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EBS/83/44

CONFIDENTIAL

February 25, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Zimbabwe - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a request from Zimbabwe for a stand-by arrangement equivalent to SDR 300 million. A draft decision appears on page 24.

This subject, together with Zimbabwe's request for a purchase under the compensatory financing facility (EBS/83/45, 2/25/83), will be brought to the agenda for discussion on a date to be announced.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZIMBABWE

Request for Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by J.B. Zulu and S. Kanesa-Thasan

February 23, 1983

I. Introduction

In the attached letter dated January 24, 1983, from the Minister of Finance, Economic Planning and Development to the Managing Director, Zimbabwe has requested a stand-by arrangement for a period of 18 months in the amount of SDR 300 million, equivalent to 200 per cent of quota. Of this amount, SDR 112.5 million (75 per cent of quota) would be from ordinary resources and SDR 187.5 million (125 per cent of quota) would be from borrowed resources. The Government of Zimbabwe has also requested a drawing under the compensatory financing facility for an export shortfall during calendar year 1982; the calculated shortfall is SDR 56.1 million, equivalent to 37.4 per cent of quota. 1/ This will be Zimbabwe's first purchase under the facility. Zimbabwe made a purchase equivalent to 25 per cent of quota under a one-year first credit tranche stand-by arrangement approved by the Board on April 8, 1981; at the end of January 1983 the Fund's holdings of Zimbabwe's currency were SDR 187.5 million, or 125 per cent of quota.

If the full amount of the proposed stand-by arrangement is purchased, the Fund's holdings of Zimbabwe's currency, including the projected purchase of SDR 56.1 million under the CFF, would amount to SDR 543.6 million, or 362.4 per cent of quota; excluding the purchase under the CFF, the Fund's holdings of Zimbabwe's currency would amount to SDR 487.5 million, or 325 per cent of quota. A waiver of the limitation in Article V, Section 3 (b)(iii) of the Articles of Agreement is required.

Purchases are scheduled in seven installments: SDR 60 million is to be made available immediately following approval of the stand-by arrangement; SDR 37.5 million on observance of end-March 1983 ceilings; SDR 40 million following completion of the first review of the program by end-June

1/ See "Zimbabwe: Use of Fund Resources--Compensatory Financing Facility," (EBS/83/45, February 25, 1983), which is scheduled for Board discussion at the same time as this paper.

1983 and on observance of end-June 1983 ceilings; SDR 37.5 million on observance of end-September 1983 ceilings; SDR 40 million following a further review before end-December 1983 and on observance of end-December 1983 ceilings; SDR 40 million on observance of end-March 1984 ceilings; and SDR 45 million on observance of end-June 1984 ceilings (Table 1).

Section II summarizes recent economic and financial developments; Section III describes performance under the last stand-by arrangement; and Section IV analyzes the major elements of the adjustment program in support of which the Zimbabwean authorities have requested the new stand-by arrangement. 1/ The staff appraisal and the proposed decision are in Section V.

II. Recent Economic Developments

The latest consultation reports (SM/82/187 and SM/82/193) on recent economic developments in Zimbabwe were discussed by the Board on October 1, 1982. This section summarizes and updates the information presented in those reports.

In the past two years Zimbabwe's economic growth rate has declined, while the domestic and external financial positions have come under increasing pressure. The rate of growth of real GDP, which in 1980 was estimated at 11 per cent, declined to 7 per cent in 1981 and to about 3.5 per cent in 1982. This deteriorating growth performance reflects in part the impact of temporary factors, notably transport problems in 1981, a severe drought in 1982, and depressed export prices. It also reflects the effects of underlying problems in the economy, including a fall in the rate of domestic capital formation, limited capacity utilization in the manufacturing sector due to inadequate levels of imports, and reduced profitability in the productive sectors and weakened competitiveness of manufactured exports owing to substantial increases in wages and other costs and an appreciation of the real effective exchange rate.

Starting in 1979, consumer demand has risen steadily, as wage increases and budgetary expenditures have raised incomes, especially of the poorer segments of the population. The rate of inflation has accelerated; the cost of living index, which in 1980 rose by 9.2 per cent, increased by 14.6 per cent in 1981 and is estimated to have risen by about 17 per cent in 1982.

1/ The program was mainly negotiated in Harare in October 1982 by a mission consisting of Messrs. M.E. Edo (head-AFR), S.N. Kimaro (AFR), K.M. Huh (ETR), and M. Katz (FAD), and Mrs. Y. Coker (secretary-AFR). Mr. J.B. Zulu joined the mission during the latter part of its stay in Harare. Following discussions and approval of the program in principle by the Cabinet, further discussions on the budget were held in Washington during visits by Zimbabwean delegations in December 1982, and February 1983.

Table 1. Zimbabwe: Schedule of Purchases and Repurchases, March 1983-July 1984

Month	Purchases: Stand-by arrangement	Purchases: CFF	Repurchases	Total outstanding	Purchases outstanding: Total	Purchases outstanding: Excl. special facilities
	(In millions of SDRs)				(As per cent of quota)	
1983:						
March 1/	60.0	56.1	--	153.6	102.4	65.0
April	37.5	--	--	191.1	127.4	90.0
July	40.0	--	--	231.1	154.1	116.7
October	37.5	--	--	268.6	179.1	141.7
1984:						
January	40.0	--	--	308.6	205.7	168.3
April	40.0	--	--	348.6	232.4	195.0
July	45.0	--	--	393.6	262.4	225.0

Sources: Phasing in the stand-by arrangement; and data provided by the Treasurer's Department.

1/ Following Board approval; thereafter purchases relate to performance criteria at the end of the preceding month.

The budget has been used as a primary instrument for promoting the rehabilitation of the economy and the resettlement of the population displaced during the unsettled conditions of the 1970s, for fostering a more equitable distribution of incomes, social services, and economic opportunities, and for laying the groundwork for rapid economic growth through the development of requisite infrastructure and utilities. In pursuit of these objectives, total budgetary expenditure and net lending rose by 22 per cent in 1980/81 (July-June) and 31 per cent in 1981/82. At the same time, the Government made a major effort to raise revenue, mostly through new tax measures. In each of these two fiscal years, total revenue and grants increased by more than 40 per cent, and the overall budgetary deficit, which in FY 1979/80 was equivalent to 12.3 per cent of GDP, declined to 9.1 per cent in 1980/81 and 7.7 per cent in 1981/82.

During the two-year period 1980-81 export receipts increased at an average annual rate of 22 per cent, and import payments, at a rate of 39 per cent. The deficits on invisibles and private unrequited transfers widened significantly owing to the liberalization measures taken in 1980 and 1981 and to the discharge of financial obligations undertaken during the Lancaster

House constitutional talks which led to the country's independence. The current account deficit rose in relation to GDP from 6.6 per cent in 1980 to 12.5 per cent in 1981. Despite increased net capital inflows and official transfers, the overall balance of payments deficit increased from SDR 14 million in 1980 to SDR 160 million in 1981.

In 1982 the external situation remained under pressure. Reflecting mainly a decline in prices of most products, export receipts are estimated to have declined by 5 per cent below the 1981 level. The authorities, reacting to the poor export performance, reduced foreign exchange allocations for imports in 1982 by 17 per cent, compared to the amount allocated in the preceding year. Despite the reduction in import allocations, nominal imports in 1982 remained at about the same level as in 1981, as public sector imports financed by aid funds and short- and medium-term commercial credits increased. With no improvement in the services account, the current account deficit is estimated to have been SDR 719 million, equivalent to 12.3 per cent of GDP, compared to 12.5 per cent in 1981. Despite an increase in net capital inflows, the overall deficit is estimated to have widened by about 19 per cent to SDR 190 million.

The stock of government and government-guaranteed external debt with maturities exceeding one year increased from SDR 1,376 million (28 per cent of GDP) at the end of December 1981 to SDR 1,705 million (29 per cent of GDP) at the end of September 1982. About three quarters of such external loans contracted or guaranteed by the Government during the first three quarters of 1982 were nonconcessional; of this amount, the Government accounted for about 10 per cent. In 1982 service payments on debt of more than one year's maturity (including Fund repurchases and charges) are estimated to have been SDR 107 million, equivalent to 8.5 per cent of exports of goods and services. Taking also into account estimated service payments on new external debt projected to be disbursed up to 1987, this ratio is expected to rise to 13 per cent in 1983, 17 per cent in 1984, and 22 per cent by 1987. Short-term loans of less than one year's maturity amounting in total to SDR 304 million were contracted in late 1981 (SDR 208 million) and 1982 (SDR 96 million); the authorities plan to avail themselves of provisions which permit them to roll over these debts until 1985.

Until December 8, 1982 the exchange rate for the Zimbabwe dollar was determined on the basis of a transactions-weighted basket consisting of six currencies: U.S. dollar (55 per cent), South African rand (25 per cent), pound sterling (12 per cent), deutsche mark (5 per cent), Swiss franc (2 per cent), and French franc (1 per cent). After depreciating steadily for many years, the trade-weighted real effective exchange rate appreciated by 7.3 per cent in 1981 and 5.6 per cent during the first quarter of 1982, and appears to have continued to appreciate until November 1982. On December 8, 1982 the Zimbabwe dollar was devalued by 20 per cent in local currency terms and the currency basket was modified (see Section IV). In January 1983 the Zimbabwe dollar was allowed to depreciate by a further 5 per cent in local currency terms.

