure and net lending	36.3	41.1	49.3	49.1	49.7	0.6
Current	31.9	34.5	39.4	40.4	42.0	1.6
Capital	3.0	3.8	4.8	4.2	4.2	0.0
Overall deficit (-)	-8.0	-8.2	-9.7	-8.5	-11.9	-3.4
Bank financing	3.8	-0.3	2.3	1.9	4.4	2.5

Sources: Report of the Comptroller and Auditor General; Financial Statements; and data provided by the Ministry of Finance, Economic Planning and Development.

1/ The program figures exclude the operations of the National Fund for Rehabilitation and Reconstruction which are included in the actual statistics. Incorporating the NFRR would add about Z$10 million to grants and to capital expenditure, leaving the overall deficit virtually unchanged.

2/ Includes Z$31.0 million domestic counterpart of IMF loan.

(40.3 percent) and 1982/83 (32.2 percent), as tax rates were substantially increased; tax rates, however, reached levels of diminishing returns and, with the reduction in economic activity, the increase in revenue in 1983/84 was only 8.6 percent. Total expenditures and net lending increased by 32 percent in 1981/82 and again by 32 percent in 1982/83; the rate of increase was reduced to 15.6 percent in 1983/84, but this was still appreciably in excess of the rate of increase of revenue. Except for 1981/82, the preponderant part of the budget deficit has been financed from domestic sources (bank and nonbank).

Despite the authorities' reliance on a restrictive exchange and trade system, domestic demand pressures have been reflected in the external balance of payments. The current account deficit increased sharply from 5.8 percent of GDP in 1980 to 12.1 percent in 1981, widened further to 13.4 percent in 1982, and then declined to 9.7 percent of GDP in 1983. The overall balance of payments situation, which was in surplus in 1980, turned into deficit in 1981 and the deficit had increased to SDR 268 million by 1983. Net foreign assets have declined rapidly and had a negative value of SDR 285 million in June 1984; gross foreign assets are equivalent to about two months of imports.

During 1981-83 the authorities took a number of measures to restrain demand, in the context of programs supported by the Fund. In 1981 interest rates were significantly increased, with the bank rate rising from 4.5 percent at the beginning of the year to 9.0 percent at the end of the year and with the commercial bank prime lending rate rising from 7.5 percent at the beginning of the year to 13.0 percent at the end of the year. Several consumer lending interest rates are positive in real terms. Statutory reserve and liabilities ratio requirements have been periodically altered to influence bank lending activity. As a percentage of the broad money stock at the beginning of the year, total domestic credit increased by 26.5 percent in 1981, 29.5 percent in 1982, and 17.2 percent in 1983. The rate of broad money expansion was 15.2 percent in 1981, and 21 percent in 1982; in 1983, with the large decline in net foreign assets, there was virtually no increase in the money supply.

In 1982 and 1983, there were substantial increases in administered consumer prices. The measures in 1982 included increases in the prices of beef (30 percent in May), fertilizer (12 percent in July), steel (25 percent in July), electricity (22-49 percent in October), and maize meal (50 percent in December). In May 1983, railway tariffs were increased by 10 percent for passenger traffic and 25 percent for goods traffic. In July 1983, the price of electricity was increased by 60 percent. In September 1983, there were increases in the consumer prices of maize meal (40-45 percent), beef (30-55 percent), bread (25-30 percent), milk (50 percent) and vegetable oils (25 percent). Price increases have been approved and implemented for a wide range of products whose prices are not directly administered but are subject to government approval. The prices of petroleum products fully reflect world prices. These increases followed a six-month period (December 1981 to May 1982) of general price freeze, which was terminated with the implementation on May 1,1982 of new price regulations, to replace the previous regulations which had been in operation since the late 1960s.

In 1982/83 there were no general wage increases in the private or public sectors, though there were wage adjustments to unify existing dual pay structures in some occupation groups and to provide increases for occupational categories in particularly short supply (technicians in some industries). This represented a substantial change in policy regarding lower income groups, which had received large wage increases in 1980/81 and 1981/82 (all wages above Z$20,000 have been frozen from the early part of 1980). During 1983/84, wage policy remained severely restrained; limited increases were permitted for lower income groups in September 1983, and some further adjustment for the public sector was allowed in February 1984; these adjustments are estimated to have had a net impact of less than an increase of 5 percent in the general wage level. Strict limits were imposed during 1983/84 on new hiring in the government service.

In December 1982 and January 1983, the Zimbabwe dollar was devalued by a cumulative total of 25 percent (local currency terms). A new trade-weighted basket was adopted in December 1982 and the exchange rate was periodically devalued in 1983 by small amounts against the basket.

These measures have not, however, been sufficient to reduce demand to appropriate levels. Despite the substantial administered price increases of 1982 and 1983, several parastatals and the iron and steel company (in which the Government has a controlling share) have incurred large losses which have been a substantial charge on the government budget. Wage costs have put a severe financial strain on a wide range of enterprises (particularly in the mining and manufacturing sectors), especially as companies are subject to some government restrictions in their ability to retrench workers. Despite the flexible exchange rate policy adopted in 1983, the currency had by April 1984 appreciated by about 5 percent in real effective terms since the end of January 1983 (see chart).

Zimbabwe has a foreign exchange allocation system which limits imports to a level that can be financed out of foreign currency resources. Zimbabwe also retains a number of other restrictions on current international payments and transfers, notably on the remittances of profits, dividends, income from services and from investments.

The 18-month stand-by arrangement approved by the Executive Board in March 1983 provided for two reviews, the first in mid-1983 and the second at the end of 1983. However, there was a long delay in the completion of the first review. The budget deficit in 1982/83 (Z$447 million or 9.7 percent of GDP) was larger than the program target (Z$385 million or 8.4 percent of GDP); the Zimbabwean authorities were able to mobilize substantial nonbank resources for the financing of the increased deficit but the increase in domestic bank credit to Government was still larger-than-programmed and the government credit ceiling was exceeded in June 1983 (the overall credit ceiling was observed). Negotiations on the measures to be taken at the beginning of 1983/84 were prolonged and the paper on the first review (and also on the 1983 Article IV consultation) was not brought to the Board until January 1984. A mission to conduct the second review visited Harare in February 1984. It became clear during the mission that, following supplementary expenditure estimates submitted by the Government to Parliament in February 1984, the budget deficit for the year was likely to be well in excess of the program target. Further, in March 1984, the Zimbabwean authorities introduced new wide ranging exchange restrictions on current payments. Following these developments, the staff and the Zimbabwean authorities agreed that no further purchases would be possible during the period of the stand-by arrangement and that the arrangement would be allowed to lapse while a new arrangement would be negotiated for 1984/85. Table 2 shows Zimbabwe's performance under the stand-by arrangement.

The mission that visited Harare in May 1984 to conduct the 1984 Article IV consultation discussions also began negotiations on a new stand-by arrangement for FY 1984/85. The discussions covered a wide range of issues, but the authorities were not yet in a position to be specific about the details of the policies that they would adopt for 1984/85.

