

**FOR  
AGENDA**

EBS/03/156

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November 19, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **Zimbabwe—Overdue Financial Obligations to the Fund—Review  
Following Suspension of Voting Rights**

Attached for consideration by the Executive Directors is a paper on the review following suspension of voting rights for Zimbabwe's overdue financial obligations to the Fund, which is tentatively scheduled for discussion on **Wednesday, December 3, 2003**. A draft decision appears on page 13.

The staff does not propose the publication of this paper after the Executive Board completes its discussion.

Questions may be referred to Mr. J. Lin, FIN (ext. 37299), Ms. D. Ross, AFR (ext. 37188), and Mrs. Treichel, FIN (ext. 36889).

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## INTERNATIONAL MONETARY FUND

**Zimbabwe—Overdue Financial Obligations to the Fund—Review Following  
Suspension of Voting Rights**

Prepared by the Finance, African, and Legal Departments

(In consultation with the Policy Development and Review Department)

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November 19, 2003

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## I. INTRODUCTION

1. **On December 3, 2003, the Executive Board is scheduled to hold a review of the decision adopted on June 6, 2003 to suspend Zimbabwe's voting and related rights in the Fund.**<sup>1</sup> Zimbabwe fell into arrears with the Fund in February 2001 and was declared ineligible to use the general resources of the Fund and removed from the list of PRGF-eligible countries on September 24, 2001. On June 13, 2002, a declaration of non-cooperation was issued with respect to Zimbabwe and technical assistance was suspended. On September 11, 2002, the Executive Board decided to initiate the procedure on the suspension of Zimbabwe's voting and related rights. Subsequently, the Managing Director issued a complaint regarding Zimbabwe's arrears to the Fund, which was discussed by the Board on June 6, 2003, together with the 2003 Article IV consultation for Zimbabwe. The Executive Board found that Zimbabwe had persisted in its failure to fulfill its obligations under the Articles of Agreement and decided to suspend Zimbabwe's voting and related rights in the Fund effective June 6, 2003, pursuant to Article XXVI, Section 2(b).

2. **This paper reviews recent developments in Zimbabwe's overdue financial obligations to the Fund and assesses the country's policy and payments performance since the last Board discussion.** Based on the information available, staff is of the view that Zimbabwe has not actively cooperated with the Fund in resolving the problem of its overdue financial obligations in the areas of policies and payments during this period. Staff, therefore, recommends that the procedure on Zimbabwe's compulsory withdrawal from the Fund be initiated, as called for under the Fund's arrears strategy and the timetable of remedial measures.<sup>2</sup> This would also be broadly consistent with the application of this remedial measure to Sudan, the only relevant case, in the past.<sup>3</sup> A draft decision to this effect is provided in Section IV for consideration by the Executive Board.

## II. ARREARS TO THE FUND AND OTHER CREDITORS

3. **Zimbabwe's arrears to the Fund have increased steadily since February 2001.** Zimbabwe is the first new case of protracted arrears to the GRA since 1993 and the only case

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<sup>1</sup> Decision No. 13020-(03/53), adopted June 6, 2003, appears in Attachment I.

<sup>2</sup> The procedures leading to the compulsory withdrawal of a member from the Fund are summarized in Attachment II. The timetables of remedial measures for arrears to the GRA and the PRGF Trust are provided in Attachments III and IV, respectively.

<sup>3</sup> "Sudan—Overdue Financial Obligations to the Fund—Review Following Suspension of Voting Rights" (EBS/94/10, 10/28/94) and Decision No. 10584-(94/11), adopted February 14, 1994.

of protracted arrears to the PRGF Trust. As of end-October 2003, Zimbabwe's arrears to the Fund amounted to SDR 182.7 million (US\$261.6 million), equivalent to 51.7 percent of quota and 88.7 percent of Fund credit outstanding to Zimbabwe (Table 1). Of this amount, arrears to the GRA were SDR 107.6 million and those to the PRGF Trust were SDR 75.1 million. Zimbabwe's forthcoming obligations to the Fund are estimated at SDR 4.0 million during the remainder of 2003, and SDR 27 million in 2004 (Table 2).

Table 1. Zimbabwe: Overdue Financial Obligations to the Fund  
(As of October 31, 2003)

Type of obligation	Amount overdue (In millions of SDRs)	Date of the longest outstanding overdue obligation
Principal		
Repurchases	98.8	2/14/2001
PRGF Trust repayments	72.1	2/21/2001
Subtotal	170.9	
Interest and Charges		
Periodic charges	8.9	5/10/2001
PRGF Trust interest	1.1	6/30/2001
Special charges (PRGF)	1.9	5/16/2001
Subtotal	11.9	
Total	182.7	

Table 2. Zimbabwe: Overdue and Forthcoming Obligations to the Fund  
(As of October 31, 2003; in millions of SDRs)

Type of obligation	Overdue as of	Forthcoming				Total through
	10/31/2003	2003 1/	2004	2005	2006	2006
Repurchases	98.8	3.1	14.1	1.6	0.0	117.5
Periodic charges	8.9	0.6	2.3	2.2	2.2	16.2
PRGF Trust repayments and interest	73.2	0.2	10.4	3.7	0.4	87.9
Special charges	1.9	0.0	0.0	0.0	0.0	1.9
Net SDR charges	0.0	0.1	0.2	0.2	0.2	0.7
Total	182.7	4.0	27.0	7.7	2.8	224.1

1/ Due after 10/31/03

4. **Zimbabwe has made only minor payments to the Fund since the last review in June 2003.** At the time of the September 2001 review, and during the March 2003 mission and the Dubai Annual Meetings in September 2003, the authorities indicated their intention to make quarterly payments to the Fund of at least US\$1.5 million. Payments in accordance with this schedule through the first quarter of 2003 were received just prior to the June 6, 2003 Board meeting. The only payments received since then were SDR 40,949 on August 7 and SDR 45,000 on October 24, 2003 in settlement of net SDR charges falling due on August 1, 2003 and November 1, 2003, respectively.

5. **Zimbabwe's arrears to the Fund impose financial costs on the membership.** Zimbabwe's arrears to the GRA have thus far imposed a direct financial cost of SDR 9.5 million on the membership through burden-shared deferred charges. Furthermore, Zimbabwe's failure to meet its obligations to the PRGF Trust has necessitated repayments of SDR 72.1 million to PRGF Trust lenders from the PRGF Reserve Account. The PRGF Reserve Account will be replenished when Zimbabwe clears its arrears to the PRGF Trust.

6. **Zimbabwe's arrears to other creditors, including multilaterals, have also continued to increase.** Zimbabwe's arrears to the World Bank amounted to US\$238 million (SDR 166 million) as of end-October 2003 and to the African Development Bank Group of US\$210 million (SDR 147 million) as of October 15, 2003. Zimbabwe's total public sector and publicly-guaranteed external debt is estimated at US\$3.4 billion at end-2002, of which about US\$1.5 billion (106 percent of exports of goods and services in 2002) were in arrears.

### **III. RECENT DEVELOPMENTS AND ECONOMIC POLICY PERFORMANCE**

7. **The political situation remains tense.** Attempts through diplomatic channels, as well as by local church leaders, to broker negotiations between President Mugabe's Zanu-PF party and the main opposition party MDC have not yielded any visible results. On August 8, 2003, the High Court decided that the MDC leader, Morgan Tsvangirai, would face a treason trial, for which the maximum sentence is the death penalty. After long delays, court proceedings on the MDC's challenge to the 2002 presidential elections have begun in early November. A report prepared by the Presidential Committee charged with reviewing the implementation of the Land Reform was completed in September, and made public in late October (Box 1). Already in late July, however, President Mugabe had called on black Zimbabweans who own more than one farm to return the rest to the state for resettlement; little action ensued. The MDC won most seats in local council elections at end-August, despite low voter turnout and reported intimidation of its candidates. In September 2003, the government shut down the only independent daily newspaper for allegedly not complying with stringent and widely criticized media laws. The government continued to quell heavily-handedly public protests, such as demonstrations organized by the trade unions and by pro-democracy civic groups in October.