As part of the exchange liberalization measures taken by the authorities in late 1980 and at the beginning of 1981, 50 per cent of after-tax profits and dividends accruing to companies domiciled in Canada, the United Kingdom, and the United States were authorized for remittance, thus placing such remittances to all countries on an equal footing (remittances to the three countries had been blocked during the period under sanctions). Certain unrequited private transfers were also liberalized in accordance with undertakings made during the Lancaster House constitutional talks.

In December 1982 the Government issued the Transitional National Development Plan (1982/83-1984/85). The main objective of the plan is to mobilize domestic and foreign resources for investment to achieve the maximum feasible rate of growth. The plan advocates a shift in budgetary outlays toward development expenditure, with recurrent expenditure to be limited to a level not exceeding budget revenue. Proposed policies include the reduction of subsidies over time and the implementation of appropriate wage, price, and exchange rate policies to promote efficient use of scarce capital resources. In recognition of the need for foreign exchange to finance imported inputs, the plan advocates export-oriented growth. The bulk of planned expenditure is allocated for infrastructure (especially roads, railways, and community and urban facilities) and the productive sectors (especially agriculture and manufacturing). The private sector is encouraged to play a role in the development of the economy and is expected to provide a substantial part of the total invested resources.

The specific quantitative targets in the plan were adopted in early 1981, and the assumptions made about developments in 1981/82 and prospects for 1982/83-1984/85 have proved to be significantly more optimistic than the actual performance in 1981/82 and present forecasts for 1982/83-1984/85. The plan envisages average economic growth of 8 per cent per annum during the plan period and calls for total capital formation of Z$6.1 billion (SDR 6.1 billion), with the public and private sectors providing 59 per cent and 41 per cent, respectively, of the total. Nearly two thirds of the planned capital formation is to be financed domestically; the remaining one third, to be financed externally, consists largely of already secured commitments on ZIMCORD aid, almost all of which is concessional. 1/ Since the long delay in the publication of the plan has created a need for revision of the quantitative basis, the Government intends to implement the plan through annual programs that will be formulated to reflect more accurately the changes in financial and economic prospects.

III. Performance Under the First Credit Tranche Stand-By Arrangement

The objective of the authorities under the first credit tranche arrangement, which expired on April 7, 1982, was to restrain domestic demand and

1/ Commitments pledged at the Zimbabwe Conference on Reconstruction and Development (ZIMCORD) held in Harare in March 1981.

reduce the balance of payments deficit. To reduce the budget deficit, the Government introduced several revenue measures, including increases in excises and in the income tax surcharge. Bank credit was limited and interest rates were raised in early 1981 in order to contain private sector demand.

Zimbabwe's performance under this stand-by arrangement is shown in Table 2. All performance criteria on external borrowing and on credit expansion were observed, except in June 1981, when total domestic credit temporarily exceeded the ceiling (by 2 per cent) owing to a high seasonal increase to finance tobacco sales, which were large as a result of good auction prices.

While the financial targets were generally observed, the balance of payments performance in 1981 was weaker than had been envisaged under the program. This was due principally to the weak performance of exports, which increased by only 7 per cent whereas earlier projections had anticipated an increase of 26 per cent. The current account deficit was equivalent to 12.5 per cent of GDP, instead of 4 per cent as envisaged, and the overall deficit was SDR 160 million, compared with SDR 15 million projected in the program (Table 7).

IV. The New Program

1. Introduction

The attached letter of intent describes the economic policies the Government of Zimbabwe intends to pursue during the program period which covers the second half of FY 1982/83 and the whole of FY 1983/84. The primary objectives of the program are to reduce domestic and external financial imbalances, through appropriate demand-management policies, and to arrest the declining trend in economic growth and to create the conditions suitable for sustainable economic growth.

Demand management under the program relies on improved budgetary performance, restraint on wages and salaries, appropriate pricing policies, and prudent monetary and credit policies. On the supply side, the pursuit of a more flexible exchange rate policy is expected to alleviate the financial difficulties of many export industries, and to contain the decline in output, especially in the mining sector. Together with appropriate supporting measures, a flexible exchange rate policy is expected to restore export competitiveness and to contribute toward some expansion of manufactured exports and tourism over the medium term.

However, the external situation is expected to remain weak in 1983, with exports recovering moderately and the low rate of growth of imports continuing to constitute a serious constraint on economic growth; real GDP is projected to rise at an average annual rate of less than 2 per cent.

Table 2. Zimbabwe: Performance Under the 1981 First Credit Tranche Arrangement, 1979/80-1981/82

		1979/80		1980/81	1981/82
Budget deficit as percentage of GDP 1/					
Program target		...		12.8	11.4
Actual		13.1		9.4	8.1 2/
	1980	1981			
	Dec.	Mar.	June	Sept.	Dec.
	(In millions of Zimbabwe dollars)				
Domestic credit 3/					
Program ceiling	...	1,293	1,353	1,428	1,498
Actual	1,198	1,264	1,379	1,340	1,358
Credit to Government					
Program ceiling	...	446	486	526	556
Actual	371	375	431	380	333
External borrowing (cumulative) 4/					
Program ceiling	...	300	300	300	300
Actual	--	90	177	259	298

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

1/ These ratios are based on the GDP series used in the original stand-by paper; GDP figures have since been revised, and the tables on the new program use the revised series.
2/ Based on preliminary actual budget data.
3/ Adjusted for the increase in the financing of maize stocks in 1981.
4/ Nonconcessional borrowing contracted or guaranteed by the Government with 1-10 year maturity.

In order to permit a larger increase in imports and achieve a higher rate of economic growth than envisaged under the program, the authorities are considering an approach to bilateral donors for balance of payments assistance on concessional terms, and they hope to receive the assistance of the Fund in this endeavor.

The authorities have described their objectives and policies for 1983 in detail, and these are summarized in Table 3, while the quantitative performance criteria are shown in Table 4.

2. Fiscal policy

A major objective of fiscal policy under the program is to continue to reduce the overall budgetary deficits. During the program period, which covers the first half of the Transitional National Development Plan, the budget will also be used increasingly as an instrument of development through the mobilization of increased budgetary savings and the restructuring of expenditure in favor of investment and development.

The overall budgetary deficit, which had declined steadily since 1979/80 to 7.7 per cent of GDP in 1981/82, was originally estimated in July 1982 to rise in the 1982/83 budget to the equivalent of 10.7 per cent of estimated GDP. Despite another large increase (42 per cent) in budgetary revenue projected for fiscal year 1982/83, the overall deficit was budgeted to increase owing to a substantial expansion (51 per cent) in total expenditure and net lending.

The new revenue measures in the 1982/83 budget include:

(i) an increase in the rate of the sales tax to 18 per cent for goods previously taxed at 15 per cent, and to 15 per cent for goods previously taxed at 12 per cent;

(ii) an increase in the rate of customs duty on gasoline, from 40 cents per liter to 41 cents, and on diesel, from 0.8 cents per liter to 2.8 cents;

(iii) an increase in excise duties on beer by 3 cents per 375 ml. bottle, and on cigarette by 2 cents for 10 cigarettes; and in the rates of excise duties on cigars, pipe tobacco, and other tobacco products by 24 per cent; and

(iv) an introduction of a third installment for the payment of corporate income tax, expected to yield additional revenue of Z$60 million during the fiscal year.

The above measures were estimated to increase revenue in 1982/83 by Z$235 million (18 per cent of 1981/82 revenue and 4.3 per cent of GDP); the remaining revenue increase (24 per cent of 1981/82 revenue) was expected to derive largely from growth of the tax bases. Another revenue measure

Table 3. Zimbabwe: Summary of Program for 1983

1. Assumptions

Real GDP growth:	2 per cent (3.5 per cent in 1982)
Consumer price index:	17 per cent (17 per cent in 1982)
Change in terms of trade:	no change (-5 per cent in 1982)

2. Targets

Current account deficit of balance of payments (excluding official transfers): SDR 743 million, or 13.3 per cent of GDP, in 1983 (SDR 719 million or 12.3 per cent of GDP, in 1982) and SDR 713 million or 10 per cent of GDP, in 1984. The increase in the deficit in 1983 is due to a higher level of aid-financed imports and higher freight, transportation, and interest payments.

Overall balance of payments deficit: SDR 227 million, or 4 per cent of GDP, in 1983 (SDR 190 million or 3.3 per cent of GDP, in 1982) and SDR 200 million, or 2.8 per cent of GDP, in 1984.

3. Principal elements

a. Budget

Overall deficit, including grants: 7 per cent of GDP in 1982/83 (7.7 per cent of GDP in 1981/82).

Reduction of original budgeted total expenditure and net lending by Z$200 million (a reduction of about 8 per cent).

In FY 1982/83 limit bank financing, adjusted for nonconcessional external borrowing for budgetary support, to Z$80 million or 1.5 per cent of GDP (compared to Z$110 million or 2.5 per cent GDP in 1981/82).

Consultation with the staff if agreed cumulative revenue and expenditure targets for March 1983 are not observed.