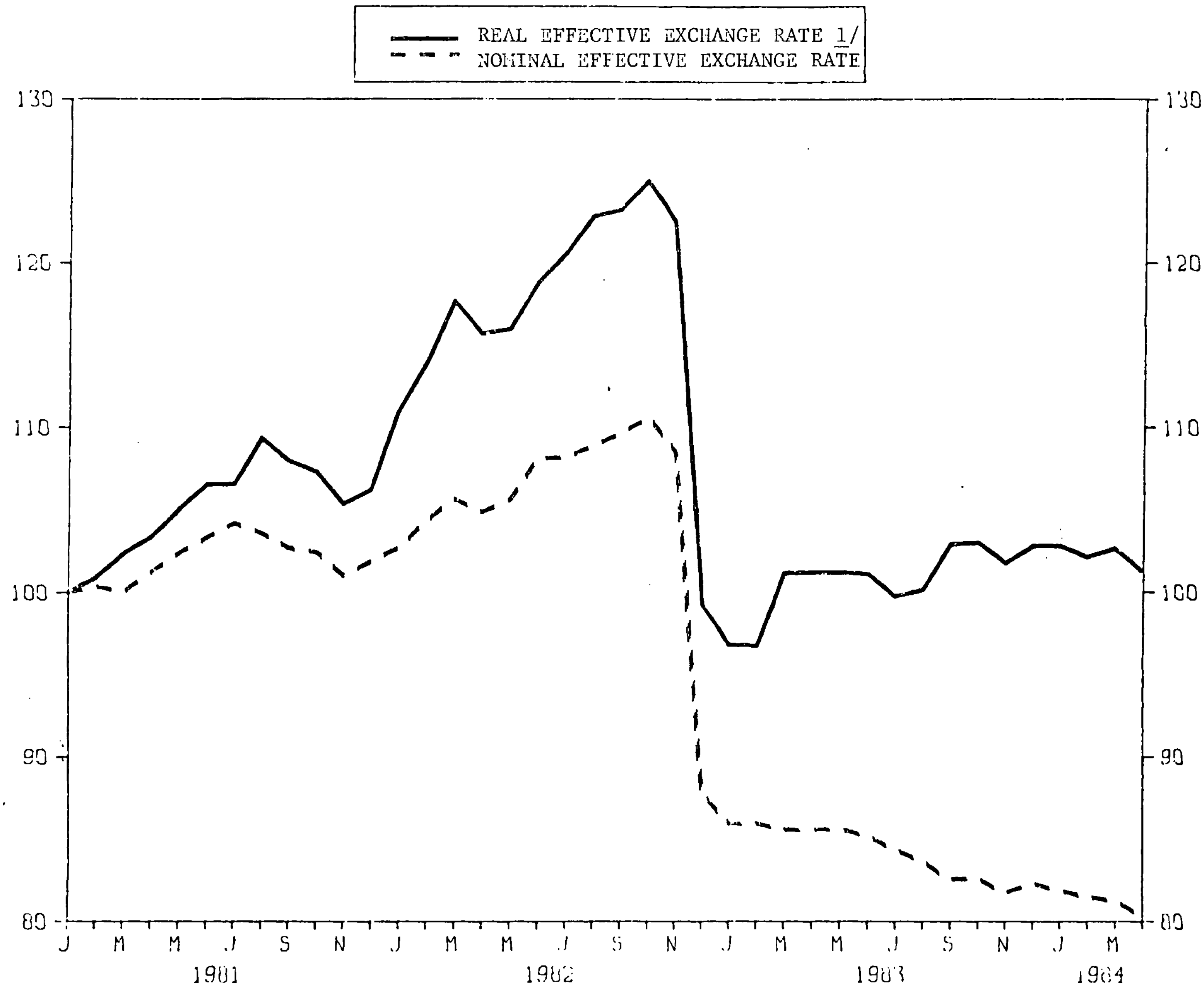
III. Report on the Discussions

1. The outlook for production

The prolonged drought has depleted Zimbabwe's maize stocks and made necessary the importation of maize in 1984/85. The maize production of 0.8 million tons in 1984 is about two thirds of projected domestic consumption and the authorities, therefore, expect to import 0.4 million tons during 1984/85 (mostly during the period from September 1984, the beginning of the growing season, to April 1985, when the 1985 crop will be harvested). The Zimbabwean representatives said that they had already made arrangements for the importation of 250,000 tons: the United States was expected to provide 30,000 tons in grant aid; barter deals (with Thailand, in exchange for burley tobacco) would provide 70,000 tons; 50,000 tons would be imported from Malawi (financed by aid from the United Kingdom, the EEC and other external donors); and 100,000 tons had been put to tender.

The drought has also led to shortage of ground water and reduced the acreage that can be devoted to wheat. The Zimbabwean representatives expected wheat production in 1984 to be only about 75,000 tons (compared to a normal output of about 200,000 tons), which would give rise to import requirements in 1984/85 of about 150,000 tons.

CHART 1. ZIMBABWE
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, 1981-April 1984
(JAN 1981 = 100)



Source: Data provided by the Zimbabwean authorities; and staff estimates.
1/ Using high-income CPI's for Zimbabwe.

Table 2. Zimbabwe: Performance Under the Current Stand-By Arrangement

	1982	1983				1984	
	Dec.	March	June	Sept.	Dec.	March	June
			(In millions of Zimbabwe dollars)				
Domestic credit							
Program ceiling	...	2,040.0	2,090.0	2,250.0	2,320.0	2,400.0 1/	2,380.0 1/
Actual	1,934.0	1.927.4	2,066.6	2,148.1	2,224.5	2,182.8	...
Credit to the Government (net)							
Program ceiling	...	580.0	500.0	563.8	603.8	613.8 1/	623.8 1/
Actual	594.2	554.0	523.8	473.7	544.8	578.5	...
			(In millions of SDRs)				
New nonconcessional borrowing contracted or guaranteed by the Government (cumulative):							
Maturity of 1-10 years							
Program ceiling	...	220.0	220.0	220.0	220.0 2/	...	...
Actual	...	...	...	87.9	108.0	...	...
Maturity of 1-5 years							
Program ceiling		10.0	10.0	10.0	10.0 2/	...	...
Actual	...	9.2	9.2	9.2	9.2	...	...

Sources: Data provided by the Zimbabwean authorities; and program ceilings.

1/ Indicative ceilings. Post December ceilings were not set because the second review of the program was not completed.

2/ The ceilings for 1984 were to have been established during the second review.

Unlike these food crops, the three main cash crops (tobacco, cotton, and coffee) have had record output in 1984, as these crops are more drought-resistant than the food crops. The tobacco crop is estimated to be 116,000 tons (an increase of 17 percent from the 1983 level), the cotton crop 250,000 tons (54 percent increase), and the coffee crop 12,500 tons (30 percent increase). Oil seeds have also had good crops.

Some recovery in mineral production is expected in 1984, as stocks of most minerals have been depleted. The manufacturing sector's capacity utilization is, however, expected to remain low owing to the shortage of raw materials for the food processing industry and to the lack of foreign exchange to import essential components.

On the whole, a small recovery (a growth of 1.6 percent in real terms) is projected for GDP in 1984.

Following the record agricultural season of 1981, when the country acquired very large stocks of maize, the authorities terminated the previous practice of announcing producer prices before the growing season (pre-planting) and adopted the practice of announcing the prices to be paid for crop purchase only at the beginning of harvest (post-planting). In 1983, the authorities announced pre-planting prices for some crops, but considered this only a temporary modification of the new practice of relying on post-planting prices. The authorities indicated that they were not inclined to announce pre-planting prices for the 1984/85 season. In defense of this position, they argued that substantial price changes during the growing season (e.g. of fertilizer or mechanical equipment) could render pre-planting prices irrelevant by harvest time. They preferred to give general indications of desired planting priorities at the beginning of the growing season and to set the procurement prices at harvest time in the light of actual cost developments during the growing season. The staff thought that pre-planting prices had the advantage of communicating incentives more clearly to farmers at the beginning of the growing season. The desirability of a pre-planting price for maize is especially important in 1984/85 because of the depleted level of maize stocks and because farmers might switch from maize to other crops less sensitive to drought. The Zimbabwean representatives pointed out that the Government had traditionally followed a policy of paying good prices for farm products and that this had encouraged the development of a strong commercial farming sector in Zimbabwe. They felt that it was not good general policy to announce producer prices at planting rather than harvest time, although they recognized that it might be necessary to do so in selected cases.