**Box 1. Presidential Land Review Committee's Report  
on the Implementation of the Land Reform Program**

The report of the Presidential Land Review Committee, which was chaired by the former Chief Secretary to the President and Cabinet, Dr. Charles Utete, was made public in October 2003. The main points are:

- **The report assesses the land reform program to have been successful, despite the complex legal framework within which it was implemented.** However, through its recommendations, the report implicitly acknowledges the failure to meet the stated objectives of the reform, the difficulties encountered in its implementation, and the economic disruption it has created.
- **Actual resettlement (134,452 households and 6.4 million ha) fell short of the government's earlier claim that 350,000 families (and 11 million ha) had been resettled.** The report mentions that 127,192 smallholders (A1 scheme) have been allocated 4.2 million ha of land, and that 7,260 commercial farmers (A2) have been allocated 2.2 million ha of land. Although the take-up rate for the latter is put at 66 percent, it is less than 50 percent in the most productive provinces, indicating productive land lying idle. Three percent of total land remains owned by white farmers.
- **The difficulties cited in the implementation of the reform include:** (i) legal disputes arising from an inconsistent legal framework; (ii) land being attributed but not taken up by beneficiaries; (iii) land being claimed by more than one beneficiary; and (iv) former farm workers not being resettled or reemployed. The report does not address the difficult issues affecting an estimated 1 million former farm workers and their families, most of whom have lost their livelihoods.
- **The report recommends several measures to increase agriculture production through greater land use and higher productivity.** In particular, it urges that: (i) steps be taken before the onset of the 2003–2004 cropping season to address the current shortages and “exorbitant” prices of inputs; (ii) some dairy farms gazetted for acquisition be delisted with a view to restoring viability in this industry; and (iii) a corporate-type model be established in plantations, conservancies, safaris and forest areas to ensure higher returns to the country than what has been realized to date, in both local and foreign currencies.
- **The report proposes an overhaul of the management structure of the land reform program.** Specifically, land reform issues should be handled by two separate ministries, which are presently united: (i) a Ministry of Agriculture, which would deal with all agricultural matters, including water development and irrigation; and (ii) a Ministry of Land Affairs, which would have the responsibility on all land issues, including land registration and land tenure, resolution of boundary disputes, compensation, farm sizes, land taxation, land subdivisions, distribution and allocation. It also recommends the creation of a National Land Board that would seek to ensure that land allocated to the people under the Land Reform Program is fully utilized.

8. **Social conditions continue to deteriorate.** Poverty and unemployment rates are high and rising as a result of the deterioration in the economic situation (see below). Zimbabwe is among the countries most affected by the HIV/AIDS pandemic, and conditions in the health sector are reportedly dismal with a lack of basic medicines and staff. The adverse effects of



the land reform and a drought left two-thirds of the population in need of food aid in 2002/03. No significant improvement is expected in 2003/04, despite the return to normal weather conditions, due to shortages of fuel and other inputs, and the lack of know-how and capital among the new farmers. In July, the government appealed to the United Nations for food assistance, but the donor response has been muted largely because of the policy-related basis of Zimbabwe's food shortages and the government's attempts to control the distribution of aid resources. In early October, the World Food Program warned that only one quarter of its appeal for Southern Africa, mostly Zimbabwe, had been met. Subsequent pledges by Ireland, Italy, Sweden, and the United Kingdom have improved the outlook, but pledges still meet less than one half of estimated requirements before the next harvest in April 2004.

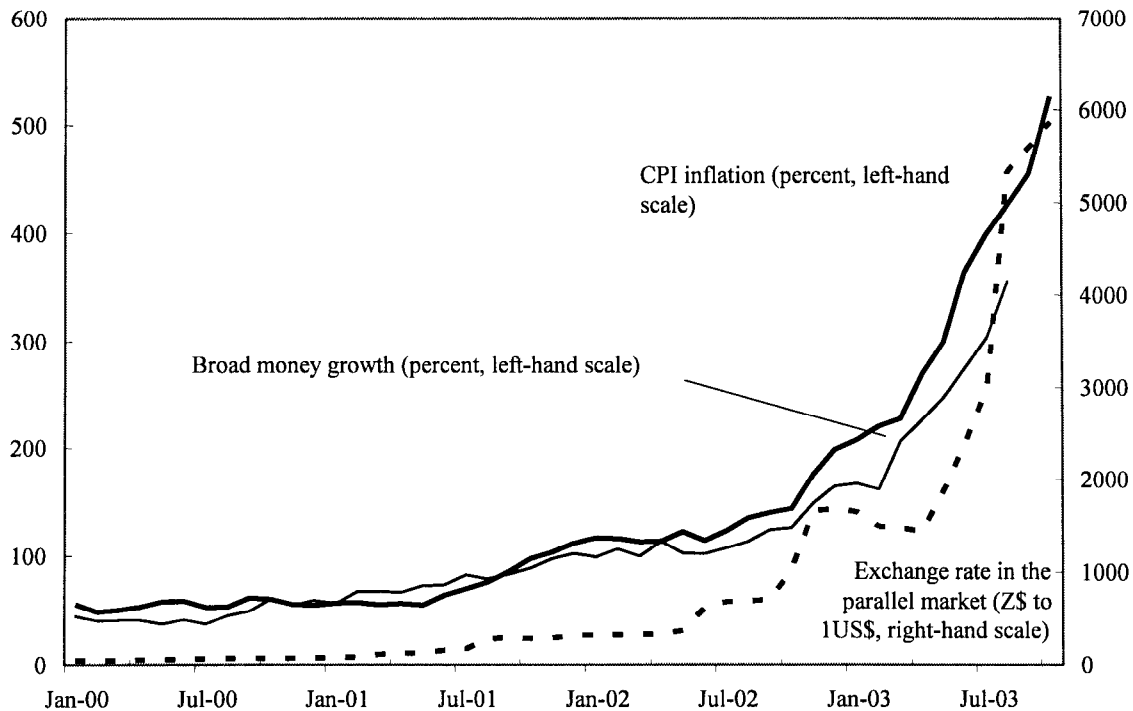
9. **Macroeconomic instability has been deepening** (Table 3). The contraction in GDP for 2002 has been revised to reach 14.5 percent, and another 14 percent is projected for 2003; this would bring the cumulative decline during 1999–2003 to 40 percent. Year-on-year official inflation rose to 526 percent in October 2003, fueled by monetary expansion and a depreciating parallel market exchange rate; inflation could well exceed 600 percent by end-2003.

10. **A supplementary budget was approved by parliament in late August, taking into account the higher-than-budgeted inflation and lower growth.** It provided for an increase in the overall deficit from 4.8 percent of GDP in 2002 to 7.6 percent in 2003, and an almost doubling of domestic financing requirements. Preliminary data indicate that the overall deficit reached 4.5 percent of GDP in the first three quarters of 2003, slightly lower than in 2002. A drop in revenue by 3.9 percentage points of GDP was largely offset by lower interest payments and a lower wage bill as public sector wage increases fell far short of inflation (Table 4). However, domestic financing as recorded in the fiscal accounts is much smaller than the lending to the government by the banking system as recorded in the monetary accounts (Table 5), and this will need to be reconciled. Furthermore, both data sets do not include quasi-fiscal operations of the Reserve Bank. The draft 2004 budget is to be presented to parliament on November 20, 2003.