Understandings on the 1983/84 budget are to be reached during the first review of the program prior to June 30, 1983; the target is that the ratio of the budget deficit to GDP is to be reduced further to about 5.5 per cent.

b. Incomes and pricing policies

No general salary increase in the public or private sector in FY 1982/83; in FY 1983/84 the general salary increase is to be limited to half the increase in the cost of living index during the preceding 12 months.

Table 3. Zimbabwe: Summary of Program for 1983 (continued)

On December 18, 1982 subsidies on maize meal were reduced by nearly one third, and consumer maize meal prices were raised on average by about 50 per cent.

Undertaking to raise railway tariffs in March 1983 in order to reduce subsidies to the National Railways of Zimbabwe.

Undertaking to take further action to reduce budgetary subsidies in the 1983/84 budget. 1/

Commitment to adjust controlled domestic prices to reflect the impact of the exchange rate adjustment.

c. Monetary and credit policies

Review of interest rates during the first program review (following the substantial interest rate increases in 1981, several consumer interest rates are currently positive in real terms).

Domestic credit expansion: 14 per cent in 1983 (35 per cent in 1982).

Credit expansion to Government: 2/ 19.8 per cent in 1982/83 (27.1 per cent in 1981/82).

d. External sector

On December 8, 1982 the Zimbabwe dollar was devalued by 20 per cent in local currency terms; a further depreciation of 5 per cent in local currency terms was effected in January 1983. The external value of the currency is to be altered periodically to ensure that there is no real effective appreciation during the period of the stand-by arrangement.

In 1983 new government or government-guaranteed nonconcessional borrowing of maturity between 1-10 years will limited to SDR 220 million, of which not more than SDR 10 million shall have an original maturity of 1-5 years. Further, there will be no commercial borrowing for balance of payments support of maturity less than one year.

1/ Almost all of the budgetary subsidies are associated with domestic products either as producer or consumer subsidies (see Table 4 of Staff Report for 1982 Article IV consultation, SM/82/187). As such, the budgetary subsidy bill will not be affected adversely by the devaluation and might even result in a reduction in producer subsidies.

2/ Adjusted to include external nonconcessional borrowing for budgetary support.

Table 3. Zimbabwe: Summary of Program for 1983 (concluded)

4. Performance criteria

Quarterly ceiling on domestic bank credit, quarterly subceilings on net bank credit to the Government, ceilings on new government and government-guaranteed nonconcessional external borrowing with original maturity of 1-10 years, and understandings to be reached with the Fund during half-yearly reviews as summarized below.

5. Program reviews

Review prior to June 30, 1983, during which understandings with the Fund are to be reached with the Fund on exchange rate policy, fiscal policy for 1983/84, interest rate policy, and credit ceilings for September 30 and December 31, 1983.

Another review before December 31, 1983 to reach understandings on policies for the second half of FY 1983/84 and credit ceilings for the balance of the period of the stand-by arrangement.

Table 4. Zimbabwe: Quantitative Performance Criteria for the Stand-By Arrangement During 1983

(In millions of Zimbabwe dollars)

	1982 (Actual)		Proposed program in 1983	
	June	Dec.	March	June
Domestic credit	1,695.0	1,989.6	2,040.0	2,090.0
Credit to Government (net)	417.5	594.2	580.0	500.0
External borrowing (cumulative) 1/				
Maturity of 1-10 years	...	...	SDR 220 mil.	SDR 220 mil.
Maturity of 1-5 years	...	...	SDR 10 mil.	SDR 10 mil.

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

1/ The ceilings refer to new nonconcessional borrowing contracted or guaranteed by the Government during the whole of 1983.

in the 1982/83 budget, which will raise revenue starting in 1983/84, is an increase in the surcharge on income tax from 15 per cent to a level which rises on a progressive scale from 16 per cent for basic tax payable between Z$4,001 and Z$5,000 to 33.3 per cent for tax payable in excess of Z$12,000. On the expenditure side, the original 1982/83 budget envisaged an increase in total expenditure and net lending of 51 per cent, with current expenditure growing by 28 per cent and capital expenditure and net lending increasing to nearly three times the 1981/82 level. The resulting overall deficit, equivalent to 10.7 per cent of GDP, was to be financed through foreign borrowing (54 per cent), domestic nonbank borrowing (25 per cent), and domestic bank borrowing (21 per cent). One of the principal objectives of the authorities in the 1982/83 budget was that, for the first time in several years, revenue should exceed current expenditure; borrowing therefore would be only for capital expenditure.

Under the proposed program, the overall budgetary deficit in 1982/83 will be limited to 7 per cent of GDP, about 4 percentage points lower than in the budget (Table 5). In view of the substantial revenue measures adopted in July 1982, the program does not call for additional revenue measures. The decline in the overall deficit is to be achieved through a net reduction of 8 per cent (Z$200 million) in the budgeted total expenditure and net lending of Z$2,537.6 million (Attachment IV, columns 1 and 2). 1/ The net reduction in expenditure is distributed among current and capital expenditure and net lending, and has already been identified (Attachment V). The Government has identified reductions to cover not only the Z$200 million called for under the program, but also supplementary appropriations amounting to Z$87 million (3.7 per cent of total expenditure and net lending). Directives concerning the needed curtailment in outlays were issued to the various ministries in December 1982, and the authorities are confident that, given Zimbabwe's standards of expenditure control, the required reductions will materialize.

These reductions in expenditure in 1982/83 under the program will increase current expenditures by about a quarter over the 1981/82 level, while capital expenditures and net lending will be slightly more than twice the 1981/82 level. The much larger rate of expansion for capital expenditures and net lending reflects the low level of such expenditures in previous years and the introduction of expanded capital programs in accordance with the objectives of the development plan.

Preliminary actual data for July-December 1982 (the first half of FY 1982/83) suggest that, while expenditure and net lending amounted to 49 per cent of the intended total for the whole year, revenue was only 42 per cent of the year's total and revenue and grants amounted to 41 per

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1/ Taking into account the probable impact of the devaluation and of a possible shortfall in capital expenditure, the combined reduction in total expenditure and net lending is estimated at Z$207 million (Attachment IV, column 4).

Table 5. Zimbabwe: Summary of Overall Fiscal Operations of the Central Government, 1979/80-1982/83

	1979/80	1980/81	1981/82		1982/83	
	Actual		Budget estimate	Prelim. actuals	Budget estimate	Prog. 1/
			(In millions of Zimbabwe dollars)			
Total revenue and grants	675.9	949.1	1,365.6	1,334.8	1,948.2	1,945.6
Total revenue	675.9	949.1	1,321.0	1,329.4	1,884.9	1,885.3
Tax revenue	(561.7)	(777.2)	(1,165.8)	(1,206.1)	(1,727.7)	(1,727.1)
Nontax revenue	(114.2)	(171.9)	(155.2)	(123.3)	(157.2)	(158.2)
Grants	--	--	44.6	5.4	63.3	60.3
Total expenditure and net lending	1,050.8	1,283.9	1,830.3	1,680.1	2,537.6	2,330.6
Current	971.4	1,137.9	1,515.8	1,449.0	1,847.9	1,797.9
Capital and net lending	79.4	146.0	314.5	231.1	689.7	532.7
Overall deficit (-)	-374.9	-334.8	-464.7	-345.3	-589.4	-385.0
Financing	374.9	334.8	464.7	345.3	589.4	385.0
External (net)	70.2	83.5	206.0	226.6	315.5	182.3
Domestic (net)	304.7	251.3	258.7	118.7	273.9	202.7
Nonbank	(167.2)	(114.9)	(144.7)	(131.8)	(150.9)	(120.2)
Banking system	(137.5)	(136.4)	(114.0)	(-13.1)	(123.0)	(82.5)
			(As per cent of GDP)			
Memorandum items						
Total revenue	22.2	25.7	29.5	29.7	34.3	34.2
Tax revenue	18.5	21.1	26.0	26.9	31.4	31.4
Total expenditure and net lending	34.6	34.8	40.9	37.5	46.1	42.3
Current	31.9	30.8	33.8	32.3	33.6	32.6
Capital and net lending	2.6	4.0	7.0	5.2	12.5	9.7
Overall deficit (-)	-12.3	-9.1	-10.4	-7.7	-10.7	-7.0
Bank financing	4.5	3.7	2.7	-0.5	2.2	1.5

Sources: Report of the Comptroller and Auditor General; Financial Statements; data provided by the Zimbabwean authorities; and staff estimates.

1/ Includes staff estimates of the devaluation impact and possible shortfalls in revenue and expenditure (see Attachment IV).

cent of the year's total. The deficit for the first half of FY 1982/83 was, in consequence, considerably more than half the deficit target for the whole year. Further, since there was relatively little use of external financing in July-December 1982, domestic bank financing of the budget rose rapidly.

The staff has discussed this development with the Zimbabwean authorities. Treasury officials explained that the above pattern of revenue receipts was anticipated, and reflects not only seasonal tendencies but also the fact that the benefit to be derived from the introduction of the third instalment of corporate income tax (expected to yield Z$60 million) would not be realized until the fourth quarter of the fiscal year. Moreover, on February 9, 1983 the authorities announced additional revenue measures expected to yield Z$36.4 million during the remainder of FY 1982/83. These include:

(i) a further increase to 19 per cent and 16 per cent in the rates of the sales tax on goods which since July 1982 had their rates raised by one percentage point to 18 per cent and 15 per cent, respectively;

(ii) an increase in excise duties on beer by 11 per cent to 70 cents per pint, and on cigarettes by 16.7 per cent to 70 cents per pack of 30 cigarettes; and

(iii) an increase of more than one third in the price of gasoline to Z$4.25 per gallon (to cover the increased cost, in local currency terms, due to the devaluation and to raise extra revenue).