The low investment effort in manufacturing and mining has been due in part to weak international demand, the impact of the drought, and shortages of imported inputs. Investment activity has also been affected by private sector concerns regarding the increasing share of national output absorbed by the public sector, restraints on the ability of companies to alter their labor force in the light of changing financial circumstances, delays in the approval of applications for price increases, and some government statements that suggest a preference for a declining role for the private sector. Foreign private investment inflows have been affected by the many restrictions on the repatriation of profits, dividends and income from other investments and by the absence of clear guarantees against the nationalization of foreign investment. The Zimbabwean representatives felt that these concerns of the private sector were not justified as the Government had, in several important policy statements, reaffirmed its belief in an important role for the private sector; the authorities had issued a statement on guidelines for foreign investment in 1982 and the Zimbabwean constitution provided protection against the nationalization of private investment.

2. Wages and prices

The Government intends to maintain in 1984/85 the restrictive wage policy which was applied in 1982/83 and 1983/84. This is necessary in order to moderate demand, improve the price competitiveness of exports, and reduce the burden of wage costs on the budgets of private and public sector companies which are experiencing financial difficulties. The Government intends to maintain this policy even though the severe wage restraint has led to a large loss of skilled personnel to the private sector and may have contributed to emigration.

At the time of the mission, the Government had not yet determined its wage policy for 1984/85 but the Zimbabwean representatives said that the general intention would be to limit increases to no more than about 5 percent of the general wage bill. It was also the view of the representatives that there should continue to be strict limits on new hiring in the government service.

In the series of substantial price increases introduced in September 1983, the authorities sought to make the agricultural marketing board financially self-sufficient in its domestic current operations. This objective was not completely achieved and the board continued to sustain losses on operations for some products. In addition, with the new agricultural intake period beginning in April 1984 for which new increased producer (procurement) prices would apply, consumer prices would need to be increased further in order to cover the higher costs of the marketing boards. The authorities are committed to a sizable reduction of the losses of the marketing board in order to reduce the subsidy charge to the government budget and they had under consideration consumer price increases in 1984 that would enable the marketing board to finance current expenses out of sales revenue. The representatives were not, however, certain about the timing and phasing of these increases since account had to be taken of the hardship caused by greatly reduced real incomes, especially in rural areas affected by drought.

The authorities also recognized the need for increases in the tariffs of the national railways and airlines (both of which depend on subventions from the government budget), but had not formulated a definite policy at the time of the staff discussions.

3. Budgetary policy

Budgetary developments have been a major cause for concern. During July-December 1983 (the first half of FY 1983/84), the budget deficit was only slightly larger than program projections. However, in February 1984, the Government introduced in Parliament a supplementary budget with no new revenue measures but with substantial supplementary expenditure estimates, especially for drought relief, defence and security, education, and subsidies. Total expenditures and net lending in 1983/84 are now estimated to have exceeded the program level by the equivalent of 0.6 percent of GDP, with shortfalls in capital expenditure, net lending, and interest payments (2.1 percent of GDP) offset by overruns (2.7 percent of GDP) in defense, education, drought relief, and aid to the iron and steel company. At the same time, there has been a shortfall in revenue equivalent to 2.9 percent of GDP. The budget deficit for 1983/84 is now estimated to have been Z$ 625 million (11.9 percent of GDP), compared with a program target of Z$ 450 million (8.5 percent of GDP). Net foreign financing of the budget deficit was much lower than anticipated under the program, and total domestic financing (bank plus nonbank) is estimated to have been Z$ 553 million (10.5 percent of GDP), compared with a program projection of Z$270 million (5.1 percent of GDP); domestic bank financing of the budget deficit was Z$ 233 million, whereas the program ceiling was Z$100 million (Table 1).

The Zimbabwean representatives acknowledged that the 1983/84 budget deficit was unduly large but stated that the increases in expenditures in the supplementary budget had been urgent and unavoidable in view of the severe drought, the necessity to maintain security and order in economically important areas, and the requirements of the iron and steel company. The additional education expenditure had been necessitated by a government decision to increase target secondary school enrollment from 70 percent to 100 percent of primary school leavers, and the Government considered that this would contribute to the expansion of skilled manpower in the medium term.

An important aspect of the budgetary situation has been the financial performance of parastatal bodies. While a number of public enterprises (the electricity supply commission and the telecommunications company) require no government subvention, some parastatals have recorded deficits for several years and have required government subventions to cover these deficits (the agricultural marketing authority, the national railways, the airline, and the iron and steel company). The consolidated deficit of the limited public sector (the Government and the parastatals which require subventions) is estimated to have increased from 8.2 percent of

GDP in 1980/81 to 13.4 percent of GDP in 1983/84, with sizable reliance on domestic financing (bank and nonbank).

The Zimbabwean authorities were still, at the time of the mission, in the early stages of preparation of the 1984/85 budget and had not decided on the specifics of the budget. The representatives stated, however, that their intention was to reduce the budget deficit as much as was practicable in 1984/85. The Cabinet had already discussed an economic memorandum setting out the difficult economic prospects for 1984/85. The Zimbabwean representatives said that, given the state of the economy and the high rate of taxation already existing, no substantial increase in revenue was expected. Accordingly, it would be necessary to reduce the growth of public expenditures and very careful scrutiny would be applied to requests for expenditure estimates, especially for current expenditures, subsidies, and net lending. The budget was scheduled for presentation to Parliament during the last week of July.

The Zimbabwean representatives thought it important to emphasize that the increases in government expenditures since 1980/81 had not been without purpose; on the contrary, they had been necessary for the Government to fulfill the mandate on which it had come to office in early 1980 with wide domestic support. Measures had been taken to reduce the inequalities of incomes, increase public access to health, educational and other social facilities, improve the conditions of workers and of residents in rural areas, and expand infrastructural and other support facilities to promote the activities of the private sector. The budget deficit had been larger than the authorities would have wished and current expenditures had increased excessively rapidly at the expense of capital expenditures; but the authorities believed that a good beginning had been made in many areas of public policy and the Zimbabwean representatives expressed a strong commitment to reduce the budget deficit as rapidly as possible.

4. Monetary policies

In the conduct of monetary policy, the Reserve Bank has sought to restrain demand and limit the expansionary effect of the large budget deficit, and at the same time to permit the provision of adequate credit for the productive sectors, especially agriculture. Early in 1983/84, the monetary authorities increased the yield on government securities and raised the statutory ratio of government and quasi-government paper that insurance companies and pension funds are required to hold in their portfolios. In May 1984, the statutory liquid asset ratio for commercial banks and accepting houses was raised, there was a new issue of Reserve Bank bills, and interest rates and other conditions were improved to attract savings to non-bank financial institutions. Even with these measures, however, the rate of credit expansion increased in the second half of the fiscal year and the increase in domestic credit for the whole fiscal year was 25 percent of the initial broad money stock (compared with 24 percent in 1982/83 and 17 percent in calendar 1983).

The monetary authorities said that, if the budget deficit could be significantly reduced in 1984/85, it would be possible to keep the rate of credit expansion at a more moderate level while providing for the needs of the productive sectors, especially agriculture where three seasons of drought had increased indebtedness and the demand for new seasonal credit. Until the budget was announced, the authorities could not be specific about credit and monetary targets for 1984/85. With regard to possible increases in interest rates, the authorities were concerned about the adverse impact of increased lending rates on private sector investment, but they saw the possibility of further increases in deposit rates if conditions warranted.

The Zimbabwean representatives expected bank and private sector liquidity to increase as the external securities acquired by the Government in March 1984 (see Subsection 5 below) were purchased from resident and non-resident owners during 1984/85. The Reserve Bank was, however, prepared to manage this conversion in such a manner as to leave the liquidity of financial institutions at a desirable level. This would be facilitated by the conversion also in 1984/85 of blocked funds (awaiting transfer to non-residents) into government bonds (see subsection 5) a process which was expected to absorb considerable liquidity from financial institutions and to increase susbstantially government deposits with the banking system. The Zimbabwean representatives said that, given the size of the existing pool of blocked funds (about Z$400 million), the resulting government bonds would not be treated like regular government sources of budget financing.