11. **Monetary policy continued to be lax and kept interest rates at artificially low levels that fueled credit demand.** The large credit expansion to the private sector reportedly reflected vested interests; this, along with credit to the government and quasi-fiscal operations, explained the 356 percent increase in broad money in nominal terms in the year through August 2003. Among other factors, reluctance at the highest levels to issue higher-denomination notes resulted in an increasing shortage of cash, with premia of 20–25 percent reported on cash transactions in August–September. This shortage was eased with remedial measures in October. Real interest rates remain highly negative; the Reserve Bank's nominal repurchase rate remained at 65 percent since late July, and in early September the RBZ reduced the penalty rates applicable for bank borrowing over the repurchase limit. The interbank rate firmed in the second half of October to 165 percent on November 7, but fell back to 120-130 percent since after the RBZ released agricultural support funds.

12. **The depreciation of the Zimbabwe dollar in the parallel market has accelerated in recent months.** In October and early November 2003, the U.S. dollar was reportedly traded for Z\$5,800 to Z\$6,000, against the official rate of Z\$824 (Z\$55 for government imports, Figure 1).<sup>4</sup> Moreover, the economy continues to face severe shortages of imported inputs, especially fuel. Usable reserves stood at about US\$20 million in mid-October 2003.

Figure 1. Money Growth, Inflation, and Parallel Exchange Rate



13. **Partial measures have been introduced to address the worsening economic situation.** A dual pricing system for fuel imports was announced in late August: retail prices for NOCZIM, the national oil company, were unchanged for use by the government, state institutions, agriculture, and registered public transport operators, while prices for other buyers were tripled. However, the supply response was limited, while the parallel market for fuel has remained active. Official purchase prices for grain were increased in September retroactive to April 2003, but without a change in sales prices; as a result the Grain Marketing Board (GMB) could incur a quasi-fiscal deficit of more than 7 percent of GDP in 2003. Press

<sup>4</sup> No adjustment in the official exchange rate has taken place since March 2003, even though the New Economic Recovery Program, announced in March 2003, provided for quarterly reviews of the exchange rate.

reports indicate that the enforcement of remaining price controls has weakened considerably since August, with many goods returning to store shelves at market-determined prices.

14. **A number of measures were taken to ease the cash crisis.** In mid-August, the government: (i) introduced “domestic traveler checks” with denominations of up to Z\$100,000, amidst confusion over their nature and modus operandi; (ii) announced the replacement by end-September of the highest existing note (Z\$500) by new forgery-proof Z\$500 notes, and the issuance of new Z\$1,000 notes (equivalent to less than U.S. 16 cents at the end-August parallel exchange rate); (iii) issued several regulations against “cash hoarding;” and (iv) issued bearer checks in denominations of Z\$5,000, Z\$10,000 and Z\$20,000 that carry the same functions as bank notes, but were to be valid only until January 2004 (this has been extended to June 2004 already). In the event, the old Z\$500 notes were not withdrawn. These measures have eased the cash constraints considerably, although they reappeared in early November after the RBZ reportedly limited its allocation of notes to the banks.

15. **Other recent developments suggest continued government intervention in the economy.** In early November, President Mugabe announced that the RBZ would be restructured to make it “much more of a development institution that protects the national interest.”<sup>5</sup> In late October, the President appointed a taskforce of nine cabinet ministers—including most of the reform-averse members of cabinet—to resolve the country’s foreign exchange crisis; it is expected to table its report to cabinet by late November.<sup>6</sup> A stakeholder meeting was held on November 5–6 with the National Economic Consultative Forum of business, labor and government representatives to discuss Zimbabwe’s economic situation and policy options.

#### IV. STAFF ASSESSMENT AND PROPOSED DECISION

16. **Comprehensive and consistent policies for addressing Zimbabwe’s serious economic situation remain lacking.** In the context of the last Article IV discussions, staff formulated a set of recommendations, including the restoration of fiscal discipline and a significant tightening of monetary policy to reduce inflation and establish policy credibility. In the staff’s view, the fiscal deficit should be reduced; quasi-fiscal subsidies, especially through the GMB and NOCZIM need to be curtailed; and the tax base should be widened.

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<sup>5</sup> The cabinet appointed Mr. Gideon Gono, CEO of the Commercial Bank of Zimbabwe, the 4<sup>th</sup> largest commercial bank in the country, to become the new RBZ Governor as of December 1, 2003.

<sup>6</sup> The taskforce is to recommend the “best foreign exchange allocation mechanism in accordance with national priorities, and to recommend a Central Exporting Authority.”

Nominal interest rates should be raised significantly, as real interest rates remain highly negative. The official exchange rate needs to be adjusted on a monthly basis, with the goal of unifying the exchange system and liberalizing exchange controls. Concessional lending facilities should be curtailed and banking supervision strengthened. Moreover, structural policies aimed at raising productivity are critical for the resumption of economic growth. Priorities include the elimination of remaining price controls and the monopoly of the GMB, and efforts to raise agricultural productivity. At the same time, progress in resolving the political tensions and issues related to land reform are essential to garner international support. With the exception of recent measures toward liberalizing the fuel market, which were tentative steps in the right direction, the authorities have taken little action. Staff continues to believe that much more decisive actions are needed and has remained in contact with the authorities on these issues.

17. **Zimbabwe's payments performance has been disappointing.** Despite repeated assurances by the authorities that they intended to make quarterly payments of US\$1.5 million, only minor payments have been received since the last Board meeting in June. As a result, Zimbabwe's arrears to the Fund have increased further by SDR 24 million since then.

18. **Against this background, staff is of the view that Zimbabwe has not adequately strengthened its cooperation with the Fund on policies and payments since the June Board meeting.** Staff recommends, therefore, that the Executive Board initiate the procedure on the compulsory withdrawal of Zimbabwe from the Fund, as required under the Fund's arrears strategy. A decision to this effect would be consistent with the timetable on remedial measures for GRA arrears, which calls for the initiation of the procedure on compulsory withdrawal within six months after the decision on suspension of voting and related rights in the Fund.<sup>7</sup> It would also be broadly consistent with the past practice applied to Sudan, the only relevant case being subject to this remedial measure (Box 2).<sup>8</sup>

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<sup>7</sup> See Attachment III.

<sup>8</sup> The Executive Board also considered the initiation of the procedure on compulsory withdrawal with respect to the Democratic Republic of the Congo (DRC, formerly Zaïre) on several occasions during the period December 1994–March 1998. At each review, the Executive Board concluded that the DRC's cooperation with the Fund in terms of payments and policies was sufficient to postpone a decision on the initiation of the procedure on compulsory withdrawal until the next review. No reviews took place during the period April 1998–July 2001, as the security situation in the DRC precluded an assessment of the country's policy performance and cooperation with the Fund. The DRC then embarked on a 10-month SMP during the period July 2001–March 2002 and subsequently cleared its arrears to the Fund on June 12, 2002.

19. **The adoption of the draft decision below would start the procedure on compulsory withdrawal** (see Attachment II). The next step would be the issuance of a complaint by the Managing Director against Zimbabwe soon after. The Board would then note this complaint and place it on its agenda for substantive consideration within a reasonable period of time (three to six months). This would allow Zimbabwe to be informed and have adequate opportunity for responding to the complaint and stating its case, both orally and in writing, before the Board considers the complaint. If Zimbabwe persisted in its failure to fulfill its obligations to the Fund, the Executive Board could—with a majority of the votes cast—recommend to the Board of Governors the compulsory withdrawal of Zimbabwe from the Fund. The Board of Governors would need an 85 percent majority of the total voting power to approve a decision requiring Zimbabwe to withdraw from the Fund.