The Zimbabwean officials also pointed out that foreign financing is on a reimbursement basis, and that the major part of receipts are normally recorded in the second half of the fiscal year. Under the program, therefore, the level of net credit outstanding to Government is to decrease from December 1982 to March 1983 and further by the end of June 1983 (Table 4), as the deficit in the second half of the fiscal year is reduced to a level substantially below that of the first half and as increased amounts of foreign resources are mobilized. The Government undertakes to consult with the staff if agreed cumulative revenue and expenditure projections for March 1983 are exceeded.

Attachment IV shows in separate columns staff estimates of the budgetary impact of the devaluation and of possible shortfalls in revenue and expenditure. The estimated devaluation effects take into account changes in customs receipts, sales taxes, interest payments on foreign debt, foreign travel, purchases of imported equipment, and grant receipts.

In adopting the program and the fiscal limits in Table 5, the Government is making some difficult adjustments. The achievement of some basic government objectives in the provision of educational facilities (primarily for sections of the population who had limited opportunities for education prior to majority rule) is to be delayed, and, despite the uncertain security situation in the region, the authorities indicated their intention to avoid further supplementary budgetary appropriations during the remainder of FY 1982/83.

The budget for 1983/84 is to be discussed during a review of the program to be held not later than June 1983. The authorities are committed to a further reduction of the overall budget deficit to about 5.5 per cent of GDP in 1983/84.

3. Pricing, wage, and salary policies

Pricing policy during the program period will be used to support demand management and to promote a more efficient allocation of resources. To this end, the Government is committed to a progressive reduction of consumer and producer subsidies. With price increases implemented in the first half of 1982, subsidies on beef were reduced, and those on edible oil and bakers' flour were abolished. In December 1982, following adoption of the current stabilization program, the Government acted to reduce the subsidy on maize meal, a major food staple which accounts for a substantial part of total consumer subsidies. Effective December 18, 1982, the subsidy on maize meal was reduced by Z$30 per ton to about Z$69 per ton and the average price to the consumer was raised from about 50 cents to 76 cents per bag of 5 kilograms. This measure is expected to reduce maize subsidies by one third from the level of Z$45 million in 1981/82. Moreover the increase in the consumer price of maize meal made it possible to provide adequately for transportation, millers margins, and other distribution costs. Along with the measures taken in the first half of 1982, the action on maize meal should limit total consumer subsidies in 1982/83 to Z$40 million (1.7 per cent of total expenditure and net lending), compared to Z$60 million in 1981/82 (3.6 per cent of total expenditure and net lending). The Government intends to effect a reduction of subsidies to the National Railways of Zimbabwe through upward adjustment of transport tariffs in March 1983. Additional measures to reduce subsidies are envisaged for the 1983/84 budget.

In view of the increases in wages and salaries in the past two years (especially at lower income levels), the Government has announced that there will be no general increase in salaries in the public and private sectors in 1982/83. Thereafter, pressures for salary adjustments are expected to intensify because of the rise in the cost of living since the last general salary adjustment in early 1982; the Government will award a general salary increase in 1983/84, but the increase will not exceed one half the rise in the cost of living during the previous 12 months. The Government will study appropriate guidelines for an incomes policy that will in the future give due weight to productivity developments in the economy. Concerning recruitment policy, the Government will continue to pursue its program of demobilization of a large number of military personnel. The substantial net emigration of skilled manpower in the past two years, and the expansion of essential public services, will require new recruitment, but the overall government wage bill will be limited to conform to the overall budgetary deficit targets.

4. Monetary and credit policies

The Zimbabwean authorities raised the minimum deposit interest rates and the required liquidity and statutory reserve ratios in 1981 as part of a general effort to contain credit expansion. Interest rates were adjusted twice in the course of that year, raising the bank rate from 4.5 per cent to 9 per cent and the commercial bank prime lending rate from 7.5 per cent to 13 per cent. Corresponding adjustments were made in other rates, and several loan rates are at present positive in real terms. The adequacy of interest rates will be re-examined during the first review of the program scheduled to take place not later than June 30, 1983.

As part of the effort to reduce domestic demand, the rate of growth of domestic credit, which has been high (27 per cent in 1981 and 31 per cent in 1982), will be reduced to about 18 per cent in 1983, or about 21 per cent of estimated broad money supply at the end of 1982 (Table 6). Taking into account the projected deterioration in the external position, the envisaged credit expansion for 1983 implies a rate of growth of broad money for the year of about 8 per cent, compared with 24 per cent in 1982 and 15 per cent in 1981. Within these broad guidelines, credit ceilings have been established for the remainder of FY 1982/83. Thus, total domestic bank credit at end-March and end-June 1983 will not exceed Z$2,040 million and Z$2,090 million, respectively, and net credit to the Government will not exceed Z$580 million at end-March 1983 and Z$500 million at end-June 1983 (Table 4). Credit ceilings for September 30 and December 31, 1983 will be established during the first review of the program prior to June 30, 1983 in the light of more detailed information on the 1983/84 budget.

5. External policies

The authorities recognized that the appreciation in the real effective exchange rate between December 1980 and the end of November 1982 seriously eroded the competitiveness of Zimbabwe's exports. One factor contributing to this appreciation was that the exchange rate currency basket had been based on transaction settlements; this gave an unduly large weight to the U.S. dollar, which was strong in 1981 and much of 1982.

On December 8, 1982 the authorities devalued the Zimbabwe dollar by 20 per cent in local currency terms. On the same date, the authorities changed the exchange rate currency basket to reflect trade weights rather than settlement currencies. The principal effect of the change was to reduce the weight of the U.S. dollar substantially by increasing the weights of a number of other currencies (including the South African rand) and introducing several new currencies into the basket. The Zimbabwe dollar was allowed to depreciate by a further 5 per cent in local currency terms in January 1983.

Table 6. Zimbabwe: Monetary Survey, 1980-83

(In millions of Zimbabwe dollars; end of period)

	1980	1981	1982	1983 1/
Foreign assets (net)	177.9	40.3	-99.5	-335.5
Domestic credit (net)	1,198.0	1,520.7	1,989.6	2,357.0
Government	370.9	332.9	594.2	594.0
Private sector	827.1	1,187.8	1,395.4	1,763.0
AMA 2/	(162.0)	(335.1)	(361.2)	(520.0)
Non-AMA	(665.1)	(852.7)	(1,034.2)	(1,243.0)
Money supply	1,214.3	1,399.3	1,729.6	1,861.5
Other items (net)	161.6	161.7	160.5	160.0

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

1/ Indicative projections.
2/ Agricultural Marketing Authority.

It is the intention of the authorities to manage the exchange rate flexibly. The real trade-weighted exchange rate is being calculated monthly, and appropriate action will be taken periodically to ensure that the real trade-weighted exchange rate of the Zimbabwe dollar does not appreciate during the period of the stand-by arrangement.

In order to promote exports, the Zimbabwean authorities have taken a number of measures to provide increased incentives to exporters. Increased official assistance is to be provided for trade promotion and representation abroad. The Zimbabwean authorities are negotiating an export promotion loan of US$70 million with the World Bank, which will be used to increase the foreign exchange allocated to exporters for the financing of imported components.

Notwithstanding the measures already taken by the authorities, the external balance is expected to remain under pressure in 1983 and 1984 because of the lags in the effects of the measures taken and because world demand for primary commodities is assumed to improve only modestly in these two years. However, the staff's projections of Zimbabwe's balance of payments until 1987 indicate that, with the maintenance of appropriate policies, the current account balance as a percentage of GDP should decline markedly in 1984 and continue to decline to about 6 per cent by 1987 and that the balance of payments should be in approximate overall balance by 1987. With a broad economic base and diversified exports, Zimbabwe has better prospects than many other developing countries to achieve a rapid improvement in the external balance when world economic conditions improve (Attachment VI). 1/

Exports (in SDR terms) are projected to grow by 10 per cent in 1983 and 14 per cent in 1984 (Table 7). This projection assumes that export prices of a number of major products (e.g., tobacco, copper, asbestos, nickel) will recover (Table 8), that external demand for others (e.g., maize, tobacco, coffee, cotton, ferro-alloys, and steel) will improve, and that the authorities will intensify efforts, including the operation of a more flexible exchange rate policy, to promote the export of manufactured goods. Imports (in SDR terms) are projected to grow at an annual nominal rate of 8 per cent in 1983 and in 1984, which will permit a real annual rate of growth of the economy of only less than 2 per cent during the two-year period. Apart from invisible payments related to trade, the services account includes payments of a contractual nature which the authorities liberalized in 1981 (repatriation of previously blocked and current profits and dividends), and no improvement is expected on this account during 1983-84. The private transfers account is also forecast to continue to record a large deficit, owing to increased outflows of emigrant funds and remittances of pension funds. The current account deficit, which, in absolute terms, is projected to increase slightly in 1983 and then decline moderately in 1984, is forecast to rise, as a ratio of GDP, to approximately 13 per cent in 1983 (from 12.3 per cent in 1982) and to decline to 10 per cent in 1984. The increase in the current account deficit from SDR 719 million in 1982 to SDR 743 million in 1983 is due to a higher level in 1983 of aid-financed imports and higher freight, transportation, and interest payments; the increase in the ratio of the deficit to GDP (from 12.3 per cent in 1982 to 13 per cent in 1983) reflects in part the short-term increase in Zimbabwe dollars of the current account deficit as a result of the devaluation. 2/ Current staff projections are that the current account deficit, as a ratio of GDP, will be 9 per cent in 1985, 7 per cent in 1986, and 6 per cent in 1987.