5. External policies

Zimbabwe's export performance has deteriorated steadily since 1980. After increasing by 33 percent in 1980 and by 11 percent in 1981, export receipts declined by 3 percent in 1982 and 11 percent in 1983. The 1980 increase was exceptional (1980 was the first year after removal of international economic sanctions) and was not expected to persist, but the declines in 1982 and 1983 were unanticipated and reflected the impact of the international recession on mineral exports, low world prices for some agricultural commodities, the effect of drought, the lack of growth in foreign markets for Zimbabwe's manufactures, and delays in making exchange rate and other policy adjustments. Imports increased by 52 percent in 1980 and 26 percent in 1981, contributing to the high rates of economic growth in those years. The rate of growth of imports was, however, only 3 percent in 1982 and the value of imports declined sharply (by 28 percent) in 1983, reflecting the lack of foreign exchange to finance imports.

Zimbabwe's foreign exchange allocation covers about two thirds of total imports (it excludes imports financed directly by external project aid). With the reduction in foreign exchange resources, allocations for imports subject to control were reduced from SDR 874 million in 1982 to

SDR 676 million in 1983; this accounted for the major part of the reduction in total imports.

At the end of 1980 and the beginning of 1981 the Government introduced some liberalization of the exchange restrictions on current payments that had been in force from the period when the country was under international economic sanctions. Notably, some categories of dividends and profits that had been blocked in the years before 1980 were released for transfer under specified procedures. These outflows, and the outflow of emigrants' pensions which are protected by provisions of the constitution agreed at Lancaster House at the end of 1979, led to a substantially higher deficit on the combined net services and net private transfers accounts in 1981-83 (about SDR 540 million a year), twice the average annual level in 1979-80.

In 1981 and 1982, net capital inflows increased substantially as the Government and parastatals were able to attract external assistance and to borrow for public sector projects (some of the borrowing was short-term). There was a sharp decline in net foreign capital inflows in 1983, accounting for the increased overall deficit despite a reduced current account deficit.

At the beginning of 1984, the Zimbabwean authorities felt that, in view of the prospective need to finance substantial emergency cereal imports, a temporary intensification of exchange restrictions was necessary to reduce the outflows on the services account. Accordingly, in March, the authorities suspended transfers of dividends, profits, and rents, income remittances from blocked funds, and income on nonresidents' equity holdings; dividends and profit remittances on capital invested after September 1979 were not affected. Holders of the blocked funds could invest the funds in Government of Zimbabwe's external bonds. At the same time, the authorities acquired, in return for payments in domestic assets, external securities held by nominee companies on behalf of residents or former residents of Zimbabwe. These new restrictions were estimated to reduce net outflows on the service account by about SDR 85 million in 1984. The external assets acquired by the authorities were estimated to total about SDR 200 million.

For 1984, some recovery in exports (8 percent increase) is projected, mostly in manufactures which are expected to benefit from the lagged impact of the devaluation of December 1982 and January 1983, and the World Bank export promotion loan. Imports are projected to be about SDR 1,067 million, an increase of 11 percent over the 1983 level (net of emergency cereal imports, the increase would be 3 percent). The projected current account deficit would be equivalent to about 9 percent of GDP and the overall deficit would be SDR 220 million. This level, however, might be too large to be financed and the authorties may reduce allocations, which would lead to corresponding reductions in the deficits. For 1985, the preliminary projection is for an increase in exports of 7 percent, again mostly in manufactures. Imports are projected to be virtually unchanged (but to increase by 3 percent net of emergency cereal imports). The projected current account deficit would be about 9 percent of GDP (the same as in 1984) and the overall deficit would be SDR 231 million. There is considerable uncertainty in the projected level of official capital inflows for 1985; however, a lower level of inflows would result in a lower level of imports with little change in the overall deficit.

These forecasts assume that appropriate financial policies will be implemented by the authorities and that the Government will be able to finance the projected deficits. The projections in Table 3 assume a gradual liberalization of restrictions beginning in 1985.

The staff discussed with the authorities in detail specific proposals regarding budgetary, wage, pricing, monetary and external policies that, in the staff's view, would be required to promote needed adjustment in the economy. These proposals are the subject of continuing discussions on a possible new stand-by arrangement. At the time of the discussions, the authorities were not, however, in a position to indicate what policies would in fact be pursued. With regard to the exchange rate, the Zimbabwean representatives seemed inclined to the view that Zimbabwe's products were price competitive and that no major exchange rate action should be contemplated, although they intended to keep the matter under close review. Their emphasis rather was on direct action to promote Zimbabwean products abroad through participation in trade fairs and exhibits, market surveys and expanded contacts, and promotional tours. They believed that these activities were already yielding noticeable results.

With regard to the introduction and intensification in March 1984 of exchange restrictions on current payments and transfers, the Zimbabwean representatives stated that the measures were temporary and would be lifted as soon as the balance of payments situation permitted. They added that some priority would be given to the liberalization of imports as the balance of payments improved, in order to promote growth and strengthen the economy's capacity to finance service outflows.

Concerning the financing of the balance of payments deficits in 1984 and 1985, the Zimbabwean representatives expected that the external securities acquired in March 1984 would be sold at various intervals in 1984 and 1985. They said that the Government would endeavor to the extent possible to obtain concessional assistance to finance the maize imports. They hoped to be able to complete discussions for a stand-by arrangement from the Fund which would provide balance of payments support. They recognized, however, that even if they succeeded in these undertakings, there would still be a cumulative financing gap of about SDR 150 million for 1984 and 1985 and that it would be necessary to arrange concessional quick-disbursing balance of payments financing soon through a concerted approach to potential donors or to take stronger adjustment measures to reduce the deficits further.

Table 3. Zimbabwe: Balance of Payments, 1982-85

(In millions of SDRs)

	1982	1983 Original proj.	1983 Preliminary act.	Prel. projections 1984	Prel. projections 1985
Trade balance	-143	-134	99	77	162
Exports, f.o.b. 1/	1,190	1,280	1,063	1,144	1,224
Imports, f.o.b.	-1,333	-1,414	-964	-1,067	-1,062
(Allocations)	(-874)		(-676)	(-575)	(-575)
Services (net)	-424	-494	-417	-401	-450
Freight and insurance	-143	-158	-138	-160	-152
Travel	-70	-26	-43	-45	-45
Investment income	-191	-184	-194	-158	-212
Other	-20	-126	-42	-38	-41
Private transfers (net)	-127	-115	-121	-75	-99
Current account balance	-694	-743	-439	-399	-387
Official transfers (net)	58	60	32	54	54
Capital (net)	475	456	74	125	102
Government	126	132	-15	60	90
Public enterprises	275	240	68	73	33
Other	73	84	21	-8	-21
Errors and omissions	83	--	28	--	--
Monetization of gold	-7	--	37	--	--
Overall balance	-86	-227	-268	-220	-231
Valuation adjustment	-3	--	-7	--	--
Financing	89	227	275	220	231
Use of Fund resources 2/	--	231	153	71	-19
Other	--	-6	122	149	250

Sources: Data provided by the Zimbabwean authorities; staff estimates and projections.

1/ Gold exports on a net basis.

2/ Assumes no further purchase under the current stand-by arrangement and does not reflect any purchases under a possible new arrangement.