**Box 2. Sudan—Initiation of the Procedure on Compulsory Withdrawal**

The Executive Board decided to initiate the procedure on the compulsory withdrawal of Sudan from the Fund on February 14, 1994, about six months after suspending Sudan's voting and related rights in the Fund. The main developments leading up to the Executive Board's decision on the initiation of the procedure were as follows:

- **Sudan made no payments to the Fund between the suspension of its voting rights and the initiation of the procedure on compulsory withdrawal.** Sudan's payments performance had been poor since it was declared ineligible to use the Fund's general resources on February 3, 1986. Total payments from that date through February 1994 amounted to 5.2 percent of obligations falling due. In July 1993, the Sudanese authorities committed to making monthly payments of US\$0.3 million. Two such payments were received in July and August 1993, respectively, but monthly payments ceased after the suspension of Sudan's voting rights in the Fund.
- **Regarding policy performance, Sudan undertook some limited policy efforts following the suspension of voting rights,** but—in the face of a severe foreign exchange shortage and strong inflationary pressures (with annual inflation exceeding 100 percent at end-1993)—these measures fell short of what economic conditions in Sudan would call for. Staff was of the view that more decisive measures were needed to stabilize the economy. **During the Board discussion, two views emerged.** While a number of Directors favored giving Sudan another chance to improve its performance, others felt that, given Sudan's poor record of cooperation with the Fund, there was no choice but to initiate the procedure on compulsory withdrawal. The latter also believed that the initiation of the procedure would still give Sudan ample opportunity to demonstrate its willingness to improve its policy and payments performance. In the event, the decision was approved by a majority vote.
- **In subsequent years, the Board considered on a number of occasions whether to recommend Sudan's withdrawal from the Fund to the Board of Governors for approval.** The Board came close to such a decision in early 1997, but Sudan decided at that time to significantly strengthen its cooperation with the Fund. With its sustained good performance on policies and payments thereafter, the Fund decided to lift the declaration of noncooperation with respect to Sudan in August 1999 and restore Sudan's voting and related rights in the Fund in August 2000.

20. While the draft decision below initiates the final step under the Fund's arrears strategy, the procedure leading up to a recommendation by the Executive Board to the Board of Governors for compulsory withdrawal is a deliberate and sequenced one, thereby providing ample opportunity for Zimbabwe to improve its cooperation with the Fund. Looking ahead, staff will continue to work closely with the Zimbabwean authorities, whenever feasible, to formulate a comprehensive package of policy measures to arrest and reverse the economic decline. As Zimbabwe establishes a track record of strengthened cooperation on policies and payments, consideration would be given to lifting the remedial measures currently in place, consistent with the Fund's established policy on de-escalation of remedial measures on arrears (Box 3).

**Box 3. Fund Policy on De-escalation of Remedial Measures**

- **Purpose:** The policy on de-escalation of remedial measures under the Fund's arrears strategy was established in July 1999, and is described in BUFF/99/90 (7/27/99). The purpose is to serve to encourage the member in arrears to quickly initiate efforts to reform its economy and establish a solid record of payments to the Fund, with the ultimate objective of full clearance of arrears and regaining access to the Fund's financial resources. For legal and practical purposes, the policy allows only for the lifting of a declaration of noncooperation and a suspension of voting rights, as opposed to other remedial measures under the timetable.
- **Process:** The starting point of the process for lifting remedial measures would be a judgment by the Executive Board that the member has begun, or adequately strengthened, its cooperation with the Fund, as evidenced by a sustained track record of performance regarding economic policies and payments to the Fund, with prospects of its continuation. There should be reasonable assurance that the member's satisfactory policies are likely to be sustained, so as to give confidence that they will lead to a resolution of the arrears problem. It is also expected that the member has made substantial payments for a sustained period, at least, equivalent to newly maturing obligations. The policy allows for flexibility on the level of payments needed to sustain cooperation for post-conflict countries in arrears.
- **An evaluation period** needs to be established to assess the member's commitment to resuming a normal relationship with the Fund, and to test whether the member's cooperation is sustainable. Taking into account country-specific circumstances, an evaluation period of about one year is needed before the Board may consider lifting a declaration of noncooperation and a longer period is required for lifting the suspension of voting rights.
- **Application:** The Fund's de-escalation policy on arrears has so far been applied only to Sudan. In light of Sudan's satisfactory performance on policies and payments to the Fund, the Executive Board decided to lift the declaration of noncooperation on August 27, 1999 and to restore Sudan's voting rights on August 1, 2000.

21. The following draft decision, which could be adopted by a majority of the votes cast, is proposed for consideration by the Executive Board:

**Proposed Decision**

1. The Fund has reviewed Decision 13020-(03/53) in light of the facts and developments described in EBS/03/156 (11/19/03).
2. The Fund notes that Zimbabwe has been in continuous arrears to the Fund since February 2001, that Zimbabwe was declared ineligible to use the general resources of the Fund on September 24, 2001, that a declaration of noncooperation was issued against Zimbabwe on June 13, 2002, and that Zimbabwe's voting and related rights were suspended on June 6, 2003. Zimbabwe has persisted in its failure to fulfill its obligations under the Articles of Agreement after the expiration of a reasonable period following the decision of suspension taken pursuant to Article XXVI, Section 2(b), and has not cooperated actively with the Fund with a view to resolving the problem of its overdue financial obligations to the Fund. In view of these circumstances, the Executive Board notes that it is intended to initiate promptly the procedure under Article XXVI, Section 2(c) with respect to Zimbabwe.