Net capital inflows are projected to be about SDR 500 million a year for the next five years; a substantial part of this will be disbursement of the SDR 1.6 billion of highly concessional aid pledged by foreign donors at the March 1981 Zimbabwe Conference on Reconstruction and Development (ZIMCORD). The overall balance of payments deficit in 1983, projected at SDR 227 million, is expected to be financed entirely with proposed purchases

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1/ This projection is generally consistent with export price projections underlying the medium-term balance of payments outlook for non-oil developing countries which was discussed in World Economic Outlook (January 1983).
2/ Without the devaluation the ratio would have been about 11 per cent.

Table 7. Zimbabwe: Balance of Payments, 1981-84

(In millions of SDR's) 1/

	1981 Prog. 2/	1981 Actual	1982 Prelim.	1983 Projections under new program	1984 Projections under new program
Trade balance	119	-73	-144	-134	-71
Exports, f.o.b. 3/	1,442	1,227	1,164	1,280	1,456
Imports, f.o.b.	-1,323	-1,300	-1,308	-1,414	-1,527
Services (net)	-319	-440	-444	-494	-532
Freight and insurance	-104	-137	-136	-158	-180
Other transportation	62	-17	-18	-16	-16
Travel	-91	-96	-48	-26	-29
Investment income	-135	-97	-143	-184	-192
Other services	-51	-93	-99	-110	-115
Private transfers (net)	-20	-110	-131	-115	-110
Current balance	-220	-623	-719	-743	-713
Official transfers (net)	53	84	43	60	72
Capital (net)	142	385	486	456	441
Government	6	144	124	132	81
Public enterprises	110	119	295	240	264
Private	26	122 4/	67	84	96
SDR allocation	10	10	--	--	--
Monetization of gold	--	-16	--	--	--
Overall balance	-15	-160	-190	-227	-200
Financing	15	160	190	227	200
Use of Fund resources	38	38	--	231	125
Other foreign assets	-23	122	190	-6	75

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

1/ Converted at the following annual average exchange rates per Z$1: 1981, SDR 1.23; 1982, SDR 1.20; 1983-84, SDR 0.96.
2/ Projected at the time of 1981 stand-by arrangement approval (April 1981).
3/ Gold exports on a net basis.
4/ Includes commercial banks and errors and omissions.

Table 8. Zimbabwe: Annual Growth Rates of Major Export Products, 1983-84

(Annual percentage change)

	1983			1984		
	Value index	Volume index	Unit value index	Value index	Volume index	Unit value index
Agricultural products	0	6	-6	22	13	9
Tobacco	8	5	3	23	14	8
Maize	5	40	-25	18	11	7
Coffee	16	8	7	16	10	5
Sugar	-33	-22	-13	28	15	10
Mineral products	11	2	9	5	2	3
Asbestos	13	10	3	12	5	7
Copper	14	1	13	20	4	15
Nickel	3	--	3	3	--	3
Gold	13	--	13	--	--	--
Manufactured goods	15	8	6	12	6	6
Total	8	5	3	12	6	6
Addendum						
Terms of trade (percentage change from preceding year)			-2			-1

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

from the Fund; the authorities do not anticipate a need for additional borrowing for balance of payments reasons. The overall deficit is projected to decline to SDR 200 million in 1984 and thereafter to decline steadily to a position of approximate equilibrium by 1987.

On official debt of more than one year outstanding at the end of 1982, the ratio of debt service to exports of goods and services is estimated to be 9 per cent in 1982 and is projected to rise to 10-12 per cent during the program period. Adjusted for estimated service payments on borrowing projected to be disbursed during 1983-87, the debt service ratio will increase to 17 per cent by 1987, exclusive of Fund repurchases and charges, and 22 per cent by 1987, inclusive of Fund repurchases and charges (Table 9). The authorities recognize the need to pursue a cautious external debt management policy so that service payments on debt to be contracted in the future will not unduly increase the debt service burden. In 1983 the contracting of new government or government-guaranteed nonconcessional debts with an original maturity of 1-10 years will be limited to SDR 220 million, of which not more than SDR 10 million will have an original maturity of 1-5 years. In addition, there is to be no commercial borrowing with a maturity of less than one year for balance of payments support.

V. Staff Appraisal and Proposed Decision

Zimbabwe is experiencing problems of declining economic growth, increasing domestic inflation, and large external imbalances. While various factors beyond the control of the authorities have contributed to these problems, domestic policies have played a major role. Specifically, budgetary, incomes, and pricing policies have contributed to excess demand, and the attendant increases in domestic prices and costs, combined with an appreciation of the real effective exchange rate, have adversely affected the export sector. The weak performance of this sector, which has been exacerbated by deteriorating terms of trade, has made it difficult for the Government to provide for enlarged payments for invisibles and unrequited private transfers (in part associated with the liberalization measures adopted in 1981) and for levels of imports that would ensure adequate economic growth.

In April 1981 the Fund approved a first credit tranche arrangement in support of a program directed essentially at budgetary and balance of payments adjustments. While Zimbabwe implemented a series of restrictive fiscal and monetary measures as part of the program and was able to meet the financial performance criteria, and in fact to reduce the budget deficit more than in the program, the balance of payments performance in 1981 was weaker than envisaged. This was due principally to a considerably smaller increase in exports and, as a result, the current account/GDP ratio in 1981 rose sharply instead of the programmed reduction.

The staff has had discussions with the Zimabwean authorities since the latter part of 1981 on an appropriate stabilization program. The authorities increased interest rates substantially in 1981, reduced the

Table 9. Zimbabwe: Service Payments on Government and Government-Guaranteed External Debt, 1982-87 1/

	1982 Prelim.	1983	1984	1985	1986	1987
				Projections		
			(In millions of SDRs)			
Government	75	100	142	159	190	213
Amortization	51	55	69	77	90	105
Interest	24	45	73	82	100	108
Government-guaranteed	29	73	101	125	160	195
Amortization	6	20	49	51	60	65
Interest	23	53	52	74	100	130
Total	104	173	243	284	350	408
Amortization	57	75	118	128	150	170
Interest	47	98	125	156	200	238
Fund						
Repurchases and charges	3	11	28	42	89	139
Total: Including Fund repurchases and charges	107	184	271	326	439	547
			(In per cent)			
Total service payments as a ratio of exports of goods and services 2/						
Exclusive of Fund charges and repurchases	8.3	12	15	15	16	17
Inclusive of Fund charges and repurchases	8.5	13	17	18	21	22

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

1/ Service payments on external debt outstanding at the end of September 1982 and estimated service payments on external debt projected to be disbursed up to 1985. Assumes an average annual interest rate of 5 per cent for official loans and of 8 per cent for borrowing to finance the overall deficits during 1982-85; assumes minimum grace period of 3 years and average maturity of 15 years.

2/ Exports of goods and services are projected to grow by 10 per cent in 1983 and about 15 per cent thereafter.

budget deficit further as a percentage of GDP in 1981/82, and reduced some subsidies in early 1982. The balance of payments situation deteriorated further in 1981 and 1982, and there was recourse to short-term external borrowing to finance the overall balance of payments deficit. Despite this, the 1982/83 budget, as approved by Parliament in July, provided for a deficit considerably larger than the deficit of 1981/82.

Recognizing the difficult economic situation and the need for a comprehensive and urgent strategy of stabilization, the authorities decided early in December 1982 to adopt the current program. The Zimbabwe dollar was devalued, the price of maize meal (the major food staple) was increased by about 50 per cent, and the Government announced that there would be no general wage increases during the current fiscal year. The Government has also adopted specific reductions in expenditures (totaling at least Z$200 million or 8 per cent of total expenditure and net lending in the original budget) in order to reduce the budget deficit in 1982/83 to 7 per cent of GDP. Despite uncertainties in the security situation, the authorities intend to avoid further supplementary appropriations during the remainder of FY 1982/83. Electricity tariffs have already been increased substantially to finance the expansion of power-generating capacity, and rail tariffs are to be increased in March 1983 to continue the reduction in railway subsidies. In 1983 the contracting of new government or government-guaranteed nonconcessional debt of one to five years maturity will be limited to SDR 10 million, and debt of maturity between one and ten years will be limited to SDR 220 million. In addition there will be no commercial borrowing of less than one year maturity for balance of payments support.