A particular disappointment to the authorities has been the level of net capital inflows, which is appreciably lower than would be expected from the pledges (totaling about SDR 1.6 billion) made at the Zimbabwe Conference for Reconstruction and Development (ZIMCORD) held in Harare in March 1981. Information presented at an aid review meeting convened with the assistance of the UNDP in December 1983 indicates that about 47 percent of the aid committed had been utilized or was expected to be utilized in 1984/85, with the lowest ratio for disbursements occurring for project loans which frequently required detailed administrative procedures with which the Zimbabweans were unfamiliar. The Zimbabwean representatives recognized the desirability of improvement in their capacity to absorb aid and of efforts to convert project loans, where feasible, to program aid.

6. Medium-term outlook

While the Zimbabwean authorities are mostly preoccupied with the immediate problems of drought, reduced foreign exchange resources, and declining incomes, they are also conscious of medium-term concerns. 1984/85 is the last year of the three-year Transitional National Development Plan issued in November 1982 and the Government intends to prepare a medium-term planning perspective for the period after 1984/85. The Transitional National Development Plan was formulated when the economy was recording very high growth rates in 1980-81; by the time the plan was issued at the end of 1982, it was evident that the plan target of 8 percent annual real growth rate during the plan period (1982/83 to 1984/85) was not likely to be realized. The quantitative targets in the plan document have therefore not been relevant for actual policymaking in the plan years, but the Government regards as still valid the plan's statements regarding general policy intentions and priorities. According to these statements, the Government seeks to promote growth with equity, broaden popular participation in economic decision making, and encourage the development of infrastructure, skills, and productivity in the various sectors.

Zimbabwe has a diversified economy, a broad resource base and relatively sophisticated financial and infrastructural facilities. These attributes give the country better prospects than many other developing countries to achieve and sustain adequate rates of economic growth in the medium term. The immediate outlook is, however, difficult.

Assuming normal agricultural seasons and an improvement in the external terms of trade of about 1 percent a year, the real rate of economic growth is projected to be about 2 percent per annum in 1984 and 1985. As this rate is below the estimated rate of population growth (3 percent), per capita income is projected to decline. If the rate of growth is to rise above 2-3 percent in the medium term, the investment effort needs to be raised through an increase in domestic savings and through policies to attract foreign investment. Increases in domestic savings will require continued wage restraint, greater fiscal discipline, and flexibility in domestic pricing policies to provide appropriate incentives to producers and restrain consumption. The Zimbabwean representatives agreed with this reasoning but also felt that rising wages would be needed to create an expanding domestic market.

The medium-term balance of payments projections indicate that even with exports and imports growing at average annual rates of 8 percent and 4 percent, respectively (in SDR terms) in 1986-89, and with some increase in net capital inflows, the balance of payments financing requirements would persist over the medium term (Table 4). At the same time, the debt service ratio (debt service as a percentage of exports of goods and services) would rise from 24 percent in 1984 to over 30 percent by 1987 (Table 5). This debt service ratio does not take into account the large very short-term debt (about SDR 200 million) of the Reserve Bank.

The Zimbabwean representatives drew attention in these projections to the large structural foreign currency outflow on account of income and private transfers. This reflected a peculiarity of Zimbabwe's constitutional history and was a large burden on a developing economy. As long as major balance of payments uncertainties remained, the representatives considered it prudent to maintain the foreign exchange allocation system, since rapid liberalization could generate import commitments for which there would be no foreign exchange financing.

The staff urged the Zimbabwean representatives to formulate a realistic medium-term investment plan with the cooperation of the World Bank and to seek Bank support for Zimbabwe's development efforts. The World Bank has provided extensive support for Zimbabwe since the country's independence (Attachment III). There have, however, been delays in the implementation of projects and in the development of a future project pipeline, and there are economic policy issues on which further discussions need to be held before the Bank feels that it can begin consideration of the merits of a SAL or of the advisability of organizing a CG meeting. The staff emphasized to the Zimbabwean representatives the importance of more rapid progress in their discussions with the Bank.

IV. Staff Appraisal

In early 1983, the Government of Zimbabwe introduced a program to reduce the domestic and external financial imbalances and provide appropriate incentives to encourage more rapid economic growth. Measures taken in 1983 included the implementation of a flexible exchange rate policy, substantial increases in utility tariffs and the prices of basic food commodities, stringent wage restraint in the public and private sectors, new revenue measures, and an effort to restrain the growth of government expenditures.

Table 4. Zimbabwe: Medium-Term Balance of Payments Projections, 1982-1989 1/

(In millions of SDRs)

	1982	1983	Projections 1984	1985	1986	1987	1988	1989
Trade balance	-143	99	77	162	250	313	382	459
Exports, f.o.b.	1,190	1,063	1,144	1,224	1,322	1,428	1,542	1,665
Imports, f.o.b.	-1,333	-964	-1,067	-1,062	-1,072	-1,115	-1,160	-1,206
Services (net), excluding interest	-322	-280	-238	-263	-300	-311	-322	-328
Interest payments 2/	-102	-137	-163	-187	-210	-228	-243	-246
Private transfers (net)	-127	-121	-75	-99	-95	-95	-90	-90
Current balance	-694	-439	-399	-387	-355	-321	-273	-205
Official transfers	58	32	54	54	55	55	55	55
Capital (net)	475	74	125	102	131	157	187	225
Other (net) 3/	73	58	--	--	--	--	--	--
Change in net foreign assets (increase -)	89	275	220	231	169	109	31	-75
Financing								
Fund (net) 4/	--	153	71	-19	-49	-82	-59	-30
Purchases	(--)	(153)	(80)	(--)	(--)	(--)	(--)	(--)
Repurchases	(--)	(--)	(9)	(19)	(49)	(82)	(59)	(30)
Change in other reserve-related items (net)	89	122	...	...	...	...	...	...
Assets	(-28)	(-24)	(...)	(...)	(...)	(...)	(...)	(...)
Liabilities	(61)	(98) 5/	(-78) 5/	(...)	(...)	(...)	(...)	(...)
Addition to gross foreign reserves	--	--	--	--	--	10	10	10
Financing requirement	--	--	227 6/	250 6/	218	201	100	-35
Memorandum item:								
Current account deficit (including interest) as percent of GDP	13	10	9	9	7	6	5	3

Sources: Data provided by the Zimbabwean authorities; and staff estimates.

1/ Assumes an annual rate of increase in exports of 8 percent and in imports of 4 percent from 1986 onward. Assumes that the terms of trade will improve on the average by about 1 percent per annum from 1986 onward. Assumes the gradual liberalization of the recent exchange measures introduced on current payments starting in 1985.

2/ Includes estimated interest payments on projected new borrowings assumed in the capital account and on the projected financing requirement.

3/ Includes monetization of gold, valuation adjustment, and errors and omissions.

4/ Assumes no further purchases under the current stand-by arrangement.

5/ Bridging finance of SDR 78 million that was repaid in January 1984, following the delayed purchase from the Fund.

6/ Considerations with respect to financing arising from the recently acquired foreign securities have not been incorporated in the table. However, the available amount of financing from this source which is estimated to be about SDR 170 million has been subtracted from the financing requirement for 1984-85 when projecting the interest payments.