Table 3. Zimbabwe: Selected Economic Indicators, 1999-2003

	1999	2000	2001	2002	2003		
				Prel.	Original Budget	2003 Art. IV Staff Scenario (SM/03/182)	Supp. Budget (Sep. 03)
GDP							
Real GDP (market prices; percentage change)	-4.1	-6.8	-8.8	-14.5	-7.2	-11.0	-13.9
Real per capita GDP (percentage change)	-3.1	-5.7	-7.8	-14.7	-7.5	-10.0	-14.2
Savings and investment (percent of GDP) 1/							
Gross national savings (excluding grants)	9.1	2.3	-4.0	-2.1	7.1	-2.4	-19.4
Gross investment	8.9	1.7	0.3	0.4	8.6	1.2	4.1
Prices and interest and exchange rates (percent)							
Consumer price inflation (annual average)	58.2	55.9	76.7	140.0	121	421	368
Consumer price inflation (end of period)	56.9	55.2	112.1	198.9	96	504	530
91-day treasury bills (annualized yield; end of period)	89.7	71.6	25.9	26.6	...	50	...
Real effective exchange rate (percentage change)	-8.5	42.7	47.6	131.5	...	...	...
Central government budget (percent of GDP)							
Revenue	26.4	28.2	26.8	28.3	25.7	23.2	28.8
Expenditure and net lending	36.2	51.2	37.3	33.1	37.2	32.0	36.4
Of which: interest on central government debt	9.8	17.6	10.4	4.7	7.4	3.0	3.9
Overall balance, excluding grants and arrears	-9.8	-23.0	-10.4	-4.8	-11.5	-8.8	-7.6
Primary balance, excluding grants	0.0	-5.4	0.0	-0.1	-4.1	-5.8	-3.7
Overall balance, including grants and interest arrears	-8.7	-21.3	-7.6	-3.9	-11.5	-8.7	-7.6
Domestic financing (including privatization)	9.8	21.9	7.5	4.0	13.3	8.7	7.6
External financing (including principal arrears)	-1.0	-0.6	0.1	-0.1	-1.8	0.0	...
Government balance (percent of GDP; including quasi-fiscal operations of the reserve bank)							
Overall balance	...	...	-10.8	-10.0	...	-17.7	...
Primary balance	...	...	-0.4	-4.9	...	-14.2	...
Total public debt (percent of GDP; end of period) 1/	93.2	114.4	75.7	55.4	...	52.5	...
Domestic debt	37.3	52.1	36.0	35.9	...	29.2	14.9
External debt (public and publicly guaranteed)	55.9	62.3	39.7	19.5	...	23.3	...
Money and credit (percentage change; end of period)							
Broad money (M3)	29.8	59.9	102.7	164.8	91.2	454.9	420.9
Domestic credit	17.1	61.5	80.3	149.2	97.6	446.2	474.6
Of which: credit to the private sector	10.5	39.1	67.1	181.0	83.7	450.8	402.1
External trade (percentage change)							
Export volume	5.2	6.2	-19.2	-12.7	...	-5.9	-3.9
Import volume	-18.3	5.1	1.5	1.4	...	-11.1	-0.6
Terms of trade	-6.0	1.8	-4.3	-0.1	...	-5.1	...
Balance of payments (billions of U.S. dollars, unless otherwise indicated)							
Exports	1.93	2.19	1.61	1.42	1.79	1.35	1.54
Imports	-1.68	-1.85	-1.78	-1.82	-2.14	-1.73	-2.62
Current account balance (excluding official transfers)	0.01	0.04	-0.39	-0.48	-0.55	-0.47	-1.10
(In percent of GDP at the official exchange rate) 1/	0.3	0.6	-4.2	-2.5	-1.5	-3.6	-23.5
(In percent of GDP at world prices) 2/	0.2	0.5	-4.9	-6.7	...	-7.3	...
Overall balance	-0.03	-0.21	-0.42	-0.42	-0.83	-0.39	-1.44
Official reserves (gold valued at market price)							
Usable reserves (millions of U.S. dollars; end of period)	46.7	22.1	20.0	15.1	...	19.0	...
(months of imports of goods and services)	0.2	0.1	0.1	0.1	...	0.1	...
(percent of reserve money)	10.0	5.9	2.0	0.6	...	0.9	...
External debt and arrears (including private debt)							
Total external debt (percent of GDP at official exchange rate; end of period) 1/	86.5	73.0	55.8	26.8	...	40.2	...
Of which: total external arrears	1.9	6.7	11.0	7.8	...	14.9	...
Total external debt (percent of GDP at world prices; end of period) 2/	55.8	59.3	64.0	72.8	...	81.8	...
Of which: total external arrears	1.2	5.4	12.6	21.2	...	30.2	...
Debt service (percent of exports of goods and services)	22.8	24.3	29.5	31.0	...	28.1	...
Social indicators							
Life expectancy at birth (in years)	44.4	42.6	41.4	40.2	...	...	...
Infant mortality rate (per 1,000 live births)	63.9	64.7	65.3	65.9	...	...	...
Adult illiteracy rate (percent of adults ages 15 and above)	12.1	11.3	10.7	10.0	...	...	...
HIV/AIDS adult infection rate (percent of adults ages 15-49)	...	...	33.7	...	...	...	...

Sources: Zimbabwean authorities; U.S. Census Bureau; World Health Organization; and staff estimates and projections.

1/ Foreign currency units are converted into Zimbabwe dollars at the official exchange rate. Variables in the last column thus reflect valuation adjustments.

2/ GDP at world prices using real GDP growth and trading partner countries' inflation (base year is 1996).



Table 4. Zimbabwe: Central Government Operations, 1999-2003

	1999		2000		2001		2002		2003			
	Act.	Budget	Act.	Budget	Act.	Budget	Act.	Budget	Jan.-Sep. Act.	Original Budget	2003 Art. IV Scenario (SM/03/182)	Supp. Budget (Sep. 03)
(In percent of GDP, unless otherwise indicated)												
Total revenue	26.4	29.0	28.2	26.0	26.8	27.1	28.3	24.4	25.7	23.2	28.8	28.8
Tax revenue	25.1	27.5	26.4	24.6	25.4	25.9	26.4	23.6	24.5	21.3	27.5	27.5
Domestic taxes	21.2	21.9	23.6	20.9	21.9	20.6	23.9	21.9	22.9	19.8	25.7	25.7
Customs duties	3.8	5.6	2.7	3.8	3.4	5.3	2.6	1.8	1.6	1.5	1.8	1.8
Nontax revenue	1.4	1.5	1.8	1.4	1.5	1.2	1.8	0.8	1.2	1.8	1.4	1.4
Total expenditure and net lending	36.2	32.8	51.2	41.4	37.3	42.0	33.1	28.9	37.2	32.0	36.4	36.4
Current expenditure on goods and services	18.3	16.7	24.9	15.7	19.7	20.4	20.4	18.8	19.8	20.5	22.9	22.9
Wages and salaries	12.7	11.3	15.7	11.4	12.7	13.0	11.7	10.7	10.5	11.0	14.2	14.2
Goods and services	5.6	5.4	9.2	4.3	7.0	7.5	8.7	8.1	9.3	9.4	8.6	8.6
Interest payments	9.8	9.4	17.6	19.7	10.4	13.5	4.7	1.4	7.4	3.0	3.9	3.9
Of which: domestic 1/	8.2	7.7	16.5	17.5	8.1	12.5	3.8	1.4	7.2	2.9	3.9	3.9
Subsidies and transfers	4.1	4.1	6.1	4.3	4.8	4.6	5.2	4.9	5.1	5.4	6.0	6.0
Capital expenditure and net lending	4.0	2.7	2.6	2.0	2.4	3.5	2.9	3.9	4.9	3.2	3.6	3.6
Budget balance, excl. grants (commitment basis) 2/ Of which: primary balance	-9.8 0.0	-3.8 5.5	-23.0 -5.4	-15.4 4.3	-10.5 0.0	-14.9 -1.4	-4.8 -0.1	-4.5 -3.1	-11.5 -4.1	-8.8 -5.8	-7.6 -3.7	-7.6
Grants	1.0	1.0	1.1	0.0	0.6	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Foreign interest arrears	0.1	...	0.6	...	2.3	...	0.8	...	...	0.1	...	...
Budget balance, incl. grants and interest arrears 2/	-8.7	-2.9	-21.3	-15.4	-7.6	-14.9	-3.9	-4.5	-11.5	-8.7	-7.6	-7.6
External financing (net, including principal arrears)	-1.0	-0.6	-0.6	-4.2	0.1	-3.0	-0.1	0.0	-1.8	0.0	0.0	0.0
Domestic financing (net)	9.8	3.5	21.9	19.5	7.5	17.9	4.1	4.5	13.3	8.7	7.6	7.6
Of which: privatization 3/	0.4	0.5	0.0	4.1	1.3	4.8	0.0	0.0	1.0	0.0	0.0	0.0
Memorandum items:												
Health and social welfare	3.0	2.1	3.4	2.2	3.2	2.7	...	...	4.3	...	7.2	7.2
Of which: wages	0.9	0.7	1.3	1.1	1.0	0.4	...	...	1.2	...	2.1	2.1
Education outlays	7.8	7.4	10.5	6.2	7.7	6.8	...	...	7.0	...	7.9	7.9
Of which: wages	6.2	5.3	8.1	4.7	6.0	5.3	...	...	5.0	...	6.6	6.6
Military expenditure	3.3	3.0	4.8	2.5	3.2	3.7	...	...	3.6	...	3.1	3.1
Of which: wages	2.2	2.1	3.0	2.0	2.4	2.7	...	...	1.8	...	1.9	1.9
Health, social, and education outlays 4/	33.6	31.2	28.6	21.2	31.2	24.8	...	...	35.0	...	35.8	35.8
Government balance (incl. quasi-fiscal operations of RBZ) 5/ Of which: primary balance	... ...	... ...	... ...	... ...	-10.8 -0.4	... ...	-10.0 -4.9	... ...	... ...	-17.9 -14.4	... ...	... ...
Nominal GDP (in millions of Zimbabwe dollars)	221,588	300,722	311,890	538,676	506,498	928,975	1,061,429	2,772,708	2,103,574	4,923,832	3,959,759	3,959,759