The authorities are committed to make the stabilization program succeed and are aware of the need to monitor developments closely and to take new measures promptly if it should appear that the program targets might not be observed. In this regard, the authorities intend to consult with the staff if cumulative government revenue and expenditure projections for March 1983 are not observed. The program will be comprehensively reviewed with the Fund before the end of June 1983. During that review, understandings will be reached on fiscal policies for 1983/84, as well as on exchange rate and interest rate policies. With regard to the 1983/84 budget, the authorities intend to limit the overall deficit to about 5.5 per cent of GDP, a target which will require a substantial reduction in the rate of growth of expenditure as the scope for further increases in revenue is limited. With regard to exchange rate policy, the authorities allowed the Zimbabwe dollar to depreciate by a further 5 per cent in January 1983 and, thereafter, they intend to prevent any real effective appreciation of the currency.

The policies adopted under this program should strengthen the financial position of export industries and lead to renewed growth of manufactured exports and tourism, especially in the medium-term. During 1983, however, the external situation is expected to remain weak with only a moderate recovery in exports. A larger export gain is expected in 1984, which along with a shift in the composition of imports in favor of intermediate and investment goods should permit a recovery in economic growth from the projected 2 per cent for 1983. An important problem on the external front has been delays in the use of substantial foreign aid commitments available under ZIMCORD which are nearly all linked to specific projects imports. While the program does assume accelerated use of these commitments, the authorities hope to be able to obtain quick disbursing assistance, either within or outside the ZIMCORD framework. The authorities intend to approach bilateral donors for this purpose and have requested Fund support in this regard. In the event that the authorities are successful in mobilizing such quick disbursing external assistance, the budget and balance of payments outcome could be better than now programmed.

Balance of payments projections for the medium term prepared by the staff indicate that, with the application of appropriate policies by the Zimbabwean authorities, the ratio of the external current account deficit to GDP should decline markedly after 1983, and approximate balance in the overall external position should be attainable by 1987. The authorities have stressed that the economic problems of the Zimbabwean economy are structural in character and have expressed interest in continued Fund involvement beyond the period of the proposed arrangement.

The staff believes that the program in support of which the Zimbabwean authorities have requested an 18-month stand-by arrangment will contribute significantly toward the reduction of domestic and external financial imbalances and a recovery in economic growth. An important aspect of the program is the half yearly reviews that are called for, at which time understandings will be reached with the Fund on important policy areas. Such reviews should strengthen the collaboration between the Fund and the authorities in the effective implementation of the program.

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Zimbabwe has requested a stand-by arrangement for the period from   to   for an amount equivalent to SDR 300 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/44.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Zimbabwe - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated January 24, 1983 from the Minister of Finance, Economic Planning and Development of Zimbabwe requesting a stand-by arrangement and setting forth: (a) the objectives and policies that the authorities of Zimbabwe intend to pursue for the period of this stand-by arrangement; (b) the policies and measures that the authorities of Zimbabwe intend to pursue in 1983; and (c) understanding of Zimbabwe with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Zimbabwe will pursue for the remaining period of this stand-by arrangement. To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period of 18 months from , Zimbabwe will have the right to make purchases from the Fund in an amount equivalent to SDR 300 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 60 million until April 15, 1983; the equivalent of SDR 97.5 million until July 15, 1983; the equivalent of SDR 137.5 million until October 15, 1983; the equivalent of SDR 175 million until January 15, 1984; the equivalent of SDR 215 million until April 15, 1984; and the equivalent of SDR 255 million until July 15, 1984.

b. None of the limits in (a) above shall apply to a purchase under the stand-by arrangement that would not increase the Fund's holdings of Zimbabwe's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made with borrowed resources until total purchases under this arrangement reach the equivalent of SDR 18,747,502; then each purchase shall be made from ordinary and borrowed resources in the ratio of 2 to 1 until purchases reach the equivalent of SDR 18,754,996; then each purchase shall be made from ordinary and borrowed resources in the ratio of 1 to 1.2 until purchases reach the equivalent of SDR 266,254,996; thereafter, each purchase shall be made from borrowed resources only; provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Zimbabwe will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Zimbabwe's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

a. during any period in which:

(i) the data at the end of the preceding period indicate that the limits on the total domestic bank credit of the banking system described in paragraph 11 of the memorandum annexed to the attached letter have not been observed; or

(ii) the data at the end of the preceding period indicate that the limit on net bank credit to the Government described also in paragraph 11 of the same memorandum has not been observed; or

(iii) the limit on contracting and guaranteeing of new nonconcessional foreign borrowing by the Government with original maturity of one to ten years described in paragraph 19 of the same memorandum is not observed; or

b. during the period from July 1, 1983 to December 31, 1983 and the period from January 1, 1984 until the end of the arrangement, until the respective reviews have been carried out and understandings reached with the Fund on suitable performance criteria or, after such performance criteria have been established, while they are not being observed; or

c. during the entire period of this stand-by arrangement, if Zimbabwe

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Zimbabwe is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Zimbabwe and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Zimbabwe's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Zimbabwe. When notice of a decision of formal ineligibility or of a decision to consider a proposal

is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Zimbabwe and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Zimbabwe, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Zimbabwe will consult the Fund on the timing of purchases involving borrowed resources.

8. Zimbabwe shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Zimbabwe shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Zimbabwe's balance of payments and reserve position improves.

(b) Any reductions in Zimbabwe's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Zimbabwe shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Zimbabwe or of representatives of Zimbabwe to the Fund. Zimbabwe shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Zimbabwe in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 4 of the attached letter, Zimbabwe will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4

above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Zimbabwe has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Zimbabwe's balance of payments policies.

Ministry of Finance, Economic
Planning and Development

Harare, Zimbabwe
January 24, 1983

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière,

1. Attached is a memorandum describing Zimbabwe's economic and financial policies, in support of which Zimbabwe requests the use of Fund resources under an 18-month stand-by arrangement in the amount of SDR 300 million. The period of the requested arrangement covers the second half of the current fiscal year (fiscal year ends on June 30) and the whole of the next fiscal year, 1983/84.

2. The principal objectives of the Government of Zimbabwe during the programme period are to reduce financial imbalances, restrain demand, promote exports, and mobilize savings for investment within the context of the implementation of the Transitional National Development Plan (1982/83-1984/85). In pursuit of these objectives, measures in the fiscal, monetary, and exchange fields have been taken or are contemplated. Even on the basis of these measures and of the requested support from the Fund, the real rate of growth of the Zimbabwean economy will be significantly lower than envisaged in the Transitional Development Plan or experienced in the period 1980 to 1981. In order to permit an increase in the rate of growth of imports and to attain a rate of growth of gross domestic product closer to the objective of the Plan, the Government of Zimbabwe is considering an approach to potential bilateral donors for quick-disbursing balance of payments financing on concessional terms, and the Government will seek and hopes to receive the active assistance of the Fund and the Bank in this endeavor.

3. The attached memorandum describes performance criteria for (a) total bank credit; (b) bank credit to the Government; (c) external debt contracted or guaranteed by the Government; and (d) the exchange and trade system. Before June 30, 1983, the Government will review with the Fund policies and performance under the programme. During this review, understandings will be reached on exchange and interest rates, the budget for 1983/84, and the credit ceilings for September 30, 1983, and December 31, 1983. A second review will be held not later than the end of December 31, 1983 to assess performance under the programme and to reach understandings for the second half of fiscal year 1983/84, including credit ceilings for end-March 1984 and end-June 1984.

4. The Government of Zimbabwe believes that the policies described in the attached memorandum are adequate to achieve the objectives of the programme and will assist in the achievement of the objectives of the Transitional Development Plan. But Government will take any further measures that may become appropriate for these purposes and will consult with the Fund on the adoption of such measures.

Yours sincerely

/s/

B.T.G. Chidzero
Minister of Finance, Economic
Planning and Development
Government of Zimbabwe

Attachment

Memorandum of the Government of Zimbabwe on its Economic and Financial Policies

Introduction

1. In 1980, the performance of the Zimbabwean economy was more than satisfactory. The real rate of growth of gross domestic product is estimated to have been about 11 per cent; the rate of increase of the consumer price index for higher income groups was 9 per cent (but lower for the low income groups), and the current account of the balance of payments had a deficit equivalent to 7 per cent of gross domestic product. In this favorable economic context, the Government was able to initiate programs to promote reconstruction of the war-torn economy and resettlement of the population and increase availability of public services, all of which entailed considerable expansion in government expenditures; it was also possible to increase real wages especially for the low income groups.

2. Since 1980, the economic situation has worsened. While the real rate of growth of gross domestic product is estimated to have remained high for most of 1981, it was on a declining trend during the year and preliminary indications are that the growth rate was reduced in 1982. The rate of inflation on the other hand has increased. The consumer price index increased from 9 per cent in 1980 to 15 per cent in 1981, and is projected to have been 17 per cent in 1982. In the external sector, the deficit of the current account (expressed as a percentage of gross domestic product) increased from 7 per cent in 1980 to 13 per cent in 1981, and is estimated to have been 12 per cent in 1982. The overall balance of payments deficit was Z$130 million in 1981 and is estimated at Z$158 million in 1982. Net foreign assets are now negative, and gross foreign reserves at the end of December 1982 were equivalent to slightly more than one and a half months of imports.

3. Because of the deteriorating external economic position, Zimbabwe incurred substantial short-term foreign borrowing (with a maturity of less than one year) in 1981 and 1982. Unless these short-term obligations are rolled over, debt service payments on existing debt as a proportion of domestic exports of goods and services are estimated to increase appreciably over the medium-term.