Table 5. Zimbabwe: Projections of Service Payments on Government and Government-Guaranteed External Debt, 1982-90 1/

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
			Projections						
I. Government									
Amortization	53.5	73.9	99.8	112.1	116.4	98.6	92.1	80.4	68.9
Interest	51.6	55.2	62.2	60.0	48.8	40.4	34.4	27.4	23.2
Subtotal	105.1	129.1	162.0	172.1	165.2	139.0	126.5	107.8	92.1
II. Government-guaranteed 2/									
Amortization	7.2	25.0	50.8	60.4	67.7	77.2	76.1	68.8	68.8
Interest	41.7	52.9	62.8	69.8	69.9	62.1	55.1	46.2	40.2
Subtotal	48.9	77.9	113.6	130.2	137.6	139.3	131.2	115.0	109.0
III. Fund 3/									
Repurchases	--	--	9.4	18.8	49.4	81.5	59.2	30.2	17.4
Charges	2.4	10.7	21.1	20.8	19.1	14.4	7.8	3.6	1.0
Subtotal	2.4	10.7	30.5	39.6	68.5	95.9	67.0	33.8	18.4
IV. New borrowings 4/ 5/									
Amortization	--	--	--	--	--	30.0	60.0	125.3	204.8
Interest	--	--	8.0	27.2	60.7	100.4	135.1	157.4	169.4
Subtotal	--	--	8.0	27.2	60.7	134.4	195.1	282.7	374.2
A. Total I and II	154.0	207.0	275.6	302.3	302.8	278.3	257.7	222.8	201.1
B. Total I, II, and III	156.4	217.7	306.1	351.9	371.3	374.2	324.7	256.6	219.5
C. Total I, II, and IV	154.0	207.0	283.6	329.5	363.5	412.7	452.8	505.5	575.3
D. Total I, II, III, and IV	156.4	217.7	314.1	379.1	432.0	508.6	519.8	539.3	593.7
Memorandum items:									
Exports of goods and services	1,427	1,249	1,327	1,407	1,505	1,611	1,725	1,848	1,981
Debt service ratios (in percent)									
Excluding Fund (C)	10.8	16.6	21.4	23.4	24.2	25.5	26.2	27.4	29.0
Including Fund (D)	10.9	17.4	23.7	26.9	28.7	31.6	30.1	29.2	30.0

Sources: Data provided by the Zimbabwean authorities; and staff estimates.

1/ Service payments on external debt outstanding at the end of 1983 and estimated service payments on new borrowings projected to be disbursed through 1989. Service payments do not include service of the short-term foreign liabilities of the Reserve Bank of Zimbabwe. Government and government-guaranteed external debt outstanding (including undisbursed) at the end of 1983 stood at SDR 2,235 million.

2/ Includes interest payments on the short-maturity credit facilities of the National Oil Company of Zimbabwe and the Agricultural Marketing Authority.

3/ Assumes no further purchases under the current stand-by arrangement.

4/ For new borrowings assumed in the capital account, assumes the average terms of 8 percent interest, 4 years' grace, and 10 years' maturity. For borrowings with respect to the financing requirement assumes 3 years' grace and 8 years' maturity, with an interest rate of 10 percent.

5/ Projected new borrowings are based on balance of payments medium-term projections where exports and imports are assumed to grow at 8 percent and 4 percent, respectively, from 1986 onward.

However, during the first quarter of 1984, the Government took two policy actions that rendered the basic program objectives unattainable. In February, a supplementary budget was announced which increased government expenditures substantially but provided for no new revenue measures. With net foreign financing considerably below the budgeted level, the large budget deficit resulted in a level of domestic bank financing that was more than double the original program target. In March, the Government introduced new exchange restrictions, with a suspension of remittances of income (profits, dividends, and rents). External securities registered with domestic nominee companies by residents and former residents were acquired by the Government in exchange for local currency or non-transferable domestic assets.

Export performance in 1983 was below the level projected under the program. As a result, the Zimbabwean authorities reduced the level of imports. In addition, net capital inflows were substantially below the original program projection, so that even with a reduced current account deficit, the overall deficit was larger.

As a result of these developments, the internal and external financial imbalances have become much wider. Purchases have not been made under the current 18-month stand-by arrangement since January 1984 (SDR 125 million remains undrawn out of a total stand-by amount of SDR 300 million) and none are envisaged for the rest of the stand-by period (the arrangement ends on September 22, 1984). The Zimbabwean authorities have requested a continuation of discussions with the staff on a possible new arrangement.

Zimbabwe's current economic circumstances require a policy mix of strong demand restraint (to adjust demand to a reduced level of resource availability accentuated by drought and world recession) and supply incentives (to promote growth and exports and enable the economy to achieve over time its considerable potential for rapid economic growth). An important element of demand restraint is the enforcement of fiscal discipline. The government budget has grown excessively rapidly in relation to the rest of the economy and the budget deficit is much larger than the level that can be financed on a sustainable basis. Current expenditures, in particular, are unduly large. The staff recommends that the deficit in 1984/85 should, as a percentage of GDP, be substantially below that realized in 1983/84 (11.9 percent of GDP).

Demand restraint also requires a continuation of the restrictive wage policy that has been in effect since 1982/83. While this restraint has had the unintended effect of inducing some movement of skilled personnel from the Government to the private sector, and may have contributed to emigration, it is necessary in order to moderate consumer demand, improve the price competitiveness of exports, and maintain employment levels in financially-pressed institutions and enterprises. Stringent limits should continue to be placed on any increases in employment in the public sector.

The degree of price flexibility in Zimbabwe has not been adequate. While substantial consumer price increases have been implemented since 1982, several parastatals continue to sustain losses on current operations and to constitute a large subsidy burden on the budget. Delays in implementing price increases have led to accumulated losses from previous years which the Government is to finance in future years. More rapid decision-making is also required in the approval of requests for increases of prices which are not directly administered but are subject to control. In view of the poor agricultural performance during the past three crop seasons (which were affected by drought), the staff urges the authorities to reintroduce preplanting producer prices for the 1984/85 growing season, especially for maize whose stocks are depleted and whose sensitivity to drought has discouraged plantings.

In order to promote the growth performance over the medium term, an increased investment effort is required and this will involve the attraction of new private sector capital, from domestic as well as foreign companies. A reduction of the proportion of resources used by the Government to finance current expenditures will increase the resources available for the private sector. It is also desirable that the Government formulate a consistent set of incentives for private investment.

The exchange rate actions of 1982/83 have strengthened the competitive position and some improvement in export performance is expected in 1984. The authorities have taken several initiatives to penetrate new export markets and to expand their shares in existing markets. However, it should be noted that the currency has appreciated in real effective terms since the beginning of 1983. In view of the large balance of payments imbalances, greater exchange rate flexibility will be important for export growth, and domestic policies should encourage the shift of resources to the export sector.

Net foreign capital inflows into Zimbabwe were at low levels in 1983 and are projected to remain low in 1984 and 1985 unless concerted effort is made to attract larger volumes of concessional assistance and private capital inflows. Without improved export performance and higher levels of capital inflows, the level of imports that can be financed will be low, with adverse implications for medium-term growth prospects. The staff recommends that the Zimbabwean authorities prepare a realistic and consistent medium-term investment plan, with the cooperation of the World Bank, and that this be used to seek increased donor support for Zimbabwe's development projects.

Zimbabwe retains restrictions on payments and transfers for current international transactions. In March 1984, these exchange restrictions were intensified as remittances of dividends, rents, profits, and some categories of private transfers were suspended. The authorities have stated that it is their intention to remove these restrictions as soon as the balance of payments position permits. The phased reduction of these restrictions, and the implementation of appropriate exchange rate and supporting policies in the fiscal and domestic policy areas, are under discussion between the staff and the authorities. In the meantime, approval by the Executive Board of the restrictions introduced in March 1984 is not recommended.

It is recommended that the next Article IV consultation with Zimbabwe be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board.

1. The Fund takes this decision relating to Zimbabwe's exchange measures subject to Article VIII, Section 2(a), in concluding the 1984 Article XIV Consultation with Zimbabwe and in the light of the 1984 Article IV Consultation with Zimbabwe, conducted under Decision No. 5329-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The restrictions on the making of payments and transfers for current international transactions are maintained by Zimbabwe in accordance with Article XIV except that the exchange restrictions arising from the temporary suspension in March 1984 of remittances of certain incomes (as described in SM/84/--) are subject to approval under Article VIII, Section 2(a). The Fund encourages the authorities to take measures that will permit the elimination of these restrictions as soon as possible.