Table 4. Zimbabwe: Central Government Operations, 1999-2003 (concluded)

	1999			2000			2001			2002			2003			2003 Art. IV Staff Scenario (SM/03/182)	Modified Budget (Sep. 03)
	Act.	Budget		Budget	Act.		Budget	Act.		Budget	Act.		Jan.-Sep. Act.	Budget			
(In millions of Zimbabwe dollars)																	
Total revenue	58,563	87,216		87,825	140,284		135,975	251,886		300,355	902,988		1,140,712	540,501		1,141,340	
Tax revenue	55,569	82,740		82,275	132,710		128,545	240,840		280,739	873,554		1,050,763	514,714		1,087,830	
Domestic taxes	47,062	65,970		73,731	112,460		111,149	191,725		253,599	808,006		975,307	481,264		1,017,025	
Customs duties	8,507	16,770		8,543	20,250		17,395	49,115		27,140	65,548		75,456	33,450		70,805	
Nontax revenue	2,995	4,476		5,550	7,574		7,430	11,046		19,616	29,434		89,949	25,787		53,510	
Total expenditure and net lending	80,211	98,727		159,669	223,157		188,933	390,139		351,321	1,070,186		1,575,230	782,411		1,442,300	
Current expenditure on goods and services	40,640	50,092		77,532	84,422		99,915	189,630		216,038	694,830		1,008,696	417,491		906,133	
Wages and salaries	28,175	33,892		48,931	61,321		64,480	120,417		123,930	394,832		544,011	221,619		563,898	
Goods and services	12,465	16,200		28,601	23,101		35,435	69,213		92,108	299,998		464,686	195,872		342,235	
Interest payments	21,631	28,200		54,896	105,872		52,800	125,000		49,494	52,140		147,422	155,000		155,000	
Of which: domestic 1/	18,071	23,080		51,460	94,501		41,122	115,835		40,329	52,074		140,993	151,691		155,000	
Subsidies and transfers	9,007	12,435		18,986	22,939		24,068	43,161		55,206	179,417		263,875	107,016		239,277	
Capital expenditure and net lending	8,932	8,000		8,255	9,925		12,151	32,349		30,583	143,799		155,237	102,904		141,890	
Budget balance, excl. grants (commitment basis) 2/	-21,648	-11,511		-71,844	-82,873		-52,959	-138,253		-50,966	-167,198		-434,518	-241,911		-300,960	
Of which: primary balance	-17	16,689		-16,948	22,999		-159	-13,253		-1,472	-115,058		-287,096	-86,911		-145,960	
Grants	2,144	2,912		3,517	0		2,972	0		668	286		1,925	0		0	
Foreign interest arrears	174	...		1,880	...		11,494	...		8,793	...		6,429	...		...	
Budget balance (incl. grants and interest arrears) 2/	-19,330	-8,599		-66,447	-82,873		-38,492	-138,253		-41,506	-166,912		-426,164	-241,911		-300,960	
External financing (net, including principal arrears)	-2,280	-1,804		-1,997	-22,382		709	-28,162		-1,484	654		0	-37,946		...	
Domestic financing (net)	21,610	10,403		68,444	105,255		37,783	166,415		42,989	166,258		426,164	279,857		300,960	
Of which: privatization 3/	841	1,584		0	22,000		6,721	45,000		450	0		0	20,350		0	
Memorandum items:																	
Health and social welfare	6,724	6,189		10,608	12,078		16,213	25,366		...	...		...	89,996		151,410	
Of which: wages	2,087	2,041		3,985	5,845		4,860	8,322		...	...		...	25,392		43,214	
Educational outlays	17,223	22,108		32,634	33,167		38,907	63,292		...	...		...	147,519		313,756	
Of which: wages	13,848	15,922		25,356	25,195		30,485	49,653		...	...		...	104,830		261,047	
Military expenditure	7,202	9,017		15,011	13,292		16,208	34,403		...	...		...	76,417		123,552	
Of which: wages	4,982	6,237		9,445	10,610		12,093	24,923		...	...		...	36,993		74,682	
Government balance (incl. quasi-fiscal operations of RBZ) 5/	...	...		...	...		-54,829	...		-106,103	...		-880,517	...		...	
Of which: primary balance	...	...		...	...		-1,942	...		-52,064	...		-710,084	...		...	

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ The large discrepancy between actual and budgeted interest expenditure during 2001-3 reflects overestimation of these outlays in the budget.

2/ Commitments with respect to foreign interest payments.

3/ Gross proceeds from privatization that do not take into account possible debt-equity swaps and debt takeovers.

4/ As percent of current expenditure.

5/ Excluding grants (commitment based). "Quasi-fiscal operations" refer to the support schemes provided by the Reserve Bank of Zimbabwe to tobacco and gold during 2001-2 and the utilization of foreign exchange surrender at the rate of Z\$55 per US\$1.

Table 5. Zimbabwe: Monetary Survey, 1999-2003

	1999	2000	2001	2002				2003		
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar. Prel. Est.	Jun. Prel. Est.	Aug. Prel. Est.
(Annual percentage change)										
Reserve money	60.9	16.0	164.9	74.2	52.8	105.6	171.2	295.2	408.5	345.5
Broad money (M3)	29.8	59.9	102.7	100.0	102.2	124.3	164.8	206.7	275.8	355.6
Currency	61.4	37.3	161.1	198.7	188.4	143.1	215.8	215.8	265.5	303.4
Deposits	27.3	62.2	97.6	92.6	94.6	122.2	158.9	205.7	277.2	362.2
(Contribution to reserve money growth, in percent)										
Monetary authorities										
Net foreign assets of reserve bank 1/	63.8	-6.6	0.0	-6.1	-8.5	-6.8	-3.0	-65.4	-351.0	-274.3
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	-12.1	-9.4	-5.5
Net domestic assets of reserve bank	-2.7	22.6	164.9	80.4	61.3	112.4	174.2	360.6	759.5	619.8
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	307.3	417.9	351.0
Credit to government (net)	-29.7	3.9	111.2	48.9	27.4	68.0	127.3	287.2	455.5	258.0
Credit to non-financial public enterprises	-0.2	0.0	6.7	-0.2	-4.0	-2.9	-2.5	-0.9	-1.1	-0.8
Credit to private sector	36.8	35.0	63.9	36.9	44.7	15.2	66.5	101.0	89.7	117.2
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	47.7	38.9	84.1
Other items (net)	-9.7	-16.3	-16.9	-5.1	-6.8	32.1	-17.1	-26.7	215.5	245.4
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	-26.7	-75.4	9.7
Reserve money	60.9	16.0	164.9	74.2	52.8	105.6	171.2	295.2	408.5	345.5
Currency outside banks	23.7	14.4	73.8	70.7	76.0	60.4	97.4	131.7	202.1	174.3
Nonbank deposits	0.2	-0.5	0.2	1.3	0.1	14.5	0.9	6.2	5.8	3.2
Other banking inst. reserves	1.1	0.5	2.9	2.0	1.7	1.7	2.6	3.2	1.3	0.6
Deposit money bank (DMB) reserves	35.9	1.7	88.0	0.2	-25.0	28.9	70.3	154.1	199.3	167.3
(Contribution to broad money growth, in percent)										
Monetary survey										
Net foreign assets	21.4	2.4	1.0	0.4	-2.2	1.4	0.0	5.0	-33.1	-21.0
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	-2.1	-0.6	-0.4
Net domestic assets	8.4	57.5	101.7	99.6	104.4	122.9	164.8	201.7	309.0	376.6
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	208.8	276.5	356.0
Domestic credit	23.1	74.8	98.7	98.5	111.0	117.7	163.0	188.9	276.5	353.9
Claims on government (net)	10.5	35.5	40.1	24.6	25.6	37.0	41.4	42.4	76.4	80.9
Claims on nonfinancial public enterprises	2.1	6.2	9.0	8.8	4.2	9.6	11.3	13.3	19.8	23.3
Claims on private sector	10.5	33.2	49.6	65.2	81.3	71.0	110.4	133.1	180.3	249.7
Other items (net)	-14.7	-17.3	3.0	1.0	-6.6	5.3	1.8	12.9	32.5	22.7
Excluding valuation adjustments 2/	...	...	...	...	...	...	...	12.5	-8.5	-8.8
Broad money (M3)	29.8	59.9	102.7	100.0	102.2	124.3	164.8	206.7	275.8	355.6
Currency	4.6	3.5	12.9	13.9	15.3	14.7	22.3	22.5	30.8	34.1
Deposits	25.2	56.4	89.8	86.1	86.9	109.7	142.4	184.3	245.0	321.5
(Ratios, unless specified otherwise)										
Memorandum items:										
Currency-deposit ratio	10.3	8.7	11.5	11.6	13.1	12.5	14.1	12.0	12.7	11.0
DMBs' reserves-deposit ratio (effective)	26.4	15.9	18.2	9.2	4.8	13.7	15.4	14.3	11.7	11.3
Money multiplier (M3/reserve money)	4.1	5.7	4.4	5.9	6.6	4.5	4.3	4.5	4.9	5.2
Velocity (GDP/period-average M3)	3.4	3.3	2.8	...	...	...	2.4	...	...	...
CPI inflation (annual end-of-period; percent)	56.9	55.2	112.1	113.3	114.5	139.9	198.9	228.0	364.5	426.6
Private sector credit growth (annual; percent)	10.5	39.1	67.1	105.4	133.8	120.7	181.0	209.6	256.7	375.6
Real private sector credit growth (annual percentage change)	-29.6	-10.4	-21.2	-3.7	9.0	-8.0	-6.0	-5.6	-23.2	-9.7

