

SUR/10/44

May 18, 2010

**The Acting Chair's Summing Up
Zimbabwe—2010 Article IV Consultation; Overdue Financial
Obligations to the Poverty Reduction and Growth Trust
Executive Board Meeting 10/49
May 17, 2010**

Directors agreed with the thrust of the staff appraisal. They welcomed the recent improvement in Zimbabwe's macroeconomic performance and humanitarian conditions following a decade of economic decline and high inflation. To solidify these gains, as well as to reduce the significant external and financial vulnerabilities, it will be critical that the authorities undertake decisive policy measures.

Directors agreed that the main fiscal challenge is to create sufficient space for social and developmental expenditure. They strongly encouraged the authorities to return to cash budgeting, and reduce the wage bill and other low-priority expenditures. Directors welcomed the significant improvement in revenue performance and emphasized that additional revenue measures would be necessary. They also urged the authorities to refrain from further use of nonconcessional SDR-related funds for budget financing and to save Zimbabwe's SDR holdings as part of the country's international reserves.

Directors expressed concern about the increasing systemic vulnerabilities in the banking system. Addressing the governance weaknesses of the Reserve Bank of Zimbabwe (RBZ) is crucial for achieving banking system stability. In this regard, Directors welcomed the recent appointment of the RBZ governing Board, which should oversee a strengthening of RBZ governance and implementation of its downsizing and restructuring. Directors called for stepping up prudential supervision to contain credit and liquidity risks in the banking system and cautioned against moral suasion on banks to lend to specific sectors.

Directors considered that the multi-currency system would serve Zimbabwe well in the coming years. They agreed that the Zimbabwe dollar can be reintroduced as sole legal tender only after a track record of sound policies is established and a central bank governance framework with a focus on price stability is adopted.

Directors welcomed the authorities' intentions to improve the business climate. They emphasized the importance of enforcing property rights and maintaining the rule of law, ensuring security of land tenure, and increasing the flexibility of the labor market, in particular with respect to wage levels. Sustained progress in these areas is essential for

improving competitiveness, boosting private sector investment, and increasing growth potential.

Directors agreed that Zimbabwe is in debt distress. Sound policies and good governance will be critical to pave the way for eventual debt relief and access to donor financing. In this context, Directors strongly encouraged the authorities to improve their cooperation with the Fund on policies and payments. Most Directors supported the continuation of the Fund's technical assistance in targeted areas. Many Directors were of the view that a Staff Monitored Program (SMP) could help establish a track record of sound policies. Some Directors, however, stressed that the authorities must demonstrate clear progress in economic policies and data reporting before an SMP could be considered.

Directors noted Zimbabwe's significant deficiencies in the quality and timeliness of data reporting, which are in large part explained by capacity constraints. They underscored the need for rapidly improving macroeconomic statistics with Fund technical assistance.

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