Zimbabwe: Selected Economic and Financial Indicators, 1981-85 1/

	1981 Actual	1982 Actual	1983 Actual prel.	1984 Prog. prev.	1984 Rev. proj.
	(Annual percent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices	15.3	-4.2	-3.2	3.0	1.6
GDP deflator	8.1	12.8	16.4	14.0	15.0
Consumer prices	13.9	14.6	19.4	18.0	22.3
External sector					
Exports, f.o.b. (million SDRs)	1,229	1,190	1,063	1,177	1,144
Imports, c.i.f. (million SDRs)	-1,437	-1,476	-1,102	-1,322	-1,227
Non-oil imports, c.i.f. (million SDRs)	-1,186	-1,278	-935	-1,163	-1,052
Export volume	-4.8	2.9	-4.4	6.0	9.2
Import volume	23.5	7.7	-22.0	7.7	8.1
Terms of trade (deterioration -)	11.1	-2.6	-2.0	1.0	-4.0
Nominal trade-weighted effective exchange rate, end of period (depreciation -)	3.8	-13.8	-6.2	...	...
Real trade-weighted effective exchange rate, end of period (depreciation -)	8.8	-6.8	3.6	--	...
Central government budget 1/					
Revenue and grants	50.0	35.1	32.7	17.5	9.7
Total expenditure and net lending	23.7	31.5	32.5	14.2	15.6
Money and credit					
Domestic credit 2/	26.6	29.5	17.2	15.4	29.2
Government 2/	-3.1	18.7	-2.9	...	17.0
Money and quasi-money (M-2)	15.2	21.0	--	1.7	24.4
Velocity (GDP relative to M-2)	3.1	2.8	2.9	3.3	3.2
Interest rate (annual rate, one-year time deposit, or alternative rate)	12.00	10.50	14.20	...	...
	(In percent of GDP)				
Central government budget deficit 1/					
Excluding official transfers	-9.7	-9.0	-10.9	-9.8	-13.3
Including official transfers	-7.2	-8.2	-9.7	-8.5	-11.9
Domestic bank financing	3.8	-0.3	2.3	1.9	4.4
Foreign financing	0.9	5.3	1.1	3.4	1.4
Limited public sector deficit	-8.2	-9.8	-13.4	...	-13.4
Gross domestic investment	28.2	26.0	22.5	...	...
External account deficit					
Including official transfers	10.7	12.3	9.0	11.1	7.8
Excluding official transfers	12.1	13.4	9.7	12.5	9.0
External debt	29.6	34.4	49.5	...	57.0
Inclusive of use of Fund credit	30.6	34.4	53.8	...	61.0
Debt service ratio 3/4/	7.0	10.4	17.4	23.6	23.7
	(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	-150.5	-85.5	-268.0	-218	-220
Gross official reserves (months of imports, c.i.f.)	1.9	1.6	2.0	1.4	...

1/ In the case of central government finances the data refer to fiscal years (July-June) 1980/81, 1981/82, 1982/83 preliminary actual, 1983/84 program as proposed under the first review, and 1983/84 estimated outturn.

2/ Absolute increase as a percentage of money and quasi-money at the beginning of the period.

3/ Includes Fund.

4/ Debt service ratios presented in earlier staff reports did not include payments due on short-term debt that has been consolidated in 1983 into medium-term debt.

ZIMBABWE - Fund Relations
(At July 31, 1984)

(Amounts in millions of SDRs, unless otherwise specified)

I. Membership status

a. Date of membership: September 29, 1980
b. Status: Article XIV

A. Financial Relations

II. General Department

a. Quota: 191

	Millions of SDRs	Percent of quota
b. Total Fund holdings of Zimbabwe dollars	456.97	239.25
c. Fund credit	266.00	139.27
Credit tranches	107.35	56.20
Enlarged access resources	100.45	52.6
Compensatory financing facility (exports)	56.10	29.4
Buffer stock financing facility	2.10	1.1
d. Reserve tranche	-- 1/	--

III. Current Arrangement and Special Facilities

	Date of arrangement	Duration (months)	Total amount	Utilization	Undrawn balance
a. Current stand-by arrangement	March 1983	18	300.0	175.0	125.0
b. Previous stand-by arrangement	April 1981	12	37.5	37.5	--

1/ Actual amount is SDR 30,923.

	Date of arrangement	Total amount
c. Special facilities		
Compensatory financing (exports)	March 1984	56.1
Buffer stock financing	January 1984	2.1

	Amount	Percent of allocation
IV. SDR Department		
a. Net cumulative allocation	10.20	100.0
b. Holdings	4.30	0.42
V. Trust Fund loans		
a. Disbursed	--	
Outstanding	--	
b. SFF Subsidy Account payments	--	
VI. Overdue Obligations to the Fund	None	

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

The Zimbabwe dollar is determined on the basis of an unannounced trade-weighted basket of currencies. The intervention currency is the U.S. dollar. The representative rate on July 31, 1984 was Z$1 = US$0.7598.

VIII. Last Article IV Consultation and Stand-By Arrangement Review

The last Article IV consultation was conducted in 1983 EBS/83/264 and SM/83/247), and the following decision was adopted on January 9, 1984:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Zimbabwe in the light of the 1983 ARticle IV consultation with Zimbabwe conducted under Decision No. 5392-(77/63) adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. Zimbabwe continues to maintain restrictions on payments and transfers for current international transactions as described in SM/83/274. The Fund encourages the authorities to take measures to reduce these restrictions as soon as possible.

At the same time, the first review of the current stand-by arrangement was completed on January 9, 1984 (EBS/83/264), and the following decision was adopted:

1. Zimbabwe has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Zimbabwe (EBS/83/44, Sup. 1, March 24, 1983) in order to reach understandings subject to which further purchases may be made by Zimbabwe under the stand-by arrangement.

2. The letter from the Minister of Finance, Economic Planning and Development of September 30, 1983, shall be annexed to the stand-by arrangement for Zimbabwe, and the letter of January 24, 1983, attached to the stand-by arrangement, shall be read a supplemented by the letter of September 30, 1983.

3. The Fund decides, in view of the circumstances desribed in EBS/83/264 and Supplement 1, that Zimbabwe may proceed to make purchases under the stand-by arrangement, provided that such purchases are made before January 15, 1984 and that cumulative purchases under the arragement shall not exceed the equivalent of SDR 175.0 million until further review by the Fund.

4. In accordance with the letter of September 30, 1983, the understandings referred to in paragraph 4(b) of the stand-by arrangement for Zimbabwe relating to the limits on the total domestic credit of the banking system and on net bank credit to the Government for end-December 1983 shall be those specified in paragraph 12 of the memorandum annexed to the letter.

Zimbabwe is on a 12-month cycle for Article IV consultations.

IX. Adequacy of Statistics

The provision of statistics by Zimbabwe is generally satisfactory. The Bureau of Statistics has assisted Zimbabwe in the organization of its balance of payments and monetary statistics.

ZIMBABWE - Relations with the World Bank Group

Before 1965 the Bank made five loans totaling US$130.3 million to the then Rhodesia. Two loans were made directly to the Government for agriculture (US$5.6 million) and power (US$28 million), and two other loans totaling US$87.7 million were made to the Central African Power Corporation (CAPCO). One loan (US$9 million) was also made to the then Rhodesia Railways. As a guarantor of each of the loans, the United Kingdom serviced them after 1964. The loans for agriculture and railways have been repaid, and CAPCO resumed servicing its two loans after the lifting of sanctions on December 21, 1979.

In early 1981 the Bank and the IDA approved a loan for US$50 million and a credit of US$15 million under the Manufacturing Rehabilitation Imports Program. Both the loan and credit were used to finance priority import requirements of raw materials, spare parts, and other items needed to promote fuller capacity utilization in the manufacturing sector. The bank also approved a loan of US$42 million to finance technical assistance and import requirements of spare parts, track maintenance equipment and tools for the National Railways of Zimbabwe (NRZ) and equipment for the Central Mechanical Equipment Department. In early 1981 the IFC also approved an investment of US$38 million for a thermal coal company.