4. The deterioration in the economic situation has partly been due to external factors. In 1981, there were severe internal and external transportation problems which impeded the movement of export goods. In 1981 and especially in 1982, the export unit values of some of Zimbabwe's major mineral and agricultural commodities declined sharply, reflecting the world economic recession. The value of exports in Zimbabwe dollars, after increasing by 27 per cent in 1980, rose by only 8 per cent in 1981 and is estimated to have fallen by 3 per cent in 1982. Stagnating exports and an increasing deficit on the net services account have reduced the economy's capacity to import which in turn has reduced the availability of foreign

inputs to domestic production enterprises and contributed to the sharp decline in the real rate of economic growth. The rate of growth of imports, which was 45 per cent in 1980 and 24 per cent in 1981, declined sharply to 2 per cent in 1982.

5. However, the Government of Zimbabwe recognizes that domestic economic policies have also partly contributed to the emergence of the large internal and external economic imbalances. In the light of real resource (domestic and external) supply constraints, the rate of growth of total government expenditures and net lending in 1980/81 (22 per cent) and 1981/82 (31 per cent) was high, although, on account of rapidly rising revenues in each of these fiscal years, it was possible to reduce the overall budget deficit as a proportion of gross domestic product. The increases in wages, while necessary to improve the standard of living of the majority of the population and achieve some improvement in income distribution, contributed to an intensification of domestic demand, and led to the deterioration in the cost competitiveness of Zimbabwe's exports. Until December 1982 the exchange rate had not been adjusted in line with relevant internal and external developments, and until the first half of FY 1982/83 the administered prices of some consumer items had not been increased sufficiently rapidly to adequate levels.

Strategy and Objectives for 1983

6. In view of this serious economic situation, the Government of Zimbabwe has decided to modify the 1982/83 budget to take into account the current economic outlook and the depressed international economic situation. The rates of growth of expenditures in the present budget (198 per cent for capital expenditure and net lending, and 51 per cent for total expenditure and net lending) are high and imply a demand for foreign exchange that will exceed what is likely to be available to finance imports. Unless the level of expenditure is restrained, severe fiscal and price strains will develop.

7. The increase in net domestic bank credit to the Government during the first half of 1982/83 was Z$177 million equivalent to about 42 per cent of the level of net domestic bank credit to the Government outstanding at the beginning of the fiscal year. The Government recognizes that this rate of increase of net domestic bank credit to the Government is high, although it was partly due to seasonal factors.

8. Accordingly, the Government has decided to limit the rate of growth of total expenditure and net lending in 1982/83 to 39 per cent (compared to 51 per cent in the original budget). This requires that total expenditure and net lending be no higher than Z$2,338 million (Z$200 million less than the figure in the 1982/83 budget). With the new target expenditure level, and assuming that revenues are maintained at the level in the 1982/83 budget (this may require new revenue measures during the fiscal year), the

budget deficit as a percentage of gross domestic product will be about 7.0 per cent in 1982/83 compared with 10.7 per cent in the original budget (the deficit was 7.7 per cent in 1981/82 and 9.1 per cent in 1980/81). The Government intends to reduce the overall budgetary deficit further to about 5.5 per cent of gross domestic product in 1983/84.

9. The reduction of Z$200 million in total expenditure and net lending has been identified by vote or project and will be allocated between current expenditure (Z$60 million), capital expenditure (Z$80 million), and net lending (Z$60 million). In order to ensure that the cutback in budgeted expenditure is in fact realized, the following measures have been taken. Directives concerning the needed curtailment in outlays have already been issued to the various ministries. Moreover, target revenue and expenditure levels have been set for March 1983; if there are any significant deviations from these levels which may cause the budget deficit to increase beyond the target, the Government will consult with the Fund staff and take timely and appropriate corrective measures to compensate for the deviation. Further, to facilitate the attainment of the budgetary objectives, the Government intends to avoid further supplementary appropriations during the remainder of the fiscal year 1982/83.

10. In 1982, subsidies on beef were reduced, while those on edible oil and baker's flour were abolished. In December 1982, subsidies on maize meal were reduced by Z$30 per ton (to approximately Z$69 per ton). At the same time, consumer prices of maize meal were raised on average by nearly 50 per cent in order to compensate for the reduction in subsidies and provide more adequately for transportation and other distribution costs. The Government is committed to further reductions in subsidies which will be effected during the program period including further reductions of subsidies to the National Railways of Zimbabwe in early 1983.

11. The rate of increase of domestic credit has been high (27 per cent in 1981 and 31 per cent in 1982). As part of the effort to reduce domestic demand, the rate of growth of domestic credit will be reduced to about 18 per cent in 1983 (the target increase in domestic credit in 1983 is equivalent to 21 per cent of the broad money stock at the end of 1982). Accordingly, total domestic bank credit at end-March and end-June 1983 will not exceed Z$2,040 million and Z$2,090 million, respectively. Outstanding net bank credit to the Government will not exceed Z$580 million at end-March 1983 and Z$500 million at end-June 1983. These credit targets imply a rate of growth of 20 per cent in net credit to the Government and 24 per cent in credit to the private sector during FY 1982/83. The Government of Zimbabwe will consult with the Fund and reach understandings prior to June 30, 1983 on the ceilings for September 30, 1983 and December 31, 1983, and will consult with the Fund and reach understandings prior to December 31, 1983 on the ceilings for March 31, 1984 and June 30, 1984.

12. In order to restrain credit expansion and promote financial savings, the Government increased interest rates substantially in 1981, and, as a

result, many consumer interest rates are currently positive in real terms. The Government of Zimbabwe considers interest rates adequate at the present time, but will review them with the Fund prior to June 30, 1983.

13. As a result of the large weight of the U.S. dollar in the currency basket for the Zimbabwe dollar, in combination with the strength of the U.S. dollar in the past two years, and in the absence of countervailing action, the Zimbabwe dollar appreciated substantially in real effective terms between the end of 1980 and November 1982. The combination of this appreciation with the substantial increases in wages and salaries adversely affected the competitiveness of Zimbabwe's export industries, and led to the relative underpricing of imports and capital goods in the domestic economy. It was to correct for these adverse developments that the exchange rate of the Zimbabwe dollar was changed on December 8, 1982 from US$1.3157 to the Zimbabwe dollar to US$1.0981 to the Zimbabwe dollar, a devaluation of 20 per cent in local currency terms. In addition, in January 1983 the Zimbabwe dollar was allowed to depreciate by a further 5 per cent in local currency terms. The depreciation of the exchange rate is expected to stimulate exports in the manufacturing sector and for some agricultural products and to maintain employment and activity levels in the mining sector without the need for budget subventions. It is the Government's policy to prevent further real effective appreciation of the Zimbabwe dollar and as part of this policy the composition of the exchange rate currency basket has been modified.

14. The Government policy is not to subsidize imported items. It is, accordingly, the intention and policy of the Government, within the framework of its existing price control mechanisms, to allow changes in the exchange rate of the Zimbabwe dollar to be speedily reflected in domestic prices. Performance in this regard will be reviewed not later than June 30, 1983.

15. In order to restrain domestic demand, improve export performance, and maintain export competitiveness, the Government will allow no general salary increases in the public and private sectors in 1982/83. In 1983/84 general increases in wages and salaries in the economy will be no higher than one-half of the increase in the cost of living during the previous twelve months.

16. With the measures outlined in the foregoing paragraphs, export receipts are expected to increase by 37 per cent (10 per cent in SDR terms) in 1983 and 14 per cent (in both local currency and SDR terms) in 1984. On the other hand, imports are projected to rise by 30 per cent (8 per cent in SDR terms) in 1983 and by 8 per cent (in both local currency and SDR terms) in 1984. The current account deficit, which was equivalent to 12 per cent of gross domestic product in 1982, is expected to increase slightly to 13 per cent in 1983 and to decline to 10 per cent in 1984. The overall balance of payments deficit is projected to be Z$158 million (SDR 190 million) in 1982, Z$236 million (SDR 227 million) in 1983, and Z$208 million (SDR 200 million) in 1984.

17. Owing to the limitation on the rate of growth of imports, against the general background of world recession, the real rate of growth of the economy is expected to be only about 2 per cent in 1983 and 1984. The rate of inflation is expected to be about 17 per cent in 1983 and 14 per cent in 1984, reflecting in part the effect of the devaluation. The Government of Zimbabwe is concerned at the projected low rate of economic growth, which implies a reduction of real per capita income and lower rates of employment creation. In order to attain a rate of growth of gross domestic product closer to the objective of the Plan, the Government will approach potential bilateral donors for quick-disbursing balance of payments funds on concessional terms and the Government will seek and hopes to receive the active support of the Fund and the Bank in obtaining this assistance.

18. The financial and economic problems which Zimbabwe is currently facing are partly structural in nature. At independence in 1980, Zimbabwe inherited deep-seated historical, sociopolitical problems and also economic distortions emanating from the protracted period of international economic sanctions and internal conflict. The Government is convinced that the serious economic consequences of these difficulties can be fully solved only over the medium term. The present financial program is, therefore, viewed as part of a longer-term effort directed at addressing these problems. Accordingly, the Government intends to request an EFF arrangement at the end of the present program.