Table 5. Zimbabwe: Monetary Survey, 1999-2003 (concluded)

	1999	2000	2001	2002				2003		
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Aug.
								Prel. Est.	Prel. Est.	Prel. Est.
(In millions of Zimbabwe dollars)										
Monetary authorities										
Net foreign assets of reserve bank 1/ <i>Of which</i> : valuation adjustment (est.)	-11,845	-13,021	-13,022	-14,424	-15,517	-15,595	-14,689	-46,499	-196,208	-232,578
	...	...	...	...	...	...	...	-26,146	-175,855	-212,225
Net domestic assets of reserve bank	29,631	33,659	69,503	63,474	66,990	115,323	162,937	240,331	457,951	584,314
Credit to government (net)	3,936	4,633	27,579	28,414	29,710	59,743	97,201	169,299	264,189	247,586
<i>Of which</i>										
Gold and tobacco subsidy 3/	...	...	1,810	2,591	4,147	25,403	54,112	54,112	54,112	54,112
Credit to nonfinancial public enterprises	653	651	2,034	580	698	647	645	121	121	120
Credit to private sector	11,569	17,803	30,991	26,183	30,611	29,274	67,368	75,723	76,764	129,630
Credit to deposit money banks	10,475	15,766	28,733	23,137	28,443	26,789	64,716	72,977	69,968	122,461
<i>Of which</i> : valuation adjustment (est.)	...	...	...	...	...	...	...	26,146	26,146	26,146
Credit to nonbank private sector	1,095	2,037	2,257	3,046	2,169	2,486	2,652	2,745	6,796	7,169
Other items (net)	13,473	10,573	7,089	8,297	5,970	25,659	-2,276	-4,811	116,878	206,979
<i>Of which</i> : valuation adjustment (est.)	...	...	...	...	...	...	...	0	149,709	186,079
Reserve money	17,786	20,639	54,670	49,050	51,473	99,729	148,247	193,828	261,743	351,736
Currency outside banks	6,884	9,451	24,673	29,921	39,179	49,789	77,909	94,507	143,203	183,030
Nonbank deposits	202	110	161	413	476	7,237	673	3,479	3,439	4,712
Other banking institution reserves	583	666	1,258	1,198	1,115	1,517	2,666	2,760	1,810	1,759
Deposit money bank reserves	10,116	10,411	28,578	17,517	10,703	41,185	67,000	93,083	113,291	162,236
Deposit money banks and other banking institutions										
Net foreign assets	-3,413	-482	720	3,372	2,013	7,911	2,325	49,876	70,713	138,532
<i>Of which</i> : valuation adjustment (est.)	...	...	...	...	...	...	...	46,547	65,993	129,286
Reserves	10,693	10,392	31,885	28,179	29,425	58,676	91,507	128,394	152,460	219,240
Net credit from the reserve bank	-10,495	-16,168	-19,091	-20,882	-32,476	-27,345	-61,239	-72,411	-65,182	-120,684
Total credit	83,716	137,098	228,540	285,146	359,296	401,810	548,413	687,415	1,055,076	1,622,416
Credit to government (net)	18,239	43,619	67,760	82,791	102,690	110,783	96,730	63,787	126,463	223,659
Credit to nonfinancial public enterprises	3,985	8,542	17,703	23,055	21,438	33,870	45,902	61,774	88,857	128,233
Credit to private sector	61,493	84,938	143,078	179,300	235,168	257,157	405,781	561,855	839,755	1,270,524
Other items (net)	-14,068	-22,843	-28,588	-38,978	-60,038	-49,649	-28,617	-10,366	-89,857	-205,867
<i>Of which</i> : valuation adjustment (est.)	...	...	...	...	...	...	...	-46,547	-65,993	-129,286
Total deposits	66,433	107,997	213,466	256,837	298,220	391,403	552,388	782,909	1,123,209	1,653,637
Monetary survey										
Net foreign assets	-15,258	-13,503	-12,302	-11,052	-13,504	-7,683	-12,364	3,377	-125,495	-94,046
<i>Of which</i> : valuation adjustment (est.)	...	...	...	...	...	...	...	20,401	-109,862	-82,939
Net domestic assets	88,778	131,062	250,603	298,224	351,378	456,112	643,334	877,521	1,395,347	1,935,425
Domestic credit	89,399	144,418	260,411	317,186	391,873	464,685	648,910	859,581	1,326,181	1,877,290
Claims on government (net)	22,174	48,251	95,339	111,205	132,400	170,526	193,931	233,085	390,652	471,245
Claims on nonfinancial public enterprises	4,638	9,192	19,737	23,635	22,136	34,517	46,547	61,896	88,978	128,353
Claims on private sector	62,587	86,975	145,335	182,346	237,337	259,643	408,432	564,600	846,551	1,277,693
Other items (net)	-622	-13,357	-9,808	-18,962	-40,494	-8,573	-5,575	17,940	69,166	58,135
<i>Of which</i> : valuation adjustment (est.)	...	...	...	...	...	...	...	-20,401	109,862	82,939
Broad money (M3)	73,520	117,559	238,301	287,172	337,875	448,429	630,970	880,894	1,269,852	1,841,379
Currency	6,884	9,451	24,673	29,921	39,179	49,789	77,909	94,507	143,203	183,030
Deposits	66,636	108,107	213,627	257,251	298,696	398,639	553,061	786,388	1,126,649	1,658,349
Memorandum items:				(In millions of U.S. dollars)						
Net foreign assets of reserve bank	-121	-377	-275	-235	-216	-206	-197	...	...	...
<i>Of which</i> : gross usable reserves	47	22	20	18	16	16	15	...	...	...
Net foreign assets of deposit money banks and other banking institutions	-89	-9	13	61	37	144	42	...	...	...