In 1982 the World Bank Group approved a small farm credit project (US$30.4 million), a project (US$1.2 million) to finance economic and engineering studies of petroleum fuels supply options available to Zimbabwe, and a project (US$105 million) for power development at Hwange.

In 1983 an export promotion project (US$70.6 million), a forestry project (US$7.3 million), an agricultural extension and research project (US$13.1 million), a highway development and maintenance project (US$26.4 million), and a project on training and technical assistance for the railways (US$40 million) were approved.

At the beginning of 1984 the IFC approved capital participation of US$2 million for a finance house to replenish hire purchase funds for machinery and equipment. In June, the Bank approved an urban housing project (US$43 million).

The World Bank Group has also several projects which are now under consideration (urban development, development finance, agricultural technical assistance, health, and agricultural marketing and input supply).

Zimbabwe: Financial Relations with the World Bank Group

A. IBRD/IDA operations (as of June 30, 1984)

(In millions of US dollars)

	Commitment		Disbursed	
	IBRD	IDA	IBRD	IDA
Agriculture	13.1	37.7	0.2	8.6
Industry	120.6	15.0	85.5	15.0
Of which: program lending	(120.6)	(15.0)	(85.5)	(15.0)
Energy	105.0	1.2	11.2	0.6
Transport	108.4	--	24.4	--
Of which: program lending	(42.0)	(--)	(19.4)	(--)
Urban	43.0	--	--	--
Total	390.1	53.9	121.3	24.2
Of which has been repaid	--	--	--	--

B. IFC investments (as of May 31, 1984)

	Commitment	Disbursed
Total	40.0	13.3

Sources: IBRD and IFC.

ZIMBABWE - Basic Data

Area, population, and GDP per capita

Area	390,000 square kilometers
Population: Total (1981)	7.6 million
Growth rate	3 percent
GDP per capita (1981)	SDR 646

	1979	1980	1981	1982	1983 Prel.	1984 Proj.
GDP (at current prices)						
Total (millions of Zimbabwe dollars)	2,546	3,206	3,995	4,321	4,871	5,691
Agriculture (percent of total)	13	14	16	16	14	15
Mining (percent of total)	9	9	6	5	5	5
Manufacturing (percent of total)	24	25	25	23	23	22
Annual real rate of growth (percent)	1.5	11.0	15.3	-4.2	-3.2	1.6
Investment as percent of GDP (at current market prices)	19	22	28	26	22	19
Prices (in percent change)						
GDP deflator	15.7	13.4	8.1	12.8	16.4	15.0
Cost of living index	12.5	7.3	13.9	14.6	19.4	22.3

Central government finance (July/June)	1979/80	1980/81	1981/82	1982/83 Prel. actual	1983/84 Prog.	1983/84 Est. outturn
	(In millions of Zimbabwe dollars)					
Total revenue and grants	674.8	1,012.3	1,367.9	1,815.8	2,133.0	1,991.7
Total revenue	674.8	950.6	1,333.7	1,763.1	2,069.0	1,914.0
Tax revenue	(561.7)	(777.7)	(1,207.6)	(1,579.5)	(1,841.0)	(1,713.0)
Nontax revenue	(113.1)	(172.9)	(126.2)	(183.6)	(228.0)	(201.0)
Grants	--	61.7	34.2	52.7	64.0	77.7
Total expenditure and net lending	1,049.8	1,298.1	1,707.6	2,262.5	2,583.0	2,616.4
Current	970.4	1,142.4	1,435.5	1,808.9	2,129.1	2,210.2
Capital	54.9	107.3	158.2	218.3	221.3	221.7
Net lending	24.5	48.5	113.8	235.3	232.6	184.5

ZIMBABWE - Basic Data (continued)

	1979/80	1980/81	1981/82	1982/83 Prel. actual	1983/84 Prog.	1983/84 Est. outturn
	(In millions of Zimbabwe dollars)					
Overall deficit (-)	-375.0	-285.8	-339.7	-446.7	-450.0	-624.7
Financing	375.0	285.8	339.7	446.7	450.0	624.7
External (net)	72.7	31.7	220.4	49.9	180.0	71.7
Domestic (net)	302.3	254.1	119.3	396.8	270.0	553.0
Deficit as percent of GDP	-13.1	-8.0	-8.2	-9.7	-8.5	-11.9

Money and credit (end of period)	1979	1980	1981	1982	1983	1984 proj.
Foreign assets (net)	205.5	177.9	40.3	-36.9	-367.7	-627.7
Domestic credit	923.3	1,198.0	1,520.7	1,934.0	2,224.5	2,718.1
Claims on Government (net)	(199.8)	(370.9)	(332.9)	(594.2)	(544.8)	(832.6)
Claims on private sector	(723.5)	(827.1)	(1,187.8)	(1,339.8)	(1,679.7)	(1,885.5)
Money and quasi-money	993.1	1,214.3	1,399.3	1,692.8	1,692.5	2,105.5
Money	(463.2)	(632.8)	(678.7)	(771.0)	(740.4)	(...)
Quasi-money	(529.8)	(581.5)	(720.6)	(921.8)	(952.1)	(...)
Other items (net)	135.7	161.6	161.7	204.3	164.3	-15.1

	1979	1980	1981	1982	1983	1984 Proj.
Balance of payments	(In millions of SDRs)					
Exports, f.o.b.	836	1,111	1,229	1,190	1,063	1,144
Imports, f.o.b.	-677	-1,029	-1,300	-1,333	-964	-1,067
Trade balance	158	82	-71	-143	99	77
Services and private transfers (net)	-243	-314	-545	-551	-538	-476
Current account balance	-84	-232	-616	-694	-439	-399
Official transfers (net)	--	44	55	58	32	54
Capital account (net)	36	-2	276	475	74	125
Government	134	-26	108	126	-15	60
Public enterprises	-7	-3	152	275	68	73
Other	-91	27	16	73	21	-8
SDR allocation and net errors and omissions	93	180	116	83	28	...
Monetization of gold	3	46	19	-7	37	...
Overall surplus or deficit (-)	48	36	-151	-86	-268	-220

ZIMBABWE - Basic Data (concluded)

	1979	1980	1981	1982	1983	1984 Proj.
			(In millions of SDRs)			
Current account balance as percent of GDP	-2.8	-5.8	-12.1	-13.4	-9.7	-9.0
Gross official foreign reserves (end of period)	156.5	219.3	230.7	203.1	178.8	...
In weeks of imports, c.i.f.	11	10	8	7	9	...
External public debt						
Debt outstanding including undisbursed (end of period)	456	601	1,449	1,851	2,235	2,535
Debt service as percent of exports of goods and services						
Excluding the Fund	...	3.8	8.1	10.8	16.6	21.4
Including the Fund	...	3.8	8.2	10.9	17.4	23.7

IMF data

Date of membership	September 29, 1980
Quota	SDR 191 million
Intervention currency and the rate	U.S. dollar; Z$1 = US$0.7598 (at end of July 1984)
SDR/Local currency equivalent	Z$1 = SDR 0.7498 (at end of July 1984)

	July 31, 1984 (In millions of SDRs)	(In percent of quota)
Total outstanding purchases	266.00	139.27
Under tranche policies	207.80	108.8
Ordinary	(107.35)	(56.20)
Supplementary	(--)	(--)
Enlarged access	(100.45)	(52.6)
Compensatory financing	56.10	29.4
Buffer stock financing	2.10	1.1
Total Fund currency holdings	456.97	239.25
Net cumulative SDR allocation	10.20	100.0
Holdings of SDRs	4.30	0.42
Trust Fund loans outstanding	--	--