19. In 1983, the Government will limit contracting of government and government-guaranteed new nonconcessional foreign borrowing with original maturity of 1-10 years to SDR 220 million, of which not more than SDR 10 million shall have an original maturity of 1-5 years. There will be no commercial borrowing for balance of payments purposes with maturity of less than one year. There should be no need for the Reserve Bank to incur borrowing of less than one year except to meet normal seasonal and short-term operational requirements.

20. Consistent with the Government's trade and exchange policies, during the program period the Government will not introduce multiple currency practices; impose new or intensify existing restrictions on payments and transfers for current international transactions; enter into bilateral payments arrangements with Fund members which are inconsistent with Article VIII; or introduce new or intensify existing restrictions on imports for balance of payments reasons.

ZIMBABWE - Relations with the Fund
(As of December 31, 1982)

Fund data

Date of membership:	September 29, 1980
Status:	Article XIV
Quota:	SDR 150 million
Intervention currency and the rate: (following the devaluation on December 9, 1982)	U.S. dollar; Z$1 = US$1.0981
Local currency/SDR equivalent: (on December 9, 1982)	SDR 1 = Z$0.9929
Fund holdings of local currency:	SDR 187.5 million, or 125 per cent of quota
SDR position:	SDR 6.27 million, or 61.50 per cent of net cumulative allocation

Staff contacts

1981 Article IV consultation	October 30-November 13, 1980
Use of Fund resources (first credit tranche)	January 11-16, 1981
Staff visit (Zimbabwe Conference on Reconstruction and Development)	March 23-31, 1981
Review under stand-by arrangement and preliminary discussions on an extended arrangement	June 4-12, 1981
Use of Fund resources (upper credit tranches)	August 9-20, 1981
Possible use of Fund resources (compensatory financing facility)	October 18-24, 1981
1982 Article IV consultation and use of Fund resources (upper credit tranches)	January 24-February 6, 1982
IMF Institute Seminar	August 9-13, 1982
Use of Fund resources (upper credit tranche)	October 14-29, 1982

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 for 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 power station.

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. Negotiations for an export promotion project (US$70 million) and for a project on highway development and maintenance are close to completion.

The World Bank Group has also appraised three projects (forestry, agricultural extension and research, and training and technical assistance).

Zimbabwe: Summary of Overall Fiscal Operations of the Central Government, 1982/83

(In millions of Zimbabwe dollars)

	Original budget (1)	Program excluding devaluation (2)	Program including devaluation (3)	Program incl. devaluation and other effects 1/ (4)
Total revenue and grants	1,948.2	1,948.2	1,996.0	1,945.6
Total revenue	1,884.9	1,884.9	1,925.9	1,885.3
Tax	(1,727.7)	(1,727.7)	(1,767.7)	(1,727.1)
Nontax	(157.2)	(157.2)	(158.2)	(158.2)
Grants	63.3	63.3	70.1	60.3
Total expenditure and net lending	2,537.6	2,337.6	2,369.4	2,330.6
Current	1,847.9	1,787.9	1,797.9	1,797.9
Capital and net lending	689.7	549.7	571.5	532.7
Overall deficit (-)	-589.4	-389.4	-373.4	-385.0
Financing	589.4	389.4	373.4	-385.0
External (net)	315.5	197.7	186.7 2/	182.3
Domestic (net)	273.9	191.7	186.7	202.7
Nonbank	(150.9)	(109.2)	(104.2)	(120.2)
Banking system	(123.0)	(82.5)	(82.5)	(82.5)
Memorandum items		(As per cent of GDP)		
Total revenue	34.2	34.2	35.0	34.2
Tax revenue	31.4	31.4	32.1	31.4
Total expenditure and net lending	46.1	42.4	43.0	42.3
Current	33.5	32.5	32.6	32.6
Capital and net lending	12.6	9.9	10.4	9.7
Overall deficit	10.7	7.0	6.8	7.0
External (net)	5.7	3.6	3.4	3.4
Domestic (net)	5.0	3.6	3.4	3.7
Bank	(2.2)	(1.5)	(1.5)	(1.5)

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

1/ Assumes a revenue shortfall of Z$30 million, a reduction in revenue of about Z$10 million due to the abolition in December of the import surcharge on a small list of items, and a shortfall in capital expenditures of Z$38.8 million.

2/ Assumes an increase of Z$11 million for principal repayment; as no adjustment is made for gross inflows, there is an implicit assumption of a shortfall in foreign currency terms.

Zimbabwe: Identified Net Reductions in Budgetary Expenditure, 1982/83

(In millions of Zimbabwe dollars)

		1982/83
I.	Current expenditure	60.0
	Total reductions identified	127.0
	Education	(30.0)
	Transport	(16.0)
	Defense	(15.0)
	Trade and Commerce	(8.2)
	Labor and Social Services	(8.0)
	Treasury	(4.0)
	Other	42.3
	Less Supplementary estimates	67.0
	Of which: Defense	(42.0)
II.	Capital expenditure	80.0
	Total reductions identified	101.5
	National Housing Fund	(25.0)
	Defense	(14.0)
	Local Government and Town Planning	(14.0)
	Transport	(7.5)
	Youth, Sport and Education	(6.0)
	Water Resources and Development	(4.6)
	Other	(30.4)
	Less supplementary estimates	21.5
III.	Net lending	60.0
	Agricultural Finance Corporation	(20.0)
	Assistance to mining sector	(40.0)
	Total net reductions	200.0

Zimbabwe: Balance of Payments, 1982-87

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987
	Prelim.	Projections				
Trade balance	-144	-134	-71	-3	70	164
Exports, f.o.b.	1,164	1,280	1,456	1,630	1,825	2,044
Imports, f.o.b.	-1,308	-1,414	-1,527	-1,633	-1,755	-1,880
Services (net) 1/	-444	-494	-522	-623	-688	-753
Private transfers (net)	-131	-115	-110	-100	-100	-100
Current balance	-719	-743	-713	-726	-718	-689
Official transfers (net)	43	60	72	80	90	100
Capital (net) 2/	486	456	441	500	500	550
Overall balance	-190	-227	-200	-146	-128	-39
Memorandum item:						
Current account deficit as per cent of GDP	12.3	13	10	9	7	6

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

1/ Including estimated interest payments on projected new borrowings. An average annual interest rate of 5 per cent assumed for official loans and of 8 per cent for borrowings to cover the overall deficits during 1982-86.

2/ Average maturity period of 10 years and grace periods of 4 years assumed for new borrowings.

Zimbabwe: Selected Economic and Financial Indicators, 1980-83 1/

	1980 Actual	1981 Last program	1981 Actual	1982 Revised	1983 Program
	(Annual per cent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices	11.4	7.0	7.0	3.5	2.0
GDP deflator	14.2	15.0	14.8	16.5	17.0
Consumer prices	9.2	15.0	14.6	17.0	17.0
External sector					
Exports, f.o.b. (millions of SDRs)	1,111	1,442	1,227	1,164	1,280
Imports, c.i.f. (millions of SDRs)	-1,163	-1,482	-1,443	-1,452	-1,575
Non-oil imports, c.i.f. (millions of SDRs)	-913	-1,163	-1,150	-1,162	-1,255
Export volume	-4.8	12.5	-5.4	-5.2	5.0
Import volume	37.7	17.5	23.5	-4.2	4.0
Terms of trade (deterioration -)	23.6	6.0	10.3	-5.0	-2.0
Nominal trade-weighted effective exchange rate (depreciation -)	3.2	...	6.6	2.0	...
Real trade-weighted effective exchange rate (depreciation -)	-3.9	...	7.3	2.5	--
Central government budget					
Revenue and grants	16.5	15.9	40.4	40.6	45.8
Total expenditure and net lending	20.9	24.2	22.2	30.9	38.7
Money and credit					
Domestic credit 2/	27.7	39.3	26.6	33.5	21.2
Government 2/	17.2	15.2	-3.1	18.7	--
Money and quasi-money (M2)	22.3	32.9	15.2	23.6	7.6
Velocity (GDP relative to M2)	2.7	2.4	2.9	2.8	3.1
Interest rate (annual rate, one-year savings deposit or alternative rate)	4.0	...	8.75	8.75	8.75
	(In per cent of GDP)				
Central government budget deficit					
Excluding official transfers	-12.3	-10.4	-9.1	-7.8	-8.2
Including official transfers	-12.3	-10.4	-9.1	-7.7	-7.0
Domestic bank financing	4.5	...	3.7	-0.5	1.5
Foreign financing	2.3	...	2.3	5.1	3.4
Gross domestic investment	17.1	...	...	...	...
Gross national savings	14.7	...	...	...	...
External current account deficit					
Including official transfers	5.5	3.5	10.9	11.5	12.2
Excluding official transfers	6.6	4.6	12.5	12.3	13.3
External debt	16.1	21.5	27.7	27.9	23.9
Inclusive of use of Fund credit	16.1	22.3	28.5	23.9	30.9
Debt service ratio incl. Fund charges (in per cent of exports of goods and services)	3.8	...	7.0	8.5	13.0
	(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	-13.6	-14.5	-160.0	-190.0	-227.0
Gross official reserves (months of imports)	2.2	2.0	2.2	1.8	1.9
External payments arrears	--	--	--	--	--

1/ In the case of central government finances the data refer to fiscal years (July-June) 1979/80 and 1980/81 (actual), 1981/82 (preliminary actual), and 1982/83 (as proposed under the new program).

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