

**IMMEDIATE
ATTENTION**

EBS/10/31

CONFIDENTIAL

February 25, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Zimbabwe—Review of Overdue Financial Obligations to the Poverty Reduction and Growth Trust—Postponement**

1. On September 4, 2009, the Executive Board reviewed Zimbabwe's overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT) and decided to conduct the next review within six months (Decision No. 14422-(09/93), 9/4/2009). This memorandum proposes a postponement of the review by three months, to no later than June 4, 2010.

2. On February 19, the Board decided to restore Zimbabwe's voting and related rights in the Fund and terminated its ineligibility to use the Fund's general resources.¹ However, the remedial measures related to the PRGT arrears remain in place, including: (i) the declaration of noncooperation; (ii) the removal of Zimbabwe from the list of PRGT-eligible countries; and (iii) the suspension of Fund technical assistance, except in the targeted areas.² In addition, Zimbabwe will not be able to use resources from the GRA or the PRGT until, *inter alia*, it fully settles its arrears to the PRGT.

¹ *Zimbabwe—Restoration of Voting and Related Rights and Termination of Ineligibility to Use the General Resources of the Fund* (EBS/10/23, 2/4/2010).

² Decision No. 14327-(09/44), adopted May 4, 2009.

3. Since the last review, Zimbabwe has made payments to the Fund totaling SDR 0.2 million (about US\$0.3 million), in line with its commitment to make regular payments to the Fund of about US\$100,000 per quarter. These payments were applied to settle part of Zimbabwe's principal arrears to the PRGT. As of mid-February 2010, Zimbabwe's arrears to the PRGT stood at SDR 89.4 million. Zimbabwe has recently made two conversions of its SDR holdings—SDR 31.5 million on December 16, 2009 and SDR 65.3 million on February 22, 2010—to finance various budgetary expenditures in 2010.

4. While Zimbabwe's macroeconomic performance improved in 2009, important policy challenges remain. Real GDP is estimated to have grown by 3 percent in 2009, and consumer price inflation declined substantially. Adherence to cash budgeting and a significant increase in budget revenue—attributable in part to the implementation of FAD technical assistance advice—provided fiscal space for the improved delivery of public services. However, the large wage increases granted in mid-2009 left little room for productive capital expenditures, and the approved 2010 budget targets a deficit of 6 percent of GDP. On the monetary side, the Reserve Bank of Zimbabwe incurred large operational arrears, while some, albeit limited, quasi-fiscal activities continued in the context of significant governance problems. Rapid credit growth also exposed the under-capitalized banking system to significant credit and liquidity risks.

5. Staff has engaged with the authorities on economic policies on a regular basis. The next staff mission is tentatively scheduled to visit Harare in March to conduct the 2010 Article IV consultation discussions and assess the authorities' record of implementing the Fund's policy and technical assistance advice. The discussions will include the economic policies for 2010 and medium-term challenges of resolving the significant external payments arrears and moving toward external stability. As the Board's assessment of Zimbabwe's cooperation with the Fund would benefit from the findings of the upcoming mission, staff recommends that the next review of Zimbabwe's overdue financial obligations to the PRGT be postponed for a short period. It is, therefore, proposed that the deadline of the next review be extended by three months, to no later than June 4, 2010.

6. Accordingly, the following draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

Paragraph 4 of Decision No. 14422-(09/93) adopted on September 4, 2009 shall be amended by substituting “within six months of the date of this decision” with “no later than June 4, 2010.”

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Wednesday, March 3, 2010**. In the absence of such a request, the decision shall be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. Njoroge (ext. 38785) and Ms. Marcelino (ext. 37651) in FIN.

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