Sources: Zimbabwean authorities; and staff estimates and projections.

1/ Reserve Bank of Zimbabwe's net foreign assets and net domestic assets have been adjusted for memorandum of deposits. Includes valuation effects.

2/ At an exchange rate of Z\$55 per US\$1.

3/ Calculated from the monetary control program.

**Zimbabwe—Overdue Financial Obligations—Review and Consideration of  
Complaint with Respect to Suspension of Voting and Related Rights**

**Executive Board Decision 13020-(03/53)  
Adopted June 6, 2003**

1. On October 17, 2002, the Managing Director submitted a complaint to the Executive Board pursuant to Article XXVI, Section 2(b), setting out the facts, on the basis of which it appeared to him that Zimbabwe had persisted in its failure to fulfill its obligations under the Articles of Agreement of the Fund after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(a) on September 24, 2001 (Executive Board Decision No. 12582-(01/99), adopted September 24, 2001). The complaint was communicated to the authorities of Zimbabwe on November 12, 2002.
2. Having considered the complaint of the Managing Director and the views of Zimbabwe, the Fund finds that Zimbabwe has persisted in its failure to fulfill its obligations under the Articles of Agreement after the expiration of a reasonable time period following the declaration of ineligibility under Article XXVI, Section 2(a).
3. The Fund regrets the continuing nonobservance by Zimbabwe of its financial obligations to the Fund, urges Zimbabwe to resume its observance as a matter of the highest priority, and decides that, pursuant to Article XXVI, Section 2(b) and Schedule L of the Articles of Agreement, the voting and related rights of Zimbabwe in the Fund are suspended effective June 6, 2003.
4. The Fund shall review this decision within six months of June 6, 2003.

### **Procedure on Compulsory Withdrawal**

The procedure leading to the compulsory withdrawal of a member from the Fund involves the following steps:

1. The procedure is initiated by a complaint issued against the member in breach of its obligations and whose voting rights are suspended pursuant to Article XXVI, Section 2(b). The complaint must be based on the fact that the member persists in its failure to fulfill any of its obligations under the Articles (except for the breach of an obligation with respect to special drawing rights) after the expiration of a reasonable period following the suspension of its voting rights. This complaint may be issued by the Managing Director or by any member of the Fund (for instance, through its Executive Director).
2. The Board places the complaint on its agenda for substantive consideration. In setting the date for such consideration the Board must take into account (under Section 22 of the By-Laws of the Fund) the need to inform the member “in reasonable time” of the complaint against it and to give the member “adequate opportunity for stating its case both orally and in writing” to the Executive Board.
3. At the meeting for substantive consideration of the complaint, the Executive Board will recommend to the Board of Governors, by a majority of the votes cast, the action it deems appropriate. The decision to recommend the compulsory withdrawal of the member may be taken only when the conditions prescribed by the Articles are met, that is:
  - (i) the member’s voting and related rights have been suspended pursuant to Article XXVI, Section 2(b);
  - (ii) after the expiration of a reasonable period following a decision of suspension mentioned above, the member persists in its failure to fulfill any of its obligations under the Articles (except obligations with respect to special drawing rights); and
  - (iii) the member has been informed in reasonable time of the complaint against it and given an adequate opportunity to state its case, both orally and in writing.

Even if these conditions for compulsory withdrawal are met, the adoption of such a decision is at the discretion of the Executive Board.

4. The member must be informed of the recommendation of the Executive Board and of the date on which its case will be considered by the Board of Governors. The member must be given reasonable time within which to present its case to the Board of Governors both orally and in writing (Article XXVI, Section 2(d) and Section 22 of the By-Laws).

5. A decision of the Board of Governors to require withdrawal must be carried by a majority of the Governors having 85 percent of the total voting power. Abstentions have the same effect as negative votes.
6. A decision requiring the withdrawal of a member will normally take effect forthwith. The Board of Governors may decide, however, that the withdrawal will become effective at a later specified date, in which case, it may prescribe that the compulsory withdrawal will not become effective if certain conditions are fulfilled before the specified date.

Overdue Financial Obligations to the General Department and the SDR Department—  
Timetable of Remedial Measures 1/

Time after emergence of arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the concerned Executive Director. The member is not permitted any use of the Fund's resources nor is any request for the use of Fund resources placed before the Executive Board until the arrears are cleared.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation is overdue.
6 weeks	The Managing Director notifies the member that unless the overdue obligations are settled promptly a complaint will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected Fund Governors or to all Fund Governors in the event that the member has not improved its cooperation with the Fund.
2 months	A complaint regarding the member's overdue obligations is issued by the Managing Director to the Executive Board.
3 months	A brief factual statement noting the existence and amount of arrears is posted on the Fund's external website, and will be updated as necessary. It also indicates that the member's access to the Fund, including PRGF and HIPC resources, has been and will remain suspended for as long as arrears remain outstanding. The complaint is given substantive consideration by the Executive Board. The Board has usually decided to limit the member's use of the general resources and, if overdue SDR obligations are involved, suspend its right to use SDRs. A press release is issued following the Board's decision to limit the member's use of the general resources or, if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs. A similar press release will be issued following a decision to lift such limitation or suspension.



Time after emergence of arrears	Action
6–12 months	The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted. Depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility will be considered to take effect not more than twelve months after the emergence of arrears. The sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund is to be considered at the same time as the declaration of ineligibility.
Up to 15 months	A declaration of noncooperation will be considered within three months after the dispatch of the communications. Upon a declaration of noncooperation, technical assistance to the member will be suspended unless the Executive Board decides otherwise.
Up to 18 months	A decision on suspension of voting and representation rights will be considered within three months after the declaration of noncooperation.
Up to 24 months	The procedure on compulsory withdrawal will be initiated within six months after the decision on suspension.

1/ Based on the procedures for dealing with members with overdue financial obligations to the Fund adopted by the Executive Board on August 17, 1989, as amended by Decision No. 12546-(01/84), adopted on August 22, 2001.

Overdue Financial Obligations to the Poverty Reduction and Growth Facility Trust—  
Timetable of Remedial Measures 1/

Time after emergence of arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the concerned Executive Director. The member's access to the Fund resources, including PRGF and HIPC resources, is suspended.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation to the Trust is overdue.
6 weeks	The Managing Director notifies the member that, unless the overdue obligations are settled promptly, a report concerning the arrears to the Trust will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected Fund Governors or to all Fund Governors in the event that the member has not improved its cooperation with the Fund.
2 months	A report is issued by the Managing Director to the Executive Board. The report will request that the Executive Board limit the member's use of PRGF Trust Resources.
3 months	The report is given substantive consideration by the Executive Board. A factual statement noting the existence and amount of arrears is posted on the member's country-specific page on the Fund's external website. This statement also indicates that the member's access to the Fund resources, including PRGF and HIPC resources, has been and will remain suspended until the arrears are cleared. A press release is issued following the Executive Board's decision to limit the member's use of the PRGF Trust resources. A similar press release will be issued

Time after emergence of arrears	Action
	following the decision to lift such limitation.
6 months	The Executive Board reviews its decision on limitation and may remove the member from the list of PRGF-eligible countries. Any reinstatement of the member on the list of PRGF-eligible countries will require a new decision of the Executive Board. A press release is issued following the Executive Board's decision to remove a member from the list of PRGF-eligible countries. A similar press release will be issued upon reinstatement of the member on the list.
12 months	A declaration of noncooperation with the PRGF Trust may be issued by the Executive Board depending on the Board's assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Upon a declaration of noncooperation, the Fund could decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if it is in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.

1/ Based on Decision No. 12545-(01/84) PRGF, adopted on August 22, 2001.